2006 ANNUAL REPORT

WHO CAN HELP YOU GO FURTHER?

A PARTNER YOU CAN TRUST.

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Industrial Alliance Is Evolving… and so Is its Image!

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Industrial Alliance is proud to introduce a bold new logo, inspired by its previous one, and which truly reflects its identity as a financial institution.

› A more solid appearance to highlight the impressive stature of Industrial Alliance.

› A more contemporary look built on the latest trends in graphics.

› A more familiar signature using the "IA" of Industrial Alliance, known to our clients and the financial community.

› A sense of continuity drawing on the characteristics shared by the elephant and Industrial Alliance: strength, energy, solidity, longevity, sensitivity, sense of family and sense of responsibility.

Industrial Alliance has one more reason to stand out!

Why the Elephant?

Industrial Alliance chose the elephant as its company symbol in 1992 when it celebrated its centennial anniversary. This choice was made based on the numerous attributes that Industrial Alliance has in common with this magnificent animal…

Industrial Alliance and the elephant share exceptional strength. Both are highly energetic and can easily take on even the most colossal of tasks.

Industrial Alliance and the elephant represent solidity and inspire confidence. They are also a reassuring presence in their surrounding environment.

A century old company, Industrial Alliance is also known, like the elephant, for its longevity and proverbial memory.

Despite its imposing stature, the elephant is regarded as having a strong sense of family and a highly developed sense of responsibility; two values that are also fundamental at Industrial Alliance.

The elephant is synonymous with warmth and gentleness. It is also a sensitive, friendly and endearing creature. Similarly at Industrial Alliance, we take a human approach towards our clients. We remain attentive to our clients' needs in order to better understand and serve them.

But Some Things Never Change

A PARTNER YOU CAN TRUST.

Our financial system is based on trust. Each financial institution must earn that trust every day in order to successfully develop and prosper.

Trust is also at the heart of our mission, which is to offer our clients and their families financial protection in the event of death, disability or illness and to help them achieve financial independence for retirement.

Industrial Alliance and its subsidiaries are constantly working to earn this trust from its various partners.

› Clients by developing products and services that adapt to their constantly changing needs

› Financial advisors by providing them with tools that meet the needs of their clients and help them prosper in their career

› Employees by offering stimulating jobs that allow them to develop their full potential

› Communities by acting responsibly and participating in the development of the communities in which we evolve

› Shareholders by optimizing the Company's value

Our strength comes from respecting our commitments.

Highlights (Consolidated Financial Data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	Variation
Profitability			
Net income attributable to shareholders	**227.9**	132.2	72%
Net income attributable to shareholders, adjusted[2]	**219.4**	184.2	19%
Net income attributable to common shareholders	**223.0**	132.2	69%
Net income attributable to common shareholders, adjusted	**214.5**	184.2	16%
Earnings per common share (diluted)			
According to net income	**$2.74**	$1.65	$1.09
According to adjusted net income	**$2.64**	$2.30	$0.34
Rate of return on common shareholders' equity			
According to net income	**15.7%**	10.3%	—
According to adjusted net income	**15.1%**	14.0%	—
Business Growth			
Premiums and deposits	**4,990.6**	3,583.7	39%
Sales by line of business[1]			
Individual Insurance	**153.6**	141.3	9%
Individual Wealth Management	**2,475.1**	1,460.2	70%
Group Insurance			
Employee Plans	**70.8**	52.3	35%
Creditor Insurance	**176.4**	158.8	11%
Special Markets Group (SMG)	**92.6**	87.4	6%
Group Pensions	**820.1**	564.8	45%
Financial Position			
Capitalization	**1,945.0**	1,753.9	11%
Assets under management and under administration			
Assets under management			
General fund	**13,090.7**	11,972.9	9%
Segregated funds	**9,204.1**	7,348.8	25%
Mutual funds	**6,295.4**	5,672.7	11%
Other	**501.3**	785.9	(36%)
Total	**29,091.5**	25,780.3	13%
Assets under administration	**17,812.6**	12,390.9	44%
Total	**46,904.1**	38,171.2	23%
Solvency ratio[1]	**201%**	188%	—
Debt ratios[1]			
Debt[3]/capitalization	**15.9%**	21.3%	—
Debt[3] + preferred shares/capitalization	**22.4%**	21.3%	—
Quality of Investments			
Net impaired investments as a % of total investments	**0.06%**	0.07%	—
Bonds: BB and lower as a % of the portfolio	**0.31%**	0.36%	—
Mortgages: delinquency rate	**0.06%**	0.30%	—
Stocks: market value/book value	**110.1%**	108.0%	—
Real estate: occupancy rate	**95.5%**	96.8%	—
Human Resources			
Number of employees	**2,819**	2,746	73

1 Refer to the *Six-Year History* for further detailed financial information and definitions.
2 Refer to the *Six-Year History* for adjustment details.
3 Debt includes subordinated debentures and other debts.

2006 Main Achievements

2006 Main Achievements

Profitability objective surpassed

In 2006, the Company obtained record shareholder net income of $227.9 million, which translates into a 15.7% return on shareholders equity, above our 13% to 15% target range.

Strong business growth

Premiums and deposits reached a new high of $5.0 billion, a 39% increase over 2005. Business growth was strong in all lines of business in 2006, with double-digit sales growth in most sectors.

Simultaneous improvement of sales and profit margins in individual insurance

Sales in the Individual Insurance sector totalled $153.6 million in 2006, the highest sales volume ever achieved by the Company, and 9% higher than in 2005. This increase was obtained despite pricing adjustments. These adjustments, along with steps to reduce unit costs, helped to improve profit margins.

Integration of Clarington Corporation

Clarington was integrated rapidly and within budget. Clarington is a mutual fund manager that was acquired in December 2005 and which contributed to growing Industrial Alliance's earnings per share by $0.02 in 2006, as expected.

Pursuit of development outside Quebec

Over 70% of the new business in the Group Insurance Employee Plans and Group Pensions accumulation product segments was obtained outside Quebec in 2006, which is in line with our geographic diversification objective. This is the second consecutive year where more than half of all sales came from outside Quebec for these two sectors.

Acquisition of FundTrade Financial Corporation

FundTrade is a mutual fund brokerage firm. It had 191 associates and $3.8 billion in assets under administration when it was acquired. FundTrade was merged with FundEX and the new company operates under the FundEX name. It has 440 associates and administers almost $10 billion in assets.

2007 Market Guidance and Main Development Strategies

2007 Market Guidance

Earnings per share

Grow the earnings per share by some 10% to 13%.

Business growth

Increase sales by 5 percentage points more than the industry.

Dividend

Reach a payout ratio of 28% of the net sustainable earnings by 2008, which is in the upper limit of the Company's 20% to 30% target range of sustainable earnings.

Solvency ratio

Maintain the solvency ratio within the 175% to 200% target range (capital adequacy requirements).

Tax rate

The Company estimates that its effective tax rate should be around 29%.

2007 Main Development Strategies

- Pursue our expansion in the wealth management sector.
- Continue to develop our multi-channel distribution networks.
- Accelerate our geographic diversification.
- Penetrate new market niches.
- Optimize synergies within the Industrial Alliance group companies.

Message from the Chairman of the Board

John LeBoutillier

Chairman of the Board

I am pleased to be delivering my second message as Chairman of the Board of Directors of Industrial Alliance. As you will see upon reading this annual report, 2006 was a particularly fruitful year for the Company.

Over the course of the year, Industrial Alliance realized record profits, continued to achieve strong growth in the wealth management sector, accelerated expansion in all regions outside Quebec, further developed its distribution channels in all markets, capitalized on all opportunities to optimize synergy among the various group companies, and, to top it all off, managed to strike a tactful balance between growth and profitability in a very competitive environment.

These accomplishments once again testify to the quality of the Company's managers and employees.

The success of Industrial Alliance was not achieved overnight. It came about through hard work that began long before I joined the Board in 1997, with the help of a well thought-out and carefully executed strategy behind the scenes.

The two words that come to mind when defining this strategy are "growth" and "diversification": systematic growth in all lines of business, and diversification by geographic region and line of business.

Today, Industrial Alliance has well-rooted foundations. This is what enables the Company to effectively fulfil its role in society: to contribute to the financial well-being of Canadians.

But the Board doesn't just focus on the short term. It also looks at the long term. And long-term success can only be achieved by employing a strategy that is adapted to the challenges of tomorrow, and by developing the talents and skills of those who will be responsible for implementing that strategy.

Corporate Governance and Transparency

Corporate governance rules have evolved rapidly in the last few years. What was once considered best practice is now standard practice.

In order to remain a forerunner in the area of corporate governance, the Board adopted two new measures in 2006.

The first was a resolution requiring directors who do not obtain a majority of votes during their election at the annual meeting to tender their resignation. This measure was in effect for the first time at the 2006 annual meeting.

Secondly, we considerably improved the disclosure of information in the proxy circular, particularly with regard to the compensation of senior management, including the president and chief executive officer.

These measures are in addition to the numerous other initiatives taken by the Board in the last few years, which aim to ensure that the Board conducts itself with competence and diligence, and in the best interests of the shareholders.

Board Activities

The Board met six times in 2006, and the Board's various committees held a total of 19 meetings. The participation rate in these various meetings was 97%.

In addition to discussing the usual subjects, such as the quarterly results and acquisition projects, Board members also examined a subject that is increasingly becoming a hot-button issue: risk management. This was the topic of a special joint meeting of the investment and audit committees.

Also, as is customary, the Board met at a different location than where the Board traditionally meets to discuss the Company's short and medium term strategic issues.

Appointment to the Board

A new director joined the Board in 2006: Anne Bélec. Ms. Bélec is President and Chief Executive Officer of Volvo Cars of North America. She has held this position since 2005. Ms. Bélec has worked in the automobile field for a number of years, and has a bachelor's degree in commerce and an MBA from Duke University in the United States. Her management expertise and business knowledge will make her an important asset to the Board.

Tribute

Before I conclude, on behalf of the Board I would like to thank the former secretary of the Company, Georges Smith, who retired in 2006 after more than 35 years of service with Industrial Alliance, including almost 20 as secretary of the Company. Not only did Mr. Smith witness the transformation of Industrial Alliance over the years, he also played an important role in its evolution. I would like to take this opportunity to wish him a long and happy retirement.

Conclusion

In conclusion, on behalf of the members of the Board of Directors, I would like to congratulate the managers and employees of all Industrial Alliance group companies for the excellent work they accomplished in 2006. Together, they have put into practice the corporate values espoused by Industrial Alliance: team work, performance, continued improvement, respect and service. The Company has once again proven to its clients, its shareholders and its other partners that it is indeed worthy of their trust.

Thank you and keep up the excellent work.

President and Chief Executive Officer's Report

Yvon Charest

President and Chief Executive Officer

This is the kind of year we like at Industrial Alliance.

We successfully achieved all of our objectives in 2006.

In terms of profitability, we obtained record shareholder net income of $227.9 million, a 72% increase over 2005, and generated a return on common shareholders equity of 15.7%, above our 13% to 15% target range.

In terms of business growth, premiums and deposits reached a new high of $5.0 billion, a 39% increase over 2005. Business growth was strong in all lines of business and in all regions of the country.

From a strategic standpoint, we rapidly integrated the operations of Clarington, energetically pursued our development outside Quebec, completed the conversion of National Life administrative systems, and acquired another mutual fund brokerage firm, FundTrade Financial Corporation.

But that's not all. We also succeeded in improving our profit margins in the Individual Insurance sector, without affecting the sales growth momentum. That was quite a challenge. In the last few years, the profit margins on life insurance products have been adversely impacted by the decrease in interest rates. This decrease affects all life and health insurance companies. We therefore took some energetic and pointed steps to reach both our growth and profitability objectives, the sole way to achieve long-term success.

The year's positive results enabled us to increase our dividend by 20% in 2006. In the last year, we have paid out 22% of the Company's net earnings in the form of dividends to the common shareholders. Even though this rate compares favourably with that of other public companies, we want to do even better. We have therefore set a goal of increasing the payout ratio to 28% by 2008. To achieve this goal, we will have to increase our quarterly dividend by about 50% by the end of 2008. We have already taken a step in this direction, by announcing a 12.5% increase in the quarterly dividend at the beginning of 2007. The first quarter 2007 dividend will therefore increase from $0.16 to $0.18 per common share.

Main Achievements in 2006

Now I'd like to talk about some of our main achievements in 2006.

The event that will likely have the greatest impact on Industrial Alliance in years to come is the acquisition of Clarington Corporation. This acquisition was a huge step in implementing our strategy in the wealth management market.

We acquired Clarington at the end of 2005. At that time, Clarington was among the top 25 mutual fund managers in Canada. The company was based in Toronto, but distributed its products through a vast network of mutual fund and securities brokers across the country.

Even though we successfully completed the acquisition of Clarington, to make the most of its full potential, we also had to integrate it successfully. The integration of Clarington with our other mutual fund management subsidiary, Industrial Alliance Fund Management, was a complete success. Today, the two organizations operate under the name IA Clarington Investments Inc.

From a financial standpoint, the Clarington acquisition increased the parent company's earnings per share by $0.02 per common share. Reaching this objective was a little easier than anticipated, thanks to a faster than expected integration, stronger than expected stock markets and good mutual fund sales throughout the year. For 2007, barring a market downturn, we are confident that Clarington will improve the parent company's earnings per share by $0.06.

From a strategic standpoint, this acquisition made us a sizeable player in the investment fund market. At the end of 2006, in the retail market we were managing $6.3 billion in mutual funds and $6.0 billion in segregated funds, for a total of $12.3 billion. Today, we are among the top 20 investment fund managers in Canada for the retail market and among the top 10 for the independent advisors channel.

This acquisition has numerous advantages for Industrial Alliance. In addition to giving us access to a new distribution network, it opens the door to a new, rapidly growing market, which could generate higher returns and which will provide us with better diversification of our profits in the long term.

The second major achievement in 2006 was our continued development outside Quebec, particularly in the group sectors, where we had a shortfall to make up for. Over 70% of new business in the Group Insurance Employee Plans and Group Pensions accumulation products sectors came from outside Quebec in 2006. This is the second consecutive year where more than half of our sales came from outside Quebec for these two sectors.

In addition to ensuring better geographic diversification of our operations, this expansion gives us access to new areas of growth, particularly in western Canada, which is expanding rapidly.

Third major achievement: the integration of National Life. National Life was our life and health insurance subsidiary in Toronto. Its integration with the parent company was announced at the end of 2004. We can now confirm that, for all intents and purposes, this integration is complete. It has allowed us to reduce our unit costs substantially and improve our efficiency.

Fourth major achievement: the acquisition of FundTrade Financial Corporation. This acquisition enabled us to further expand our distribution networks, particularly in the mutual fund market.

FundTrade was a mutual fund brokerage firm. FundTrade was merged with FundEX Investments Inc., another mutual fund brokerage firm owned by Industrial Alliance. Both companies were based in Toronto. Today, they operate under the FundEX name. The new organization distributes its products through more than 400 associates and administers almost $10 billion in assets. The FundTrade purchase was Industrial Alliance's twelfth acquisition in the wealth management sector since 2001.

Areas of Development

What do we want to do in 2007?

Our strategy focuses on five areas of development:

- Continue our expansion in the wealth management sector.
- Continue to develop our multi-channel distribution networks.
- Accelerate our geographic diversification.
- Penetrate new market segments.
- Optimize the synergies within the Industrial Alliance group of companies.

The Company's growth will primarily be achieved organically, but also through acquisitions, if opportunities should arise in Canada but also in the United States, where we intend to implement what I would call a "well thought-out strategy". This strategy involves determining the market segments where we can take advantage of our strengths on the Canadian market.

Values of Industrial Alliance and its Subsidiaries

Industrial Alliance has expanded significantly in the last few years. Today the Company has just over 2,800 employees, almost 800 more than when we demutualized at the beginning of 2000. These employees are distributed in companies and offices that are found in the four corners of the country.

We therefore felt the need, in 2006, to take the time to establish the values that unite us. We have established five such values, which can be expressed as follows: team work, high-performance environment, continuous improvement, respect for individuals and distributors, and service oriented.

These are the values that we are seeking to integrate into our daily activities, so that the Company and its employees can continue to realize their full potential.

Conclusion

As I have had the opportunity to tell the members of the Board of Directors, our proudest achievement in 2006 may have been our ability to simultaneously achieve our growth and profitability objectives in all lines of business.

It is an art to constantly balance growth and margins in a competitive marketplace, but Industrial Alliance can count on hands-on top managers who understand the market environment and the key profitability drivers of their lines of business.

The guarantee of future success is not so much track record as the people behind the track record. At Industrial Alliance, we have been successful in developing talent from within for our core lines while attracting talent in areas where we didn't have expertise – like wealth management – and retaining those who share our dream and our vision.

Industrial Alliance has everything it needs to succeed: a solid, well-capitalized, well-diversified company, with good market share in all lines of business and a well thought-out and well-executed growth strategy.

Industrial Alliance's success is the result of an entrepreneurial culture and a constant effort to maintain and develop relationships of trust with its clients, its distributors, its employees, the community and its shareholders. That is why we have decided to reintroduce the slogan that has always defined and inspired us: *A partner you can trust!*

Thank you to everyone who contributed to this success.

Yvon Charest

Industrial Alliance Planning Committee

Michael L. Stickney
M.B.A., F.S.A., F.C.I.A.

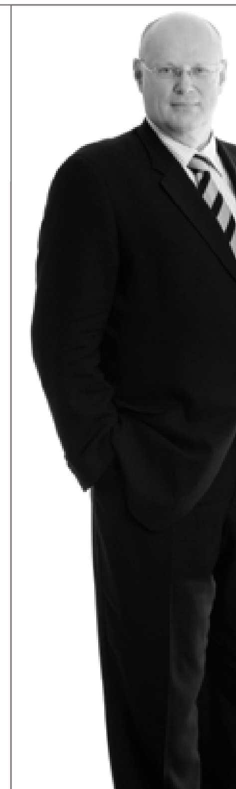
Executive Vice-President
U.S. Development
Industrial Alliance

Normand Pépin
F.S.A., F.C.I.A.

Executive Vice-President
Life Subsidiaries and Individual Insurance and Annuities
Industrial Alliance

Yvon Charest
F.S.A., F.C.I.A.

President and Chief Executive Officer
Industrial Alliance



Gerald Bouwers
M.Math., F.S.A., F.C.I.A.

President and Chief Operating Officer
Industrial Alliance Pacific

Yvon Côté
CFA

Vice-President and General Manager
Finance and Investments
Industrial Alliance

Description of Industrial Alliance and its Activity Sectors

General Description of Industrial Alliance

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance" or the "Company") is a life and health insurance company that operates in the insurance and financial services sectors.

Industrial Alliance offers a wide range of life and health insurance products, savings and retirement plans, RRSPs, mutual and segregated funds, securities, auto and home insurance, mortgage loans, and other financial products and services.

The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, which is present in all regions of the country, as well as in the Northwestern United States (see the Industrial Alliance organization chart on page 16).

Industrial Alliance contributes to the financial well-being of over 3 million Canadians, employs more than 2,800 people, and manages and administers over $46 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. With a market capitalization of $2.9 billion (as at December 31, 2006), Industrial Alliance is among the 100 largest public companies in Canada.

Legal Constitution

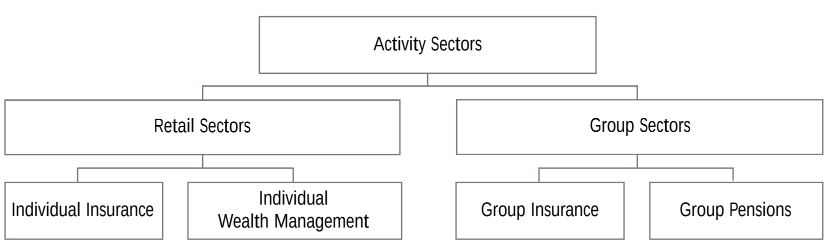
Industrial Alliance is a life and health insurance company regulated by the *Autorité des marchés financiers* in Quebec. The companies affiliated with Industrial Alliance are authorized by the appropriate federal and provincial authorities to operate in all provinces and territories of Canada. Industrial Alliance is also an issuer subject to the various securities laws in effect in the provinces of Canada.

At the dawn of the year 2000, Industrial Alliance became a public company incorporated under a private law (*Act respecting Industrial-Alliance Life Insurance Company*) that was enacted by the Quebec National Assembly on November 26, 1999. This law stipulates that no shareholder can hold, either directly or indirectly, 10% or more of the Company's voting shares. In the event the allowable limit is surpassed, the Act provides that the voting rights attached to all of the acquired shares cannot be exercised.

Activity Sectors

Industrial Alliance operates in four main sectors. Two of these sectors, Individual Insurance and Individual Wealth Management, address the needs of retail customers, and the other two, Group Insurance and Group Pensions, address those of businesses and group clients.

Industrial Alliance also distributes general insurance products that are offered mainly in the province of Quebec by Industrial Alliance Auto and Home Insurance, an Industrial Alliance subsidiary. The financial results of Industrial Alliance Auto and Home Insurance are presented as part of the parent company's income on capital as its operations do not constitute a separate sector for purposes of presenting the financial results.

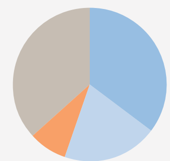


Diversification by Activity Sector

Industrial Alliance's operations are well diversified by sector, as they are spread out across the insurance and wealth management sectors as well as the retail and group sectors.

As the second facing figure shows, 34% of premiums and deposits come from the insurance sectors and 66% from the wealth management sectors. Also, 69% of premiums and deposits come from the retail sectors and 31% are related to the group sectors. The Company's purchase of Clarington Corporation, in 2005, has reinforced its position in the individual wealth management sector.

2006

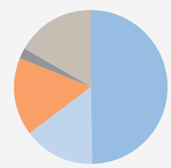


Adjusted[1] Net Income Attributable to Shareholders by Activity Sector

$219.4 million
(+ 19% vs. 2005)

- 37% Individual Insurance
- 35% Individual Wealth Management
- 20% Group Insurance
- 8% Group Pensions

2006



Premiums and Deposits by Activity Sector

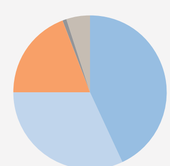
$5.0 billion
(+ 39% vs. 2005)

- 17% Individual Insurance
- 50% Individual Wealth Management
- 15% Group Insurance
- 16% Group Pensions
- 2% General Insurance

Protection 34%
Wealth Management 66%

Retail 69%
Group 31%

2006



Premiums and Deposits by Region

$5.0 billion
(+ 39% vs. 2005)

- 5% Atlantic
- 43% Quebec
- 32% Ontario
- 19% West
- 1% United States

[1] Refer to the *Six-Year History* table for adjustment details.

Geographic Diversification of Operations

Industrial Alliance operates across Canada as well as in the Northwestern United States. Some twenty years ago, the Company operated primarily in Quebec. Over the years however, and in line with its geographic expansion strategy, the Company has significantly diversified its operations outside Quebec. As the third figure on the previous page shows, these operations now account for more than half of the Company's business, with Ontario and western Canada generating a growing share of the Company's operations, particularly since the acquisition of Clarington, in 2005.

The pages that follow describe each of the four main activity sectors.

Individual Insurance

Industrial Alliance is a leader in the individual insurance market in Canada. The Company's market share in terms of individual insurance sales has remained above 10% for many years. In 2006, Industrial Alliance ranked fourth in Canada with a 12.7% market share.

In the Individual Insurance sector, Company products are marketed across Canada through the Industrial Alliance group's two life insurance companies: Industrial Alliance (the parent company) and its Industrial Alliance Pacific subsidiary. These two companies, which are largely integrated, distribute the same line of products and use the same administrative systems to manage contracts. Industrial Alliance distributes the Company's products mainly in Quebec, Ontario and the Atlantic Provinces, while Industrial Alliance Pacific operates mainly in western Canada and Ontario.

Products and Services

- Universal, permanent and term life insurance
- Critical illness insurance
- Health and disability insurance
- Mortgage insurance and credit insurance
- Life insurance without medical examination

Distribution Networks

- Career network: dedicated Industrial Alliance agents
- General Agents network: insurance brokers
- National Accounts network: mutual fund and securities brokers

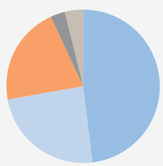
Key Profitability Drivers

Along with control of new business strain, the key profitability driver is premium income, which itself is reliant on new business and the persistency rate of in-force contracts. New business benefits from the ongoing growth of the Canadian population (and its growing need for protection), the collective enrichment of the population, the size of the Company's distribution networks and new emerging niches for insurance products.

Relative Importance of the Sector 2006	Value	Proportion of the Company total
Adjusted net income[1]	$80.7 million	36.8%
Premiums	$838.6 million	16.8%

Market Position	Sales (2006)	Premiums (2005)
Rank	4th	4th
Market share	12.7%	7.7%

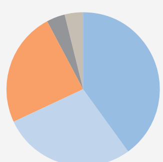
2006



Premiums by Region
$838.6 million
(+ 9% vs. 2005)

- 4% Atlantic
- 48% Quebec
- 24% Ontario
- 21% West
- 3% United States

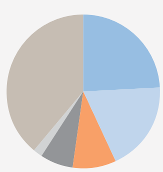
2006



Sales[2] by Region
$153.6 million
(+ 9% vs. 2005)

- 4% Atlantic
- 40% Quebec
- 28% Ontario
- 24% West
- 4% United States

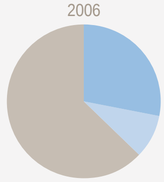
2006



Sales by Product
$153.6 million
(+ 9% vs. 2005)

- 39% Level cost Universal Life
- 24% YRT cost Universal Life
- 19% Term life
- 9% Permanent life
- 7% Critical illness
- 2% Other

2006



Sales by Distribution Network
$153.6 million
(+ 9% vs. 2005)

- 63% General Agents
- 28% Career
- 9% National Accounts

1 Refer to the *Six-Year History* table for adjustment details.
2 In the Individual Insurance sector, sales are defined as first-year annualized premiums.

Individual Wealth Management

The Company markets two large families of product in the Individual Wealth Management sector: savings products and retirement products. These products can be invested in a wide range of investment options. The Company also offers various types of loan, to fulfil a temporary lack of liquidity for example.

The products that the Company manufactures in the Individual Wealth Management sector are marketed throughout Canada by the Industrial Alliance group's two life insurance companies, Industrial Alliance (the parent company) and its Industrial Alliance Pacific subsidiary, as well as through its mutual fund subsidiary, IA Clarington.

Industrial Alliance also operates as a mutual fund and securities broker through its Investia and FundEX subsidiaries, for mutual funds, and Industrial Alliance Securities, for securities.

Products and Services

Savings Products

- Registered retirement savings plans (RRSP)
- Non-registered retirement savings plans
- Registered education savings plans (RESP)
- Locked-in retirement accounts (LIRA)

Retirement Plans

- Registered retirement income funds (RRIF)
- Life income funds (LIF)
- Life annuities
- Fixed-term annuities

Investment Options

- Guaranteed interest investments
- Principal guaranteed with a market investment
- Segregated funds
- Mutual funds
- Securities

Types of Loan

- Investment loan
- RRSP line of credit
- RESP loan

Distribution Networks

General Fund and Segregated Fund Products

- Career Agents network: dedicated Industrial Alliance agents
- General Agents network: insurance brokers
- National Accounts network: mutual fund and securities brokers

Mutual Funds

- Laurentian Bank Financial Services
- Mutual fund networks affiliated with Industrial Alliance
  - Investia
  - FundEX
  - Industrial Alliance Securities
- Other independent advisors

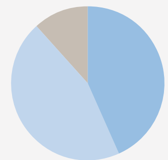
Key Profitability Drivers

The main profitability driver is assets under management, which is itself reliant on gross sales, the persistency rate of in-force contracts and the performance of the stock markets. Gross sales benefit from the aging of the population (and their growing need for saving and investment products), the size of the Company's distribution networks and the collective enrichment of the population. The segregated funds market also benefits from a competitive advantage, thanks to the capital guarantee at maturity and at death.

Relative Importance of the Sector 2006	Value	Proportion of the Company total
Adjusted net income[1]	$76.9 million	35.1%
Premiums and deposits	$2,475.1 million	49.6%

Market Position Segregated Funds 2006	Net sales	Assets
Rank	2nd	4th
Market share	17.8%	8.8%

As at December 31, 2006

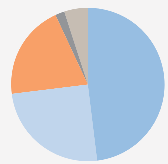


Assets Under Management by Product Category

$14.0 billion (+ 14% vs. 2005)

- 12% General fund
- 43% Segregated funds
- 45% Mutual funds

As at December 31, 2006

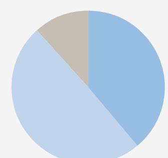


Assets Under Management by Region

$14.0 billion (+ 14% vs. 2005)

- 5% Atlantic
- 48% Quebec
- 25% Ontario
- 20% West
- 2% United States

2006

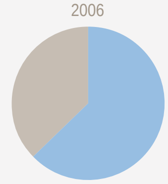


Sales[2] by Product Category

$2.5 billion (+ 70% vs. 2005)

- 12% General fund
- 39% Segregated funds
- 49% Mutual funds

2006



Sales by Distribution Network General Fund and Segregated Funds

$1.3 billion (+ 19% vs. 2005)

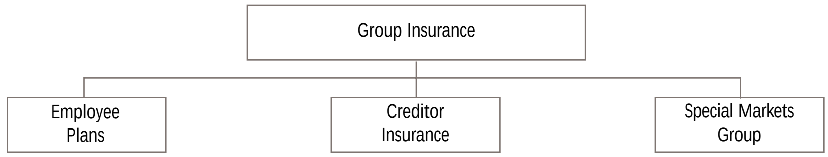
- 37% Career
- 63% General Agents

[1] Refer to the *Six-Year History* table for adjustment details.

[2] In the Individual Wealth Management sector, sales are defined as premiums for the general fund and segregated funds, and deposits for mutual funds.

Group Insurance

In the Group Insurance sector, the Company operates in three market segments: Employee Plans, Creditor Insurance and Special Markets Group (SMG).



Relative Importance of the Sector 2006	Value	Proportion of the Company total
Adjusted net income[1]	$44.2 million	20.1%
Premiums	$749.6 million	15.0%

Key Profitability Drivers

The main profitability driver is premium income, which itself is reliant on net sales and premium growth from renewed contracts. Net sales corresponds to the difference between the premium income of new sales less cancelled groups. Premium income from renewed contracts depends on the variation in the number of employees within in-force groups and the increase in the premium per employee, generated mainly by salary growth (life insurance and disability insurance volumes) and health care costs (more specifically medications). The number of employees varies according to economic conditions, which is reflected by the employment rate. New sales result primarily from the growth of our market shares compared to our competitors and the growth of the distribution networks. In the Group Creditor Insurance sector, new sales primarily result from the number of new vehicles sold and the size of the distribution network.

Employee Plans

In the Employee Plans market, Industrial Alliance offers a wide range of products and services that are available on an insured, experience or administrative services only (ASO) contract basis.

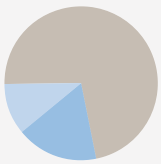
Products

- Life, accident, accidental death and dismemberment (AD&D) insurance
- Health insurance (including insurance for medical expenses)
- Dental insurance
- Short and long-term disability insurance
- Critical illness and home care insurance
- Medical assistance outside Canada

Other Services

- Health spending accounts
- Employer and employee support programs
  - Employee assistance programs
  - Workforce management programs
  - Drug payment cards
  - Electronic data interchange (EDI) for dental claims
- Web@dmin: Transaction-driven website for plan administrators, members and business partners
- Solution Plus: Group insurance for small and medium-sized businesses
- Multinational pooling

2006

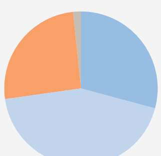


Premiums and Premium Equivalents by Market Segment

$873.7 million
(+ 10% vs. 2005)

- 72% Employee Plans
- 17% Creditor Insurance
- 11% Special Markets Group (SMG)

2006

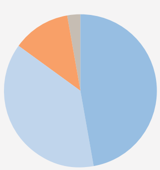


Sales[2] by Region

$70.8 million
(+ 35% vs. 2005)

- 2% Atlantic
- 29% Quebec
- 44% Ontario
- 25% West

2006



Premiums by Region

$509.2 million
(+ 7% vs. 2005)

- 3% Atlantic
- 47% Quebec
- 38% Ontario
- 12% West

[1] Refer to the *Six-Year History* table for adjustment details.

[2] In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums, including administrative services only (ASO) contracts.

Markets

- Target market: Medium-sized businesses (50 to 1,000 employees)
- Other markets
  - Large businesses (over 1,000 employees)
  - Small businesses (less than 50 employees)
- Unions
- Professional associations

Distribution Networks

- Specialized brokers
- Actuarial consulting firms

Sales Offices

- Halifax, Quebec, Montreal, Toronto, Calgary and Vancouver

Market Position	Total market		Target market (50 to 1,000 employees)	
	Sales (2006)	Premiums (2005)	Sales (2006)	Premiums (2005)
Rank	6th	6th[1]	5th	6th
Market share	4.9%	2.6%	8.5%	4.0%

Creditor Insurance

In addition to marketing products in the Employee Plans market, the Group Insurance sector also distributes creditor insurance products to automobile dealerships and recreational vehicle suppliers. These products are marketed through an exclusive Canada-wide direct distribution network by a division of Industrial Alliance Pacific, an Industrial Alliance subsidiary.

The Group Insurance sector also distributes other types of creditor insurance products to financial institutions through Industrial Alliance, the parent company.

Products

- Life insurance
- Disability insurance
- Critical illness insurance

Clientele

- Clients of automobile dealerships and recreational vehicle suppliers (products marketed by a division of Industrial Alliance Pacific)
- Clients of financial institutions (products marketed by Industrial Alliance, the parent company)

Distribution Network

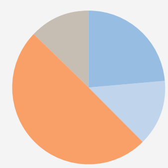
- Direct and captive Canada-wide distribution network

Sales Offices

- Halifax, Montreal, Toronto, Winnipeg, Edmonton and Vancouver

Market Position 2006	Rank	Market share
Sales	1st	Over 40%

2006



Sales[2] by Region (Automobile Dealers Market)

$154.0 million (+ 13% vs. 2005)

- 13% Atlantic
- 23% Quebec
- 14% Ontario
- 50% West

Special Markets Group (SMG)

Special Markets Group (SMG) is a division of Industrial Alliance Pacific that specializes in certain group insurance niche markets whose needs are not well served by traditional group insurance carriers.

Products and Clientele

- Accidental death and dismemberment (AD&D) insurance for employers and associations
- Travel medical and health insurance through distribution partners
- Student health insurance through student associations
- Term life insurance for alumni associations and other affinity groups

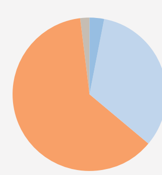
Distribution Networks

- Brokers
- Distribution partners

Sales Offices

- Montreal, Toronto, Calgary and Vancouver

2006



Premiums (Sales[3]) by Region

$92.6 million (+ 6% vs. 2005)

- 2% Atlantic
- 3% Quebec
- 33% Ontario
- 62% West

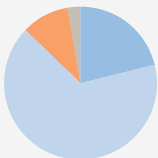
1 Rank among Canadian insurance companies.

2 In the Group Creditor Insurance sector, sales are defined as gross premiums (premiums before reinsurance).

3 In the Group Insurance Special Markets Group sector, sales are defined as premiums.

Group Pensions

2006

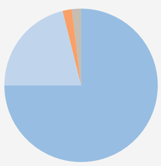


New Plan Sales[2]
by Region
Accumulation Products

$461 million
(+ 51% vs. 2005)

- 3% Atlantic
- 21% Quebec
- 66% Ontario
- 10% West

As at December 31, 2006

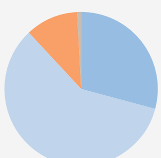


Assets Under Management
by Region
Accumulation Products

$3.2 billion
(+ 24% vs. 2005)

- 2% Atlantic
- 75% Quebec
- 21% Ontario
- 2% West

As at December 31, 2006



Assets Under Management
by Region
Insured Annuities

$2.2 billion
(+ 6% vs. 2005)

- 1% Atlantic
- 29% Quebec
- 59% Ontario
- 11% West

The Group Pensions sector offers a wide range of products and services that are adapted to the needs of retirement plan members. All products in this sector are distributed under a single brand name, that of Industrial Alliance

Products and Services

Accumulation Products (savings products)

- Defined contribution plans
  - Registered pension plans (RPP)
  - Simplified pension plans (SPP)
  - Group registered retirement savings plans (RRSP – LRSP – Locked-in RSP)
  - Deferred profit sharing plans (DPSP)
- Defined benefit plans
  - Registered pension plans (RPP)
  - Individual pension plans (IPP)
- Supplemental pension plans
- Institutional money management services
  - Active management
    - Canadian bond mandates: short-term, medium-term, long-term, universe and specialized
    - Canadian equity mandates: value, growth and specialized
    - Diversified mandates
    - International mandates
  - Passive management
    - Immunization mandates
    - Index mandates

Retirement Plans

- Selection of insured annuities
- Registered retirement income funds (RRIF)
- Life income funds (LIF)

Investment Options

- Guaranteed interest investments
- Segregated funds

Target Market

- Accumulation products: mainly medium-sized businesses (100 to 2,500 employees)
- Institutional money management services: mainly pension funds from $25 to $500 million

Distribution Networks

- Specialized brokers
- Actuarial consulting firms
- Representatives in parent company networks

Sales Offices

- Halifax, Quebec, Montreal, Toronto, Calgary and Vancouver

Key Profitability Drivers

For accumulation products, the main profitability driver is assets under management, which is itself reliant on gross sales, the persistency rate of in-force contracts and the performance of the stock markets. Gross sales benefit from job growth in the economy, the collective enrichment of the population, the constant creation of new businesses in the economy and the size of the distribution network.

For insured annuities, the main profitability driver is assets under management, which is itself reliant on gross sales, payments made to annuitants and the performance of the assets. Gross sales primarily benefit from the aging of the population and the termination of a large number of defined benefit plans.

Relative Importance of the Sector 2006	Value	Proportion of the Company total
Adjusted net income[1]	$17.6 million	8.0%
Premiums	$820.1 million	16.4%

Market Position	Sales[2] (2006)		Assets (2005)	
	Rank	Market share	Rank	Market share
Accumulation products	5th	12%	N/A	3.4%
Insured annuities	3rd	18%	N/A	15%

1 Refer to the *Six-Year History* table for adjustment details.

2 In the Group Pensions sector, accumulation product sales are defined as new plan sales and are measured in terms of first-year annualized premiums. For insured annuities, sales are defined as premiums.

Industrial Alliance Organization Chart

Operating Company and Parent Company

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

99.9%
INDUSTRIAL ALLIANCE PACIFIC™
INSURANCE AND FINANCIAL SERVICES

Life and Health Insurance and Financial Services

100%
IA CLARINGTON™
Mutual Fund Management and Promotion

100%
INVESTIA FINANCIAL SERVICES INC.
Mutual Fund Brokerage

91.75%
FundEX INVESTMENTS INC.
Mutual Fund Brokerage

100%
INDUSTRIAL ALLIANCE
SECURITIES INC.
Securities Brokerage

100%
INDUSTRIAL ALLIANCE
TRUST INC.
Trust Services

100%
INDUSTRIAL ALLIANCE
INVESTMENT MANAGEMENT INC.
Investment Management

Wealth Management

100%
INDUSTRIAL ALLIANCE™
AUTO AND HOME INSURANCE

General Insurance

100%
Solicour FINANCIAL SERVICES

Financial Services Brokerage

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial-Alliance *Pacific* Life Insurance Company.
™ IA Clarington is a trademark of IA Clarington Investments Inc.
™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance General Insurance Company.

Industrial Alliance Insurance and Financial Services Inc.

Assets under management and under administration: $46.9 billion (consolidated data)

Created in 1892, Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) is a life and health insurance company that offers a wide range of insurance products and financial services. The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, which has operations in all regions of the country as well as in the Northwestern United States. Its head office is located in Quebec City, Quebec. Industrial Alliance contributes to the financial well-being of over 3 million Canadians, employs more than 2,800 people and relies on a vast distribution network made up of some 1,500 career agents and several thousand insurance, mutual fund and securities brokers. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. With a market capitalization of over $2.9 billion (as at December 31, 2006), Industrial Alliance is among the 100 largest stock companies in Canada.

Industrial-Alliance *Pacific* Life Insurance Company

Assets under management: $3.5 billion

Industrial-Alliance *Pacific* Life Insurance Company is a life and health insurance company that offers a wide range of insurance products and financial services. It operates under the commercial name Industrial Alliance Pacific Insurance and Financial Services (Industrial Alliance Pacific). Its head office is located in Vancouver, British Columbia. Created in 1951, Industrial Alliance Pacific previously operated under the name of The North West Life Assurance Company of Canada, which was acquired by Industrial Alliance in 1982. In 1999, Industrial Alliance Pacific was merged with Seaboard Life, another Vancouver-based life and health insurance company that was acquired by Industrial Alliance. Industrial Alliance Pacific primarily operates in Canada, mainly in the Western provinces and in Ontario, but also in certain areas of the United States, especially the West Coast. Its operations are largely integrated with those of Industrial Alliance, its parent company.

IA Clarington Investments Inc.

Assets under management: $6.9 billion

IA Clarington Investments Inc. (IA Clarington) is primarily a mutual fund management and promotion firm. IA Clarington was created in 2006, when the operations of Industrial Alliance Fund Management Inc., a company that Industrial Alliance created in December 2004 after it acquired BLC-Edmond de Rothschild Asset Management Inc., were combined with those of Clarington Corporation, which was created in 1996 and acquired by Industrial Alliance in December 2005. IA Clarington promotes, manages and distributes its investment funds throughout Canada.

Investia Financial Services Inc.

Assets under administration: $3.3 billion

Investia Financial Services Inc. (Investia) is a mutual fund broker. Investia has been offering the funds of most large Canadian investment fund companies since 1999. Investia primarily distributes its funds through the representatives of the distribution networks of Industrial Alliance and its subsidiaries, thereby enabling them to offer a more complete range of wealth management products. In 2001, Investia acquired the assets of Groupe Financier Concorde, and, in 2003, it acquired Global Allocation Financial Group Inc., two mutual fund brokerage firms.

FundEX Investments Inc.

Assets under administration: $9.9 billion

FundEX Investments Inc. (FundEX) is a mutual fund broker. Created in 1995, FundEX offers the funds of most large Canadian investment fund companies. FundEX relies on a network of almost 450 licensed advisors, who distribute funds primarily to high-income clients. In 2006, FundEX was merged with FundTrade Financial Corporation, a mutual fund brokerage firm that Industrial Alliance acquired in 2006. The merged company operates under the FundEX name. This acquisition increased the assets under administration of FundEX by some $3.8 billion, with total assets reaching $10 billion as at December 31, 2006. Industrial Alliance initially acquired 25% of FundEX in 2002, and has gradually increased its ownership since then to reach 91.75% in 2006.

Industrial Alliance Securities Inc.

Assets under administration: $1.9 billion

Industrial Alliance Securities Inc. is a full-service brokerage firm. Created in 2002, following the acquisition of ISL-Lafferty Securities Inc., Industrial Alliance Securities acquired certain assets of BNP (Canada) Securities Inc. and Leduc & Associates Securities (Canada) Ltd. that same year. In 2004, it acquired Lynch Investments Inc., located in Nova Scotia, and, in 2005, it acquired KingsGate Securities, located in Ontario.

Industrial Alliance Trust Inc.

Assets under management and under administration: $3.1 billion

Created in 2000, Industrial Alliance Trust Inc. offers Industrial Alliance and its subsidiaries select trust products and services that complement their operations. In 2005, Industrial Alliance Trust became a promoter of the Immigrant Investor Program.

Industrial Alliance Investment Management Inc.

Assets under management: $16.0 billion

Industrial Alliance Investment Management Inc. is an investment management firm. Created in 2004, Industrial Alliance Investment Management oversees the management of Industrial Alliance and its subsidiaries' segregated fund and mutual fund portfolios. The company relies on a team of some twenty investment professionals who see to the asset allocation and securities selection of several funds, in addition to supervising the managers of all external funds offered by Industrial Alliance and its subsidiaries.

Industrial Alliance General Insurance Company

Direct premiums written: $105.6 million

Industrial Alliance General Insurance Company is a property and casualty insurance company. It has been operating in its current form since 2000, under the commercial name Industrial Alliance Auto and Home Insurance. It distributes auto and home insurance products to retail customers in the province of Quebec.

Solicour Inc.

Premiums: $30.5 million

Solicour Inc. is a financial services brokerage firm that distributes the life and health insurance products, savings and retirement plans, segregated funds and group insurance products of most Canadian insurers. It mainly distributes its products through Industrial Alliance Career network agents. Solicour was created in 1985 and has been operating in its current form since 1999.

Management's Discussion and Analysis

February 26, 2007

Notice

General Information

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2006 or for the period ended on that date, and is presented on a consolidated basis. All amounts that appear in the Management's Discussion and Analysis are denominated in Canadian dollars. The financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP), as they apply to life insurance companies in Canada, and with the accounting requirements prescribed by the regulatory authorities. The Management's Discussion and Analysis was written on February 26, 2007.

Non-GAAP Financial Measures

Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance" or the "Company") reports its financial results in accordance with generally accepted accounting principles (GAAP). It also occasionally uses certain non-GAAP financial measures, including adjusted shareholder net income, adjusted diluted earnings per common share and adjusted return on common shareholders equity. These non-GAAP financial measures are always clearly indicated, and are always accompanied by and reconciled with GAAP financial measures. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. These non-GAAP financial measures provide a different way of assessing various aspects of the Company's operations and may facilitate the comparison of results from one period to another. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other institutions. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure. The data related to the solvency ratio, embedded value and the value of new business, as well as adjusted data, as indicated above, are not subject to GAAP.

Forward-looking Statements

The Management's Discussion and Analysis may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance, as well as its financial situation and performance. The forward-looking nature of these statements can generally, though not always, be identified by the use of words such as "may," "expect," "anticipate," "intend," "believe," "estimate," "feel," "continue," or other similar expressions, in the affirmative, negative or conditional. These statements entail risks and uncertainties that may cause the actual results, performance or achievements of Industrial Alliance to differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the Company's actual results to differ from expected results include changes in government regulations or tax laws, competition, technological changes, global capital market activity, interest rates, changes in demographic data, changes in consumer behaviour and demand for the Company's products and services, catastrophic events, and general economic conditions in Canada or elsewhere in the world. This list is not exhaustive of the factors that may affect any of Industrial Alliance's forward-looking statements. These and other factors must be examined carefully and readers should not place undue reliance on Industrial Alliance's forward-looking statements. Industrial Alliance is not obligated to revise or update these forward-looking statements to reflect events, circumstances or situations that occur after the date of this report, or following unforeseen events, except as required by applicable securities legislation.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the Chief Executive Officer and the person who performs similar functions to a Chief Financial Officer (hereafter called the "Chief Financial Officer"), in order that appropriate decisions may be made concerning the disclosure of this information. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2006, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Chief Executive Officer and the Chief Financial Officer have carried out an evaluation to determine if the Company made any changes to its internal control over financial reporting during the period ended December 31, 2006 which have had, or which are likely to have, a significant impact on its internal control over financial reporting. They concluded that no change of this type took place. Furthermore, a mechanism to track internal control over financial reporting was implemented during the period.

Documents Related to the Financial Results

All documents related to the financial results of Industrial Alliance are available on the Company's website at www.inalco.com, in the *Investor Relations* section, under *Financial Reports*. More information about the Company can be found on the SEDAR website at www.sedar.com, as well as in the Company's Annual Information Form, which can be found on the Company website or the SEDAR website.

Summary

Description of Industrial Alliance

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance" or the "Company"), is a life and health insurance company that offers a wide range of life and health insurance products, savings and retirement plans, RRSPs, mutual and segregated funds, securities, auto and home insurance, mortgage loans, as well as other financial products and services.

The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, which has operations in all regions of the country, as well as in the Northwestern United States.

Industrial Alliance contributes to the financial well-being of over 3 million Canadians, employs more than 2,800 people and administers and manages over $46 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. Industrial Alliance is among the 100 largest public companies in Canada.

Highlights of 2006

2006 was a prosperous year for Industrial Alliance.

- In terms of profitability, Industrial Alliance obtained record shareholder net income of $227.9 million, a 72% increase over the previous year, and a return on common shareholders equity of 15.7%, which is above the Company's 13% to 15% target range.
- In terms of business growth, premiums and deposits reached a new high of $5.0 billion, a 39% increase over 2005.
- From a strategic standpoint, the Company rapidly integrated the operations of Clarington, energetically pursued its development outside Quebec, continued the conversion of National Life administrative systems, acquired another mutual fund brokerage firm, FundTrade Financial Corporation, and actively managed the new business strain in individual insurance, without impeding sales momentum.

The good results for the year enabled the Company to increase its dividend by 20% in 2006, to $0.60 per common share.

Detailed Summary of 2006

Profitability – The main highlights for 2006 in terms of profitability are as follows:

- Shareholder net income of $227.9 million, a 72% increase over 2005.
- Diluted earnings per common share of $2.74 ($1.65 in 2005).
- Rate of return on common shareholders equity of 15.7% (10.3% in 2005), which is above the Company's 13% to 15% target range.
- The higher income primarily results from the following factors:
  - Strong growth of the expected profit on in-force business, primarily resulting from strong business growth in all lines of business in the last few years.
  - Experience gains of $18.7 million (before taxes), primarily owing to strong growth in assets under management and better than expected mortality experience and unit costs.
  - Strict management of the new business strain in individual insurance. The strain decreased throughout the year, from 73% in the first quarter to 62% in the fourth. This decrease results from selective pricing adjustments made to products in 2006. The Company expects the strain will continue to decrease over the next few quarters.
  - The reduction in federal corporate tax rates. This reduction lowered the Company's tax burden by about $21.5 million in 2006, of which about $10 million is recurrent. The effective tax rate was 29.0% in 2006, which is in line with the Company's expectations of an effective tax rate of about 29%.
- Changes made to the valuation assumptions at the end of the year led to the release of $0.6 million in reserves (before taxes). As in the past few years, the reserves were strengthened to take into account the decrease in interest rates and the changes made to the lapse rates of certain life insurance products. However, the strengthened reserves were more than offset by the release of reserves to take into account the improvement in mortality rates and decreased unit costs.
- Note that the Company posted a $52.1 million (after taxes) provision in 2005 after it decided to ensure the liquidity of its clients' investments in two hedge funds managed by fund manager Norshield.

Business growth – Business growth was strong in all lines of business in 2006, with double-digit growth in most sectors. Following are the highlights of 2006 in terms of business growth[1]:

- Premiums and deposits – Premiums and deposits reached a new high of $5.0 billion, a 39% increase compared to 2005. The growth comes primarily from the Individual Wealth Management sector, owing primarily to the acquisition of Clarington, and the Group Pensions sector, thanks to the signing of several contracts.
- Assets – Assets under management and under administration grew 23% in 2006, totalling $46.9 billion as at December 31, 2006. The main factors that contributed to asset growth are: good premium growth for insurance products, strong net segregated fund and mutual fund sales, the acquisition of FundTrade Financial Corporation and the good overall performance of the stock markets.
- Individual Insurance – Sales reached a new high of $153.6 million in 2006, a 9% increase compared to the previous year. The Company was ranked fourth in Canada for individual insurance sales in 2006, with a 12.7% market share, but was ranked first for Universal Life policy sales, with a market share of 16.1%. The Company has been ranked first for this product for a number of years. Main achievement in 2006: simultaneous improvement of sales and profit margins, owing to the size of the Company's distribution networks and strict management of the new business strain.
- Individual Wealth Management – Record sales of $2.5 billion in 2006, a 70% increase over the previous year. This result is attributable to the acquisition of fund manager Clarington, at the end of 2005, and strong net mutual fund and segregated fund sales. In terms of net segregated fund sales, the Company gained one ranking in the market in 2006, thus ending the year in second position, with a market share of 17.8% (15.8% in 2005). Main achievement in 2006: rapid and successful integration of the Clarington operations.
- Group Insurance – Employee Plans – Sales of $70.8 million in 2006, up 35% over 2005. The Company was ranked fifth in Canada in 2006 in terms of sales in the small and medium-sized business market (our target market), with a market share of 8.5% (fifth in 2005 as well, with 8.1% of the market). Main achievement in 2006: over 70% of sales were made outside Quebec, which is in line with the Company's desire to continue its Canada wide development in the group sectors.

[1] The Company measures business growth by using the concepts of "premiums" (general fund and segregated funds), "deposits" (mutual funds), "assets" (under management and under administration) and "sales". The concept of "sales" seeks to measure a company's ability to underwrite new business (as opposed to the concept of in-force business persistency). The Company's sales are defined as follows for each line of business: Individual Insurance: first-year annualized premiums; Individual Wealth Management: premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance Employee Plans: first-year annualized premiums, including premium equivalents (Administrative Services Only contracts); Group Creditor Insurance: gross premiums (premiums before reinsurance); Group Insurance Special Markets Group: premiums; Group Pensions: premiums.

- Group Creditor Insurance – Sales grew 11% in 2006, reaching $176.4 million. The Company is ranked first in the creditor insurance market among car dealers, with a market share of over 40%. Main achievement in 2006: growing sales by more than 10% in the creditor insurance market among car dealers, in spite of low car sales.
- Group Insurance – Special Markets Group – $92.6 million in sales in 2006, a 6% increase. Main achievement in 2006: maintaining good sales growth in spite of the loss of a large group that no longer met the Company's profitability criteria.
- Group Pensions – Record sales of $820.1 million in 2006, a 45% increase. Main achievements in 2006: $461 million in new accumulation product plan sales (ten times more than five years ago), almost 80% of which were sold outside Quebec. This is the second consecutive year where sales outside Quebec are greater than 50% in this sector.

Value of new business – A new high of $95.5 million ($1.19 per common share) for the value of new business in 2006, a 19% increase over the previous year. The growth was driven by strong sales (primarily in the Individual Wealth Management sector) and improved profit margins (primarily in the Individual Insurance sector).

Capitalization – An 11% ($191.1 million) increase in the Company's capital compared to December 31, 2005, reaching $1.9 billion as at December 31, 2006. In 2006, the year was highlighted by several changes in the Company's capital structure: the issuance of 90,180 common shares as part of the Clarington acquisition (increasing the number of shares issued as part of this acquisition to 1,800,000); the reimbursement of the Clarington $62.9 million subordinated debenture; the issuance of $125.0 million in preferred shares; the buy-back of 1,800,000 common shares of the Company (to cancel the dilutive effect of the shares issued to finance the Clarington purchase); and the issuance of 244,800 common shares following the exercise of options under the Company's stock option plan.

Debt ratio – The changes made to the capital structure in 2006 leave the Company in a good leverage position, with a debt ratio of 15.9% as at December 31, 2006, if the debt securities alone are considered, and 22.4% if the preferred shares are added.

Solvency – A 13 percentage point increase in the solvency ratio, which reached 201% as at December 31, 2006, slightly above the Company's 175% to 200% target range. Several factors influenced the solvency ratio in 2006: the usual contribution of net income to the available capital, net of the normal increase in required capital related to business growth; the issuance of $125.0 million in preferred shares; the buy-back of 1.8 million common shares; and the increase in the market value of the stock portfolio.

Excess capital – The Company had $147 million in excess capital as at December 31, 2006. However, the new accounting standards concerning financial instruments that took effect on January 1, 2007 will put downward pressure on the solvency ratio, which should decrease by about 10 percentage points, thus reducing the excess capital by some $60 million.

Quality of investments – The quality of investments continued to be excellent in 2006. Most quality indices remained stable or improved during the year. Gross impaired investments totalled $7.9 million as at December 31, 2006, representing 0.06% of total investments (0.07% as at December 31, 2005). No new bonds rated BB or lower were added to the bond portfolio (bonds rated BB or lower accounted for 0.31% of the portfolio as at December 31, 2006) and no bonds defaulted during the year. The settlement of two defaulted mortgage loans reduced the mortgage loan delinquency rate from 0.30% as at December 31, 2005 to 0.06% as at December 31, 2006; this is the lowest rate since the Company demutualized. The delinquent loans portfolio stands at just $1.6 million, with 88% of these loans being insured.

Dividend – A 20% increase in the dividend for 2006, totalling $0.60 per common share. The Company paid out 21.7% of its net income to common shareholders in the form of common dividends in 2006, or 22.5% if the sustainable earnings alone are considered. The Company also announced a 12.5% increase in its quarterly dividend on February 7, 2007, from $0.16 to $0.18 per common share. This increase is in line with the Company's objective to increase the payout ratio to 28% of the sustainable earnings by 2008.

New accounting standards – The Company estimates that the new accounting standards concerning financial instruments that took effect on January 1, 2007 should not have a material impact on the Company's results, other than the previously mentioned impact on the solvency ratio and excess capital. The new accounting standards could, however, lead to more volatility in the Company's quarterly results.

2006 Main Achievements

Here are a few of the main achievements in 2006.

- Integration of Clarington Corporation – Clarington was integrated rapidly and according to budget. Clarington is a mutual fund manager that was acquired in December 2005. It was integrated with the Company's other mutual fund company, Industrial Alliance Fund Management. Clarington contributed to growing Industrial Alliance's earnings per share by $0.02 in 2006, as expected. The Company anticipates that the Clarington contribution will amount to $0.06 per share in 2007. Today, Clarington operates under the name IA Clarington Investments Inc.

  From a strategic standpoint, this acquisition turned Industrial Alliance into a sizeable player in the investment funds market (mutual funds and segregated funds combined). As at December 31, 2006, in the retail market, Industrial Alliance was managing $6.3 billion in mutual funds and $6.0 billion in segregated funds, for a total of $12.3 billion. Today, Industrial Alliance is ranked among the top 20 investment fund firms in Canada, and among the top 10 in the independent advisors network.
- Development outside Quebec – The Company continued to make substantial progress in 2006 with respect to its development outside Quebec for the group sectors. Hence, over 70% of the new business in the Group Insurance Employee Plans and Group Pensions accumulation product segments was obtained outside Quebec in 2006. This is the second consecutive year where more than half of all sales came from outside Quebec for these two sectors.
- National Life integration – The integration of National Life with the parent company was completed in 2006. This integration was announced at the end of 2004. From a financial standpoint, the restructuring charges totalled $13.2 million (after taxes), or $0.7 million more than expected (just under $0.01 per common share). This integration reduced Industrial Alliance's unit costs and improved its efficiency.
- Acquisition of FundTrade – The Company acquired FundTrade Financial Corporation in 2006. FundTrade is a mutual fund brokerage firm. It had 191 associates and $3.8 billion in assets under administration when it was acquired. FundTrade was merged with FundEX Investments Inc., another mutual fund brokerage firm owned by Industrial Alliance. The two companies are based in Toronto. Today, they operate under the FundEX name. The new organization distributes its products through more than 400 associates and administers almost $10 billion in assets. The purchase of FundTrade represents Industrial Alliance's twelfth acquisition in the wealth management sector since 2001.

Market Guidance for 2007

Following are a few of the Company's main objectives for 2007:

- Earnings per share – Grow the earnings per share by some 10% to 13%.
- Business growth – Increase sales by 5 percentage points more than the industry.
- Dividend – Reach a payout ratio of 28% of the net sustainable earnings by 2008, which is in the upper limit of the Company's 20% to 30% target range of sustainable earnings.
- Solvency ratio – Maintain the solvency ratio within the 175% to 200% target range (capital adequacy requirements).
- Tax rate – The Company estimates that its effective tax rate should be around 29%.

Profitability

2006 Highlights

- Shareholder net income of $227.9 million, up 72%
- Diluted EPS of $2.74, up $1.09
- 15.7% return on equity, above the 13% to 15% target range
- Key Profitability Drivers
  - Strong growth in expected profit on in-force business
  - $18.7 million in experience gains (before taxes)
  - Strict management of the new business strain in Individual Insurance
  - Changes in assumptions that led to the release of $0.6 million in reserves (before taxes)
  - Reduction in the federal corporate tax rate

The Company ended 2006 with net income to shareholders of $227.9 million, up 72% over 2005. Once the dividends paid to the preferred shareholders are deducted, the net income to common shareholders amounted to $223.0 million, which represents a 69% increase compared to the corresponding income in 2005. This income translates into diluted earnings per common share of $2.74 ($1.65 in 2005) and a rate of return on common shareholders equity of 15.7% (10.3% in 2005), which is above the Company's 13% to 15% target range.

Profitability

(In millions of dollars, unless otherwise indicated)	2002[1]	2003[2]	2004	2005	2006	Variation 2006 vs. 2005
Net income to shareholders	97.4	136.9	155.1	132.2	227.9	72%
Dividends on preferred shares	(0.7)	(0.3)	(0.1)	–	(4.9)	–
Net income to common shareholders	96.7	136.6	155.0	132.2	223.0	69%
Earnings per common share						
Basic	$1.29	$1.76	$1.96	$1.66	$2.77	67%
Diluted	$1.29	$1.74	$1.95	$1.65	$2.74	66%
Return on common shareholders equity	11.8%	13.9%	13.6%	10.3%	15.7%	–

All lines of business contributed to the income for the year and all lines ended the year with higher net income than the previous year. The Individual Wealth Management sector recorded the strongest growth, mainly due to the acquisition of Clarington. This sector also benefited from strong net segregated fund and mutual fund sales, as well as good stock market performances.

The increased income primarily results from the following factors:

- Strong growth in expected profit on in-force business.
- $18.7 million in experience gains (before taxes).
- Strict management of the new business strain[3] in Individual Insurance.
- Changes in assumptions that led to the release of $0.6 million in reserves (before taxes).
- The reduction in the federal corporate tax rate.

Note as well that the Company posted a $77.9 million provision in 2005 after it decided to ensure the liquidity of its clients' investments in two hedge funds managed by fund manager Norshield. The posting of this provision reduced net income for 2005 by $52.1 million.

All of these factors are explained in greater detail in the "Analysis of Income by Sources of Earnings" section below.

Analysis of Income by Sources of Earnings

The Company believes that sources of earnings is an important tool to help investors better understand how the Company creates value for the shareholders. Sources of earnings also provides an overview of trends in terms of income. The sources of earnings highlights for 2005 and 2006 are indicated below.

Sources of Earnings

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions		Total	
(In millions of dollars)	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Expected profit on in-force	156.0	172.5	55.8	92.9	44.0	40.5	12.5	15.3	268.3	321.2
Experience gains (losses)	5.7	2.6	13.6	9.4	(0.3)	5.3	–	1.4	19.0	18.7
Gain (strain) on sales	(82.9)	(102.7)	(8.3)	(5.4)	–	–	(1.2)	(1.3)	(92.4)	(109.4)
Changes in assumptions	(1.5)	(1.7)	(1.6)	1.4	(1.1)	1.3	2.1	(0.4)	(2.1)	0.6
Operating profit	77.3	70.7	59.5	98.3	42.6	47.1	13.4	15.0	192.8	231.1
Income on capital	41.4	50.6	11.7	4.8	10.1	13.2	11.3	9.4	74.5	78.0
Income taxes	(37.4)	(40.6)	(22.2)	(26.2)	(17.0)	(16.1)	(6.5)	(6.8)	(83.1)	(89.7)
Net income before other items	81.3	80.7	49.0	76.9	35.7	44.2	18.2	17.6	184.2	219.4
Other items	(0.9)	5.1	(50.4)	0.9	(0.6)	2.6	(0.1)	(0.1)	(52.0)	8.5
Net income (loss) to shareholders	80.4	85.8	(1.4)	77.8	35.1	46.8	18.1	17.5	132.2	227.9
Dividends on preferred shares	–	–	–	(4.9)	–	–	–	–	–	(4.9)
Net income (loss) to common shareholders	80.4	85.8	(1.4)	72.9	35.1	46.8	18.1	17.5	132.2	223.0

[1] Restated to reflect the change in accounting policies for the stock option plan.

[2] Restated after the Company realized that the amount that could be transferred from the Participating Policyholders' Account to the Retained Earnings ($53.5 million), pursuant to the *Insurance Companies Act*, had been understated, each year since 1981, following the incorrect application of the calculation method.

[3] Strain is an expense incurred by the Company when it sells a new life insurance policy. This expense, which reduces the profit when the product is sold, is recovered over the years as the assumptions that were used to establish the price of products materialize.

Expected profit on in-force – The expected profit on in-force business represents the profit that an insurance company expects to generate on in-force insurance and annuity contracts, if the experience results are in line with the Company's mortality, morbidity, lapse, interest and expense assumptions deemed the most likely.

Expected profit on in-force totalled $321.2 million in 2006, a 20% increase compared to 2005. This increase is in line with the Company's expectations of a low double-digit growth rate year over year. The growth comes from almost all lines of business, and stems primarily from the acquisition of Clarington, strong business growth in the last few years, the incorporation of experience gains that the Company considers to be permanent, the recognition of lower administration unit costs following the integration of National Life, the expected growth of business during the year and the conservatism with which the Company establishes its provisions for future policy benefits.

Experience gains or losses – The experience gains or losses represent the difference between the expected profit on in-force and the realized profit. Experience gains or losses emerge when the experience differs from the assumptions used to establish the expected profit.

Experience gains contributed to an $18.7 million increase in operating income in 2006 ($13.3 million after taxes). These gains come from all lines of business, owing in part to a higher than expected asset base (which itself is the result of strong net segregated fund and mutual fund sales, as well as strong equity markets) and better than expected mortality experience and unit costs.

Gain or strain on sales – Sales over a given period can have a positive or negative impact on earnings; this produces a gain or strain on the income statement. Strain emerges when the provisions for adverse deviation (conservatism) incorporated into the actuarial reserves are higher than the profit margins incorporated into product prices. Note that sales of life insurance products generally produce a strain. Over the years, the provisions for adverse deviation are recovered in the form of profits as the assumptions used for pricing materialize.

New business strain was $109.4 million in 2006, which is 18% higher than the previous year. The strain comes almost entirely from Individual Insurance, due to the long-term commitments in this sector. This is a reflection of higher sales than the previous year and the increase in sales reserves as a result of updated valuation assumptions for the Individual Insurance sector at the end of 2005.

Despite the higher strain in 2006, the Company carried out very strict management of the new business strain in the Individual Insurance sector. The strain, as a percentage of sales, decreased throughout the year, from 73% in the first quarter to 62% in the fourth quarter. This decrease results from selective pricing adjustments made to products in 2006. The full impact of the price revisions has not yet been reached, since about three quarters of the fourth quarter sales were made according to the new pricing schedules. As a result, the Company expects the strain will continue to decrease over the next few quarters.

Changes in assumptions – The Company fully updates its valuation assumptions each year to take into account the most recent changes in the economic and financial environment, as well as the Company's most recent mortality and morbidity experience.

In 2006, the changes in assumptions led to the release of $0.6 million in reserves ($0.4 million after taxes, or about $0.005 per common share). The changes in assumptions have mainly affected the Individual Insurance sector. As has been the case in the last few years, the reserves were strengthened to take into account the decrease in interest rates and the changes made to the lapse rates of certain life insurance products. However, the increase in reserves were more than offset by the release of reserves to take into account the improvement in mortality rates and decreased unit costs.

Income on capital – Income on capital represents the income derived from the investments backing the Company's capital, minus any expenses incurred to generate this income. The Company also includes in income on capital the net profits of subsidiaries that do not operate in one of its four lines of business.

Income on capital reached $78.0 million in 2006, up 5% over 2005. Several items had an upward or downward influence on the income on capital during the year: the payment of the purchase price for Clarington (downward effect on the income on capital); the increase in retained earnings (upward effect on the income on capital); the issuance of $125.0 million in preferred shares in the first quarter of 2006 (upward effect on the income on capital); and the good return on assets, particularly real estate (upward effect on the income on capital).

Note as well that the decrease in the income on capital resulting from the Clarington acquisition was more than offset by the operating profit realized by Clarington, which is posted in the Individual Wealth Management sector.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and, other than income taxes as such (tax payable and future income taxes), they include capital taxes not deductible from the Company's income. A life insurer's investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purpose of calculating the operating profit.

Income taxes totalled $89.7 million in 2006, which is higher than in 2005, but in line with the Company's profitability. The effective tax rate was 29.0 % in 2006, compared to 31.1% the previous year. The decrease in the tax rate results from the reduction in corporate tax rates adopted by the federal government in 2006. The reduction in the federal tax rate improved the Company's net income for the year by $21.5 million. This impact can be broken down into two parts:

- A recurring portion of $10.0 million, resulting from the decrease in the annual tax bill due to the lower tax rate.
- A non-recurring portion of $11.5 million, resulting from the impact of the reduced tax rate on the Company's future income tax liabilities. This impact is presented under "Other items".

The Company expects that the effective tax rate should be around 29%.

Other items – Finally, 2006 income was affected by two non-recurring items:

- Restructuring charges of $3.0 million (after taxes) related to the integration of National Life. The Company has now posted $13.2 million (after taxes) in restructuring charges for the National Life integration, which is $0.7 million (after taxes) or about $0.01 per common share more than it had anticipated when it announced this integration in the fourth quarter of 2004. The posting of these charges brings an end to the posting of National Life restructuring charges. All cost savings related to the National Life integration are included in the operating profit.
- The $11.5 million decrease in the tax bill resulting from the impact of the reduced federal tax rate on future income tax liabilities.

For 2005, the Other items are composed of: National Life restructuring charges ($4.1 million after taxes), the provision for the funds managed by Norshield ($52.1 million after taxes) and a gain resulting from a change of reinsurer ($4.2 million after taxes).

Analysis of Operating Profit by Line of Business

The following section presents the operating profit for each line of business.

Individual Insurance – The Individual Insurance sector ended the year with an operating profit of $70.7 million, a 9% decrease compared to 2005. This decrease was mainly the result of higher new business strain. The increased strain reflects the impact that updating the valuation assumptions at the end of 2005 had on new 2006 sales, as well as the higher sales volume.

However, as we explained earlier, the Company carried out strict management of the strain throughout the year. The strain, as a percentage of sales, actually decreased throughout the year, from 73% in the first quarter to 62% in the fourth quarter. This decrease results from selective pricing adjustments made to products during 2006.

Individual Wealth Management – The Individual Wealth Management sector had an excellent year, recording an operating profit of $98.3 million, a 65% increase over the previous year. This increase was primarily due to two factors: the acquisition of Clarington and the strong growth in mutual fund and segregated fund assets, which itself is a result of positive net investment fund sales and strong equity markets.

Group Insurance – The Group Insurance sector ended the year with an operating profit of $47.1 million, an 11% increase over 2005. This increase stems from the sector's excellent claims experience for most of the benefits offered, with the exception of long-term disability.

Group Pensions – The Group Pensions sector ended the year with an operating profit of $15.0 million, 12% higher than in 2005. This increase was due to the sector's ongoing growth as well as good technical results.

Analysis of Income According to the Financial Statements

Following is the presentation of the Company's financial results according to the financial statements.

Income Statement (In millions of dollars, unless otherwise indicated)	2004	2005	2006
Revenues	3,678.2	4,029.4	4,937.9
Policy benefits and expenses	3,441.3	3,835.4	4,638.3
Income before income taxes	236.9	194.0	299.6
Income taxes	(77.7)	(59.4)	(68.3)
Net income	159.2	134.6	231.3
Net income to participating policyholders	4.1	2.4	3.4
Net income to shareholders	155.1	132.2	227.9
Dividends on preferred shares	(0.1)	–	(4.9)
Net income to common shareholders	155.0	132.2	223.0
Earnings per common share			
Basic	$1.96	$1.66	$2.77
Diluted	$1.95	$1.65	$2.74

Revenues

Revenues are composed of three items in the financial statements: premiums (which include the amounts invested by insureds in the Company's segregated funds, but which exclude those invested by clients in mutual funds), net investment income and fees and other revenues.

Revenues for 2006 totalled $4.9 billion, which represents a 23% increase over 2005. The factors that contributed to this increase are explained below.

Revenues (In millions of dollars)	2004	2005	2006
Premiums	2,852.4	3,171.1	3,763.0
Net investment income	696.9	690.9	860.0
Fees and other revenues	128.9	167.4	314.9
Total	3,678.2	4,029.4	4,937.9

Premiums increased by 19% in 2006, reaching $3.8 billion for the year. This increase was primarily driven by the favourable sales results in all lines of business, particularly for savings and investment products, as well as good business persistency.

If mutual fund deposits are added to the premiums, premiums and deposits for the year reached a high of $5.0 billion, a 39% increase over 2005. This growth comes primarily from the Individual Wealth Management sector, thanks to the acquisition of Clarington at the end of 2005, and from Group Pensions, due to the signing of several contracts, particularly outside Quebec.

Premiums and Deposits (In millions of dollars)	2004	2005	2006
Premiums			
General fund	1,870.9	1,981.2	2,209.0
Segregated funds	981.5	1,189.9	1,554.0
Total	2,852.4	3,171.1	3,763.0
Deposits – Mutual funds	–	412.6	1,227.6
Total	2,852.4	3,583.7	4,990.6

Net investment income is composed of variations in the fair market value of certain investments and the gains and losses resulting from the dispositions of investments, income from interest and dividends and net income from rental properties.

Net investment income totalled $860.0 million in 2006, $169.1 million higher than in 2005. This increase results primarily from the normal growth of the capital base and the good return on assets, primarily real estate. The good performance of the stock markets during the year was also a favourable factor in the growth of investment income. In 2005, however, net investment income had decreased due to the posting of a $77.9 million provision (before taxes) for the funds managed by Norshield.

However, the major portion of the increase in stock market returns in 2006 affected savings under certain Universal Life insurance contracts, thus leading to an equivalent increase in the Company's commitments. For this type of savings, the risk related to investment performance is assumed by the policyholders. Hence, if the amounts allocated to the policyholders are excluded, the net investment income in 2006 was $117.5 million higher than in 2005.

Net Investment Income (In millions of dollars)	2004	2005	2006
Investment income	596.0	610.6	643.3
Realized and unrealized gains (losses)	100.1	156.6	214.7
Change in provisions for losses	0.8	(76.3)	2.0
Net investment income	696.9	690.9	860.0
Amounts allocated to policyholders (Universal Life policy accounts)	(35.7)	(65.5)	(117.1)
Net investment income, excluding amounts allocated to policyholders	661.2	625.4	742.9

Fees and other revenues primarily represent fees earned from the management of the segregated funds and mutual funds. The variation in fees depends on the level of net segregated fund and mutual fund sales as well as variations in the market value of these funds.

The $147.5 million increase in fees and other revenues recorded in 2006 reflects the growth of segregated fund and mutual fund assets, which jumped significantly, mainly due to the acquisition of Clarington at the end of 2005.

Policy Benefits and Expenses

Policy benefits and expenses totalled $4.6 billion in 2006, which represents an $802.9 million increase over 2005. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses (In millions of dollars)	2004	2005	2006
Change in provisions for future policy benefits	517.4	544.8	736.3
Payments to policyholders and beneficiaries	1,277.9	1,411.7	1,591.5
Net transfer to segregated funds	929.7	1,116.1	1,400.5
Commissions	350.6	388.6	484.7
General expenses	257.8	273.1	314.0
Other	107.9	101.1	111.3
Total	3,441.3	3,835.4	4,638.3

The change in provisions for future policy benefits totalled $736.3 million in 2006, which represents an increase of $191.5 million compared to the previous year. This increase results from the normal growth of business, primarily the increase in premiums (other than segregated fund premiums) during the year. The change in provisions for future policy benefits is greatly influenced by the level of premiums (increase in provisions for future policy benefits), the return of the underlying assets (increase), claims incurred (decrease) and the net transfer to segregated funds (decrease).

Payments to policyholders and beneficiaries in 2006 were $179.8 million higher than in 2005. This increase is related to the normal growth of business and reflects the increase in the in-force block of business. Payments to policyholders and beneficiaries include benefits paid due to death, disability, sickness or contract terminations, as well as pension and annuity payments.

Net transfers to segregated funds totalled $1.4 billion in 2006, an increase of $284.4 million over 2005. This increase can be explained by clients' preference for segregated funds when equity markets are moving up.

Net transfers to segregated funds are made up of amounts that are withdrawn from the general fund to be invested in segregated funds, excluding any amounts transferred from segregated funds to the general fund. Net transfers to segregated funds can vary from one period to another according to the demand from clients who at times favour general fund products, which usually offer guaranteed returns, and at other times are more attracted by segregated fund products, whose return fluctuates with the markets.

Commissions increased by $96.1 million in 2006 compared to the previous year. This increase is related to the generalized growth of sales in all lines of business, as well as the acquisition of Clarington. Commissions correspond to the remuneration of financial advisors for new sales and certain in-force contracts.

General expenses were $40.9 million higher in 2006 than in 2005, primarily due to the development of the new wealth management subsidiaries, particularly the addition of Clarington's general expenses.

Embedded Value

Highlights

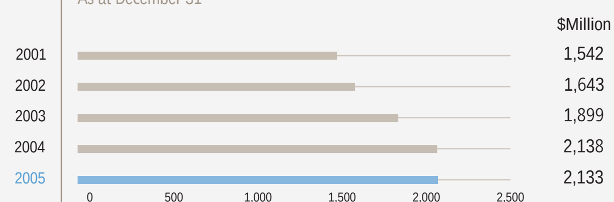
- Embedded value of $2.1 billion as at December 31, 2005 ($26.78 per common share), up 1.7% compared to December 31, 2004 before the payment of dividends, but down 0.2% after the payment of dividends
- Embedded value/book value ratio: 1.63x as at December 31, 2005, the highest ratio among Canadian life insurance companies that have disclosed their embedded value
- Addition of new business to embedded value in 2006: $1.19 per common share, 18% higher than in 2005
- Market guidance: the Company expects the recurring portion of embedded value to grow at a low double-digit rate each year (10.9% increase in 2005)

Embedded value is one of the best tools life insurance companies have for measuring their economic worth. Not only does embedded value provide the necessary information to estimate the value of a life insurance company, it also allows for a better understanding of the financial dynamics of a life insurance company and the various items that affect its performance. However, embedded value measures only the value of a life insurance company's in force business, and does not take into account the Company's distribution capacity and future sales.

As at December 31, 2005, the date of the most recent valuation, Industrial Alliance's embedded value was $2.1 billion, a decrease of $5 million, or 0.2%, compared to 2004[1]. This value corresponds to $26.78 per common share, which gives an idea of the economic worth of each outstanding share.

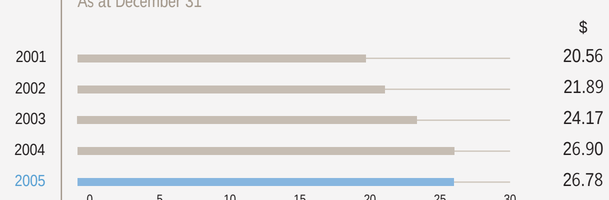
Embedded Value

As at December 31



Embedded Value per Common Share

As at December 31



[1] Assuming that the buy-back of common shares issued as part of the Clarington acquisition took place on December 31, 2005.

Changes in embedded value from one year to another are affected by several factors. This year, these factors can be divided into three major categories: recurring items, non-recurring items and dividends paid to shareholders.

In 2005, the recurring items caused the embedded value to increase by 10.9%, the same rate as in 2004. The recurring items are composed of the value added by new business and anticipated normal growth. The Company expects the recurring portion of embedded value to grow at a low double-digit rate each year.

Certain non-recurring items also affect the growth of the embedded value. The acquisition of Clarington in 2005 reduced the embedded value by $125 million (-5.8%), whereas the provision taken for the funds managed by Norshield reduced it by $52 million (-2.4%). The changes in assumptions made at the end of 2005, particularly with respect to lower interest rates, reduced the embedded value by $58 million (-2.7%). The good performance of the stock markets increased the embedded value by $37 million (+1.7%).

In 2005, the Company also paid $40 million in dividends to its shareholders, which represented a 1.9% decrease in the embedded value.

Embedded Value Added in 2005

	Embedded Value	Contribution to Growth	Embedded Value per Share
	($Million)	(%)	($)
Embedded value as at December 31, 2004	2,138	–	26.90
Recurring items			
Expected growth of embedded value	154	7.2	1.93
New sales	80	3.7	1.01
Total	234	10.9	2.94
Non-recurring items			
Experience gains or losses – related to the equity markets	37	1.7	0.46
Experience gains or losses – other	(1)	–	(0.01)
Changes in assumptions	(58)	(2.7)	(0.74)
Acquisition of Clarington	(125)	(5.8)	(1.60)
Provision for Norshield	(52)	(2.4)	(0.67)
Total	(199)	(9.2)	(2.56)
Embedded value as at December 31, 2005, before dividends	2,173	1.7	27.28
Dividends paid to shareholders	(40)	(1.9)	(0.50)
Embedded value as at December 31, 2005[1]	2,133	(0.2)	26.78

Embedded Value/Book Value Ratio

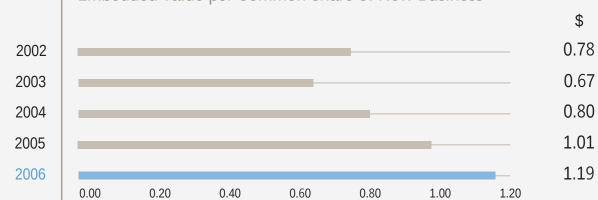
Another interesting measure is the embedded value/book value ratio. This ratio measures the relative value of a life insurance company's stock. At the end of 2005, the embedded value represented 1.63x the Company's book value. This is the highest ratio among all Canadian life insurance companies that have disclosed their embedded value.

Embedded Value of New Sales

The embedded value of new sales measures the extent to which new contracts sold during the year contribute to the increase in the embedded value. It also enables a judgment to be made about the profitability of the products and services offered by a life insurance company and the productivity of its distribution networks.

In 2006, Industrial Alliance's new sales added $95.5 million or $1.19 per common share to the Company's embedded value. This value is 18% higher than the previous year. This increase is attributable to steady growth of segregated fund and mutual fund sales. The acquisition of Clarington greatly contributed to increasing mutual fund sales.

Embedded Value per Common Share of New Business



1 Assuming that the buy-back of common shares issued as part of the Clarington acquisition took place on December 31, 2005.

Solvency and Capitalization

2006 Highlights

- Solvency ratio of 201%, slightly above the Company's 175% to 200% target range
- Prudent and conservative capital management
  - $1.9 billion in capital, an 11% increase
  - 15.9% debt ratio, below the maximum levels accepted by the rating agencies
- $147 million in excess capital
- Impact of the new accounting standards concerning financial instruments that took effect on January 1, 2007: decrease in the solvency ratio of approximately 10 percentage points and a decrease in excess capital of some $60 million

Sound capitalization and a healthy solvency level are key elements for a life insurance company's long-term success. These two fundamental elements are essential to ensuring a life insurance company's financial solidity and growth.

Solvency

The solvency ratio was 201% as at December 31, 2006, which is 13 percentage points higher than at the end of 2005. The solvency ratio is slightly above the Company's 175% to 200% target range.

Several factors put upward or downward pressure on the solvency ratio in 2006. Following are some of the main factors that caused the solvency ratio to increase:

- The usual contribution of net income to the available capital, net of the normal increase in required capital related to business growth.
- The issuance of $125.0 million in preferred shares.
- The reclassification of certain intangible assets, which are no longer deducted from the Tier 1 available capital, as is the goodwill. This reclassification increased the available capital, and increased the capital required for the risk of insufficient return on assets.

On the other hand, the following key factors caused the solvency ratio to decrease:

- The redemption of 1.8 million common shares of the Company.
- The increase in the market value of equity investments and the purchase of new equities to respect the Company's investment strategy for assets matched to the long-term liabilities.
- The reclassification of certain insurance products to recognize their limited or non-adjustability. This reclassification led to an increase in the capital required for insurance risk and interest rate risk.
- The acquisition of FundTrade Financial Corporation, which led to the posting of $8.4 million in goodwill.

The Company had about $147 million in excess capital as at December 31, 2006. However, the new accounting standards concerning financial instruments that took effect on January 1, 2007 will put downward pressure on the solvency ratio, which should decrease by about 10 percentage points, thus reducing the excess capital by some $60 million, according to the most recent estimates.

Solvency and Excess Capital

(In millions of dollars, unless otherwise indicated)	As at December 31 2002	2003[1]	2004	2005	2006
Solvency					
Available capital					
Net tier 1	695.0	996.1	1,246.2	1,187.5	1,498.9
Net tier 2	342.4	295.8	136.1	134.9	128.6
Total	1,037.4	1,291.9	1,382.3	1,322.4	1,627.5
Required capital	556.5	583.7	624.0	704.5	809.9
Solvency ratio[2]	186%	221%	222%	188%	201%
Excess capital	0	110	158	0	147

Capitalization

Today, Industrial Alliance's capital structure is made up of three main categories of capital: equity, debt securities and the participating policyholders' account. At the end of 2006, equity accounted for 83% of the Company's capital.

As at December 31, 2006, the Company's regulatory capital totalled $1.9 billion, an 11% increase compared to December 31, 2005. Two factors caused the capital to increase during the year, and two caused it to decrease. The two factors that caused the capital to increase were an increase in the retained earnings and the issuance of $125.0 million in preferred shares. The two factors that caused the capital to decrease were the reimbursement of the Clarington $62.9 million subordinated debenture and the redemption of 1.8 million common shares of the Company.

All the changes made to the capital structure in 2006 leave the Company in a good leverage position. As a result, the debt ratio, measured by the debt securities compared to the capital structure, decreased from 21.3% as at December 31, 2005 to 15.9% as at December 31, 2006. If the preferred shares are added to the debt securities, the ratio increases from 21.3% as at December 31, 2005 to 22.4% as at December 31, 2006.

[1] Restated to take into account the transfer from the participating policyholders' account to the retained earnings account.

[2] The solvency ratio is calculated in accordance with capital adequacy requirements.

Capital Structure and Debt Ratios (In millions of dollars, unless otherwise indicated)	As at December 31 2002	2003[1]	2004	2005	2006
Capital structure					
Equity					
Common shares	382.0	438.3	458.1	510.6	507.7
Preferred shares	75.0	18.7	–	–	125.0
Retained earnings	470.2	627.5	751.7	845.4	971.3
Contributed surplus	3.3	6.5	9.5	12.3	14.6
Currency translation account	7.5	(2.5)	(5.8)	(7.1)	(6.8)
Total	938.0	1,088.5	1,213.5	1,361.2	1,611.8
Debt securities					
Subordinated debentures	185.0	135.0	150.0	373.0[2]	310.1
Other debt (IATS[3])	–	150.0	150.0	–	–
Total	185.0	285.0	300.0	373.0	310.1
Participating policyholders' account	59.5	13.2	17.3	19.7	23.1
Total	1,182.5	1,386.7	1,530.8	1,753.9	1,945.0
Debt ratios					
Debt/capital structure	15.6%	20.6%	19.6%	21.3%	15.9%
Debt + preferred shares/ capital structure	22.0%	21.9%	19.6%	21.3%	22.4%

Outstanding Shares

The Company has only one class of common shares and all common shares contain a single voting right. In addition, no shareholder may hold, directly or indirectly, 10% or more of the Company's voting shares. The common shares of Industrial Alliance are traded on the Toronto Stock Exchange under the ticker symbol IAG.

The number of issued and outstanding common shares as at December 31, 2006 was 79,919,113, a decrease of 1,468,038 compared to December 31, 2005. This decrease is attributable to the following factors:

- The buy-back of 1,800,000 common shares of the Company. This buy-back was made to counter the dilutive effect caused by the issuance of 1,800,000 common shares of the Company at the end of 2005 and the beginning of 2006, as part of the Clarington acquisition.
- The issuance of 244,800 common shares following the exercise of options under the stock option plan for Company management.
- The issuance of 90,180 common shares as part of the Clarington acquisition.
- The cancellation of some 3,000 common shares issued when the Company demutualized.

The Company paid a dividend of $0.14 per common share in the first two quarters of 2006 and $0.16 per common share in the last two, for a total dividend of $0.60 per common share. Hence, the Company paid out $48.3 million in dividends to common shareholders. This dividend translates into a payout ratio of 21.7% of the net income to common shareholders for 2006, or 22.5% of the adjusted net income to common shareholders (refer to the *Six-Year History* for more details on the adjustments). At the end of the year, the Company announced that it was planning to increase the payout ratio to 28% of the sustainable earnings by 2008.

Note that when the Company disclosed its fourth quarter results, it announced a $0.02 increase in its quarterly dividend, which will increase to $0.18 per common share. This dividend will be payable in the first quarter of 2007.

As at December 29, 2006, the last trading day of the year, IAG stock closed at $36.14. The Company's market capitalization was $2.9 billion. Industrial Alliance became a stock company in February 2000. Its stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of $7.88, taking into account the two-for-one split of the Company's common shares, which took place on May 18, 2005. This means that the Company's stock price grew 359% between February 3, 2000 and December 29, 2006.

The Company also has 5,000,000 category A, series B preferred shares issued and outstanding, worth a total of $125.0 million. These preferred shares entitle the holders to a fixed non-cumulative quarterly dividend of $0.2875 per preferred share. These preferred shares are redeemable in whole or in part at the option of the Company, subject to approval by the *Autorité des marchés financiers*. These preferred shares have no voting rights and cannot be converted into common shares. The Company paid $4.9 million to preferred shareholders in 2006.

Debentures

The Company had three debentures in its balance sheet as at December 31, 2006, with a total value of $310.1 million.

- A $150.0 million series A debenture. This debenture bears interest of 5.714%, payable semi-annually. It is redeemable at the option of the Company starting in December 2008 or repayable on maturity in 2053.
- A $10.1 million series A funding debenture. This debenture bears interest of 5.714%, payable semi-annually. It is redeemable at the option of the Company at any time or repayable on maturity in 2053.
- A $150.0 million subordinated debenture. This debenture matures on June 30, 2019. It bears interest of 5.13%, payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1%, payable quarterly. This debenture is redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the *Autorité des marchés financiers*, at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem the debenture in whole, but not in part, on each payment date of quarterly interest, at par, subject to approval by the *Autorité des marchés financiers*.

Note that the Company has reimbursed the $62.9 million subordinated debenture that it acquired as part of the Clarington acquisition at the end of 2005.

The financing expenses on the debentures totalled $17.8 million in 2006 ($17.0 million in 2005).

The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors.

1 Restated to take into account the transfer from the participating policyholders' account to the retained earnings account.

2 Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust (IATS) securities in the first quarter of 2005. Following this change, the $150.0 million in IATS as well as a $10.1 million Trust financing debenture were reclassified as subordinated debentures.

3 IATS: Trust securities issued by Industrial Alliance Capital Trust.

Stock Option Plan

In accordance with the stock option plan adopted by the board of directors in 2001, in 2006 the Human Resources and Corporate Governance Committee issued 508,000 new stock options. These new options, which will expire in 2016, were granted at an average weighted exercise price of $30.22. This issue increases the number of stock options outstanding to 3,116,000, or 3.9% of the number of issued and outstanding shares as at December 31, 2006.

Credit Ratings

On October 17, 2006, Standard & Poor's revised its rating system for active Canadian insurance companies. These revisions aimed to ensure greater overall consistency of the ratings that it grants for three types of instruments in particular, namely subordinated debentures, preferred shares and hybrid instruments. For issuers, this revision has led to a one notch increase in the ratings that insurance companies had for these instruments.

For Industrial Alliance, this change led to a one notch increase in the rating of the subordinated debentures (from A- to A), as well as the Industrial Alliance Trust Securities and preferred shares (the rating for these securities increased from P-2 (High) to P-1 (Low) for the Canadian scale and BBB+ to A- for the global scale). The outlook for each of these ratings remains stable.

The DBRS and A.M. Best rating agencies, which also rate Industrial Alliance stock, renewed the ratings they grant to the Company, with a stable outlook.

These ratings confirm the Company's financial solidity and its ability to meet its commitments to policyholders and creditors. These three rating agencies act independently of the Company.

Credit Ratings

Rating Agency	Type of Evaluation	Rating	Trend
Standard & Poor's	Financial Strength Rating	A+ (Strong)	Stable
	Issuer Credit Rating	A+/Stable/–	Stable
	Subordinated debentures	A	Stable
	Industrial Alliance Trust Securities (IATS)		
	Canadian scale	P-1 (low)	Stable
	Global scale	A-	Stable
	Preferred shares		
	Canadian scale	P-1 (Low)	Stable
	Global scale	A-	Stable
DBRS	Claims Paying Ability	IC-2	Stable
	Subordinated debentures	A	Stable
	Industrial Alliance Trust Securities (IATS)	A (low)yn	Stable
	Preferred shares	Pfd-2 (High)n	Stable
A.M. Best	Financial Strength Rating	A (Excellent)	Stable
	Issuer Credit Rating	a+	Stable
	Subordinated debentures	a-	Stable
	Industrial Alliance Trust Securities (IATS)	bbb+	Stable
	Preferred shares	bbb+	Stable

Normal Course Issuer Bid

With the approval of the Toronto Stock Exchange, the Board of Directors of Industrial Alliance has authorized the Company to purchase in the normal course of its activities, from February 13, 2007 to February 12, 2008, up to 3,900,000 of its common shares, representing approximately 4.9% of the 79,927,363 common shares issued and outstanding on February 5, 2007.

Under this authorization, the purchases will be made at market prices through the facility of the Toronto Stock Exchange in accordance with its rules and policies. The common shares thereby purchased will be cancelled.

Industrial Alliance believes that the purchase of its common shares would represent an effective use of its funds and would be in the best interests of the Company and its shareholders. Shareholders may obtain without charge a copy of the documents filed with the Toronto Stock Exchange concerning this Bid by writing to the Corporate Secretary of Industrial Alliance.

Under the previous Normal Course Issuer Bid, whose period ran from February 13, 2006 to February 12, 2007, the Company purchased 1,800,000 common shares at an average price of $32.17 per share for a total amount of $57.9 million. These purchases were made to counter the dilutive effect of the issuance of shares as part of the acquisition of Clarington Corporation.

Personal Financial Services

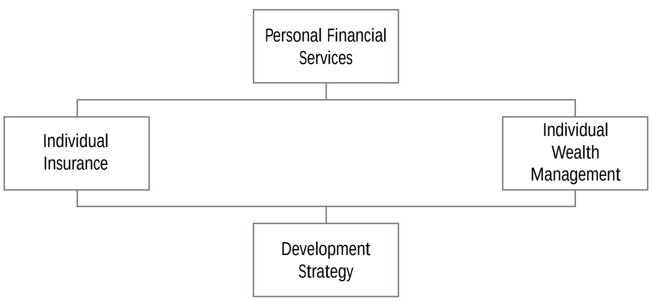
Industrial Alliance offers insurance, annuity, savings and investment products to individuals through two major lines of business: Individual Insurance and Individual Wealth Management.

In the Individual Insurance sector, the Company distributes a wide range of products tailored to the needs of clients seeking insurance coverage in the event of death, sickness, or disability.

In the Individual Wealth Management sector, the Company offers savings and investment products through a variety of investment vehicles such as GICs (guaranteed investment certificates), segregated funds and mutual funds, as well as distributes traditional annuity products.

The Company has an integrated development strategy for all of its personal financial services.

The following section presents the results pertaining to business growth and the main achievements of the Individual Insurance and Individual Wealth Management sectors in 2006, as well as the Company's overall development strategy for these sectors.



Individual Insurance

2006 Highlights

- Sales Growth
  - $153.6 million in sales, a new high
  - 9% increase in sales, despite pricing adjustments made to products
  - Fourth in Canada for individual insurance sales, with a 12.7% market share
  - First in Canada for Universal Life sales, with a market share of 16.1%
- Main Achievements
  - Improved profit margins due to a decrease in new business strain
  - Reduced unit costs due to the National Life integration
  - Revision of the Universal Life policy to allow for a greater accumulation of savings
  - Launch of a new software application to promote advanced insurance concepts
  - Development of a new credit insurance product

In 2006, the Individual Insurance sector accomplished the major task of improving profitability by making pricing adjustments to its products in order to increase profit margins, while continuing to increase sales.

Business Growth

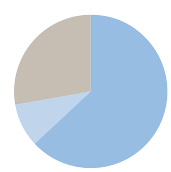
Sales in the Individual Insurance sector totalled $153.6 million in 2006, the highest sales volume ever achieved by the Company, and 9% higher than in 2005. The Company is pleased with this result given the pricing adjustments made to its most popular products during the year (refer to the section on 2006 Achievements at the end of this section for more details). This growth is just below that of the industry, which ended the year with a 10% increase in sales in Canada. This is the strongest growth the industry has seen in several years.

Industrial Alliance is still a leader in Canada in Individual Insurance sales, ranking fourth in 2006 with a 12.7% market share, like in 2005.

Individual Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006
Sales[1]	133.3	128.7	139.9	141.3	153.6
Growth	(2%)[2]	(3%)	9%	1%	9%
Premiums	663.9	683.4	763.1	768.7	838.6
Growth	1%	3%	12%	1%	9%

By distribution network, 2006 sales were up some 15% and 10% respectively in the Career and General Agents networks, but down 14% in the National Accounts network. The pricing changes made to the products may have had the biggest impact on the National Accounts network, which distributes its products primarily to a wealthier clientele; however, sales in this network account for only 9% of the Company's sales in the Individual Insurance sector.



Sales by Distribution Network

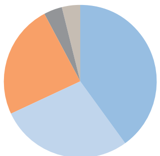
2006

- 28% Career
- 63% General Agents
- 9% National Accounts

By region, sales were stable in the Atlantic Provinces and up in all other regions. Sales were up considerably in Quebec (+13%) and Ontario (+10%) compared to 2005. As the figure on the next page shows, individual insurance sales outside Quebec accounted for 60% of the new business for 2006.

[1] In the Individual Insurance sector, sales are defined as first-year annualized premiums.

[2] The growth rate does not include sales for business written for members of the Canadian Medical Association (CMA) in 2001. The CMA business was transferred to an entity subject to significant influence, MD Life Insurance, jointly owned by MD Management which owns 55% of the company's shares, and Industrial Alliance which owns 45%.

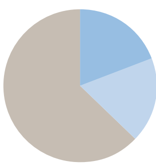


Sales by Region
2006

- 4% Atlantic
- 40% Quebec
- 28% Ontario
- 24% Western Canada
- 4% United States

By product, the Company recorded good sales growth for all product categories (8% growth for Universal Life policies, 10% for term products and 9% for other products).

With the launch of the new Genesis product in the last quarter of 2005, Universal Life insurance sales regained momentum in 2006. Genesis remains the Company's most popular product. As a percentage, these policies accounted for 63% of the sector's total sales, compared with 55% for the industry. In 2006, the Company was ranked first in Canada for the sale of new Universal Life policies, with 16.1% of all new sales. The Company has held this rank for several years, thanks to the strategic development initiatives continually being introduced by the sector.



Sales by Product
2006

- 63% Universal Life Insurance
- 19% Term Insurance
- 18% Other

Even though sales are up for term products, it is important to note that competition has been very strong in this market for several years. This translates into constant pressure on pricing. Our strategy, and also our challenge, is to maintain a competitive offer for our clients and our distribution networks. So far, this strategy has ensured our unfaltering success.

Strong sales and good business persistency increased premium income in the Individual Insurance sector by 9%, bringing it to $838.6 million in 2006. With the control of the new business strain, growth in premium income is the primary factor in long-term profit growth.

2006 Achievements

From a profitability standpoint, the major challenge in 2006 was putting measures in place to control the new business strain and to reduce unit costs in order to increase profit margins. The primary measures adopted were the following:

- On the product front, we made some pricing adjustments with a view to reducing the new business strain and, consequently, improving product profitability. A major concern, however, was improving profitability without breaking the Company's sales growth momentum, a goal that was successfully achieved.
- On the operational front, the continued integration of National Life operations with those of the parent company, combined with targeted measures to control the sector's general expenses enabled us to realize considerable savings, which were reflected in the unit costs.

From a product standpoint, we continued to adapt our product line in order to maintain the Company's competitive position, while seeking to stand out through innovation. Following are the three main initiatives introduced in 2006:

- Universal Life insurance – In addition to the pricing adjustments made to the cost of insurance of our Universal Life policy, we also revised some of the options to allow for a more significant accumulation under the "savings" component found in this type of product. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive investment vehicle that allows clients to accumulate significant amounts of money tax-free.
- Advanced insurance concepts – The tax treatment offered by products like Universal Life policies make this type of product extremely attractive to wealthier clients. A new data processing tool was also added to the illustration software for Universal Life policies to help the sales personnel from our various distribution networks present clients with different advanced financial strategies.
- Credit insurance – The sector continued to expand its family of individual insurance products with the introduction of a new credit insurance product that complements our current mortgage insurance product, and that will cover all other types of loans, including lines of credit, which are increasingly in demand.

Lastly, from a technological and administrative standpoint, the Company continued to harmonize the back office systems and procedures of the Toronto Service Centre (formerly the head office of National Life) with those of Industrial Alliance, in order to standardize contract management and realize the anticipated savings.

Individual Wealth Management

2006 Highlights

- Business Growth
  - Record sales of $2.5 billion, an increase of 70%
  - Best sales results – and net sales – of the Company's segregated funds (second with respect to net sales in Canada, with 17.8% of the market)
  - Exceptional year as a mutual fund manufacturer: $1.2 billion in sales, an increase of 198%
  - $14.0 billion in funds under management, an increase of 14%
- Main Achievement
  - Swift and successful integration of Clarington Corporation, a mutual fund manager acquired on December 28, 2005. Clarington helped to increase the parent company's net income by $0.02 per common share in 2006, and expects to increase it by $0.06 in 2007.

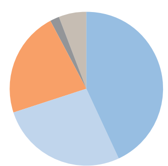
The Individual Wealth Management sector once again stole the spotlight in 2006. The exceptional results achieved by the sector in 2006 were driven by strong sales growth due to excellent segregated fund sales, the contribution of Clarington Corporation on the mutual fund front, the solid returns obtained by our fund managers and the strong stock market performance.

Business Growth

General fund, segregated fund and mutual fund sales surpassed the $2 billion mark for the first time in 2006, reaching $2.5 billion. This represents growth of 70% compared to the previous year. The sector recorded higher sales in all product categories, all distribution networks and all regions of Canada.

Individual Wealth Management Sales[1] (In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006
General fund	198.7	227.9	237.5	242.4	289.2
Segregated funds	392.0	430.8	669.3	805.2	958.3
Mutual funds	–	–	–	412.6	1,227.6
Total	590.7	658.7	906.8	1,460.2	2,475.1
Growth	12%	12%	38%	61%	70%

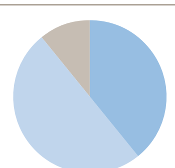
By region, 57% of sales were made outside Quebec in 2006. This is the first time that sales outside of Quebec have been higher than those within Quebec for this line of business. This can be explained by the acquisition of Clarington, whose distribution network is Canada-wide.



Sales by Region
2006

- 6% Atlantic
- 43% Quebec
- 27% Ontario
- 22% Western Canada
- 2% United States

Even though the Company is just starting out in the mutual fund sector, sales of this product accounted for 50% of the year's sales in the Individual Wealth Management sector. The Clarington purchase at the end of 2005 enabled us to increase this proportion rapidly, up from 28% in 2005.



Sales by Product
2006

- 11% General fund
- 39% Segregated Funds
- 50% Mutual Funds

By product, segregated funds once again had a particularly good year owing to the solid performance of the Company's fund managers, the scope of our distribution network and to strong stock markets. In fact, segregated fund sales were up 19% in 2006. In the last five years, sales of segregated funds have grown at an average annual rate of 20%.

For mutual funds, the Company had an excellent year as a manufacturer. Sales growth was spectacular in 2006, with sales nearly tripling from the previous year thanks to the significant contribution of Clarington.

For traditional general fund products (essentially guaranteed interest products and insured annuities), fund entries grew by 19% in 2006. These products are more popular when the stock markets are down, as was temporarily the case in mid-year, resulting in increased demand for this type of product.

With respect to net investment fund sales (segregated funds and mutual funds), the results were also excellent. Net sales totalled $874.6 million in 2006, a 26% increase compared to the previous year. Net sales correspond to 40% of gross investment fund sales, a particularly high proportion for the investment fund industry.

[1] In the Individual Wealth Management sector, sales are defined as premiums for the general fund and segregated funds, and as deposits for mutual funds.

Investment Funds Net Sales (In millions of dollars, unless otherwise indicated)	2004	2005	2006
Segregated funds	332.7	547.4	607.6
Mutual funds	–	148.7	267.0
Total	332.7	696.1	874.6
As a percentage of gross sales	50%	57%	40%

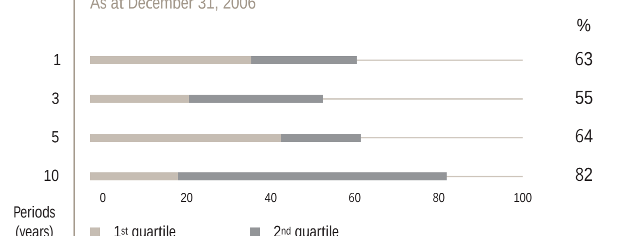
In terms of market position, the Company was ranked second in Canada in 2006 (ranked third at the end of 2005) with respect to net segregated fund sales, with a 17.8% market share (15.8% in 2005), the Company's best performance in this regard. Since 2000, the Company has been acquiring an increasingly higher market share, which has grown from 4.2% in 2000 to 17.8% in 2006.

Positive net sales and a favourable stock market performance boosted the sector's assets under management to $14.0 billion, a 14% increase for 2006. The Company was ranked fourth in Canada with respect to segregated fund assets as at December 31, 2006, with 8.8% of the market (8.3% as at December 31, 2005).

Individual Wealth Management Funds Under Management (In millions of dollars, unless otherwise indicated)	As at December 31 2002	2003	2004	2005	2006
General fund	1,738	1,775	1,771	1,695	1,632
Segregated funds	2,795	3,262	3,872	4,851	6,047
Mutual funds	–	94	1,018	5,660	6,281
Total	4,533	5,131	6,661	12,206	13,960
Growth	(3%)	13%	30%	83%	14%

Finally, part of the Company's success in the Individual Wealth Management sector is no doubt related to the returns obtained by its segregated fund managers. As at December 31, 2006, 63% of the Company's investment fund assets (segregated funds and mutual funds) were in funds whose gross relative performance was above the median for the one year term. For three, five and ten-year terms, this proportion was 55%, 64% and 82% respectively. 67% of all investment fund assets are managed by the Company's in-house management team.

Proportion of Investment Fund Assets (Segregated Funds and Mutual Funds) Whose Gross Relative Performance Is Above the Median
As at December 31, 2006



2006 Achievements

On the operational front, the biggest project for the Individual Wealth Management sector in 2006 was undoubtedly the integration of Clarington operations, both in terms of distribution and administration. This integration was carried out on time and within budget, making integration risk a thing of the past.

From a financial standpoint, IA Clarington achieved its expected $0.02 per common share contribution to the parent company's net income, perhaps a little more easily than expected. This contribution was the result of faster than expected integration, stronger than expected stock markets, and solid sales performances all year long. On the strength of this achievement, the Company is confident that IA Clarington can help improve the parent company's net income by $0.06 per common share in 2007.

Today, Industrial Alliance is among the top 20 investment fund managers (mutual funds and segregated funds combined) in the retail market in Canada, with $12.3 billion in assets under management, and among the top 10 in the independent advisors channel.

From a product standpoint, the growth and strength of the Individual Wealth Management sector is the result of various strategic initiatives. Following is an overview of the main initiatives that took place in 2006.

- New investment funds – We improved our service offer by launching three new segregated funds. Two of these funds are also being distributed as mutual funds through the Company's mutual fund subsidiary, IA Clarington. This combined offer allows us to benefit from synergies between the parent company and this subsidiary. This initiative is also part of a larger strategy that aims to grow the Company's funds under management (products manufactured by Industrial Alliance).
- Registered education savings plans – We revised our service offer in terms of our registered education savings plans in order to reflect the improvements made by the federal government and certain provinces.

From a technological and administrative standpoint, we continued to harmonize the National Life back-office savings system with that of the parent company. This initiative enables us to manage all individual savings products in one system.

Finally, in information systems, all the work associated with the project to provide the Company with a single administration system for segregated funds and mutual funds progressed according to schedule. One goal of this project is to enhance the synergies among our various investment fund activities, in order to reduce operating expenses as much as possible. This single system is expected to be implemented by mid-2007.

Development Strategy for Personal Financial Services

Industrial Alliance has been a leader in the personal financial services market for several years. In the last few years, the Company's actions in this market have been centred around the following strategy:

- Distribution networks – Build efficient distribution networks through which we can distribute products manufactured by Industrial Alliance across Canada.
- Products – Offer a comprehensive line of competitive, innovative and profitable products.
- Operating expenses – Keep unit costs down as much as possible.

Distribution Networks

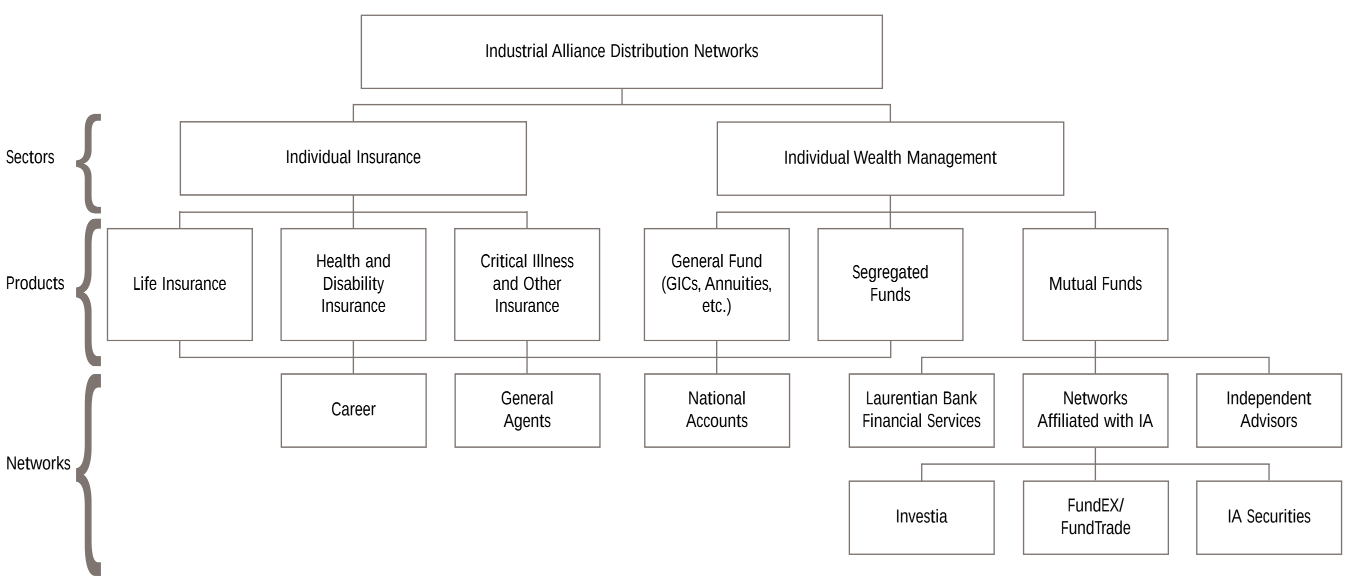
What sets Industrial Alliance apart in the retail market is the size and scope of its distribution networks. As we can see in the diagram that follows, the Company has a variety of networks for distributing its products. The Company also manufactures most of the products it distributes, from insurance and annuity products to segregated funds and mutual funds. These products are offered in all parts of the country and to all layers of the population.

The acquisition of Clarington in December 2005 enabled the Company not only to achieve scale in the mutual fund management market, but also to significantly expand its distribution networks. This was the case particularly with the independent advisors channel, which is primarily made up of securities brokers–a market that was almost totally untapped by the Company–and mutual fund brokers.

To remain a leader in distribution, the Company plans to continue its efforts to recruit new agents in all its distribution networks. The managers in charge of the various networks have very specific recruiting objectives.

In 2006, the Career Agents network increased its number of dedicated agents by 105, bringing the total number to 1,550 at the end of the year. This is a 7% increase, more than double the increase targeted by the Company, whose goal is to grow the number of Career network agents by 3% per year.

The Company is not ruling out the possibility of expanding its mutual fund and securities distribution networks through acquisitions, if the opportunity should present itself. This was the case in 2006, when the Company acquired FundTrade Financial Corporation, a Toronto-based mutual fund dealer. When it was acquired, FundTrade



had $3.8 billion in assets under administration, and a network of 191 associates. FundTrade was merged with FundEX Investments Inc., another mutual fund broker owned by Industrial Alliance. Today the two companies, which now operate under the name FundEX, have close to $10 billion in assets under administration and a network of over 400 associates.

This acquisition brings the number of acquisitions carried out by the Company in the mutual fund and securities sectors up to twelve since 2001.

Products

The range of products offered by Industrial Alliance plays a key role in the Company's success. In order to keep our various distribution networks interested in our products, it is important to remain innovative, to watch for new developments in the market and to make the changes required to keep our service offer competitive and profitable.

In the Individual Insurance sector, we will continue to design and promote certain sales tools to selected distributors in order to increase our penetration in this high-end market segment. Also, in view of the very competitive environment prevailing in the individual insurance market, we are continuing to monitor our sales trends closely and making any necessary adjustments to our products, in an ongoing effort to bridge the gap between business growth and keeping profitability at an acceptable level.

In the Individual Wealth Management sector, we plan to put innovative products in place in anticipation of a stock market downturn, and to leverage the synergy between our segregated fund and mutual fund service offers.

Operating Expenses

Lastly, in order to reduce unit costs, we plan to:

- Implement a new infrastructure that will allow us to manage mutual funds and segregated funds on the same technology platform.
- Adopt a new remuneration management system for sales personnel.
- Maximize the synergies among the various Industrial Alliance group entities.

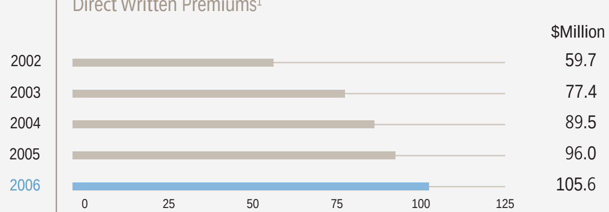
Auto and Home Insurance

Industrial Alliance markets its auto and home insurance products through its Industrial Alliance General Insurance Company subsidiary, known under the commercial name Industrial Alliance Auto and Home Insurance (IAAH). In the early 2000s, the parent company implemented an ambitious development plan designed to make its auto and home insurance subsidiary a leader in the direct distribution of retail insurance in Quebec. To achieve this, IAAH set itself a goal of offering Industrial Alliance clients and the general public quality products and services at the best possible price.

Since that time, IAAH has managed to more than triple its market share in the retail insurance market in Quebec, while providing the parent company with a higher than expected return on investment. The distinct advantages that enabled IAAH to achieve this profitable development were, first and foremost, referrals from the parent company's distribution networks, which represent a unique business development potential, and the strong, positive reputation of the "Industrial Alliance" brand name in Quebec.

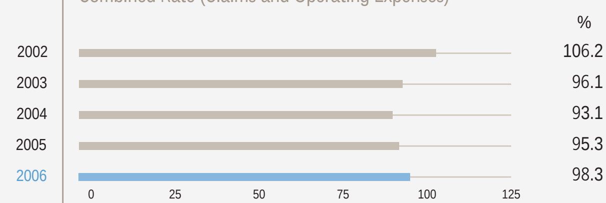
2006 was another good year in terms of growth at IAAH, with the company recording its best performance ever in new policy sales, while maintaining a higher than expected renewal rate for in-force policies. Direct written premium growth reached 10% at IAAH, while industry growth is expected to be around 2%. IAAH's business volume now amounts to $105.6 million for retail insurance.

Direct Written Premiums[1]

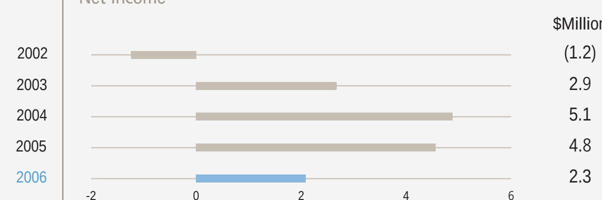


From a profitability standpoint, claims experience was once again high in home insurance this year, primarily due to the ongoing frequency of water damage. It is important to note that this is a problem facing the entire industry, and that several insurers have, like IAAH, started to adjust their rates accordingly, as well as the scope of the coverage offered in this regard. Fortunately, claims experience continued to be favourable in auto insurance. In addition, the control exercised by IAAH over its operating expenses continued to produce positive results, enabling IAAH to earn $2.3 million in net income.

Combined Rate (Claims and Operating Expenses)



Net Income



Nevertheless, the company will have some major challenges to overcome in the coming years, the most significant ones being the shortage of qualified damage insurance agents and the continually increasing competition. In order to meet these challenges, IAAH's current 5-year plan (for the period from 2005 to 2009) aims to significantly improve its internal efficiency by revamping its processes and implementing a more user-friendly technological interface. In light of the results already achieved on this front in 2006, this appears to be a very promising approach.

[1] Excluding the business written for Industrial-Alliance *Pacific* General Insurance Company.

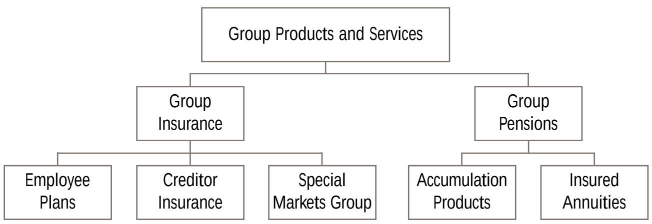
Group Products and Services

In addition to distributing its products to individuals through the Individual Insurance and Individual Wealth Management sectors, the Company offers a wide range of products to businesses and groups, through the Group Insurance and Group Pensions sectors.

In the Group Insurance sector, the Company operates in three market segments: employee plans, creditor insurance (primarily with car dealers, but also with financial institutions) and special risks.

In the Group Pensions sector, the Company operates in two market segments: accumulation products and insured annuities.

The following pages provide a more detailed description of the business growth, main achievements and development strategies of these various lines of business.



Group Insurance
Employee Plans

2006 Highlights

- Business Growth
  - $633.3 million in premiums and premium equivalents, up 10%
  - $70.8 million in sales, up 35%
  - Over 70% of all sales made outside Quebec
  - 5th in Canada for sales in our target market of groups with 50 to 1,000 employees, with a market share of 8.5% (5th in 2005, with 8.1% of the market)
- Main Target Markets
  - Canada-wide development, particularly outside Quebec
  - Medium-sized businesses (50 to 1,000 employees)

The Group Insurance Employee Plans sector continued to grow in 2006, thanks to premium growth of 10%, primarily driven by increased sales outside Quebec, which accounted for over 70% of the sector's total sales. Once again in 2006, sales growth was particularly strong in the Prairies and British Columbia.

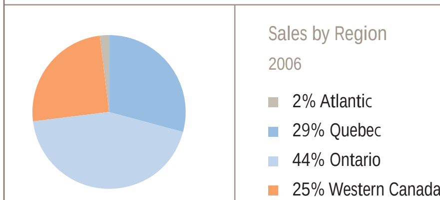
Business Growth

Group Insurance Employee Plan sales totalled $70.8 million in 2006, a 35% increase over the previous year. Sales were up in all segments, particularly the large groups market.

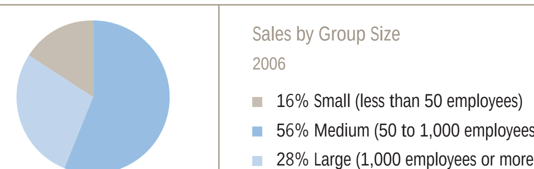
Group Insurance – Employee Plans Business Growth

(In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006
Sales[1]	92.4[2]	53.3	55.7	52.3	70.8
Growth	56%	(42%)	5%	(6%)	35%
Premiums	378.6	426.0	448.4	475.4	509.2
Premium equivalents[3]	43.9	99.2	96.1	102.9	124.1
Total	422.5	525.2	544.5	578.3	633.3
Growth	16%	24%	4%	6%	10%

By region, sales were down in the Atlantic provinces and Quebec, but grew by more than 50% in Ontario and more than doubled in western Canada.



By business size, sales were especially strong in the small groups market, with growth of 37%, and the large groups market, with growth of 144%. For our target market of groups with 50 to 1,000 employees, our sales were up 10%, which is in line with our objective. Sales in this segment accounted for 56% of our sales for the year.



Thanks to these results, our sales compare favourably with industry sales. For the entire market, the year ended with a 16% increase in sales. In terms of market share, at the end of the year we were ranked sixth, with 4.9% of the market (sixth in 2005, with 4.0% of the market).

In our target market of groups with 50 to 1,000 employees, sales were up 10% in 2006, compared to an 8% increase for the industry. We ended the year in fifth position, with 8.5% of the market (fifth in 2005, with 8.1% of the market).

Higher sales and business persistency in line with expectations resulted in better growth of premiums and premium equivalents. Revenue peaked at $633.3 million in 2006, which represents growth of 10% compared to the previous year.

When considered over a longer period, the sector's premiums and premium equivalents have increased by almost 50% since 2002. This is due to several factors: strong sales over the past few years, good business persistency and rising health care costs. The growth of premiums and premium equivalents is the primary driver of profit growth over the long term.

[1] In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only).
[2] 2002 sales include an amount of $50.9 million for the Bombardier contract.
[3] Premium equivalents are income from administrative services only (ASO) contracts.

2006 Achievements

Several client-based initiatives were carried out in 2006, a number of which generated business growth during the year.

At the beginning of the year the division completed a process to assess how to go about reaching its growth and profitability objectives. After analyzing the market environment and current position, the goal of the exercise was to determine how Industrial Alliance could effectively stand out in a very price-oriented market. The strategy adopted was to make the organization a service supplier that focuses on client needs, primarily in terms of service quality. Our clients are market intermediaries (specialized brokers and employee benefits consultants), policyholders (employers, unions and professional associations) and insured members. Naturally, we have to remain competitive in terms of pricing, but our research shows that what clients are looking for most is service quality.

Guided by this strategy, we introduced several initiatives:

- Implementation of processes designed to clearly identify the needs of our clients (surveys, telephone interviews, meetings).
- Establishment and measurement of success indicators for the sector (performance indicators).
- Creation of performance indicators for policyholders that illustrate the key indicators for managing their plans (service times, claims payment statistics, etc.).
- Extended hours of service for our customer service centre, an initiative that was especially popular with our clients in western Canada.

In the same vein, we implemented new functions that contributed to better management of prescription drug insurance claims. These functions target greater use of generic drugs and better control over the price of billed drugs based on the concept of "reasonable and customary price" as the eligible amount under the plan.

At the beginning of 2006, we also added an audit service to our control systems to ensure the integrity of our business practices in an effort to avoid suspicious transactions. Our clients have expressed an interest in this type of service. We will be focusing our efforts on health insurance and dental insurance claims. The audits performed allow us to detect unjustified claims, thereby reducing our clients' plan costs. We are also actively involved in the Canadian Health Care Anti-fraud Association.

In addition, we are continually adding new functions to Web@dmin, our transactional website for clients (intermediaries, plan administrators and members). For example, at the end of 2006 we added the Webhe@lth portal, which allows members to obtain a wealth of information to help them deal with situations affecting their health, either in the workplace or in day-to-day life. We encourage our clients to adopt healthy lifestyles in order to help prevent illness, injuries and disability. Webhe@lth provides access to articles, practical tips, questionnaires and links to useful sites that deal with issues affecting people's personal and professional lives.

We have also added a new function in Web@dmin that allows members who are part of a modular[1] plan to select their coverage directly on the site. This process was successfully implemented at the request of a few large groups.

Development Strategy

Despite fewer companies in the industry, the market is still very competitive, with the three largest insurance companies holding approximately two thirds of the Canadian market. In order to thrive in this environment, we need to stand out from our competitors by offering quality service at competitive rates. Our goal is to be considered by the stakeholders (market intermediaries and plan sponsors) as the insurer of choice, one that is focused on the needs of its clients.

Industrial Alliance is able to compete across Canada, even in the large groups market that includes companies with operations Canada-wide.

Our strategy for 2007 focuses on the following six elements:

- Canada-wide development – In terms of business growth, we are aiming to grow our market share outside Quebec, but also in Quebec, where we have had disappointing results in the last few years.
- Focus on the medium-sized business market – Groups with 50 to 1,000 employees will continue to be the Company's primary source of new business. This is a market segment that we know very well, and one where our flexibility and local presence constitute major assets. In the small groups market (fewer than 50 employees), our goal is to focus on a smaller number of organizations that specialize in the distribution and administration of insurance plans for small and medium-sized businesses.
- Opportunistic attitude towards larger group sales – Our goal is to increase our market share for the larger business market (groups with more than 1,000 employees). The quality and flexibility of our service offer, combined with our strengthened business relationships with actuarial consulting firms, will allow us to continue to grow in this market.
- Strengthening of relationships with selected intermediaries – We are maintaining our distribution strategy with selected intermediaries with whom we have regular contact, with the goal of clearly identifying their changing needs and responding to them more effectively. For example, we give them access to the financial information regarding their plans through various means (paper reports and electronic access).
- Continue to develop Web@dmin – We will dedicate additional resources to designing new functions in order to maintain our competitive position. We will focus on development regarding the electronic information conveyed to members, which will allow us to cut down on written communications, thereby improving processing times and reducing costs.
- Add Best Doctors for members covered by supplemental health insurance – This product, which allows for the optimization of medical decisions, increased in popularity in 2006. It is relatively inexpensive and popular with clients.

Lastly, in terms of profitability, we will continue to focus on our key success factors: control of operating costs, improvement of the business processes, and the continuous monitoring of loss ratios for each benefit and each market segment. We will pay special attention to the long-term disability benefit, for which a new pricing base will be introduced in 2007.

[1] A modular plan is an employee benefits plan that allows each member to select their insurance coverage from a list of several options. Members are typically subject to a renewal campaign every two years.

From a marketing standpoint, we are looking to stand out in the market in three ways:

- By being "accessible" – We have sales and service teams in all regions of Canada and our underwriting process takes into account local conditions.
- By being "attentive and flexible" – The importance we place on the needs of our clients means that we are able to develop simple and effective solutions to meet these needs, which is the case with our personalized reports and performance indicators, our audit services, which protect our clients' investments, and our global approach to disability management, which emphasizes the employee's role in the process and promotes a return to work under the best possible conditions. By being attentive and flexible, we have numerous opportunities to do more than just meet our clients' needs, but to personalize our approach, and as a result, stand out from the competition.
- By maintaining our "client vision" and "superior service" – Our clients want service that meets their needs and requests quickly and effectively, with state-of-the-art technology tools, at competitive prices. This is what we intend to continue offering them.

Group Insurance
Creditor Insurance

2006 Highlights

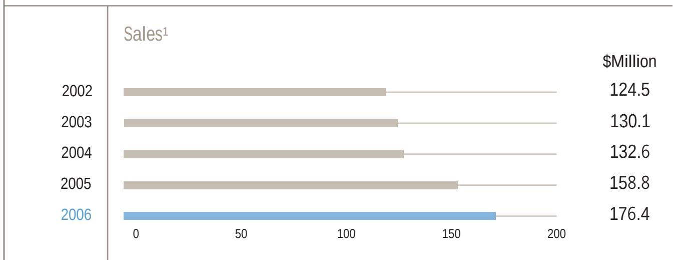
- Business Growth
  - $176.4 million in sales, up 11% in spite of a relatively flat light vehicle sales market
- Competitive Advantages
  - Leader in the motor vehicle dealers market, with over 40% of the market
  - The only company with an exclusive direct nationwide distribution network
  - Low unit costs owing to economies of scale based on company size
- Development Strategy
  - Expand in Ontario and British Columbia
  - Launch new products
  - Target dealers enrolled in reinsurance programs

Description of Sector

In addition to employee benefit plans, the Group Insurance sector also distributes creditor insurance products (life, disability and critical illness) to automobile and other motor vehicle dealers. These products are offered through an exclusive Canada-wide direct distribution network through a division of Industrial Alliance Pacific, a subsidiary of Industrial Alliance. The parent company, Industrial Alliance, also offers some other types of creditor insurance through financial institutions.

2006 Achievements

The Group Creditor Insurance sector had a very impressive year in 2006, significantly outperforming the light vehicle sales market, which was up 2.0%. Creditor insurance sales reached $176.4 million, up by 11% over 2005 and 10% on average over the past five years.



The main achievement of the Group Creditor Insurance sector in 2006 was its continued growth despite a relatively flat light vehicle sales market. This growth was primarily attributable to the following factors:

- The outstanding performance of the distribution network, which signed on new motor vehicle dealers and leveraged its business relationships with existing dealers.
- High retention of in-force dealer clients.
- An improved penetration rate among the dealer's clients.
- Steady growth in the reinsurance program.
- Competitive pricing, which is made possible through strict management of operating expenses.
- Successful sales of new P&C products launched in 2005.

Group Creditor Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006	Variation 2006 vs. 2005
Sales	124.5	130.1	132.6	158.8	176.4	11%
Reinsurance	25.8	24.6	22.8	26.7	28.6	7%
Premiums	98.7	105.5	109.8	132.1	147.8	12%

Competitive Advantages

Industrial Alliance Pacific's success in the creditor insurance market among motor vehicle dealers is based on several competitive advantages.

- A leader in the motor vehicle dealers market, with a market share of over 40%.
- It is the only company with an exclusive Canada-wide direct distribution network.
- It has low unit costs owing to economies of scale based on company size and strong cost management.

Development Strategy

The strategy to develop the Group Creditor Insurance division among motor vehicle dealers encompasses three key components:

- Continue to grow the creditor business by taking advantage of the Company's strong marketing position in key markets.
- Pursue Canada-wide expansion.
- Expand the product portfolio to include other non-creditor products that can supplement profitability.

[1] In the Creditor Insurance sector, sales are defined as gross premiums (premiums before reinsurance).

To grow our position further will require the Group Creditor Insurance operation to compete energetically in the marketplace and, at the same time, manage expenses effectively to maintain profitability. The main areas where the Group Creditor operation sees growth opportunities in the market are as follows:

- Expand in Ontario and British Columbia – In recognition of the potential of the large Ontario market, Industrial Alliance Pacific has established significant growth expectations for the next several years. In British Columbia, several key field positions were filled or strengthened, and we accordingly anticipate favourable sales results.
- Launch new products – We will continue to develop new products and improve our current products in the Group Creditor Insurance sector. The dealer reinsurance program has been expanded to include additional P&C products and we will continue to look for opportunities to vertically integrate. The company has been marketing non-creditor products for third party companies for a number of years. We feel that there is a significant opportunity for growth in the sale of non-creditor products and we intend to pursue this vigorously in the future.
- Target dealers enrolled in reinsurance programs – We will continue to focus on enrolling dealers in our reinsurance program. We estimate our share of this market segment to be about 25%, substantially lower than our share of the overall motor vehicle dealer market. The program's marketability has been increased due to the general awareness created by the steady growth in the number of participating dealers, as well as the introduction of two ancillary products.

Group Insurance
Special Markets Group (SMG)

2006 Highlights

- Business Growth
  - $92.6 million in sales, up 6%
- Competitive Advantages
  - Considerable expertise in the AD&D and special risks market
  - Excellent reputation for customized service and business solutions
  - Local presence
- Development Strategy
  - Exploit new niche markets
  - Enhance the product offer as well as the cost effectiveness in the affinity groups market
  - Develop relationships with new distributors of AD&D insurance and other specialized products

Description of Sector

The Special Markets Group (SMG) is a division of Industrial Alliance Pacific that specializes in profitable niche group insurance markets that are not well serviced by traditional group insurance carriers.

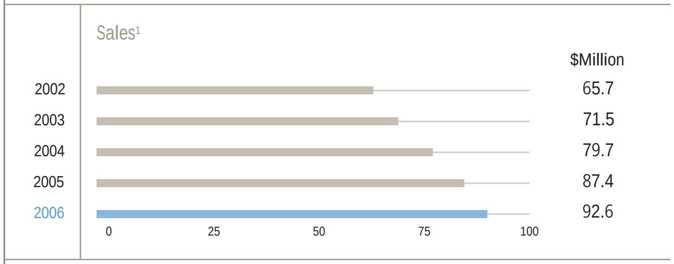
SMG primarily offers accidental death and dismemberment (AD&D) insurance and other specialized insurance products to employers and associations, travel and health insurance (through distribution partners), student health insurance (through student associations), and term life insurance to alumni associations and other affinity groups.

SMG distributes its products from four regional offices with dedicated sales staff in each office. The four offices are located in Vancouver, Calgary, Toronto and Montreal.

2006 Achievements

SMG had a good year in 2006, with premiums growing 6% over 2005 to $92.6 million. This result is quite satisfactory given the cancellation earlier in the year of a business block that no longer met the Company's profitability criteria.

All main segments of SMG business achieved growth in 2006. Premiums for the core AD&D business grew by 6%. This growth was due in part to ongoing improvements made to the AD&D product offering in 2006. These improvements helped SMG remain the market leader in AD&D innovation. Travel business grew by 14%; student health insurance was down 11% due to timing of premiums received in 2005; and affinity business grew by 4%.



Development Strategy and Market Opportunities

SMG's core strength is a strong reputation for customer service and special risk solutions. Local presence combined with strong expertise enables the sales force to provide solutions and maintain quality relationships with business partners across Canada. The division will continue to grow by leveraging its expertise and relationships, while at the same time expanding and enhancing its product offering.

Our goal is to be the leader in providing innovative and unique special risk insurance solutions for our clients' needs. We believe in personal service, building strong relationships, and providing our clients with the confidence, trust and reliability of partnering with a solid, dependable and innovative financial institution.

The strategy of the SMG division rests on the following components:

- Exploit new niche markets that are not well serviced by traditional insurance product carriers. SMG investigates all new potential markets thoroughly and only enters those that have the growth potential and the ability to meet corporate profitability goals.
- Enhance product offerings to the affinity market. Offering a more competitive range of products in this market will attract new affinity groups and increase penetration to existing customers.
- Maintain and enhance relationships with our distribution partners.
- Develop relationships with new distributors of specialized insurance products.

[1] In the Special Markets Group sector, sales are defined as premiums.

Group Pensions

2006 Highlights

- Business Growth: up sharply
  - $820.1 million in premiums, up 45%
  - Record sales of $461 million in new accumulation product plans, almost 80% of which were sold outside Quebec, a record
- Development Strategy
  - Focus on accumulation products
  - Canada-wide development
  - Development of institutional money management
  - Growth of distribution networks
  - Enhancement of product and service offer

The Group Pensions sector continued its momentum of the last few years: the 2006 results were excellent in every regard, and in all regions of the country.

Accumulation products reached some new highs in terms of new plan sales, recurring premium growth and the volume of business written outside Quebec. On the insured annuities front, a strong market enabled the sector to greatly exceed the objectives set out at the beginning of the year, as well as past years' results.

Business Growth

Overall, 2006 premiums totalled $820.1 million, an increase of 45% for the year. Accumulation products generated growth of 52%, with $624.9 million in new premiums, while insured annuities recorded growth of 27%, which corresponds to $195.2 million in new premiums. Over the last five years, the sector recorded average annual growth of 28% on its regular operations. This achievement is a reflection of the development efforts initiated over the last few years in an effort to position the Group Pensions sector among the key players in the Canadian market.

Group Pensions Premiums (In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006	Variation 2006 vs. 2005
Insured annuities	86.0	109.9	99.8	154.3	195.2	27%
Accumulation products – Regular operations						
Recurring premiums	131.0	159.3	192.1	231.4	250.7	8%
Transfers	87.8	99.7	169.2	179.1	374.2	109%
Total – Regular operations	218.8	259.0	361.3	410.5	624.9	52%
Total	304.8	368.9	461.1	564.8	820.1	45%
Accumulation products – Special operations						
National Bank Trust transfer	186.6	187.5	–	–	–	–
Grand total	491.4	556.4	461.1	564.8	820.1	45%

Accumulation Products

Two factors contributed to the $624.9 million in new premiums for accumulation products:

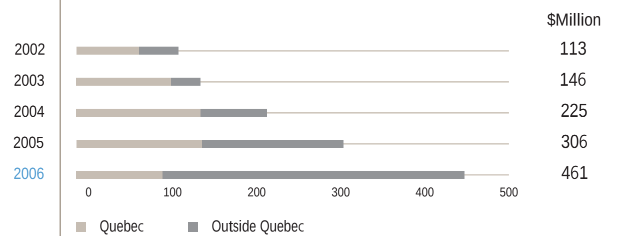
- Recurring premiums totalling $250.7 million, a new high in this regard and an 8% increase over 2005. Recurring premiums are the most important element of our strategy, since they represent the core of our business, our sustainable development. They correspond to regular member contributions, which are collected from in-force group clients.
- New group transfers representing $374.2 million, which is more than double the previous year's result and a new record for the sector.

For the sector to successfully grow its business volume, it needs to do two things: sell new plans and maintain existing plans. In 2006, Group Pensions set new records on both of these fronts.

With respect to new plan sales, we underwrote $461 million in annualized premiums in 2006. New plan sales are up for the seventh consecutive year. This achievement demonstrates the Company's ability to continually recruit new clients year after year.

One of the sector's strategic objectives is to increase business volume outside Quebec. In keeping with this goal, sales of new plans outside Quebec grew 130% to reach a high of $364 million in 2006, accounting for 79% of all new plan sales.

Accumulation Products
New Plan Sales[1]



Net fund entries continued to grow in 2006. As we can see in the table below, net fund entries represented over 50% of gross entries for a second consecutive year.

Accumulation Products Net Fund Entries (In millions of dollars)	2002	2003	2004	2005	2006
Entries	218.8	259.0	361.3	410.5	624.9
Disbursements	155.7	169.0	186.3	185.3	270.5
Net entries	63.1	90.9	175.0	225.2	354.4

Insured Annuities

The insured annuities sector had an excellent year, underwriting $195.2 million in premiums, a 27% increase over 2005. This achievement was primarily due to the activity in the insured annuities market, which was very intense once again in 2006. Our market share was 18% in 2006, which ranks us third in Canada. Our goal in this sector is to maintain our market share while managing risk appropriately.

[1] New plans are measured by first-year annualized premiums.

Funds Under Management

Funds under management amounted to $5.4 billion in 2006, a 16% increase over the previous year.

- Accumulation contracts recorded an overall increase of 24%, with assets reaching $3.2 billion.
- With respect to insured annuities, assets grew by 6% to reach $2.2 billion. This represents strong growth for this market segment (because the Company pays out annuities in this market, assets decrease as disbursements are made).

Group Pensions Funds Under Management	As at December 31				
(In millions of dollars)	2002	2003	2004	2005	2006
Accumulation products	1,333	1,799	2,120	2,588	3,220
Insured annuities	1,652	1,905	1,936	2,026	2,151
Total	2,985	3,704	4,056	4,614	5,371

2006 Achievements

In 2006, Group Pensions had another strong year of achievements.

- In the accumulation products segment, we improved our online member services. For example, we introduced educational modules to make it easy for members to find all the information they need to prepare for retirement. We also improved our online investment transactional process.
- We updated our enrolment kit. Members who want to enrol in the retirement plan now just have to follow three easy steps.
- We implemented a new telephone system, which is fully integrated with our administrative system, to improve the service offered to members by our call centre.
- We updated the range of funds we offer our clients. They now have more choices, which allows for greater diversification.
- We succeeded in rapidly growing our business outside Quebec, which is in keeping with our objective, particularly for accumulation products. Hence, as previously mentioned, 79% of new sales were obtained outside Quebec in 2006. This is the second consecutive year where our sales outside Quebec have been stronger than in Quebec.
- In order to develop the institutional money management market, we held several meetings with the primary actuarial consulting firms to better position our products. We first focused on bond management, where we have two excellent products. These products are managed by experienced managers, and have generated good added value without undue risk.

Development Strategy

Our development strategy consists of the following five components:

- Focus on accumulation products – Though we will not neglect the insured annuities market, we will continue to focus on developing accumulation products in 2007.
  - We will do this by continuing to adhere strictly to the game plan that has been successful for us in the past few years: continuing to promote our products to market intermediaries in order to expand our pool of operations; continuing to improve our products and services so we can offer value-added features that are attractive to market intermediaries, plan sponsors and members; putting forth a concerted effort to network with every actuarial consulting firm in the country; and finally, relying on a communication strategy designed to improve the Company's brand awareness among business clients, particularly outside Quebec, where we have not yet achieved the desired brand recognition.
  - With respect to insured annuities, Industrial Alliance is an important player in Canada. Although there are not a lot of players in this market, insured annuities have high capital requirements, primarily due to the long-term mortality risks. Our objective in this market can be summed up in two words: selective growth.
- Canada-wide development – Our objective is to continue growing our business outside Quebec, particularly for accumulation products, so we can be recognized as a national player in this market, as we are in the insured annuities market. Our results indicate that we are on the right track. New plan sales outside Quebec accounted for 79% of our total sales in 2006. Our operations are continuing to expand in all parts of the country.
- Development of institutional money management – Again this year, we plan to increase our development and representation efforts in the institutional money management sector. Our game plan will be similar to the one that earned us our success in the full service product market, but tailored to the characteristics of this particular segment.
- Growth of distribution networks – In order to increase our pool of business opportunities, we also want to increase the number of producers Canada-wide with whom we have a preferred business relationship. We want distributors to recognize us as a "partner they can trust".
- Enhancement of our product and service offer – Lastly, we will continue to enhance our product and service offer, particularly in terms of technology tools, communication tools and innovative investment solutions.

In short, we will stand out from our competitors by focusing on four key elements: accessibility, flexibility, innovation and service. We will seek to ensure that every new initiative we promote reinforces one of these four elements.

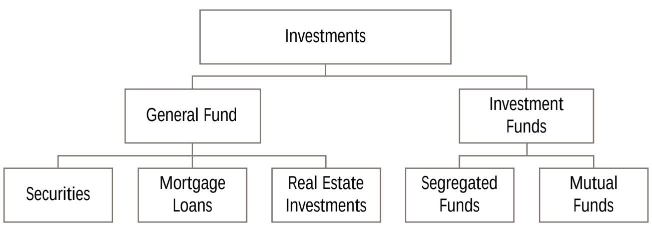
Investments

2006 Highlights

- Assets under management and under administration: $46.9 billion, up 23%
- General fund: quality of investments remains excellent
  - Net impaired investments at their lowest level in the last decade: 0.06% of investments
  - Bond portfolio
    - No defaults in 2006
    - Bonds rated BB and lower: just 0.31%
  - Mortgage loan portfolio
    - Delinquency rate: 0.06% (88% insured loans)
    - Proportion of insured loans: 60.2%
  - Real estate portfolio: very high occupancy rate: 95.5%
  - Very strict matching: difference in duration of 0.05 years
- Segregated funds and mutual funds: excellent performance of investment funds
  - 63% of all investment fund assets posted a gross one-year return above the median for a similar fund universe

Description of Investment Sector

The Company's investment activities are divided into two major sectors: General Fund Investments and Investment Fund Investments.



The General Fund Investments are further subdivided into three sectors:

- The Securities sector. This sector is in charge of managing bonds, stocks, derivative products and short-term investments, asset-liability matching and establishing interest rates for products offered by the Company.
- The Mortgage Loans sector. This sector is in charge of underwriting and managing residential and commercial mortgage loans.
- The Real Estate Investment sector. This sector is in charge of developing and managing the Company's real estate holdings.

The Investment Fund Investments sector is in charge of managing the various segregated funds and mutual funds offered by the Company. Segregated funds are offered by Industrial Alliance and its Vancouver subsidiary, Industrial Alliance Pacific, while mutual funds are offered through its IA Clarington subsidiary. A team of investment professionals at Industrial Alliance Investment Management Inc. is in charge of asset allocation and securities selection for several segregated and mutual funds, in addition to supervising all external fund managers.

All the Company's investment operations are combined under a single authority, the Vice-President and General Manager, Finance and Investment. The fund managers, however, are based in four different cities: Quebec City, Montreal, Toronto and Vancouver. This structure makes optimal use of resources and allows all companies in the Industrial Alliance group to benefit from one another's knowledge and expertise.

Assets Under Management and Under Administration

Assets under management and under administration jumped by $8.7 billion in 2006, reaching $46.9 billion as at December 31, 2006, a 23% increase for the year. The main drivers behind asset growth throughout the year were: strong net sales of segregated funds and mutual funds, good premium growth, solid growth of assets under administration in the mutual fund distribution subsidiaries, the acquisition of FundTrade and the good stock market performance.

Today, the Company's assets are made up of five major categories:

- General fund assets under management, which totalled $13.1 billion as at December 31, 2006, up 9% compared to December 31, 2005 (average annual growth of 8% in the last five years).
- Segregated fund assets under management, which totalled $9.2 billion, an increase of 25% for the year (average annual growth of 18% in the last five years).
- Mutual fund assets under management, which increased from $1.0 billion as at December 31, 2004 to $5.7 billion as at December 31, 2005 and $6.3 billion as at December 31, 2006.
- Other assets under management, which totalled $501.3 million as at December 31, 2006, compared with $785.9 million as at December 31, 2005.
- Assets under administration, which totalled $17.8 billion as at December 31, 2006, a 44% increase for the year.

Assets Under Management and Under Administration	As at December 31					Variation	
(In millions of dollars, unless otherwise indicated)	2002	2003	2004	2005	2006	2006 vs. 2005	CAGR[1] 5 years
Assets under management							
General fund	9,289.2	10,307.6	11,030.8	11,972.9	13,090.7	9%	8%
Segregated funds	4,173.5	5,042.2	5,913.6	7,348.8	9,204.1	25%	18%
Mutual funds	–	94.1	1,018.5	5,672.7	6,295.4	11%	–
Other	–	–	872.0	785.9	501.3	(36%)	–
Total	13,462.7	15,443.9	18,834.9	25,780.3	29,091.5	13%	18%
Assets under administration[2]	3,298.2	4,129.6	9,641.1	12,390.9	17,812.6	44%	52%
Total	16,760.9	19,573.5	28,476.0	38,171.2	46,904.1	23%	25%

1 CAGR: compound annual growth rate.

2 Assets under administration primarily include the assets of the trust company (Industrial Alliance Trust Inc.), third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services Inc. and FundEX Investments Inc.), the assets of the entity subject to significant influence MD Life, managed by Industrial Alliance, and the assets of the securities company (Industrial Alliance Securities Inc.).

General Fund

Net Investment Income

Net investment income for the general fund totalled $860.0 million in 2006, compared with $768.8 million for 2005 (adjusted to exclude the impact of the $77.9 million provision (before tax) for Norshield). This represents an increase of $91.2 million. However, the portion of this income that involves a transfer of risk to the client (Universal Life policy index accounts), and which therefore has a limited impact on the Company's profit, increased by $51.6 million. This means that the investment income other than the Universal Life policy grew by $39.6 million in 2006 to reach $742.9 million. A good portion of the growth in investment income is explained by the increase in assets and the stock market upturn.

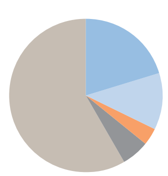
General Fund
Net Investment Income

(In millions of dollars)	2004	2005	2006	Variation 2006 vs. 2005
Bonds	420.7	444.9	466.8	21.9
Mortgage loans	165.4	154.4	151.9	(2.5)
Stocks	79.9	44.2	168.9	124.7
Real estate	31.1	36.1	38.0	1.9
Other	14.0	23.9	47.6	23.7
Investment expenses	(14.2)	(12.6)	(13.2)	(0.6)
Net investment income	696.9	690.9	860.0	169.1
Norshield provision	–	(77.9)	–	(77.9)
Net investment income, adjusted	696.9	768.8	860.0	91.2
Products whose risk is transferred to the client[1]	(35.7)	(65.5)	(117.1)	(51.6)
Total	661.2	703.3	742.9	39.6

Distribution of General Fund Investments

In accordance with sound asset management principles, the Company's investments are well diversified among issuers and operating sectors, as well as geographically. The investments related to the Company's insurance and annuity operations are mostly concentrated in fixed-income securities (particularly bonds and mortgage loans). The assets related to the Company's capital are essentially used for long-term growth and the optimization of the after-tax return.

Hence, at the end of 2006, 58.6% of the Company's investments were invested in bonds and 20.1% in mortgage loans, for a total of 78.7% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.



Investments by Asset Category
As at December 31, 2006

- 58.6% Bonds
- 20.1% Mortgage loans
- 11.9% Stocks
- 3.7% Real estate
- 5.7% Other

1 Flow-through to Universal Life policy index accounts.

Overall Quality of Investments

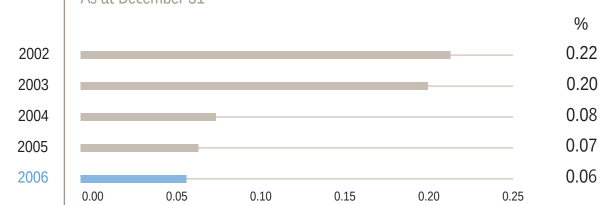
The overall quality of investments remains excellent, and most quality indices either remained stable or improved further in 2006, primarily for the mortgage loan portfolio.

Overall Investment Quality Indices

(In millions of dollars, unless otherwise indicated) — As at December 31	2002	2003	2004	2005	2006
Gross impaired investments (excluding insured loans)	60.4	60.5	47.6	96.8	95.2
Provisions for losses	(41.1)	(40.7)	(39.1)	(89.2)	(87.3)
Net impaired investments (excluding insured loans)	19.3	19.8	8.5	7.6	7.9
Provisions as a % of gross impaired investments	68.0%	67.3%	82.0%	92.1%	91.7%

No new bonds defaulted during the year. Hence, gross and net impaired investments remained practically unchanged, amounting to $95.2 million and $7.9 million respectively, compared to $96.8 million and $7.6 million as at December 31, 2005. Net impaired investments represent 0.06% of total investments, compared to 0.07% as at December 31, 2005. This is the lowest rate of impaired investments in a decade. In 2005 the Company posted a $77.9 million provision (before taxes) to cover the investments previously held by its clients in the funds managed by Norshield, which increased gross impaired investments and provisions.

Net Impaired Investments as a Percentage of Total Investments
As at December 31

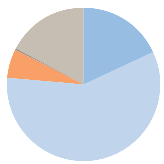


Net impaired investments are made up of bonds and conventional mortgage loans that are three or more months in arrears, as well as restructured loans and other defaulted investment securities, taking into account any provisions set up in consideration of these assets.

Bond Portfolio

In accordance with the rules defined in the investment policies, the Company invests in bonds whose credit rating from a recognized rating agency is BBB low or higher at the time of acquisition. In the event no evaluation is available from a recognized rating agency, the Company uses an in-house method to evaluate the quality of the bonds in question.

No bonds defaulted during the year and the bond portfolio continues to be of very good quality. The delinquency rate therefore remained unchanged, accounting for 0.02% of the portfolio. As at December 31, 2006, 93.6% of the bond portfolio was made up of bonds rated A or higher. Bonds rated BB and lower (0.31% of the portfolio) represented just $22.5 million of a $7.2 billion bond portfolio.



Bonds by Credit Rating

As at December 31, 2006

- 17.4% AAA
- 17.9% AA
- 58.3% A
- 6.1% BBB
- 0.3% BB and lower

The Company also invests in bonds issued through private placements. These bonds generally offer higher returns, greater access to information from issuers and more favourable conditions than those offered for comparable securities placed with public companies. However, bonds issued through private placements do not have the same level of liquidity.

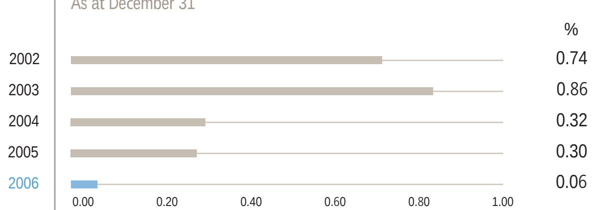
Bond Portfolio (In percent, unless otherwise indicated)	As at December 31 2002	2003	2004	2005	2006
Book value of the portfolio ($Million)	4,686.4	5,527.9	6,074.5	6,619.6	7,189.4
Market value/book value of the portfolio	115.7	115.2	116.0	120.8	117.0
Distribution by category of issuer					
Governments[1]	55.1	59.2	64.5	60.4	56.9
Municipalities	2.5	1.8	1.7	1.6	1.7
Corporations – Public issues	28.2	26.0	22.4	25.1	26.1
Corporations – Private placements	14.2	13.0	11.4	12.9	15.3
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.03	0.03	0.02	0.02	0.02

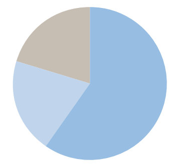
Mortgage Loan Portfolio

The quality of the mortgage loan portfolio, which was already excellent, further improved in 2006. The delinquency rate of this portfolio decreased from 0.30% as at December 31, 2005 to 0.06% as at December 31, 2006. This decrease results from the settlement by the Canada Mortgage and Housing Corporation (CMHC) of two mortgage loans that defaulted in the fall of 2002. The balance of these loans was $6.1 million. The CMHC reimbursed the full balance of the principal and all interest in arrears. The amount owing on mortgage loans in arrears is $1.6 million out of a total portfolio of $2.5 billion.

Mortgage Loan Delinquency Rate

As at December 31





Mortgage Loans by Type of Property

As at December 31, 2006

- 20.4% Residential
- 59.5% Multi-unit residential
- 20.1% Commercial

The delinquency rate figure includes both insured and uninsured loans. Insured loans account for 88.0% of the amounts in arrears (93.0% in 2005). For uninsured loans, the amount is limited to 75% of the value of the property when the loan is granted.

Virtually all mortgage loans are secured by first mortgages. Furthermore, as at December 31, 2006, 60.2% of the portfolio was made up of insured loans, and 79.9% of the loans were secured by single-family or multi-unit residential properties.

Mortgage Loan Portfolio (In percent, unless otherwise indicated)	As at December 31 2002	2003	2004	2005	2006
Book value of the portfolio ($Million)	2,526.5	2,490.4	2,491.8	2,420.8	2,457.2
Market value/book value of the portfolio	103.5	103.2	102.8	102.0	102.4
Distribution by type of loan					
Insured loans	45.3	48.6	52.8	55.6	60.2
Conventional loans	54.7	51.4	47.2	44.4	39.8
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.80	0.75	0.50	0.50	0.09
Conventional loans	0.69	0.97	0.13	0.05	0.02
Total	0.74	0.86	0.32	0.30	0.06
Proportion of delinquent loans that are insured	49.0	42.2	81.0	93.0	88.0

Stock Portfolio

Investments in equity securities are used to match very-long-term commitments, to cover the commitments on certain Universal Life policies, or to invest a portion of the Company's capital. The management strategy for the stock portfolio tends to maximize the after-tax return through investments in preferred shares, high dividend shares, market indices and investment funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its exposure to risk and to participate in the growth of all primary economic sectors.

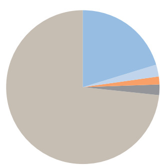
Stock Portfolio (In percent, unless otherwise indicated)	As at December 31 2002	2003	2004	2005	2006
Book value of the portfolio ($Million)	720.1	930.3	1,081.1	1,162.4	1,453.5
Market value/book value of the portfolio	96.1	102.9	104.6	108.0	110.1
Distribution by category of stock					
Common shares	6.1	4.1	4.1	4.9	5.0
Preferred shares	32.4	24.8	21.6	12.8	10.9
Market indices	15.3	11.1	12.0	18.2	23.6
Investment fund units	46.2	60.0	62.3	64.1	60.5
Total	100.0	100.0	100.0	100.0	100.0

1 Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

Real Estate Portfolio

As at December 31, 2006, the book value of the real estate portfolio totalled $451.8 million, which represented 3.7% of total investments. According to Company policy, the targeted real estate portfolio is 5% of the Company's total investments.

The occupancy rate of the Company's real estate portfolio decreased slightly during the year, from 96.8% as at December 31, 2005 to 95.5% as at December 31, 2006. The Company's occupancy rate compares very favourably with that of commercial properties in large Canadian cities. Office buildings account for almost three quarters of real estate investments.



Real Estate Portfolio by Category of Property

As at December 31, 2006

- 73.4% Office
- 20.2% Commercial
- 2.4% Industrial
- 1.8% Residential and multi-unit residential
- 2.2% Land and other

The market value/book value ratio of the real estate portfolio is at its highest level in five years, reaching 117.4% as at December 31, 2006. This increase comes from a $20.6 million increase in the market value of the real estate portfolio. The buildings are re-appraised every three years. This year, about one third of the Company's buildings were re-appraised, leading to an increase of about 15% in the market value of these buildings.

Real Estate Portfolio (In percent, unless otherwise indicated)	As at December 31 2002	2003	2004	2005	2006
Book value of the portfolio ($Million)	436.0	425.7	444.5	446.3	451.8
Market value/book value of the portfolio	104.5	104.9	108.6	114.2	117.4
Occupancy rate	92.1	93.9	95.2	96.8	95.5

Other Investments

The "Other Investments" category (5.7% of the investment portfolio) is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), short-term investments and other investments.

Liquidity

The Company maintains a good level of liquidity in order to honour its commitments by holding a good proportion of marketable securities and by strictly managing cash flows and matching. To cover an extreme case where the Company would have to redeem all of its redeemable contracts, the liquidity ratio amounted to 223% as at December 31, 2006. This means that easily convertible assets, which represent the sources of liquidity, cover more than two times the liquidity need in an extreme case. The investment policy stipulates that the liquidity ratio must be at least 100% under this scenario.

Asset and Liability Matching

Although obtaining a steady improvement in returns is a day-to-day concern of the Company's portfolio managers, our general fund investment policies focus primarily on capital protection and the maintenance of strict matching between the asset and liability financial structures in order to protect the Company against the risks associated with interest rate and market value fluctuations.

As at December 31, 2006, the spread between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.05 years, well within the ±0.25-year tolerance level stipulated by the Company's investment policies. This figure excludes the Universal Life policy account, which is matched so as to strictly reproduce the variations in the market value of the liabilities. It also excludes the very-long-term commitments portion of the individual insurance and annuity products for which the Company favours an active management strategy aimed at maximizing the return of a high-quality investment portfolio.

Liabilities Matched and Unmatched to the Assets	As at December 31, 2006 In millions of dollars	In percent
Matched liabilities		
On a cash flow basis	5,556	56%
Universal Life policy account	1,243	13%
Total	6,799	69%
Unmatched liabilities	3,008	31%
Total	9,807	100.0%

Derivative Financial Instruments (Swaps)

The Company holds swap contracts that are calculated according to a notional amount of $673.4 million as at December 31, 2006 ($554.2 million as at December 31, 2005). These contracts are not used for speculation purposes, but for managing financial risks, in particular those associated with Universal Life policy matching, and for improving returns.

The maximum credit risk, which corresponds to the amounts payable to the Company by the various counterparties, was $15.2 million as at December 31, 2006 ($10.0 million as at December 31, 2005). This amount fluctuates from one period to another, according to changes in the interest rates and stock markets.

The future credit risk associated with these contracts, which represents the amount that the counterparties could eventually owe the Company according to various market scenarios, was $29.9 million as at December 31, 2006 ($23.6 million as at December 31, 2005). All counterparties with whom the Company has signed such agreements were AA rated financial institutions as at December 31, 2006.

Lines of Credit

As at December 31, 2006, the Company had operating lines of credit totalling $90.0 million ($85.0 million as at December 31, 2005). As at December 31, 2006, none of the lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

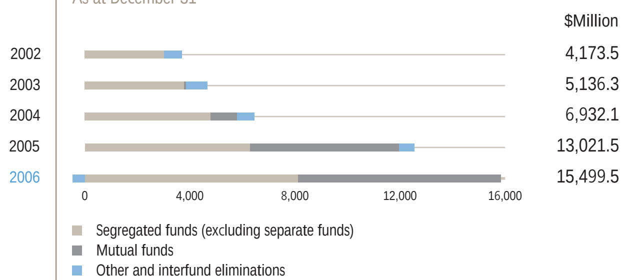
Investment Funds
(Segregated Funds and Mutual Funds)

Investment Fund Assets

The Industrial Alliance group's investment fund assets totalled $15.5 billion as at December 31, 2006. These assets were made up of segregated funds ($8.6 billion) and mutual funds ($7.3 billion). These assets grew 19% in 2006 and have almost quadrupled in the last four years.

It is important to remember that the mutual fund assets result from the acquisition of three fund management companies in the last few years. The operations of the three acquired companies – Co-operators Mutual Funds, BLC-Edmond de Rothschild Asset Management and Clarington Corporation – are now merged into a single company, IA Clarington Investments Inc. (IA Clarington).

Segregated Fund and Mutual Fund Assets
As at December 31



Range of Funds

Industrial Alliance offers a wide variety of segregated funds designed for its individual and group clients. As at December 31, 2006, the main family of funds offered by Individual Wealth Management had 43 funds available for sale, while the main family offered by Group Pensions had 52. Even though certain funds are offered to both Individual Wealth Management and Group Pension clients, given the specific needs of these different clients, many funds are specific to each sector.

A few changes were made to the Individual Wealth Management and Group Pensions segregated fund offerings in 2006. The changes made were designed to enhance the depth of the service offering, particularly in terms of foreign funds. The two fund families continue to offer excellent diversification in terms of asset classes, management styles and geographic regions. The consolidation efforts begun in the past few years continued in 2006, as a few segregated funds, including specialty and small funds, were closed. Also, certain segregated funds that were no longer offered for sale, particularly in Group Pensions, have been closed and their assets transferred to other funds.

A great majority of the new funds launched in 2006 by Individual Wealth Management and Group Pensions are either invested in funds offered by IA Clarington, or in funds managed by external managers with whom we already have alliances. This has the advantage of creating good synergies for the entire group.

In terms of mutual funds, several initiatives were carried out in 2006. Toward the end of the first quarter, several management mandates concerning the mutual funds of Clarington Corporation, which was acquired in December 2005, were transferred to our portfolio management company, Industrial Alliance Investment Management, and to other firms. In November, initiatives involving mergers, fund closures and manager changes were introduced. The purpose of these initiatives was to eliminate certain duplications in our mutual fund offer, resulting from the acquisitions of the last few years. Once all of these initiatives were completed, our mutual fund offering included 49 funds as at December 31, 2006.

Taking into account all Company investment funds (segregated funds and mutual funds combined), including those that are still being sold and those that are not but are still active, our team of in-house managers was responsible for managing 73 funds as at December 31, 2006, representing 69% of investment fund assets under management. The expertise of our in-house team is concentrated on fixed-income securities, Canadian equities and diversified mandates. Our external managers were responsible for managing a total of 78 funds, representing 31% of investment fund assets under management. The Industrial Alliance group has strategic alliances with close to 30 external managers.

Investment Funds Offered by the Industrial Alliance Group

As at December 31, 2006	Number of funds	Assets ($Million)	Distribution of assets	Proportion of assets managed in-house
Segregated funds	102	8,588.6	54%	74%
Mutual funds	49	7,343.8	46%	65%
Total	151	15,932.4	100%	69%

Investment Fund Performance

This year, for the first time, we are publishing the relative performance of all our investment funds, including the Company's segregated funds, the mutual funds acquired from BLC-Edmond de Rothschild and the mutual funds acquired from Clarington.

As the table below shows, the relative performance of our funds is very good. As at December 31, 2006, the percentage of assets above the median, over a one-year period, was 63%. For longer periods, more than half of the assets of our funds posted a performance above the median.

Gross Relative Performance of Investment Funds – Segregated Funds and Mutual Funds

(In percent)	1 year	3 years	5 years	10 years
1st quartile	38	23	45	19
2nd quartile	25	32	19	63
Above the median – As at December 31, 2006	63	55	64	82

The relative performance of our segregated funds continues to be excellent. However, during the year, the percentage of assets above the median, over a one-year period, decreased from 82% as at December 31, 2005 to 66% as at December 31, 2006. This decline results primarily from the slight underperformance of our largest fund in terms of assets, which ended the year with a return just below the median. The medium and long term performance (three, five and ten years) of all our segregated funds remained excellent, with the proportion of assets above the median being 83%, 84% and 98% respectively for these periods as at December 31, 2006.

Note that eight of the Company's ten largest segregated funds in terms of assets have an above-median performance over a one-year period.

Gross Relative Performance of Investment Funds – Segregated Funds (Excluding Separate Funds)

(In percent)	1 year	3 years	5 years	10 years
1st quartile	43	42	57	1
2nd quartile	23	41	27	97
Above the median – As at December 31, 2006	66	83	84	98
Above the median – As at December 31, 2005	82	80	88	81

The performance of mutual funds improved over the short term – 58% of assets are above the median over one year – but remains modest over longer periods. However, several manager changes occurred over the last few years. For example, Industrial Alliance Investment Management replaced an external manager (primary manager employed by Clarington when it was acquired by Industrial Alliance) at the end of the first quarter of 2006. This external manager handled several funds and had generated below median returns over multiple periods. Today, several of these funds are showing good short term performances, which explains the improvement for the one-year period. However, the performance remains less satisfactory over longer periods. It will take a certain amount of time to bring the long term returns back into line.

Five of the Company's ten largest mutual funds in terms of assets show an above-median performance over a one-year period. Two of the funds that are below the median favour a more defensive strategy with respect to Canadian equities. This prevented them from growing at the same rate as the market, which offered a surprising performance in 2006.

Gross Relative Performance of Investment Funds – Mutual Funds

(In percent)	1 year	3 years	5 years	10 years
1st quartile	32	1	29	43
2nd quartile	26	21	10	18
Above the median – As at December 31, 2006	58	22	39	61

The returns on all of our investment funds and the detailed financial information associated with these funds are presented in the investment funds' annual financial reports prepared jointly by the Industrial Alliance group's two life and health insurance companies. The returns on the mutual funds offered by IA Clarington and the detailed financial information associated with these funds are presented in the financial reports prepared by IA Clarington.

Risk Management

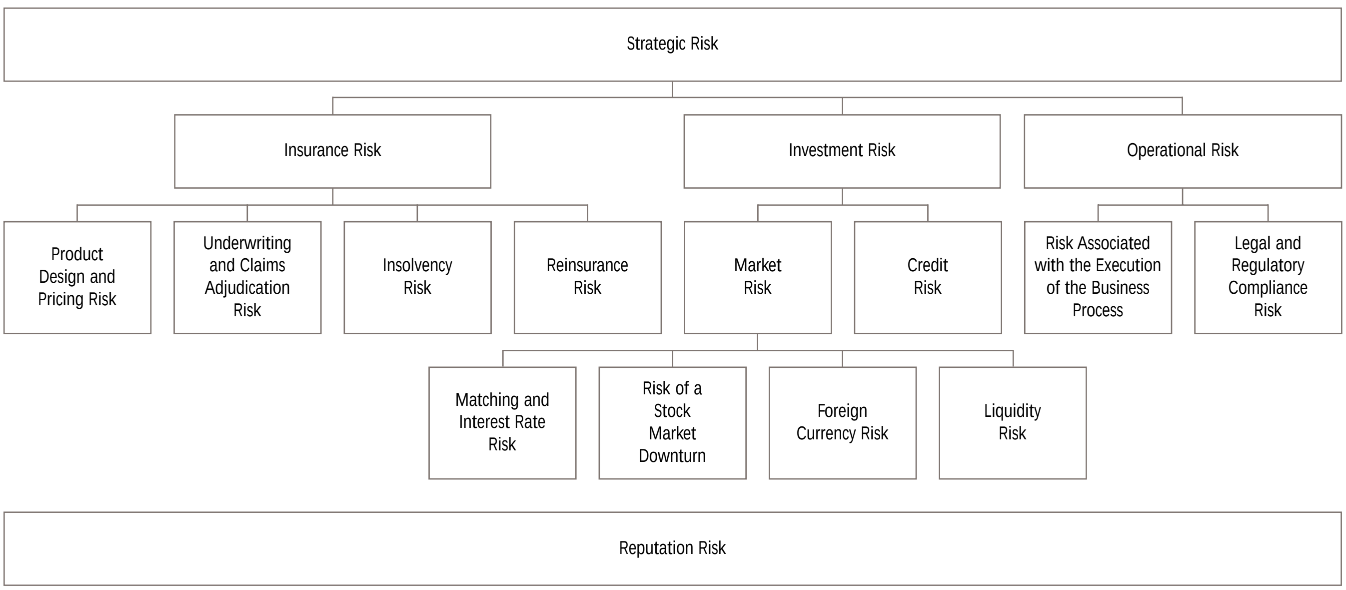
In the course of its operations, Industrial Alliance needs to manage a variety of risks in order to achieve profitable growth. The Company strives to be as effective as possible in managing these risks, seeking to obtain a balance between optimizing value for the shareholders and meeting the needs and requirements of its policyholders and regulatory authorities. The Company demonstrates prudence in implementing its strategies and business decisions in order to preserve its reputation and the Company's value.

Risk management is an important part of any set of policies and procedures pertaining to the standards of sound business and financial practices. These policies and procedures are approved by the Board of Directors, and enforced by the managers in charge of the various business lines.

Risk Categories

The diagram below illustrates all of the risks facing the Company. Strategic risk is the risk arising from inadequate planning or the Company's failure to effectively adapt to the business environment. This type of risk encompasses the various risks the Company is exposed to through the implementation of its business strategy. It encompasses insurance risk, investment risk and operational risk. Reputation risk is a component of every risk the Company is exposed to, and arises out of every decision the Company makes.

A summary of the risks the Company is exposed to and the process for managing them is outlined in the following pages.



Risk Management Principles and Responsibilities

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. In order to make sound, enlightened decisions, both strategically and operationally, management must have access to the best information possible. Either directly or through its committees, the Board of Directors ensures that Company management has put appropriate risk management measures in place through its Management Committee.

The Board of Directors and its committees, in particular the Audit Committee and the Investment Committee, supervise the actions taken by the managers in charge of the business lines and the subsidiaries in risk management matters through annual reviews of the main risk management policies and practices contained in the standards of sound business and financial practices imposed by the regulatory authorities, and through reports written by the Internal Audit Department and by independent auditors.

Management endeavours to create an environment conducive to effective risk management. It also ensures that managers carefully assess the material risks to which the Company is exposed, and that they act with prudence and discipline within the stipulated limits for risk tolerance.

Management's responsibility in this regard includes developing, updating and enforcing risk management guidelines. These guidelines define the Company's position regarding the risks it may be exposed to, the scope and nature of the risks it is prepared to take, the establishment of risk tolerance limits, as well as the various risk control and monitoring programs that need to be implemented. Those responsible for risk management must also make sure that accurate and timely information that can help evaluate risk is available at all times.

The diagram that follows illustrates the responsibility levels with respect to managing risk within the Company.

The managers in charge of the business lines and the subsidiaries are primarily responsible for managing the operational risk within their sector. The managers of the Actuarial and Investment sectors, however, have considerable responsibility with respect to risk monitoring, particularly with regard to quantitative evaluation and compliance with the overall risk tolerance limits stipulated for the Company. These sectors play a special role in the valuation of commitments to policyholders, capital adequacy, product pricing, negotiation of reinsurance treaties, investments and asset and liability matching. Given the constantly changing environment in which the Company operates and the expansion of its operations, the Actuarial and Investment sectors also play a role in developing and refining tools that can be used to more effectively measure the potential impact and scope of certain risks.

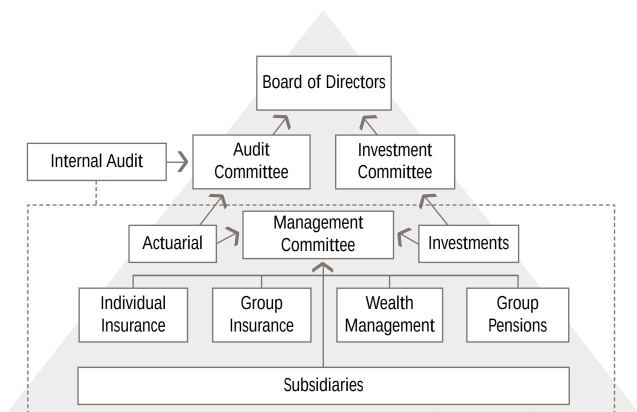
Together, the Audit Committee and the Investment Committee oversee all of the risk management policies and report to the Board of Directors, which must authorize the development, revision and implementation of risk policies, as well as the procedures required to monitor and control the risks.

The Audit Committee oversees the product design and pricing policy for each line of business, the underwriting policy, the commitment policy, the capital management and the internal control policy. The Investment Committee oversees the interest rate policy, the credit risk policy, the real estate appraisal policy, the foreign currency risk policy and the liquidity policy.

The Management Committee is made up of the managers of the various business lines and of the Actuarial and Investment sectors, as well as the President and Chief Executive Officer. This Committee helps to ensure good communication among the various managers, and promotes a general culture of sound risk management in all the Company's activities.

The managers of the business lines and of the Actuarial and Investment sectors keep the Audit Committee and the Investment Committee continually up to date on the monitoring and development of operating activities that could represent a material risk for the Company.

The Internal Audit department's purpose and authority are established by the Board of Directors and its responsibilities are defined by the Audit Committee. The scope of Internal Audit encompasses the review of risk management, information systems and corporate governance procedures. It includes the examination and assessment of the Company's internal control systems and of the quality of the performance in carrying out assigned responsibilities.



Insurance Risk

Insurance risk is subdivided into four categories: product design and pricing risk, underwriting and claims adjudication risk, insolvency risk and reinsurance risk.

Product Design and Pricing Risk

Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return for the shareholder as compared to the Company's profitability objectives. This risk may be due to an inadequate assessment of market needs, a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes, as well as the introduction of new products that could adversely impact the future behaviour of policyholders.

For certain types of contracts, all or part of this risk may be shared with or transferred to the policyholder through a dividends and experience refunds policy, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

The risk is primarily managed by regularly analyzing the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed and/or the various options offered by the reinsurance market are utilized.

Underwriting and Claims Adjudication Risk

Underwriting and claims adjudication risk is the risk of financial loss resulting from the selection of risks to be insured, adjudication of claims and management of contract clauses. Unfavourable results in these areas can lead to deviations from the estimates based on the actuarial assumptions, particularly in terms of mortality, morbidity and lapse experience. The Company has adopted detailed standards in this regard, and ensures adherence to these standards, which are reviewed periodically.

In its standards of sound business and financial practices, the Company has established guidelines pertaining to underwriting and claims adjudication risk which have been approved by the Board of Directors, and which specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding these risks. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk. The selected reinsurers must meet minimum financial soundness criteria (see *Reinsurance Risk*). The Company also has a facultative reinsurance policy for substandard risks.

In the event that a deterioration in mortality experience is deemed to be permanent, the policy liabilities could have to be recalculated to take this into account. The Company believes that a 5% permanent deterioration in mortality rates would result in a $68.8 million reduction in net income due to the strengthening of the policy liabilities. A 5% improvement in mortality rates would have the same impact, but in the opposite direction.

A catastrophe reinsurance treaty is also used to protect against the possibility that an event will give rise to losses in excess of $20 million. This treaty is renewed every year and covers all types of terrorist activities, including nuclear, biological and chemical. The coverage applies to events that may produce losses in excess of $20 million, up to a maximum of $125 million.

Insolvency Risk

Insolvency risk is the risk that the Company will not be able to meet the demands of future claims as they arise. The regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. The Company is required to submit regular reports to the regulatory authorities regarding its solvency. It also publishes its solvency ratio every quarter. The minimum solvency ratio targeted by the Company is 175%, which is much higher than the regulatory authorities' requirement.

To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary must present an annual report to the Audit Committee and management on the Company's current and future solvency. In this report, entitled *Dynamic Capital Adequacy Testing*, the appointed actuary must identify the main risks that can affect the Company's solvency, measure the potential impact of these risks, and specify ways to alleviate them. Interest rate fluctuations, a stock market downturn and fluctuations in demographic variables are among the scenarios analyzed.

According to the most recent *Dynamic Capital Adequacy Testing* scenarios presented to the Board of Directors for the 2005 to 2010 period, even in the absence of corrective measures by management, the Company's solvency remains higher than the standards set out by the regulatory authorities for all scenarios analyzed.

Reinsurance Risk

Even though the Company relies on reinsurance to manage the underwriting and claims adjudication risk, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. If need be, it can eliminate certain risks by using letters of credit and by depositing cash amounts in trust accounts.

Investment Risk

The Company is exposed to various investment risks, i.e. the risk that its investments will sustain losses or will not produce the expected returns. The Company has established investment policies that contain a variety of quantitative measures designed to limit the impact of these risks. The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors Investment Committee at least quarterly.

Investment risk is sub-divided into two main categories: market risk and credit risk.

Market Risk

Market risk includes four types of risk: matching and interest rate risk, risk of a stock market downturn, foreign currency risk, and liquidity risk.

Matching and Interest Rate Risk – Matching and interest rate risk is the risk of loss due to changing interest rates, and lies in the fact that losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages this risk through an asset and liability matching process defined in the investment policy. This matching policy defines the maximum spread in duration between assets and liabilities, and is updated periodically. To apply this policy, liabilities are divided into three separate groups, two of which are subject to very strict matching.

Liabilities Matched and Unmatched to the Assets	As at December 31, 2006	
	In millions of dollars	In percent
Matched liabilities		
On a cash flow basis	5,556	56%
Universal Life policy account	1,243	13%
Total	6,799	69%
Unmatched liabilities	3,008	31%
Total	9,807	100%

1 › Liabilities Matched on a Cash Flow Basis

This group includes all policy liabilities, with the exception of Universal Life policy liabilities and unmatched liabilities. For this group, the policy's primary objective is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with the blocks being grouped together by line of business. Asset and liability matching is a very elaborate process, and one that is strictly monitored.

The concept of duration is used to measure sensitivity to interest rate fluctuations. The spread between the duration of the assets and the duration of the liabilities is subject to limits defined in the asset and liability matching policy, and is strictly managed. Dispersion measures and limits are also used in order to take into account the non-linear dimension of this relationship.

Even if the duration of the assets is well matched to the duration of the liabilities, the Company may be exposed to reinvestment risk, to the extent that the maturity of the assets does not correspond to that of the liabilities. In order to control this risk, the Company has implemented a process within its matching policy whereby it must make sure that the asset cash flows tend to correspond to the liability cash flows.

The matching policy calls upon a series of sensitivity analyses to evaluate the behaviour of future margins incorporated into the valuations to different interest rate fluctuation scenarios. The same policy also imposes limits as to the sensitivity level of the profit margins using more than 500 stochastic scenarios.

For this group, the impact on net income of a decrease or increase in interest rates would be negligible.

2 › Assets Matched to the Universal Life Policy Account

This group includes all Universal Life policy liabilities. These liabilities are matched in such a way as to strictly reproduce any changes in market value.

For this group, the impact on net income of a decrease or increase in interest rates would be negligible.

3 › Unmatched Liabilities

This group mainly includes individual insurance products with very long-term commitments. For these liabilities, since an immunization strategy cannot be applied due to the lack of available fixed-income securities for these kinds of maturities, the Company advocates an investment strategy that strives to maximize the long-term after-tax return.

The investments tied to these liabilities are primarily long-term fixed-income securities, investments in equity securities (common and preferred shares, market indexes and investment fund units), and real estate. The asset class allocation aims to achieve the best return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and the performance of the stock markets, while keeping the portfolio well diversified and respecting the investment strategy.

For this group, a decrease in interest rates could have an adverse impact on annual net income, as described below.

- Firstly, if interest rates were to decrease, the amounts reinvested during the current year would generate lower investment income for the total duration of the investment.
- Secondly, in determining the policy liabilities, the Company uses assumptions that are established based on the appointed actuary's best estimates regarding certain assumptions, including future interest rate assumptions. In addition, the interest rate assumption used for reinvestment purposes is reviewed periodically and updated to adequately reflect recent trends. If interest rates were to remain at a lower level for more than one year, the policy liabilities would be recalculated to assume this decrease, and this change would be part of the annual review carried out by the appointed actuary. Also, in the event that this decrease is deemed permanent, the policy liabilities could take into account that this rate decrease will continue in the future.

The Company believes that a sudden, permanent drop of 10 basis points in the entire interest rate yield curve would lead to a $37.8 million decrease in net income. This amount does not take into account any compensatory measures to alleviate the impact of the interest rate decrease. A sudden, permanent increase of 10 basis points would have a similar impact to a decrease of 10 basis points, but in the opposite direction.

It is important to point out that insurance operations are backed by an investment portfolio made up of fixed-income and variable-income securities, and that it is difficult to isolate the interest rate risk associated with the volatility of the returns of variable-income securities.

Finally, in the event of a lasting decrease in interest rates, the Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

Risk of a Stock Market Downturn – The risk of a stock market downturn represents the risk of financial loss resulting from a downturn in the stock markets. A stock market downturn can impact the management fees collected on mutual funds, segregated funds and universal policy index accounts, the charge resulting from the capital guarantee offered on these same segregated funds, as well as on the return of assets backing the capital and the Company's general fund actuarial liabilities.

The Company believes that a 10% decrease in the stock markets would decrease annual net income by $17.1 million.

The Company also believes that a 10% increase in the stock markets would have a similar impact to a 10% decrease, but in the opposite direction.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies clearly define quantitative and qualitative limits for the use of equities. The target asset composition in the form of equities is established in order to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company assumes from losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to foreign currency risk. To this end, liabilities must be matched with assets of the same currency.

Liquidity Risk – Liquidity risk is the risk that there will be insufficient funds available to honour all Company commitments as they fall due. This risk is managed through strict matching of assets with liabilities. In addition to having a very low mismatch tolerance, the Company manages this risk through strict management of its cash resources. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable investments. As a management tool, the Company produces different reports designed to demonstrate the level of liquidity based on different unfavourable scenarios.

Credit Risk

Credit risk is the risk that counterparties or debtors will not respect their obligations to the Company. The Company's investment policies aim to limit this risk by ensuring the sound diversification and relatively high quality of the counterparties or debtors, and by limiting exposure to a same issuer and by seeking a relatively high quality of issuers. Among other things, these policies stipulate that the Company cannot acquire investments whose credit rating is lower than BBB low. They also impose limits by groups of related issuers that depend on the credit quality of these issuers, and by operating sector and geographic region.

Finally, the Company uses swap contracts under its investment policy. These contracts are not used for speculation purposes but for matching assets and liabilities, and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies, and the volatility of the stock markets.

The Company's Sensitivity to Certain Insurance and Investment Risks

The table that follows provides an overview of the impact for the Company of unfavourable deviations from the assumptions with regard to certain insurance and investment risks on its net income.

Decrease in Net Income Resulting from Unfavourable Deviations from the Assumptions

Risk	In millions of dollars
Insurance risk: unfavourable deviation of 5%	
Mortality rate	68.8
Lapse rate[1]	55.8
Units costs	18.7
Investment risk	
Sudden, permanent 10 basis point drop in interest rates[2]	37.8
Sudden 10% decrease in the stock markets[3]	17.1

[1] The unfavourable variation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.

[2] Assuming a parallel, permanent decrease in the entire interest rate yield curve.

[3] Assuming a sudden 10% decrease in the stock markets at the beginning of the year, followed by growth of the stock markets according to the forecasts for the year. This variation would primarily lead to a $14.6 million decrease in investment fund management fees and a $1.3 million decrease in the income on capital.

Operational Risk

Operational risk includes risk associated with the execution of the business process, and legal and regulatory compliance risk.

Risk Associated with the Execution of the Business Process

The risk associated with the execution of the business process is the risk of loss the Company is exposed to should its operations or those of its subsidiaries be disrupted due to external events, human error, or the inadequacy or failure of processes, procedures or controls. This risk can also result from fraud or natural disaster, or from the fiduciary risk the Company is exposed to, whether directly or as a result of adverse effects on its reputation, in the event that the Company or one of its subsidiaries should breach its duties or obligations in the course of holding, administering, managing or investing assets on behalf of other persons, or in the course of providing investment advice to other persons.

The Company has established standards and procedures to ensure that appropriate and effective internal controls are developed and implemented to manage operational risk, and that reliable and comprehensive systems are in place to properly monitor the effectiveness of these controls on a regular basis. The Company also makes it a point to revise its policies and develop stricter standards, where necessary, in light of any new expertise it acquires in the course of its operations.

Management takes proactive measures to manage operational risk, and has implemented a very detailed business continuity plan regarding both the physical occupancy of the premises and the information systems. In addition, the Company has procedures in place in all of its offices to minimize any disruption in service in the event of a natural or other disaster. These procedures are reviewed and tested on a regular basis. During the period, the Company initiated the process of updating its business continuity plan in order to enhance it and to add a special section on the risk of a pandemic. This update is expected to be completed in 2007, and will cover all lines of business and subsidiaries of Industrial Alliance.

The Company places special emphasis on the data processing risk. In fact, it has set up a comprehensive plan for controlling this risk based on the ISO international standard. This standard presents the major risk categories associated with information technologies, of which four are of particular relevance to the Company's activities: risk associated with the non-availability of essential components (this risk is controlled by the implementation of a business continuity plan), risk of outside penetration of systems (this risk is controlled by installing firewalls), risk of loss of data integrity (this risk is controlled through anti-virus management), and risk of unauthorized access to information (this risk is controlled by implementing security policies). The management of these risks is reviewed regularly in order to adapt it to changing technologies and Company needs.

Legal and Regulatory Compliance Risk

Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from non-fulfilment of a contract. The Company is subject to strict regulatory requirements and detailed monitoring of its operations in all provinces or states where it conducts business, either directly or through its subsidiaries. To manage this risk, the Company has specialized resources in its Legal Department, as well as external resources, and works together with the industry to implement the procedures required to comply with any new legislation or guidelines, and to analyze and process the execution of its contracts.

The Board of Directors Audit Committee of Industrial Alliance, as well as that of its subsidiaries, periodically receives reports on all lawsuits, whether they be in the normal course of business, where the contesting of certain declined claims appears normal, or outside the normal course of business. In certain cases, the opinion of the internal Legal Departments is backed by independent experts and provisions are taken when deemed necessary.

The Company maintains an annual sound business and financial practices program in accordance with regulatory and company requirements. Under this program, the managers of each division of the parent company and its subsidiaries are asked to submit an action program at the beginning of the year that includes a plan to review existing standards and practices, and a self-evaluation plan. A consolidated report is then prepared and submitted to the Audit Committee, which then submits a report to the Board of Directors. The evaluation reports of each division are examined by Internal Audit, and a final report is tabled each year to the regulatory authorities in the prescribed format.

Finally, in the context of recent regulatory requirements, during the period, the Company implemented a mechanism to monitor internal control over financial reporting.

Corporate Social Responsibility

2006 Highlights

- Number of Employees: 2,819, an increase of 73 in 2006 and 385 since 2002
- Endorsement of the principles of the Imagine program, which encourages corporations to donate 1% of their pre-tax income
- Distinctions Received
  - Diamond certificate, which is the highest honour granted by the United Way to a company (distinction received for a second consecutive year)
  - National Champion for Children award, granted by UNICEF Canada for the assistance provided to children living in conditions of risk around the world
  - Georgia Strait Patron of the Arts award, presented to Industrial Alliance Pacific, in Vancouver, in recognition of its strong support of the community's theatre
  - 2nd among the finalists in the fifth edition of the Korn/Ferry – *Commerce Magazine* Excellence in Corporate Governance contest
  - 31st among over 200 public companies with respect to corporate governance (*The Globe and Mail*)
  - 38th among the top 50 companies with respect to corporate social responsibility (*Corporate Knights*)

Across the country, Industrial Alliance and its subsidiaries share the same sense of commitment and responsibility towards their employees and the communities in which they grow.

Following is an overview of some of the programs and main achievements of Industrial Alliance and its subsidiaries with regard to their human resources, their community commitment and the measures they take to protect the environment.

The Industrial Alliance group is composed of two life insurance companies, Industrial Alliance (the parent company) and Industrial Alliance Pacific, a general insurance company, Industrial Alliance Auto and Home Insurance, and various other companies.

Before we list the main achievements of Industrial Alliance and its subsidiaries in terms of corporate social responsibility in 2006, we would like to mention that Industrial Alliance ranked second among the finalists in the fifth edition of the Korn/Ferry – *Commerce Magazine* Excellence in Corporate Governance contest.

Moreover, in October 2006, *The Globe and Mail* ranked Industrial Alliance 31st among over 200 public companies on a scale of corporate governance.

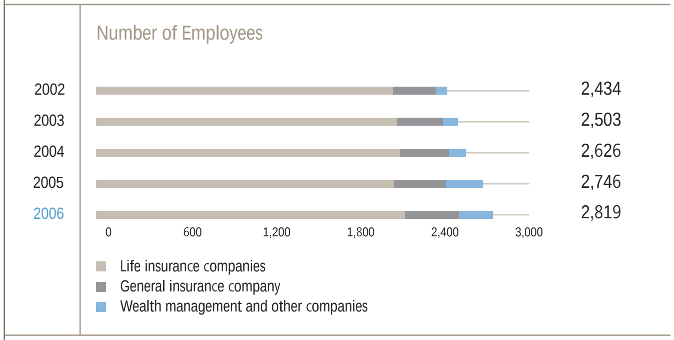
Also, *Corporate Knights*, another publication that highlights corporate social responsibility, ranked Industrial Alliance 38th among the top 50 corporate Canadian citizens of 2006.

Human Resources

Industrial Alliance is committed to providing its employees with a work environment that allows each person to grow as an individual and realize their professional aspirations. Each company in the Industrial Alliance group has therefore implemented several programs and policies over the years to provide employees with a work environment that fosters growth, enrichment and personal development.

Number of Employees

At the end of 2006, Industrial Alliance had 2,819 employees, which is 73 more than in 2005. The acquisition of Clarington at the end of 2005 led to a substantial increase in the number of employees working for the wealth management companies. However, the integration of Clarington with Industrial Alliance Fund Management in 2006 led to a decrease in the number of employees in the wealth management companies, as certain operations were transferred to the life insurance companies, such as investment fund accounting. Also, ongoing business development in the life and general insurance sectors has contributed to an increase in the number of employees. Since 2002, the number of employees working for Industrial Alliance has grown by 385 (or 16%), an increase that bears witness to the Company's steady growth over the last few years.



Training

Industrial Alliance and its subsidiaries provide access to a number of training programs that allow employees to upgrade their knowledge. These programs cover all areas of the insurance sector as well as learning a second language, mastering the use of business software, retirement planning, and so on.

For a second consecutive year, an Industrial Alliance employee earned the title of best FLMI (Fellow, Life Management Institute) student for the entire Canadian industry. This prize is awarded annually by the Life Insurance Institute of Canada (LIIC), an institute of LOMA (Life Office Management Association Inc.). In 2006, 178 employees of Industrial Alliance and its subsidiaries successfully completed courses in the LOMA training program.

In Quebec, Industrial Alliance complies with the *Act to foster the development of manpower training* by investing the equivalent of at least 1% of its total payroll in training each calendar year.

Staffing and Employee Participation Programs

To promote internal mobility, Industrial Alliance has set up a job posting system to inform employees of all available positions for which they may apply.

Industrial Alliance also encourages employees to suggest ways to improve their working methods through OSE, an incentive and recognition program.

Employment Equity and Occupational Health and Safety

Industrial Alliance and its subsidiaries strictly comply with federal and provincial laws pertaining to the integration of women, visible minorities, aboriginal peoples and the handicapped in the workplace, as well as legislation governing occupational health and safety.

Quality of Life of Employees

To ensure the quality of life of its workforce, a flexible work schedule has been adopted for employees in Montreal, Toronto, Vancouver and certain head office employees in Quebec City. Other head office employees benefit from adjustable work hours, which allows them to start and finish work according to their personal priorities and Company needs.

Remuneration

In terms of remuneration, in 2002 Industrial Alliance implemented a performance appraisal program. This program is aimed at justly recognizing an employee's individual contribution, and allowing them to actively take part in their own professional advancement through objectives that they set with their supervisor.

All employees of the Industrial Alliance group's two life insurance companies are also entitled to receive a bonus based on Industrial Alliance's consolidated financial results. The bonus calculation formula was revised in 2006 to better reflect the various objectives targeted by the Company and the parameters used to calculate the bonus for the management personnel. This new bonus is based on the Company's consolidated income (which accounts for 50% of the bonus), general expenses (25% of the bonus), and business growth by line of business (25% of the bonus). A 4% bonus was paid to employees in 2006, which is the maximum under the current formula. The criteria remain the same for 2007, but the maximum bonus has been increased to 5% of the employees' regular earnings.

Share Purchase Plan

To foster a sense of belonging to the organization, a Share Purchase Plan is offered to all members of the Industrial Alliance group's two life companies. Employees can purchase Industrial Alliance shares up to 5% of their annual salary, to a maximum of $1,500 per year and benefit from an employer contribution equivalent to 50% of the invested amount. As at December 31, 2006, 902 employees were enrolled in the plan, which represents a participation rate of 42.5%.

Community Commitment

Industrial Alliance has always viewed its commitment to the community as a natural extension of the values that have allowed it to grow and flourish over the years. In addition to ensuring the financial security of the individuals it serves, Industrial Alliance also aims to improve the quality of life in its community through donations, sponsorships and incentive programs.

In terms of the donations it makes to the community, Industrial Alliance endorses the principles of the Imagine program, which encourages companies to donate 1% of their pre-tax profits to organizations that play an essential support role in their communities.

Through an internal financial support program, Industrial Alliance also supports all employee initiatives and volunteer work aimed at collecting donations from colleagues for recognized humanitarian organizations.

Across Canada and Elsewhere in the World

All Industrial Alliance employees raised more than $410,000 across the country as part of the Canadian 2006 United Way campaign. Earlier in the year, in Quebec, the generosity and high rate of participation of head office employees earned Industrial Alliance its second consecutive Diamond certificate, as well as the Insurance and Financial Services Division *Coup de cœur* award. The Diamond certificate is the highest honour granted to a company for supporting the United Way. Each year, in addition to providing its financial support through individual and institutional donations, Industrial Alliance provides the services of an employee or retiree from Quebec for several months to help organize the United Way's annual campaign in the Quebec City region. In the last few years, the role of delegated representative has been filled by André Blouin, a retired Industrial Alliance employee. We would like to take this opportunity to highlight his commitment to the United Way and to thank him for his valuable contribution to organizing our annual campaign.

In June 2006, UNICEF Canada recognized the support provided by Industrial Alliance Pacific and the employees of Industrial Alliance to children living in conditions of risk around the world by granting them the national Champion for Children award for their $25,000 donation to the UNICEF Tsunami – Indian Ocean Earthquake Emergency assistance fund.

In the Various Regions of Canada

In western Canada, Industrial Alliance Pacific mainly supported the Vancouver General Hospital, the Calgary Opera and the University of Manitoba. It also continued its generous support of the Arts Club Foundation and the Arts Club Theatre Company in British Columbia. In June 2006, Industrial Alliance Pacific was presented the Georgia Strait Patron of the Arts award in recognition of its generous support of community theatre in Vancouver.

In Ontario, Industrial Alliance supported the Cochrane Food Bank, and in Toronto, the North York General Hospital and the Industrial Alliance KiteFest. In 2006, a team of 25 volunteer employees from Industrial Alliance's Toronto office delivered meals to senior citizens and needy adults through the Meals on Wheels program.

In Quebec and the Atlantic provinces, Industrial Alliance supported the University of Montreal, the *Mondial des cultures de Drummondville* and the Moncton Youth Residences. Industrial Alliance renewed its commitment to Laval University in 2006. Over the next ten years, the Company will pay $1 million to fund the Industrial-Alliance Insurance and Financial Services Chair. Through a large donation, Industrial Alliance also made a commitment to support the Chair for Women in Sciences and Engineering at Laval University, as well as the University's Faculty of Administrative Sciences.

Preserving the Environment

In accordance with its *Environmental Policy*, Industrial Alliance is seeking to achieve a balance between the changing ecological and economic factors that are necessary to the Company's growth. In addition, Industrial Alliance is committed to applying exemplary environmental practices, in accordance with three major principles: recycle what is consumed; consume recycled materials; consume less.

Recycle What is Consumed

Industrial Alliance encourages the recuperation and recycling of the supplies it uses (various types of paper and cardboard, aluminum, printer cartridges, computers, etc.). To maintain the high waste material recuperation rates that allowed Industrial Alliance to receive the *ICI ON RECYCLE!* Performance Certificate from RECYC-QUÉBEC in 2005, Industrial Alliance has added new collection points in its head office meeting rooms.

Through its recycling program, Industrial Alliance has achieved an overall recovery rate of over 76% of its waste materials. The rate increases to 95% for fibres (paper and cardboard), the most common waste material in the Company. The Industrial Alliance Pacific head office has also had a paper recycling program in place for several years. In 2006, the Vancouver offices recycled enough paper to save the equivalent of 345 trees.

Consume Recycled Materials

Industrial Alliance's *Environmental Policy* also encourages the use of products made from recycled materials. Industrial Alliance and its subsidiaries buy numerous products containing 10% to 100% recycled materials, including hand towels, bathroom tissue, certain types of envelopes, certain types of paper for printing, including the paper used for this annual report, which used 100% post-consumer fibres.

Consume Less

Industrial Alliance aims to ensure the sound use of all Company buildings and property (in terms of heating, air conditioning, lighting, soil remediation, etc.), as well as the resources it uses by favouring initiatives to save energy or reduce the consumption of different materials.

To do this, when Industrial Alliance and its subsidiaries need to replace mechanical equipment or energy systems, they choose high-efficiency equipment that use less gas or reduce energy consumption. This applies to all buildings owned by the Company (heat recovery systems, more energy efficient lighting, light emitting diodes (LED), etc.).

In 2007, Industrial Alliance is aspiring to meet the criteria for Go Green certification from the Building Owners and Managers Association (BOMA) of Canada for one of its buildings, possibly its head office. The objective of Go Green is to recognize buildings that implement environmentally focused activities.

Other Information

Fourth Quarter 2006

Industrial Alliance ended the fourth quarter of 2006 with shareholder net income of $57.9 million, a 24% increase over the same period in 2005. This income translates into diluted earnings per common share of $0.70 ($0.58 for the fourth quarter of 2005) and a return on common shareholders equity of 15.4% for the quarter annualized, which is above the Company's 13% to 15% target range.

The higher income is attributable to strong business growth in all lines of business. Premiums and deposits surpassed the $1 billion mark, reaching $1.2 billion in the fourth quarter of 2006, a 38% increase compared to the fourth quarter of 2005. This increase is primarily attributable to the strong growth of mutual fund deposits (following the acquisition of fund manager Clarington at the end of 2005), strong segregated fund entries and the signing of several contracts in the Group Pensions sector.

The good results for the quarter enabled the Company to announce a 12.5% increase in the quarterly dividend, from $0.16 to $0.18 per common share.

Following are a few profitability highlights from the fourth quarter of 2006.

All sectors contributed to the income during the quarter and all sectors ended the quarter with higher net income than the same period the previous year. The increased income primarily results from the following five factors:

- Strict management of the new business strain in the Individual Insurance sector. The strain, as a percentage of sales, actually decreased throughout the year, from 73% in the first quarter to 62% in the fourth quarter. This decrease results from selective pricing adjustments made to products during 2006. The full impact of the price revisions has not yet been reached, since about three quarters of the fourth quarter sales were made according to the new pricing schedules. As a result, the decrease in the strain is expected to continue over the next few quarters.
- A substantial increase in the expected profit on in-force. The expected profit on in-force increased 19% in the fourth quarter compared to the same period in 2005. This growth was primarily driven by strong business growth in all sectors in the last few years, the recognition of lower administration unit costs following the integration of National Life, the acquisition of Clarington and the conservatism with which the Company establishes its provisions for future policy benefits.
- $3.9 million in experience gains ($2.8 million after taxes). The gains come from the Individual Wealth Management and Group Pensions sectors, owing to a higher than expected asset base, and from the Individual Insurance sector, thanks to better than expected mortality results and unit costs. However, the gains in these sectors were partially offset by experience losses in the Group Insurance sector, due to unfavourable disability results in the Employee Plans sector.
- Changes in assumptions that led to the release of $0.6 million in reserves in the fourth quarter ($0.4 million after taxes or about $0.005 per common share). The changes in assumptions mainly affected the Individual Insurance sector. As has been the case in the last few years, the reserves were strengthened to take into account the decrease in interest rates and the changes made to the lapse rates of certain life insurance products. However, the strengthened reserves were more than offset by the release of reserves to take into account the improvement in mortality rates and decreased unit costs.
- The reduction in the federal corporate tax rate. This reduction lowered the Company's tax burden by about $2.5 million for the fourth quarter. This impact is recurrent. As a result, the effective tax rate in the fourth quarter was 29.4%, which is lower than the rate of 31.8% recorded for the same period in 2005, but in line with the Company's expectations of an effective tax rate of about 29%.

Highlights (In millions of dollars, unless otherwise indicated)	Fourth quarter 2005	 2006	Year 2005	 2006
Net income to shareholders	46.7	57.9	132.2	227.9
Earnings per common share (diluted)	$0.58	$0.70	$1.65	$2.74
Return on common shareholders equity	14.1%	15.4%	10.3%	15.7%
Premiums and deposits	872.5	1,202.6	3,583.7	4,990.6
Assets under management and under administration	38,171.2	46,904.1	–	–

Quarterly Results

Following is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters.

Premiums are generally higher in the first quarter of each year due to the tendency of clients to concentrate their deposits in registered retirement savings products during the first 60 days of each calendar year. The relatively high premiums in the second quarter of 2006 compared to the second quarter of 2005 was primarily due to higher sales in the Group Pensions sector. Sales in the Group Insurance and Group Pensions sectors can sometimes fluctuate considerably depending on the size of the groups with which new agreements are signed. The increase in premiums recorded during 2006 compared to 2005 reflects normal business growth resulting from good persistency of in-force contracts and good sales performance in all lines of business.

Net investment income is composed of variations in the fair market value of certain investments, as well as the gains and losses resulting from dispositions of investments, income from interest and dividends and net income from rental properties.

The decrease in net investment income in the third quarter of 2005 was due to a $77.9 million provision taken by the Company during this quarter to cover the amounts that Industrial Alliance clients had invested in the hedge funds managed by Norshield. This provision resulted in a $52.1 million reduction in the Company's net income for that quarter.

The decreased net investment income in the second quarter of 2006 reflects the decrease in income from the amortization of realized and unrealized gains during the period. This decrease stems primarily from the substantial decline in the equity markets in the spring of 2006.

Net investment income reached $281.2 million in the fourth quarter of 2006, which is $81.8 million more than the same period in 2005. This increase results primarily from the normal growth of the capital base and the good return on assets, primarily real estate. The good performance of the stock markets in the fourth quarter was also a favourable factor in the growth of investment income.

Quarterly Results

(In millions of dollars, unless otherwise indicated)	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
Revenues								
Premiums	852.3	750.5	788.6	779.7	1,078.1	1,006.9	770.1	907.9
Net investment income	173.7	192.1	125.7	199.4	223.6	133.1	222.1	281.2
Fees and other revenues	39.1	42.8	42.3	43.2	73.5	73.2	83.6	84.6
Total revenues	1,065.1	985.4	956.6	1,022.3	1,375.2	1,213.2	1,075.8	1,273.7
Income before income taxes	63.3	64.8	(4.5)	70.4	72.8	63.6	79.7	83.5
Income taxes	(20.0)	(19.8)	3.4	(23.0)	(23.7)	2.4	(22.5)	(24.5)
Net profit (net loss)	43.3	45.0	(1.1)	47.4	49.1	66.0	57.2	59.0
Net income attributable to participating policyholders	0.9	0.5	0.3	0.7	0.3	0.9	1.1	1.1
Net income (loss) to shareholders	42.4	44.5	(1.4)	46.7	48.8	65.1	56.1	57.9
Net earnings (loss) per common share								
Basic	$0.53	$0.56	($0.02)	$0.59	$0.59	$0.79	$0.68	$0.71
Diluted	$0.53	$0.56	($0.02)	$0.58	$0.59	$0.78	$0.68	$0.70
Premiums invested in segregated funds	360.2	267.9	271.5	290.3	532.2	454.5	249.5	317.8
Total general fund assets	11,221.1	11,376.5	11,592.7	11,972.9	12,243.1	12,365.9	12,669.1	13,090.7
Segregated fund net assets	6,260.0	6,579.8	7,027.0	7,348.8	7,999.4	8,060.6	8,456.9	9,204.1

It is important to note that most of the variation in stock market returns is allocated to the savings under certain Universal Life insurance contracts, thus leading to equivalent variations in the Company's commitments. For this type of savings, the risk related to investment performance is assumed by the policyholders. Hence, if the amounts allocated to the policyholders are excluded, the net investment income for the fourth quarter of 2006 was $10.2 million higher than the same period in 2005.

Fees and other revenues were higher in 2006 than in 2005, primarily due to the growth of operations in the Wealth Management sector. Investment fund assets increased considerably in 2006 following the Clarington acquisition at the end of 2005, resulting in higher management fees associated with these funds.

Cash Flows

A life insurer's financial position changes with variations in fund entries and disbursements. The main sources of funds are premiums collected under in-force insurance and annuity contracts, proceeds from the sale or recovery of investments, income collected on the investment portfolio and other revenues primarily composed of management fees for segregated funds. The funds generated are primarily used for: claims paid under policies, including annuities and surrender values, the purchase of new investments, mortgage loans granted, net transfers from the general fund to segregated funds, the payment of dividends to policyholders and the payment of operating expenses, including income and other taxes. The table below summarizes the Company's consolidated cash flows.

In 2006, the cash flows related to the operating activities were $151.6 million higher than in 2005, primarily due to the increase in premiums in 2006. The investment operations were $176.8 million higher than in 2005, which reflects the normal course of operations during the year. Also of note with respect to the financing operations carried out in 2006 is the payment of $48.3 million in dividends to common shareholders ($39.8 million in 2005) and $4.9 million to preferred shareholders (no dividend paid to preferred shareholders in 2005).

Cash Flows

(in millions of dollars)	2004	2005	2006
Cash flows related to the following activities:			
Operating activities	586.8	489.5	641.1
Investing activities	(634.5)	(349.8)	(526.6)
Financing activities	(17.2)	(48.3)	(48.4)
Increase (decrease) in cash and cash equivalents	(64.9)	91.4	66.1
Cash and cash equivalents at beginning of period	279.2	214.3	305.7
Cash and cash equivalents at end of period	214.3	305.7	371.8

Related Party Transactions

Current Company policy does not allow for loans to be granted to the Company's managers, except for mortgage loans. However, the Company did grant loans to managers when the Company demutualized in 2000. As at December 31, 2006, the balance of the loans granted to the Company's managers totalled $1.6 million ($2.2 million as at December 31, 2005).

In the normal course of its operations, the Company also carries out transactions with an entity subject to significant influence and a variable interest entity, Industrial Alliance Capital Trust. These transactions are measured by the exchange value, which is the amount of the consideration established and accepted by the related parties.

The value of the related party transactions is available in the Notes to the Financial Statements.

Significant Accounting and Actuarial Policies

The Company's significant accounting policies are summarized in note 2 to the consolidated financial statements. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) while maintaining the specifics of each of the entities included in the consolidation, namely: life and health insurance companies; general insurance companies; and mutual fund, securities and trust companies.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures made in the consolidated financial statements and the Notes to the Financial Statements. These estimates and assumptions are based on historical experience, management's assessment of current events and conditions, and activities that the Company may undertake in the future, as well as the possible future economic events. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may occur in the distant future, and any changes in these estimates and assumptions could materially impact the consolidated financial statements. The Company's main estimate concerns the determination of policy liabilities. This estimate is described below.

Policy Liabilities

Policy liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries (CIA). Policy liabilities represent the estimated value of assets that the Company must hold to be able to honour its future commitments to holders of all in-force policies and to pay the related expenses, commissions and other charges. The calculation of policy liabilities takes into account estimated future premiums, fees and investment income.

Policy liabilities include provisions for future policy benefits, deposit liabilities and incurred but unpaid claims.

The Company evaluates its provisions for future policy benefits using the Canadian Asset Liability Method, which is in accordance with accepted actuarial practice in Canada. This method involves the projection of future events and the use of the best estimate assumptions with respect to a certain number of key factors, including future mortality and morbidity rates, investment income, lapse rates, operating expenses, as well as certain taxes.

To take into account the uncertainty related to the establishment of the best estimate assumptions and a potential deterioration of the expected technical results, the Company applies a margin for adverse deviation to each of its assumptions. These margins lead to an increase in the provisions for future policy benefits and provide a reasonable degree of assurance that the amount of assets backing the liabilities are sufficient to honour the Company's future commitments. The margins for adverse deviation are within the target range established by the Canadian Institute of Actuaries.

The margins for adverse deviation reduce the income that is recognized when a new contract is sold. Over time, the uncertainty regarding the estimates decreases and the provisions for adverse deviation that are no longer required are released to the income statement, thereby increasing the income recognized in future periods.

According to Canadian GAAP, the assumptions and margins underlying the calculation of the provisions for future policy benefits are examined periodically and modified when deemed necessary and prudent, in light of the most recent trends in claims experience and any changes in the Company's risk profile.

Best Estimate Assumptions and Main Risk Factors

The Company uses a well-established method to determine the assumptions to be used in the valuation of policy liabilities. The nature of each risk factor and the process for setting the assumptions used for the valuation are analyzed below. A summary of the impact on the Company's net income of a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

Mortality – Mortality refers to the occurrence of death in a given population. The Company establishes its mortality assumptions based on its claims experience of the last few years and those of the insurance industry, and based on changes in mortality. The assumptions vary according to sex, risk category, policy type and geographic market. Actual mortality rates are compared to the assumptions separately for each sector. The calculation of policy liabilities only takes into account a future decrease in mortality rates when the effect would be to increase liabilities, for example with some annuity contracts. In the normal course of business, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amounts, which vary by line of business, are established for life and health insurance. The Company also has reinsurance treaties covering financial losses from multiple claims due to catastrophic events affecting several lives insured. Total policy liabilities on the balance sheet are presented net of reinsurance ceded. In 2006, reinsurance ceded reduced the policy liabilities by $363.5 million ($360.8 million in 2005). Overall, the Company's mortality experience in 2006 was favourable in comparison with the Company's assumptions. The Company estimates that a 5% deterioration in the mortality rates compared to the expected rate would lead to a $68.8 million reduction of the net income due to the strengthening of policy liabilities that would be required. A 5% improvement in the mortality rate would have the same impact on the net income, but with the opposite effect.

Morbidity – Morbidity refers to the occurrence of accidents and sickness in a given population. The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect emerging Company experience. Overall, the Company's morbidity experience in 2006 was in line with the Company's assumptions.

Lapse – Lapse refers to the lapse rate of contracts, or in other words, the termination of policies due to non-payment of premiums. Policies may also be terminated by their policyholders through a policy surrender. Lapse rate assumptions are generally based on the Company's recent lapse experience. These assumptions are adjusted, however, to take into account industry experience where the Company's experience is limited. For some types of insurance products, lower than expected lapse rates, instead of higher than expected lapse rates, could have an adverse impact on the Company's financial situation. The lapse rate assumptions and the margins for conservatism applied to these assumptions take into account the type of product contained in each policy. Overall, the Company's experience in 2006 was not favourable with regard to the Company's assumptions. The Company estimates that an unfavourable variation of 5% in the lapse rates compared to the assumptions used would lead to a $55.8 million reduction in the net income due to the strengthening of the policy liabilities that this would require.

Expenses and taxes – The operating expense assumptions reflect the projected costs for servicing and maintaining in-force policies, including any associated overhead expenses. The expenses are calculated based on the Company's internal expense studies.

Expenses are projected based on a provision for inflation, whereas no productivity gains are projected. Actual expenses are compared to the assumptions separately for each sector. Overall, the Company's experience in 2006 was favourable in comparison with the Company's assumptions. The Company estimates that an unfavourable variation of 5% in the expenses incurred as compared those projected would result in an $18.7 million reduction in the net income.

Taxes reflect the assumptions regarding future premium taxes, as well as other non-income related taxes. Moreover, given that the Company's accounting treatment of its income taxes is based on the future income tax liability method, and that it holds assets to back the future income tax liability recorded in its balance sheet, the policy liabilities are reduced to take into consideration the investment income related to these assets. This reduction in the policy liabilities complies with the standards of the Canadian Institute of Actuaries. For more details concerning the Company's accounting method for posting income taxes, refer to note 2 of Industrial Alliance's consolidated financial statements.

Investment return – The Company segments the assets backing liabilities by sector and geographic market, and establishes investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with the projected cash flows from the future asset purchases/sales to determine expected rates of return for future periods. The reinvestment strategies are based on the Company's target investment policies for each segment, and are derived from current market rates for fixed interest investments and the Company's projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed-income assets. In 2006, the losses on mortgages and defaults on bonds were below those projected in the Company's assumptions. A decrease in the interest rates can have a negative impact on the Company's net income. The Company estimates that a sudden and permanent decrease of 10 basis points in the entire interest rate yield curve would lead to a $37.8 million reduction in the net income. Stock market fluctuations can also have a negative impact on the net income. The Company estimates that a sudden drop of 10% in the stock markets (followed by growth in the stock markets according to the forecasts for the year) would result in a $17.1 million reduction in its net income.

When policies have features that allow the impact of changes in experience to be passed on to the policyholders through dividends, experience rating refunds, credited rates or other adjustable features, the projected benefits are adjusted accordingly.

Change in Accounting Policies

There were no changes to the accounting policies during the year that had a material impact on the Company's results.

Note, however, that new accounting standards concerning financial instruments came into effect on January 1, 2007. The Company estimates that these standards should not have a material impact on the Company's results, other than the impacts mentioned in the Solvency and Capitalization section regarding the solvency ratio and excess capital. The new accounting standards could, however, lead to more volatility in the Company's quarterly results. The Company also believes that the new accounting standards will have a minimal impact on the embedded value.

Selected Annual Information – Long-Term Financial Liabilities

The following table presents information taken from Industrial Alliance's consolidated financial statements.

Long-Term Financial Liabilities	As at December 31		
(In millions of dollars)	2004	2005	2006
Debentures	150.0	373.0	310.1
Trust units issued by Industrial Alliance Capital Trust	150.0	–	–
Preferred shares	–	–	125.0
Total	300.0	373.0	435.1

Acquisitions During the Period

On August 18, 2006, the Company completed the acquisition of 100% of the common shares of FundTrade Financial Corporation (FundTrade), for a cash consideration of $8.0 million. Also, an additional amount up to a maximum of $3.0 million could be paid at the end of 2009, if certain conditions are met. On September 1, 2006, FundTrade was merged with FundEX Investments Inc. to create a single entity, FundEX Investments Inc. The final allocation is expected to be completed in 2007 and may result in the reallocation of the purchase price.

On June 19, 2006, the Company completed the acquisition of an additional 8.25% of the common shares of FundEX Investments Inc. (FundEX), increasing its ownership in FundEX to 91.75%, for a cash consideration of $0.8 million. As at December 31, 2006, an amount of $0.8 million had been posted for the future purchase of the remaining 8.25% to be finalized at the beginning of 2007.

Dispositions During the Period

On December 12, 2006, the Company signed an agreement to sell its Caribbean block of business to Sagicor Capital Life Insurance Company Limited. This block is primarily made up of individual life insurance. This transaction is subject to Caribbean regulatory approvals and therefore has not been reflected in the financial statements of the Company.

Contractual Obligations

In the normal course of business, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

As at December 31, 2006, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period (In millions of dollars)	Total (As at 12-31-06)	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years
Debentures[1]	310.1	–	–	–	310.1
Capital lease	–	–	–	–	–
Operating lease	33.8	11.0	14.8	6.7	1.3
Purchasing commitments	9.8	5.4	3.8	0.6	–
Other long-term commitments	105.4	67.5	9.6	8.5	19.8
Total of contractual obligations	459.1	83.9	28.2	15.8	331.2

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2006, these investment commitments totalled $234.7 million ($178.9 million in 2005), including $185.8 million that will be maturing in the next year ($152.0 million in 2005), and $48.9 million that will be maturing in more than one year ($26.9 million in 2005).

Outstanding Shares

As at February 23, 2007, Industrial Alliance had 80,091,113 issued and outstanding common shares.

[1] The debentures can be redeemed at the Company's option on various dates. Interest is payable semi-annually. Consult note 16 of Industrial Alliance's consolidated financial statements for more information about debentures.

Six-Year History

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Profitability						
Profit						
Net income	**231.3**	134.6	159.2	140.3	103.5	106.6
Less: net income attributable to participating policyholders	**3.4**	2.4	4.1	3.4	6.1	2.7
Net income attributable to shareholders	**227.9**	132.2	155.1	136.9	97.4	103.9
Less: preferred shareholders dividends	**4.9**	—	0.1	0.3	0.7	0.7
Net income attributable to common shareholders	**223.0**	132.2	155.0	136.6	96.7	103.2
Net income, adjusted						
Net income attributable to shareholders	**227.9**	132.2	155.1	136.9	97.4	103.9
Restructuring charges[3]	**3.0**	4.1	6.1	—	—	—
Impact of the tax reduction on the future income tax liability	**(11.5)**	—	—	—	—	—
Change of reinsurer	**—**	(4.2)	—	—	—	—
Provision for Norshield[4]	**—**	52.1	—	—	—	—
Provision for Teleglobe[5]	**—**	—	—	—	19.4	—
Goodwill expense[6]	**—**	—	—	—	—	3.4
Net income attributable to shareholders, adjusted	**219.4**	184.2	161.2	136.9	116.8	107.3
Less: preferred shareholders dividends	**4.9**	—	0.1	0.3	0.7	0.7
Net income attributable to common shareholders, adjusted	**214.5**	184.2	161.1	136.6	116.1	106.6
Earnings per common share[7]						
Earnings per common share (basic)						
According to net income	**$2.77**	$1.66	$1.96	$1.76	$1.29	$1.38
According to adjusted net income	**$2.67**	$2.31	$2.04	$1.76	$1.55	$1.42
Earnings per common share (diluted)						
According to net income	**$2.74**	$1.65	$1.95	$1.74	$1.29	$1.38
According to adjusted net income	**$2.64**	$2.30	$2.02	$1.74	$1.55	$1.42
Return on common shareholders' equity						
According to net income	**15.7%**	10.3%	13.6%	13.9%	11.8%	14.0%
According to adjusted net income	**15.1%**	14.0%	14.1%	13.9%	14.0%	14.4%
Net income (loss) attributable to shareholders by line of business						
Individual Insurance	**85.8**	80.4	73.5	73.0	50.6	55.7
Individual Wealth Management	**77.8**	(1.4)	33.3	30.1	18.2	21.0
Group Insurance	**46.8**	35.1	33.6	19.8	18.4	11.9
Group Pensions	**17.5**	18.1	14.7	14.0	10.2	15.3
Total	**227.9**	132.2	155.1	136.9	97.4	103.9
Net income attributable to shareholders by line of business, adjusted						
Individual Insurance	**80.7**	81.3	78.3	73.0	67.1	57.4
Individual Wealth Management	**76.9**	49.0	34.3	30.1	18.5	21.3
Group Insurance	**44.2**	35.7	33.9	19.8	18.8	12.8
Group Pensions	**17.6**	18.2	14.7	14.0	12.4	15.8
Total	**219.4**	184.2	161.2	136.9	116.8	107.3

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Business Growth						
Premiums and deposits						
Premiums						
General fund	**2,209.0**	1,981.2	1,870.9	1,724.7	1,580.5	1,504.2
Segregated funds	**1,554.0**	1,189.9	981.5	842.0	756.7	572.8
Total	**3,763.0**	3,171.1	2,852.4	2,566.7	2,337.2	2,077.0
Deposits						
Mutual funds	**1,227.6**	412.6	—	—	—	—
Total	**4,990.6**	3,583.7	2,852.4	2,566.7	2,337.2	2,077.0
Revenues						
Premiums	**3,763.0**	3,171.1	2,852.4	2,566.7	2,337.2	2,077.0
Net investment income						
Investment income	**643.3**	610.6	596.0	574.5	557.4	561.1
Realized and unrealized gains (losses)	**214.7**	156.6	100.1	102.9	(78.3)	(16.6)
Change in provision for losses	**2.0**	(76.3)	0.8	(0.1)	(28.9)	(2.2)
Total	**860.0**	690.9	696.9	677.3	450.2	542.3
Fees and other income	**314.9**	167.4	128.9	99.5	90.8	92.0
Total revenues	**4,937.9**	4,029.4	3,678.2	3,343.5	2,878.2	2,711.3
Assets under management and under administration						
Assets under management						
General fund	**13,090.7**	11,972.9	11,030.8	10,307.6	9,289.2	8,886.3
Segregated funds	**9,204.1**	7,348.8	5,913.6	5,042.2	4,173.5	4,049.6
Mutual funds	**6,295.4**	5,672.7	1,018.5	94.1	—	—
Other	**501.3**	785.9	872.0	—	—	—
Total	**29,091.5**	25,780.3	18,834.9	15,443.9	13,462.7	12,935.9
Assets under administration	**17,812.6**	12,390.9	9,641.1	4,129.6	3,298.2	2,192.7
Total	**46,904.1**	38,171.2	28,476.0	19,573.5	16,760.9	15,128.6
Individual Insurance						
Sales[8]	**153.6**	141.3	139.9	128.7	133.3	145.0[9]
Premiums	**838.6**	768.7	763.1	683.4	663.9	658.8
Individual Wealth Management						
Sales[8]						
General fund	**289.2**	242.4	237.5	227.9	198.7	147.4
Segregated funds	**958.3**	805.2	669.3	430.8	392.0	381.7
Mutual funds	**1,227.6**	412.6	—	—	—	—
Total	**2,475.1**	1,460.2	906.8	658.7	590.7	529.1
Net investment fund sales						
Segregated funds	**607.6**	547.4	332.7	117.5	152.1	199.0
Mutual funds	**267.0**	148.7	—	—	—	—
Total	**874.6**	696.1	332.7	117.5	152.1	199.0
Funds under management						
General fund	**1,631.7**	1,695.5	1,770.9	1,775.3	1,737.5	1,721.7
Segregated funds	**6,046.8**	4,851.2	3,871.6	3,261.5	2,795.2	2,928.1
Mutual funds	**6,281.2**	5,659.8	1,018.5	94.1	—	—
Total	**13,959.7**	12,206.5	6,661.0	5,130.9	4,532.7	4,649.8

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Business Growth (continued)						
Group Insurance						
Sales[8]						
Employee Plans	**70.8**	52.3	55.7	53.3	92.4	59.1
Creditor Insurance	**176.4**	158.8	132.6	130.1	124.5	108.0
Special Markets Group (SMG)	**92.6**	87.4	79.7	71.5	65.7	32.3
Premiums and premium equivalents						
Employee Plans	**509.2**	475.4	448.4	426.0	378.6	331.6
Creditor Insurance	**147.8**	132.1	109.8	105.5	98.7	85.9
Special Markets Group (SMG)	**92.6**	87.4	79.7	71.5	65.7	32.3
Total premiums	**749.6**	694.9	637.9	603.0	543.0	449.8
Premium equivalents	**124.1**	102.9	96.1	99.2	43.9	33.5
Total	**873.7**	797.8	734.0	702.2	586.9	483.3
Group Pensions						
Sales[8]						
Accumulation contracts						
General fund	**29.2**	25.8	49.1	35.3	40.7	82.0
Segregated funds	**595.7**	384.7	312.2	411.2	364.7	191.1
Total	**624.9**	410.5	361.3	446.5	405.4	273.1
Insured annuities (general fund)	**195.2**	154.3	99.8	109.9	86.0	133.9
Total	**820.1**	564.8	461.1	556.4	491.4	407.0[9]
Funds under management						
Accumulation contracts						
General fund	**142.4**	150.4	158.8	162.5	153.7	147.5
Segregated funds	**3,041.5**	2,402.9	1,927.8	1,599.6	1,143.8	923.9
Other	**36.4**	34.7	33.3	36.8	35.1	5.3
Total	**3,220.3**	2,588.0	2,119.9	1,798.9	1,332.6	1,076.7
Insured annuities (general fund)	**2,150.9**	2,026.2	1,936.4	1,905.1	1,652.3	1,639.7
Total	**5,371.2**	4,614.2	4,056.3	3,704.0	2,984.9	2,716.4

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Investments						
Value and distribution of investments						
Book value of investments	**12,256.2**	11,226.9	10,589.6	9,925.5	8,934.9	8,570.7
Market value of investments	**13,759.8**	12,809.6	11,720.6	10,893.7	9,751.8	9,173.7
Market value/book value	**112.3%**	114.1%	110.7%	109.8%	109.1%	107.0%
Distribution of investments by asset category						
Bonds	**58.6%**	58.9%	57.4%	55.7%	52.5%	48.9%
Mortgages	**20.1%**	21.6%	23.5%	25.1%	28.3%	31.0%
Stocks	**11.9%**	10.4%	10.2%	9.4%	8.1%	8.2%
Real estate	**3.7%**	4.0%	4.2%	4.3%	4.9%	5.0%
Other	**5.7%**	5.1%	4.7%	5.5%	6.2%	6.9%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region						
Atlantic provinces	**3.9%**	4.8%	5.1%	4.6%	5.3%	4.4%
Quebec	**48.0%**	49.5%	49.6%	50.1%	50.5%	49.3%
Ontario	**20.6%**	20.3%	20.7%	20.5%	20.3%	20.5%
Western provinces	**16.6%**	16.9%	17.3%	17.9%	18.1%	18.5%
Outside Canada	**10.9%**	8.5%	7.3%	6.9%	5.8%	7.3%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Impaired investments and provisions						
Gross impaired investments (excluding insured loans)	**95.2**	96.8	47.6	60.5	60.4	39.8
Provisions for losses	**(87.3)**	(89.2)	(39.1)	(40.7)	(41.1)	(15.7)
Net impaired investments (excluding insured loans)	**7.9**	7.6	8.5	19.8	19.3	24.1
Net impaired investments as a % of total investments	**0.06%**	0.07%	0.08%	0.20%	0.22%	0.28%
Provisions as a % of gross impaired investments	**91.7%**	92.1%	82.0%	67.3%	68.0%	39.1%
Bonds						
Book value of the bond portfolio	**7,189.4**	6,619.6	6,074.5	5,527.9	4,686.4	4,193.2
Market value of the bond portfolio	**8,409.3**	7,997.0	7,046.8	6,368.7	5,423.1	4,691.6
Market value/book value	**117.0%**	120.8%	116.0%	115.2%	115.7%	111.9%
Distribution of bonds by credit rating						
Rating – AAA	**17.4%**	12.3%	9.8%	11.3%	12.2%	12.4%
Rating – AA	**17.9%**	16.3%	17.1%	15.7%	15.0%	13.1%
Rating – A	**58.3%**	63.7%	65.7%	66.6%	65.0%	65.9%
Rating – BBB	**6.1%**	7.3%	7.2%	6.3%	7.7%	8.6%
Rating – BB and lower	**0.3%**	0.4%	0.2%	0.1%	0.1%	0.0%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of bonds by category of issuer						
Governments	**56.9%**	60.4%	64.5%	59.2%	55.1%	52.4%
Municipalities	**1.7%**	1.6%	1.7%	1.8%	2.5%	1.2%
Corporations – Public issues	**26.1%**	25.1%	22.4%	26.0%	28.2%	32.9%
Corporations – Private placements	**15.3%**	12.9%	11.4%	13.0%	14.2%	13.5%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures						
Delinquency rate	**0.02%**	0.02%	0.02%	0.03%	0.03%	0.03%
Mortgages						
Book value of the mortgage portfolio	**2,457.2**	2,420.8	2,491.8	2,490.4	2,526.5	2,660.4
Market value of the mortgage portfolio	**2,516.0**	2,469.8	2,562.7	2,570.1	2,615.5	2,750.6
Market value/book value	**102.4%**	102.0%	102.8%	103.2%	103.5%	103.4%
Distribution of mortgages by type of property						
Residential	**20.4%**	16.3%	16.4%	17.1%	18.4%	18.7%
Multi-residential	**59.5%**	58.9%	59.5%	55.6%	52.5%	51.3%
Non-residential	**20.1%**	24.8%	24.1%	27.3%	29.1%	30.0%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Investments (continued)						
Mortgages (continued)						
Distribution of mortgages by category						
Insured loans	**60.2%**	55.6%	52.8%	48.6%	45.3%	40.9%
Conventional loans	**39.8%**	44.4%	47.2%	51.4%	54.7%	59.1%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures						
Delinquency rate						
Insured loans	**0.09%**	0.50%	0.50%	0.75%	0.80%	0.27%
Conventional loans	**0.02%**	0.05%	0.13%	0.97%	0.69%	0.62%
Total	**0.06%**	0.30%	0.32%	0.86%	0.74%	0.48%
Proportion of delinquent loans that are insured	**88.0%**	93.0%	81.0%	42.2%	49.0%	23.3%
Stocks						
Book value of the stock portfolio	**1,453.5**	1,162.4	1,081.1	930.3	720.1	703.2
Market value of the stock portfolio	**1,599.7**	1,255.1	1,130.5	957.3	691.7	690.7
Market value/book value	**110.1%**	108.0%	104.6%	102.9%	96.1%	98.2%
Distribution of stocks by category						
Common	**5.0%**	4.9%	4.1%	4.1%	6.1%	7.4%
Preferred	**10.9%**	12.8%	21.6%	24.8%	32.4%	29.8%
Market indices	**23.6%**	18.2%	12.0%	11.1%	15.3%	19.3%
Investment fund units	**60.5%**	64.1%	62.3%	60.0%	46.2%	43.5%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%
Real estate						
Book value of the real estate portfolio	**451.8**	446.3	444.5	425.7	436.0	424.9
Market value of the real estate portfolio	**530.5**	509.9	482.9	446.4	455.6	451.8
Market value/book value	**117.4%**	114.2%	108.6%	104.9%	104.5%	106.3%
Occupancy rate	**95.5%**	96.8%	95.2%	93.9%	92.1%	96.3%
Other						
Provision for potential loss included in the policy liabilities	**73.1**	77.7	97.5	—	—	—
Capitalization and Solvency						
Capital structure						
Subordinated debentures[10]	**310.1**	373.0	150.0	135.0	185.0	185.0
Other debt (IATS[11])[10]	**—**	—	150.0	150.0	—	—
Participating policyholders' account	**23.1**	19.7	17.3	13.2	59.5	53.4
Shareholders' equity						
Common shares	**507.7**	510.6	458.1	438.3	382.0	382.0
Preferred shares	**125.0**	—	—	18.7	75.0	75.0
Contributed surplus	**14.6**	12.3	9.5	6.5	3.3	—
Retained earnings	**971.3**	845.4	751.7	627.5	470.2	397.6
Currency translation account	**(6.8)**	(7.1)	(5.8)	(2.5)	7.5	10.2
Total	**1,611.8**	1,361.2	1,213.5	1,088.5	938.0	864.8
Total capital structure	**1,945.0**	1,753.9	1,530.8	1,386.7	1,182.5	1,103.2
Solvency ratio						
Available capital						
Tier 1 (net)	**1,498.9**	1,187.5	1,246.2	996.1	695.0	681.0
Tier 2 (net)	**128.6**	134.9	136.1	295.8	342.4	317.8
Total	**1,627.5**	1,322.4	1,382.3	1,291.9	1,037.4	998.8
Required capital	**809.9**	704.5	624.0	583.7	556.5	534.3
Solvency ratio[12]	**201%**	188%	222%	221%	186%	187%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005	2004	2003 (restated[1])	2002 (restated[2])	2001
Capitalization and Solvency (continued)						
Debt measures						
Debt[13]/capital structure	**15.9%**	21.3%	19.6%	20.6%	15.6%	16.8%
Debt[13] + preferred shares/capital structure	**22.4%**	21.3%	19.6%	21.9%	22.0%	23.6%
Coverage ratio (in number of times)[14]	**12.1**	11.0	13.4	9.6	8.7	—
Miscellaneous Information						
Market data[7]						
Number of common shares outstanding (in millions)	**79.9**	81.4	79.5	78.6	75.4	75.4
Share price at the end of the period	**$36.14**	$29.07	$27.50	$21.90	$19.75	$23.33
Average share price	**$32.42**	$28.49	$23.44	$18.69	$20.18	$21.16
Market capitalization	**2,887.6**	2,366.3	2,185.6	1,721.3	1,486.8	1,756.3
Book value per outstanding common share	**$18.61**	$16.72	$15.27	$13.61	$11.46	$10.49
Dividend per common share	**$0.60**	$0.50	$0.41	$0.35	$0.32	$0.30
General expenses						
General expenses	**314.0**	273.1	257.8	237.4	229.9	212.0
Human resources						
Number of employees						
Life insurance companies	**2,192**	2,115	2,159	2,138	2,110	2,035
General insurance company	**386**	367	346	329	305	237
Other companies	**241**	264	121	36	19	9
Total	**2,819**	2,746	2,626	2,503	2,434	2,281
Number of Career representatives	**1,550**	1,445	1,379	1,309	1,310	1,270

For comparison purposes, certain previous data have been reclassified.

1 The data for 2003 were restated after the Company realized that the amount that could be transferred from the Participating Policyholders' Account to the Retained Earnings, pursuant to the *Insurance Companies Act*, had been understated, each year since 1981, following the incorrect application of the calculation method.

2 2002 data have been restated to reflect the change in accounting policies for the stock option plan.

3 The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary with those of the parent company.

4 In the third quarter of 2005, the Company decided to take a full provision on its entire investment in Norshield. This reduced the GAAP reported net earnings by $77.9 million, with a tax offset of $25.8 million, for a net reduction of $52.1 million.

5 In the first quarter of 2002, the Company decided to take a full provision on its entire investment in Teleglobe bonds. This reduced the GAAP reported earnings by $27.9 million, with a tax offset of $8.5 million, for a net reduction of $19.4 million.

6 Goodwill expense has been adjusted pursuant to the introduction of new accounting rules with respect to the amortization of goodwill.

7 For comparison purposes, the market data for 2001 to 2004 have been recalculated to reflect the two-for-one split of the Company's common shares effective on May 18, 2005.

8 Sales are defined as follows for each line of business:

Individual Insurance: first-year annualized premiums.

Individual Wealth Management: premiums for the general fund and for the segregated funds, and deposits for the mutual funds.

Group Insurance: first-year annualized premiums for Employee Plans, including administrative services only (ASO) contracts; gross premiums (before reinsurance) for Creditor Insurance; and premiums for Special Markets Group.

Group Pensions: premiums.

9 Sales, excluding Canadian Medical Association (CMA) for 2001, would be $135.6 million in Individual Insurance and $235.0 million in Group Pensions.

10 Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust securities in the first quarter of 2005. Following this change, the $150.0 million in IATS as well as a $10.1 million Trust financing debenture were reclassified as subordinated debentures in Industrial Alliance's capital structure.

11 IATS: Industrial Alliance Trust Securities.

12 The solvency ratio is calculated in accordance with capital adequacy requirements.

13 Debt includes subordinated debentures and other debts.

14 Obtained by dividing pre-tax income and financing expenses by financing expenses.

Consolidated Financial Statements

Responsibility for Financial Statements

The consolidated financial statements of **Industrial Alliance Insurance and Financial Services Inc.**, which have been approved by the Board of Directors, were prepared by Management in accordance with Canadian generally accepted accounting principles and contain certain amounts based on best judgement and estimates as their final determination is dependent upon subsequent events at the balance sheet date. It is the opinion of Management that the accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in this annual report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all material departments within the Company.

The Board of Directors' Audit Committee, comprised solely of board members who are neither managers nor employees of the Company, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:

- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the systems of internal control and security;
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors;
- Review other accounting, financial, and security matters as required.

The Audit Committee meets regularly with Management and the internal and external auditors. The latter may, as they see fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The Appointed Actuary is appointed by the Board of Directors pursuant to *An Act respecting insurance* (Québec), and is responsible for ensuring that assumptions and methods used in the valuation of policy liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

The external auditors are appointed to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial statements. The external auditors fulfil this responsibility by carrying out an independent audit of these statements in accordance with Canadian generally accepted auditing standards.

On behalf of Management,

Yvon Charest
President and Chief Executive Officer
Québec, February 7, 2007

Appointed Actuary's Report

To the shareholders of **Industrial Alliance Insurance and Financial Services Inc.**

I have valued the policy liabilities of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated balance sheets as at December 31, 2006 and 2005 and the variation in the policy liabilities in its consolidated income statements for the years then ended. These valuations were carried out in accordance with accepted actuarial practice, using appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders obligations. The results are also fairly presented in the consolidated financial statements.

Denis Ricard
Fellow of the Canadian Institute of Actuaries
Québec, February 5, 2007

Auditors' Report

To the shareholders of **Industrial Alliance Insurance and Financial Services Inc.**

We have audited the consolidated balance sheets of **Industrial Alliance Insurance and Financial Services Inc.** and the separate consolidated statements of net assets of its segregated funds as at December 31, 2006 and 2005 and the consolidated income statements, the consolidated participating policyholders' account statements, the consolidated contributed surplus statements, the consolidated shareholders' retained earnings statements, the consolidated cash flows statements and the separate consolidated statements of changes in net assets of its segregated funds for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Industrial Alliance Insurance and Financial Services Inc.** and of its segregated funds as at December 31, 2006 and 2005 and the results of its operations, its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants
Québec, February 5, 2007

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2006**	2005
	$	$
Revenues		
Premiums (note 24)	**3,763.0**	3,171.1
Net investment income (note 6)	**860.0**	690.9
Fees and other revenues	**314.9**	167.4
	4,937.9	4,029.4
Policy benefits and expenses		
Change in provisions for future policy benefits	**736.3**	544.8
Payments to policyholders and beneficiaries	**1,591.5**	1,411.7
Net transfer to segregated funds	**1,400.5**	1,116.1
Dividends, experience rating refunds and interest on amounts on deposit	**37.2**	32.4
Commissions	**484.7**	388.6
Premium and other taxes	**56.3**	51.7
General expenses (notes 5, 7 and 12)	**314.0**	273.1
Financing expenses (note 16)	**17.8**	17.0
	4,638.3	3,835.4
Income before income taxes	**299.6**	194.0
Income taxes (note 8)	**(68.3)**	(59.4)
Net income	**231.3**	134.6
Less: net income attributable to participating policyholders	**3.4**	2.4
Net income attributable to shareholders	**227.9**	132.2
Less: preferred shareholders dividends	**4.9**	—
Net income attributable to common shareholders	**223.0**	132.2
Earnings per common share (note 18)		
basic (in dollars)	**2.77**	1.66
diluted (in dollars)	**2.74**	1.65

Consolidated Balance Sheets

As at December 31 (in millions of dollars)	**2006**	2005
	$	$
Assets		
Invested assets (note 9)		
Bonds	**7,189.4**	6,619.6
Mortgages	**2,457.2**	2,420.8
Stocks	**1,453.5**	1,162.4
Real estate	**451.8**	446.3
Policy loans	**220.3**	182.6
Short-term investments	**—**	2.6
Cash and cash equivalents	**371.8**	305.7
Other invested assets	**112.2**	86.9
	12,256.2	11,226.9
Goodwill (note 10)	**67.7**	286.7
Intangible assets (note 11)	**297.6**	67.5
Other assets (note 12)	**469.2**	391.8
	834.5	746.0
Total general fund assets	**13,090.7**	11,972.9
Segregated funds net assets	**9,204.1**	7,348.8
Liabilities		
Policy liabilities (note 13)		
Provisions for future policy benefits	**9,446.6**	8,701.0
Provisions for dividends to policyholders and experience rating refunds	**38.6**	47.1
Benefits payable and provision for unreported claims	**146.6**	144.7
Policyholders' amounts on deposit	**175.2**	164.4
	9,807.0	9,057.2
Other liabilities (note 14)	**780.5**	717.7
Deferred net realized gains (note 15)	**558.2**	444.1
Debentures (note 16)	**310.1**	373.0
Participating policyholders' account	**23.1**	19.7
Equity		
Share capital (note 17)	**632.7**	510.6
Contributed surplus	**14.6**	12.3
Retained earnings	**971.3**	845.4
Currency translation account	**(6.8)**	(7.1)
	1,611.8	1,361.2
Total general fund liabilities and equity	**13,090.7**	11,972.9
Segregated funds liabilities	**9,204.1**	7,348.8

On behalf of the Board,

Yvon Charest, Director

Michel Gervais, Director

Consolidated Participating Policyholders' Account

Years ended December 31 (in millions of dollars)	**2006**	2005
	$	$
Balance at beginning	**19.7**	17.3
Income for the year	**6.9**	6.1
Dividends	**(3.2)**	(3.3)
Transfer to the shareholders' account	**(0.3)**	(0.4)
Net income attributable to participating policyholders	**3.4**	2.4
Balance at end	**23.1**	19.7

Consolidated Contributed Surplus

Years ended December 31 (in millions of dollars)	**2006**	2005
	$	$
Balance at beginning	**12.3**	9.5
Current year contribution for the stock option plan (note 19)	**3.3**	3.3
Stock options exercised	**(1.0)**	(0.5)
Balance at end	**14.6**	12.3

Consolidated Shareholders' Retained Earnings

Years ended December 31 (in millions of dollars)	**2006**	2005
	$	$
Balance at beginning	**845.4**	751.7
Impact of the non-consolidation of the Industrial Alliance Trust Securities	**—**	1.3
Net income attributable to shareholders	**227.9**	132.2
Common shareholders dividends	**(48.3)**	(39.8)
Preferred shareholders dividends	**(4.9)**	—
Issue cost of preferred shares, net of taxes	**(2.3)**	—
Cancellation following the redemption of common shares	**(46.5)**	—
Balance at end	**971.3**	845.4

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)	**2006**	2005
	$	$
Cash flows from operating activities		
Net income	**231.3**	134.6
Items not affecting cash and cash equivalents:		
Change in provision for future policy benefits	**745.6**	554.5
Share of results of entity subject to significant influence	**(1.9)**	(2.0)
Amortization of realized and unrealized (gains) losses	**(193.7)**	(158.9)
Amortization of premiums and discounts	**(186.7)**	(173.6)
Future income taxes	**25.2**	39.0
Stock option plan	**3.3**	3.3
Provision on invested assets	**(2.0)**	76.3
Deferred sales commissions amortization and fixed assets depreciation	**36.3**	14.2
Other	**(0.2)**	(5.5)
	657.2	481.9
Other changes in other assets and liabilities	**(16.1)**	7.6
Cash flows from operating activities	**641.1**	489.5
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	**2,405.0**	1,542.7
Mortgages	**375.0**	551.4
Stocks	**462.8**	683.2
Real estate	**2.0**	2.0
Policy loans	**73.6**	69.3
Other invested assets	**57.0**	178.1
	3,375.4	3,026.7
Purchases of the following items:		
Bonds	**(2,634.6)**	(1,831.0)
Mortgages	**(404.1)**	(486.9)
Stocks	**(620.1)**	(739.8)
Real estate	**(1.3)**	(0.5)
Policy loans	**(106.0)**	(86.1)
Other invested assets	**(137.4)**	(252.3)
Acquisition of cash and cash equivalents (note 4)	**1.5**	20.1
	(3,902.0)	(3,376.5)
Cash flows from investing activities	**(526.6)**	(349.8)
Cash flows from financing activities		
Issue of common shares	**5.1**	3.6
Redemption of common shares	**(57.9)**	—
Issue of preferred shares	**125.0**	—
Cost of issuance of preferred shares	**(3.5)**	—
Increase in debenture	**4.7**	—
Redemption of debenture	**(67.6)**	—
Preferred shareholders dividends	**(4.9)**	—
Common shareholders dividends	**(48.3)**	(39.8)
Decrease in mortgage debts	**(1.0)**	(12.1)
Cash flows from financing activities	**(48.4)**	(48.3)
Increase in cash and cash equivalents	**66.1**	91.4
Cash and cash equivalents at beginning	**305.7**	214.3
Cash and cash equivalents at end	**371.8**	305.7
Supplementary information:		
Cash and cash equivalents:		
Cash	**(11.4)**	(0.5)
Cash equivalents	**383.2**	306.2
	371.8	305.7
Interest paid	**22.2**	21.8
Income taxes paid, net of refunds	**29.3**	39.1

Consolidated Financial Statements of Segregated Funds

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	**2006**	2005
	$	$
Balance at beginning	**7,348.8**	5,913.6
Additions:		
Amounts received from policyholders	**1,676.5**	1,276.7
Investment income	**222.5**	189.2
Net realized gains	**462.4**	262.5
Net increase in market value	**379.9**	442.6
	10,090.1	8,084.6
Deductions:		
Amounts withdrawn by policyholders	**736.2**	600.3
Operating expenses	**149.8**	135.5
	886.0	735.8
Balance at end	**9,204.1**	7,348.8

Consolidated statements of net assets

As at December 31 (in millions of dollars)	**2006**	2005
	$	$
Assets		
Bonds	**2,679.4**	2,113.6
Mortgages and mortgage-backed securities	**21.2**	24.1
Stocks	**2,411.6**	2,169.6
Fund units	**3,624.9**	2,572.0
Cash and short-term investments	**438.1**	456.3
Other assets	**50.1**	36.1
	9,225.3	7,371.7
Liabilities		
Accounts payable and accrued expenses	**21.2**	22.9
Net assets	**9,204.1**	7,348.8

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

1 › Status and Nature of Operations

Industrial Alliance Insurance and Financial Services Inc., a publicly traded company, incorporated under *An Act respecting insurance* and *Part 1A* of the *Companies Act* (Québec), constitutes, with its subsidiaries, a group of companies (the Company) engaged mainly in the development, marketing and distribution of insurance and annuity products. The Company also operates mutual fund, securities and trust companies. The operations of the life and health insurance business extend throughout Canada and certain regions of the United States, while the general insurance operations are concentrated mainly in Québec.

2 › Accounting Policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and maintain principles particular to each of the entities included in the consolidation, namely:

- Life insurance companies;
- General insurance companies;
- Mutual fund, securities and trust companies.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues, policy benefits, and expenses during the reporting period. Actual results could differ from management's best estimates. The most significant estimates are related to the determination of policy liabilities.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

Ownership interest, other than portfolio investments in common and preferred stocks, are recorded using the following methods:

- The accounts of the subsidiaries are consolidated and the results of operations of the subsidiaries are included in the consolidated financial statements from their dates of acquisition.
- The equity method of accounting is used for the investment in an entity subject to significant influence, MD Life, for 45% of the share capital.
- Variable Interest Entities (VIE) are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. The primary beneficiary must consolidate the VIEs. The primary beneficiary is defined as the party that receives the majority of the expected residual returns and/or absorbs the majority of the expected losses.

All significant intercompany transactions and balances have been eliminated.

Credit Risk

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages, and real estate acquired by foreclosure. Provisions for credit losses consist of specific provisions for loans and debt considered to be impaired and a provision for other future potential credit losses.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable in the normal course of operations. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is assumed to be impaired. In addition, the Company considers other factors in determining if a loan is impaired including the overall credit quality of the borrower and the fair value of the property provided as security.

A provision, included as a component of policy liabilities, is made for other potential future losses on loans and debt securities according to the actuarial standard.

When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. Furthermore, interest is no longer accrued and recognized in the income statement, and previous interest accruals are reversed.

Bonds

Bonds are recorded at cost, adjusted for amortization of premiums and discounts and, if need be, a provision for credit losses. Realized gains and losses on the sale of such securities are deferred and amortized to net investment income over the remaining term to maturity, up to a maximum of 20 years. Permanent declines in value are recognized immediately. When a specific portfolio is disinvested, concurrent with the underlying liabilities, the gains or losses are recognized immediately.

Mortgages

Mortgages are carried at amortized cost, net of a provision for credit losses. Restructured mortgage loans are adjusted for unamortized discounts representing interest concessions. When a long lasting decrease in value occurs, it is recognized immediately. When a specific portfolio is disinvested, concurrent with the underlying liabilities, the gains or losses are recognized immediately.

Realized gains and losses on the sale of mortgages are deferred and amortized to net investment income over the remaining mortgage term. Commissions paid at the issuance of new loans are deferred and amortized to net investment income over the term of the related loans.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Stocks

Stocks held in portfolios include common stock, preferred stock, units and market indices. These are carried at the moving average market value whereby the carrying value is adjusted towards market value at 5% per quarter of unrealized gains and losses. Realized gains and losses on the disposal of stocks are deferred and amortized to net investment income at 5% per quarter on a declining balance basis. Permanent declines in value of the entire stock portfolio (determined net of deferred realized gains) are recognized immediately.

When a specific portfolio is disinvested, concurrent with the underlying liabilities, the gains or losses are recognized immediately.

Stocks that are specifically matched to Universal Life policy liabilities are carried at market value and any variation in market value is recognized immediately as is the corresponding change in the liability.

Real Estate

Real estate held for investment, which includes own-use property, is carried at the moving average market method whereby the carrying value is adjusted towards market value at 3% per quarter of unrealized gains and losses. Each real estate property held for investment is appraised every 3 years under a scheduled program of market appraisals.

Realized gains and losses on the disposal of real estate held for investment are deferred and amortized to net investment income at 3% per quarter on a declining balance basis. Permanent declines in value of the entire real estate held for investment portfolio (determined net of deferred realized gains) are recognized immediately.

When a specific portfolio is disinvested, concurrent with the underlying liabilities, the gains or losses are recognized immediately.

Real estate held for resale is measured at the lower of fair value less cost to sell and the carrying value of underlying loans at date of foreclosure. Gains and losses on real estate held for resale are taken into income when realized.

Policy Loans

Policy loans are carried at the amount of the outstanding balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents are highly liquid investments held for the purpose of meeting short-term cash commitments. Short-term investments are liquid investments with an original term to maturity greater than 3 months but less than 1 year.

Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rate, market indices and credit risk when appropriate, to manage exposure to the foreign currency, interest rate and stock market risks associated with certain assets and liabilities. The Company also uses derivative financial instruments for non-hedging purposes.

The Company believes that derivative financial instruments are efficient hedges at the time the hedge is implemented and so maintained for the duration of the instrument.

The Company uses interest swaps and market index contracts as part of its program to match its assets to its policy liabilities. Swap contracts give rise to periodic exchanges of interest payments with no exchange of the notional amount on which the payments are based. The realized and unrealized gains and losses on these derivative financial instruments used for hedging purposes are accounted for in the same way as the underlying liabilities.

The Company uses currency swap contracts as part of its management of the foreign exchange risk exposure with respect to certain investments or commitments denominated in foreign currency. The Company designates these swap contracts as hedges, failing which it will be exposed to currency risk. The currency gains and losses resulting from these swaps are offset by corresponding currency gains and losses on the covered items.

The Company also uses credit swap contracts as part of its management of the credit risk exposure with respect to certain investments. The realized and unrealized gains and losses on these derivative financial instruments used for hedging purposes are accounted for in the same way as the gains and losses corresponding to the hedge items.

The gains or losses related to market index swaps used for non-hedging purposes are deferred and amortized to the income statement using the moving average market method at the quarterly rate of 5% of unrealized gains and losses. The gains or losses related to interest rate swaps used for hedging purposes are recorded immediately in the income statement.

The receivables and payables on derivative financial instruments are included with Other assets and Other liabilities respectively, and the unamortized realized gains and losses are included in the Deferred net realized gains on the balance sheet.

Other Invested Assets

Other invested assets include the investment in an entity subject to significant influence, the notes receivable and the cash in trust.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Impairment of Long-lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Fixed Assets

Fixed assets, consisting mainly of systems hardware and software, office furniture and equipment and leasehold improvements to real estate held for investment purposes, are recorded at cost less accumulated depreciation and amortization. They are principally depreciated under the straight-line method over their estimated useful lives which range from 3 to 8 years or the original term of their related lease agreements which range from 1 to 15 years.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable assets and is not amortized. The goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of the goodwill exceeds its fair value, an impairment loss is recognized immediately.

Intangible Assets

Indefinite-life intangible assets are assessed for impairment annually by comparing their carrying values to their fair values. When the carrying amounts of the indefinite-life intangible assets exceed their fair value, an impairment loss is recognized immediately.

Segregated Funds

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Company and the segregated fund policyholder has no direct access to the specific assets, the policyholder bears the risks and rewards of the fund's investment performance. Individual contracts also have guarantees from the Company. The liabilities associated with these guarantees are recorded in actuarial liabilities in the general fund of the Company. Segregated fund assets may not be applied against the liabilities that arise from any other business of the Company. The assets, managed by the Company, but not included in the general fund, are carried at market value. The Company derives fee income from the management of its segregated funds.

Deferred Sales Commissions and Deferred Acquisition Costs

Deferred sales commissions arising on mutual fund sales are recorded at cost and amortized on a straight-line basis over a maximum period of 5 years. Unamortized deferred sales commissions are written down to the extent that the carrying value exceeds the expected future revenue on an undiscounted basis.

Deferred acquisition costs arising on segregated funds are calculated and included in provisions for future policy benefits.

Provisions for Future Policy Benefits

Provisions for future policy benefits represent the amount which, after consideration of future premiums and investment income, provide for all commitments under policy contracts. These provisions are established using the Canadian Asset Liability Method (CALM), which is a generally accepted actuarial practice and respects the standards established by the Canadian Institute of Actuaries (CIA).

Income Taxes

The Company uses the liability method of tax allocation to record the income taxes. According to this method, the future income taxes are recorded based on the tax consequence of the difference between the carrying value of the balance sheet items and their value for tax purposes, using those rates enacted or substantively enacted on the date the differences are reversed. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not.

In addition to income taxes, the charge to the income statement includes the tax on capital imposed on financial institutions and the large corporations tax.

Foreign Currencies

The Company's operations in foreign countries are considered to be self-sustaining. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the period-end exchange rate while revenues and expenses are translated at the rate of exchange in effect on the dates when they occur. Gains and losses resulting from the translation of balance sheet items related to activities maintained outside Canada are recorded in the currency translation account, a component of equity, whereas those related to operations are recognized immediately in the income statement.

Premiums

Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Premiums are reported net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

2 › Accounting Policies (continued)

Net Investment Income

Investment income is recorded on an accrual basis and is reported net of related expenses.

Fees and Other Revenues

Fees and other revenues primarily represent fees earned from the management of the Company's segregated fund and mutual funds assets, and administrative services only (ASO) income. Fees and other revenues are recorded on an accrual basis and reported net of related expenses.

Net Transfer to Segregated Funds

Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund at the request of the policyholders.

Employee Future Benefits

The Company has established defined benefit plans and provides certain post-retirement life and health benefits to eligible employees. In certain cases, eligible retirees may be required to pay a portion of the premiums for these benefits.

The cost of the employee future benefits is determined using the projected benefit method pro-rated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation is based on market interest rates at the measurement date of high quality debt instruments with cash flows that match the expected benefit payments. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation or the fair value of plan assets, is amortized over the remaining service life of active employees.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The Company amortizes the transitional obligation on a straight-line basis over the average remaining service period of employees expected to receive benefits under the benefit plan.

Stock Option Plan

The cost of stock options granted is recorded, using the fair value method, as a remuneration expense and included in general expenses and the corresponding amount is recorded in the Company's contributed surplus. For the options that are forfeited before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital.

Share Purchase Plan for Employees

The Company contribution is charged to the income statement as a general expense in the period the shares are purchased.

Deferred Share Units

The costs related to deferred share units (DSU) settled in cash correspond to the difference between the market value at the end of the year and the value at the grant date or at the end of the previous year. This value is recorded as a liability and the expenses for the plan are included as a remuneration expense in general expenses.

Government Assistance

The Company has qualified for the major investment project of the Quebec government for which government assistance could be available until 2010. This assistance is recognized when the Company has received formal annual certification from the Quebec government of its eligibility to receive the assistance and is recorded as a reduction of general expenses.

Earnings Per Common Share

The treasury stock method is used for determining the dilutive effect of stock options. The matching of the numerators and denominators used to calculate basic and diluted earnings per common share are presented in accordance with the standard.

3 › Change in Accounting Policies

Future Change in Accounting

Financial Instruments

In 2005, the CICA issued 3 new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. The CICA reissued the accounting standard Section 4210 Life insurance enterprise-specific items as Section 4211. These standards will be effective for the Company on January 1, 2007.

3 › Change in Accounting Policies (continued)

Future Change in Accounting (continued)

Financial Instruments (continued)

Financial Instruments – Recognition and Measurement

Financial assets subject to the new standard will be classified as one of the following: Held-for-trading, Available-for-sale, Held-to-maturity, Loans and Receivables. Financial liabilities subject to the new standard will be classified as Held-for-trading or Other. Held-for-trading financial instruments will be measured at fair value with gains and losses recognized in Net income. Available-for-sale financial instruments will be measured at fair value and any unrealized gains and losses will be recognized in other comprehensive income. Held-to-maturity, Loans and Receivables financial assets and financial liabilities classified as Other will be measured at amortized cost using the effective interest rate method. The new standard allows an entity to designate financial instruments as Held-for-trading at the initial accounting or at the adoption of the standard even if this financial instrument does not satisfy the definition of financial instruments Held-for-trading. The financial instrument classified as Held-for-trading under the fair value option should have a reliable fair value.

When a financial instrument is acquired, it should be recorded on the balance sheet at fair value except for the related party transactions. Subsequent measurement of the financial instruments will be determined by their initial classification.

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties. Fair value is based on quoted market rates (bid/ask) prices. If not, the fair value is based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

Derivatives will be accounted for at the fair value, unless they are specifically designated within an effective hedging relation. The change in fair value will be presented directly in Net income.

The Company has chosen to classify assets matching the provisions for future policy benefits as Held-for-trading with the exception of mortgages, as well as private stocks and private bonds that are not quoted on an active market. This is because the provisions for future policy benefits are excluded from the new standards. The provisions for policy benefits are calculated based on the Canadian Asset Liability Method (CALM). Under this method, the carrying value of assets matching these liabilities is considered in the basis of the calculation. Therefore, any changes in fair value of assets matching this liability will be taken into account in the calculation.

Bonds and stocks quoted on an active market, but which do not match the provisions for future policy benefits will be classified as Available-for-sale. The change in fair value of these assets will therefore be presented in the comprehensive income statement. Mortgages and private bonds not quoted on an active market will be classified as Loans and Receivables and measured at amortized cost using the effective interest rate method. The private stocks will be classified Available-for-sale but will be valued at cost.

Real estate is excluded from this new standard and will continue to be presented at the moving average method. The realized gains and losses on disposal will continue to be deferred and amortized at 3% per quarter on a declining balance basis.

Comprehensive Income

As a result of adopting these standards, a new category, Accumulated other comprehensive income, will be added to Shareholders' equity on the Consolidated Balance Sheets. This new category will include unrealized gains and losses net of income taxes for financial assets classified as Available-for-sale as well as unrealized foreign currency translation gains and losses for self-sustaining establishments.

Hedges

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies.

The impact of initial adoption of new standards

The fair value adjustment attributable to the classification on certain assets and liabilities as Held-for-trading, and the elimination of unamortized deferred gains and losses will in turn have a consequential effect on insurance policy benefit liabilities due to re-measurement of financial assets supporting these liabilities. These adjustments will be recognized in the opening balance of the retained earnings as at January 1, 2007.

All adjustments coming from the re-measurement of financial assets classified as Available-for-sale will be recognized in the opening balance of Accumulated other comprehensive income as at January 1, 2007.

The prior periods results will not be restated.

Management has not yet determined the financial impact of the adoption of the new standards on the financial statements of the Company.

4 › Acquisition and Disposition of Business

Acquisitions

On August 18, 2006, the Company completed the acquisition of 100% of the common shares of FundTrade Financial Corporation Inc. (FundTrade), for a cash consideration of $8.0. Also, an amount up to a maximum of $3.0 could be paid at the end of 2009, if certain conditions are met. On September 1, 2006, FundTrade was merged with FundEX Investments Inc. to create a single entity, FundEX Investments Inc. The purchase price allocation shown is preliminary and is based on the Company's estimates of the fair values. The final allocation is expected to be completed during the year 2007 and may result in the reallocation of the purchase price.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

4 › Acquisition and Disposition of Business (continued)

Acquisitions (continued)

On June 19, 2006, the Company completed the acquisition of an additional 8.25% of the common shares of FundEX Investments Inc. (FundEX), increasing its ownership in that company to 91.75%, for a cash consideration of $0.8. As at December 31, 2006, an amount of $0.8 had been accounted for the future purchase of the remaining 8.25% to be finalized at the beginning of 2007.

On December 28, 2005, the Company completed the acquisition of 87.37% of the common shares of Clarington Corporation (Clarington), a mutual fund management company, for a cash consideration of $143.2 and an issuance of 1,720,985 of its own common shares for a total amount of $191.7. The value of the 7.86% already held by the Company is $14.2. During the months of January and February 2006, the Company completed the acquisition of the remaining common shares of Clarington for a cash consideration of $8.1 and an issuance of 90,180 of its own common shares, for a total payment of $10.6, which had already been accounted as at December 31, 2005.

On December 9, 2005, the Company completed the acquisition of certain assets of iFORUM Securities Inc. (iFORUM), a securities broker, for a cash consideration of $0.1.

On April 22, 2005, the Company completed the acquisition of certain assets of KingsGate Securities Limited (KingsGate) for a total consideration of $2.0 in cash.

The assets acquired and liabilities assumed are summarized as follows:

	2006	
	FundTrade **$**	FundEX **$**
Assets acquired		
Cash and cash equivalents	**1.5**	**—**
Intangible assets	**—**	**1.6**
Other assets	**2.1**	**—**
	3.6	**1.6**
Liabilities assumed		
Other liabilities (including restructuring charges)	**3.6**	**—**
Net assets acquired	**—**	**1.6**
Preliminary goodwill	**8.4**	**—**
Transaction amount	**8.0**	**1.6**
Transaction fees	**0.4**	**—**
Purchase price	**8.4**	**1.6**

		2005	
	Clarington $	KingsGate $	iFORUM $
Assets acquired			
Cash and cash equivalents	20.1	—	—
Other invested assets	1.0	—	—
Other assets	53.7	—	—
	74.8	—	—
Liabilities assumed			
Other liabilities (including restructuring charges)	19.8	—	—
Debenture	62.9	—	—
	82.7	—	—
Net assets acquired	(7.9)	—	—
Preliminary goodwill	227.4	2.0	0.1
Transaction amount	216.5	2.0	0.1
Transaction fees	3.0	—	—
Purchase price	219.5	2.0	0.1

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

4 › Acquisition and Disposition of Business (continued)

Disposition

On December 12, 2006, the Company signed an agreement to sell its Caribbean block of business to Sagicor Capital Life Insurance Company Limited. This block is primarily made up of individual life insurance. This transaction is subject to Caribbean regulatory approvals and therefore has not been reflected in the financial statements of the Company.

5 › Restructuring Costs

IA Clarington Investments Inc.

In acquiring Clarington on December 28, 2005, the Company established a plan to restructure and consolidate the activities involving Clarington's business operations, locations and back-office systems. Related costs include back office conversion expenses, penalties to third parties and compensation costs. These costs, which have been accounted for as part of the purchase price, amount to $18.5.

In acquiring BLC-Edmond de Rothschild Asset Management Inc. (BLCER) on December 31, 2004, the Company developed a plan to restructure the operations. Costs of $3.4 were expected to be incurred as a result of consolidating activities involving operations and systems and compensation costs. These costs were accounted for as part of the purchase price.

On June 30, 2006, Industrial Alliance Fund Management Inc. (formerly BLCER) and Clarington were merged to create a single entity, IA Clarington Investments Inc.

	Accrued on acquisition				
	Expected future costs $	Cumulative amount incurred as at December 31, 2005 $	**Amounts incurred in 2006 $**	**Cumulative amount incurred to date $**	**Balance as at December 31, 2006 $**
Cost of restructuring operations	21.9	2.7	**9.1**	**11.8**	**10.1**

Combination of The National Life Assurance Company of Canada

On December 1, 2004, the Company announced the combination of the operations of its subsidiary "The National Life Assurance Company of Canada" with its own operations during the years 2005 and 2006.

The impact of this decision on the consolidated financial statements was an increase of $4.3 ($2.9 after tax) in the general expenses ($6.1 ($4.1 after tax) in 2005).

	Expenses as incurred				
	Expected future costs $	Cumulative amount incurred as at December 31, 2005 $	**Amounts incurred in 2006 $**	**Cumulative amount incurred to date $**	**Balance as at December 31, 2006 $**
Compensation cost	4.0	3.2	**—**	**3.2**	**0.8**
Additional income taxes related to the consolidating operations	4.4	4.4	**—**	**4.4**	**—**
Additional provision for future policy benefits related to the consolidating operations	0.8	0.6	**—**	**0.6**	**0.2**
Accelerated depreciation of software and equipment	3.0	1.6	**1.4**	**3.0**	**—**
Systems conversion and other	4.0	2.9	**2.9**	**5.8**	**(1.8)**
Total	16.2	12.7	**4.3**	**17.0**	**(0.8)**

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

6 › Net Investment Income

Net investment income was derived from the following sources:

	2006			
	Investment income $	Amortization of realized and unrealized gains $	Change in provision for losses $	Total $
Bonds	**418.0**	**49.1**	**(0.3)**	**466.8**
Mortgages	**143.7**	**5.9**	**2.3**	**151.9**
Stocks	**16.5**	**152.4**	**—**	**168.9**
Real estate (net of $48.8 of operating expenses)	**30.7**	**7.3**	**—**	**38.0**
Cash and cash equivalents	**15.9**	**—**	**—**	**15.9**
Entity subject to significant influence	**1.9**	**—**	**—**	**1.9**
Other	**29.8**	**—**	**—**	**29.8**
	656.5	**214.7**	**2.0**	**873.2**
Investment expenses	**(13.2)**	**—**	**—**	**(13.2)**
Total	**643.3**	**214.7**	**2.0**	**860.0**

	2005			
	Investment income $	Amortization of realized and unrealized gains $	Change in provision for losses $	Total $
Bonds	400.8	42.5	1.6	444.9
Mortgages	150.6	3.8	—	154.4
Stocks	16.5	105.6	(77.9)	44.2
Real estate (net of $46.3 of operating expenses)	31.4	4.7	—	36.1
Cash and cash equivalents	9.1	—	—	9.1
Entity subject to significant influence	2.0	—	—	2.0
Other	12.8	—	—	12.8
	623.2	156.6	(76.3)	703.5
Investment expenses	(12.6)	—	—	(12.6)
Total	610.6	156.6	(76.3)	690.9

Norshield Provision

In May 2005, the Company made a commitment to its clients to ensure the liquidity of their investments in two hedge funds managed by Norshield Financial Group (Norshield).

The Company decided to transfer all amounts invested by its clients in the funds managed by Norshield to another manager, the impact of which was to increase the Company's direct holdings in the two Norshield hedge funds to $77.9.

In November 2005, in light of observations contained in the preliminary report tabled November 17, 2005 at the Ontario Superior Court of Justice by RSM Richter Inc. in its capacity as the court-appointed receiver of the Norshield Companies, the Company recorded a provision for Norshield of $77.9, presented in the net investment income in the income statement ($52.1 after tax), which corresponds to its entire investment in Norshield.

7 › Government Assistance

The Company accounted for government assistance of $8.3 ($5.4 after tax) in 2006 ($7.2 ($4.8 after tax) in 2005). These amounts were accounted for based upon receipt of formal confirmation in 2006 and 2005 from the Quebec government. The program calls for annual eligibility certification by the Quebec government on a prospective basis.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

8 › Income Taxes

Income taxes reflect an effective tax rate that is lower than the federal and provincial combined tax rate due to the following items:

	2006		2005	
	$	**%**	$	%
Income before income taxes	**299.6**	**—**	194.0	—
Provision for income tax at Canadian statutory rates	**103.6**	**34.58**	66.3	34.17
Non-taxable income	**(10.6)**	**(3.54)**	(10.4)	(5.36)
Change in tax rate	**(24.9)**	**(8.31)**	0.2	0.10
Large corporations and financial institutions taxes	**0.2**	**0.07**	3.3	1.70
Income taxes and effective income tax rates	**68.3**	**22.80**	59.4	30.61

Income taxes charged to the income statement are divided as follows:

	2006	2005
	$	$
Current income taxes	**43.1**	20.4
Future income taxes	**25.2**	39.0
Total	**68.3**	59.4

The future income tax liability, included in other liabilities on the balance sheet, is related to the following principal items:

	2006	2005
	$	$
Policy liabilities	**247.2**	253.0
Real estate	**50.8**	50.0
Other	**(12.3)**	(37.5)
Total	**285.7**	265.5

9 › Invested Assets

a) Carrying Value, Fair Value, Credit Risk and Concentration Risk

Credit risk is the risk of financial loss resulting from the failure of borrowers to make payments of principal or interest when they fall due. Concentration risk arises when multiple credits are granted to borrowers with similar characteristics, or large credits are granted to 1 borrower.

The Company manages credit and concentration risks by:

› Establishing investment policies that are approved by the Board of Directors, and reviewed and updated on a regular basis;
› Requiring prudent diversification of credit portfolios;
› Establishing limits to credit exposures according to the characteristics of counterparties;
› Requiring the use of established underwriting and credit granting procedures;
› Monitoring compliance with established investment policies on a regular basis;
› Regularly updating its assessment of risk after the credit was originally granted;
› Requiring independent reviews and audits of its credit risk management program;
› Reporting the results of the monitoring program, reviews and audits to the Board of Directors.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

9 › Invested Assets (continued)

a) Carrying Value, Fair Value, Credit Risk and Concentration Risk (continued)

The following tables provide information about the Company's exposure to credit and concentration risk.

	2006				
	Carrying value of unimpaired investments **$**	Carrying value of impaired investments **$**	Total carrying value of investments **$**	Unrealized gains **$**	Fair value **$**
Bonds					
Governments	**4,090.3**	**—**	**4,090.3**	**1,057.3**	**5,147.6**
Municipalities	**124.2**	**—**	**124.2**	**19.4**	**143.6**
Corporate and other	**2,973.7**	**1.2**	**2,974.9**	**143.2**	**3,118.1**
	7,188.2	**1.2**	**7,189.4**	**1,219.9**	**8,409.3**
Mortgages					
Insured	**1,477.6**	**1.4**	**1,479.0**	**43.0**	**1,522.0**
Conventional	**978.0**	**0.2**	**978.2**	**15.8**	**994.0**
	2,455.6	**1.6**	**2,457.2**	**58.8**	**2,516.0**
Stocks	**1,453.5**	**—**	**1,453.5**	**146.2**	**1,599.7**
Real estate					
Held for investment	**445.3**	**—**	**445.3**	**78.7**	**524.0**
Held for resale	**—**	**6.5**	**6.5**	**—**	**6.5**
	445.3	**6.5**	**451.8**	**78.7**	**530.5**
Policy loans	**220.3**	**—**	**220.3**	**—**	**220.3**
Short-term investments	**—**	**—**	**—**	**—**	**—**
Cash and cash equivalents	**371.8**	**—**	**371.8**	**—**	**371.8**
Other invested assets	**112.2**	**—**	**112.2**	**—**	**112.2**
Total	**12,246.9**	**9.3**	**12,256.2**	**1,503.6**	**13,759.8**

	2005				
	Carrying value of unimpaired investments $	Carrying value of impaired investments $	Total carrying value of investments $	Unrealized gains $	Fair value $
Bonds					
Governments	4,001.2	—	4,001.2	1,164.9	5,166.1
Municipalities	103.7	—	103.7	18.1	121.8
Corporate and other	2,513.5	1.2	2,514.7	194.4	2,709.1
	6,618.4	1.2	6,619.6	1,377.4	7,997.0
Mortgages					
Insured	1,338.7	6.7	1,345.4	25.3	1,370.7
Conventional	1,074.9	0.5	1,075.4	23.7	1,099.1
	2,413.6	7.2	2,420.8	49.0	2,469.8
Stocks	1,162.4	—	1,162.4	92.7	1,255.1
Real estate					
Held for investment	440.4	—	440.4	63.6	504.0
Held for resale	—	5.9	5.9	—	5.9
	440.4	5.9	446.3	63.6	509.9
Policy loans	182.6	—	182.6	—	182.6
Short-term investments	2.6	—	2.6	—	2.6
Cash and cash equivalents	305.7	—	305.7	—	305.7
Other invested assets	86.9	—	86.9	—	86.9
Total	11,212.6	14.3	11,226.9	1,582.7	12,809.6

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

9 › Invested Assets (continued)

a) Carrying Value, Fair Value, Credit Risk and Concentration Risk (continued)

Other invested assets

	2006	2005
	$	$
Entity subject to significant influence	**14.2**	12.2
Cash in trust	**27.8**	29.1
Notes receivable	**70.2**	45.6
Total	**112.2**	86.9

For bonds and stocks, fair values are determined with reference to quoted market prices if available, otherwise an appraisal is done using similar securities. For mortgages, the fair value reflects changes in interest rates that have occurred since the mortgages were issued. The fair value for real estate is determined by a combination of internal and external appraisals using expected net cash flows discounted at the market interest rate. For policy loans, short-term investments, cash and cash equivalents and other invested assets, the fair values are approximately the same as the carrying value due to their short-term maturity or current market rates.

b) Interest Rate Risk

Interest rate risk arises when fluctuations in market interest rates change the cash flows of the Company's investments, and do not equally affect the cash flows of the Company's liabilities.

The following tables provide information about the maturity dates and fair value of the Company's invested assets that are subject to interest rate risk.

	2006			
	Bonds		Mortgages	
	Carrying value	Fair value	Carrying value	Fair value
	$	**$**	**$**	**$**
Due in 1 year or less	**725.8**	**726.9**	**311.7**	**312.9**
Due after 1 year through 5 years	**1,206.7**	**1,243.3**	**1,349.8**	**1,358.2**
Due after 5 years through 10 years	**1,410.1**	**1,529.4**	**372.9**	**392.6**
Due after 10 years	**3,846.8**	**4,909.7**	**422.8**	**452.3**
Total	**7,189.4**	**8,409.3**	**2,457.2**	**2,516.0**

	2005			
	Bonds		Mortgages	
	Carrying value	Fair value	Carrying value	Fair value
	$	$	$	$
Due in 1 year or less	494.3	494.6	279.0	280.0
Due after 1 year through 5 years	1,325.4	1,382.0	1,431.8	1,444.8
Due after 5 years through 10 years	1,280.3	1,456.3	374.1	391.0
Due after 10 years	3,519.6	4,664.1	335.9	354.0
Total	6,619.6	7,997.0	2,420.8	2,469.8

The effective yield is between 2.89% and 12.21% (1.41% and 14.74% in 2005) for bonds, between 3.03% and 12.75% (1.50% and 13.00% in 2005) for mortgages and between 5.00% and 10.00% (4.25% and 10.00% in 2005) for the policy loans.

Bonds by investment grade

	2006	2005
	Carrying value	
	$	$
AAA	**1,254.2**	813.2
AA	**1,288.8**	1,079.8
A	**4,184.9**	4,220.8
BBB	**439.0**	482.2
BB and lower	**22.5**	23.6
Total	**7,189.4**	6,619.6

The investment grades of bonds take into account the characteristics of issuers of derivative financial instruments (Credit contracts – note 21) hedging certain securities held, thus reducing the credit risk.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

9 › Invested Assets (continued)

b) Interest Rate Risk (continued)

Mortgages by region and type

	2006					
	Atlantic provinces $	Québec $	Ontario $	Western provinces $	Outside Canada $	Total $
Residential	**0.6**	**453.2**	**43.8**	**4.6**	**—**	**502.2**
Multi-residential	**20.7**	**718.2**	**174.9**	**329.5**	**218.6**	**1,461.9**
Non-residential	**25.3**	**185.6**	**72.8**	**187.4**	**22.0**	**493.1**
Total	**46.6**	**1,357.0**	**291.5**	**521.5**	**240.6**	**2,457.2**

	2005					
	Atlantic provinces $	Québec $	Ontario $	Western provinces $	Outside Canada $	Total $
Residential	0.7	345.0	43.2	6.0	—	394.9
Multi-residential	19.6	711.4	166.6	349.4	179.0	1,426.0
Non-residential	30.3	234.9	91.6	223.0	20.1	599.9
Total	50.6	1,291.3	301.4	578.4	199.1	2,420.8

Real estate by type of property

	2006	2005
	Carrying value	
	$	$
Residential and multi-residential	**8.2**	7.8
Office	**331.6**	327.4
Retail	**91.4**	89.3
Industrial	**10.9**	10.4
Land and other	**9.7**	11.4
Total	**451.8**	446.3

c) Provisions for Credit Losses

	2006	2005
	$	$
Bonds	**4.8**	4.6
Conventional mortgage loans	**0.8**	3.0
Real estate held for resale	**3.7**	3.7
Other	**78.0**	77.9
Total	**87.3**	89.2
Continuity of provisions		
Balance at beginning	**89.2**	39.1
Net increase in provisions for losses	**0.3**	78.2
Write-offs, net of recoveries	**(2.2)**	(28.1)
Balance at end	**87.3**	89.2

d) Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents 105% of the market value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

9 › Invested Assets (continued)

d) Securities Lending (continued)

collateral deficiency. As at December 31, 2006, the Company had loaned securities, which are included in invested assets, with a carrying value and market value of approximately $219.9 and $230.0 respectively ($379.1 and $405.2 in 2005).

e) Matching of Assets to Liabilities

To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its policy liabilities and long-term debt, hedges its liabilities until they expire and uses derivative products as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the hedged liabilities. The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. Therefore, any change in market value of the asset held for hedging purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. In the evaluation of its policy liabilities, as described in note 13, the Company takes into account the level of matching achieved between assets and liabilities.

10 › Goodwill

The carrying value of goodwill and changes in the carrying value are as follows:

	Preliminary goodwill		Goodwill		Total	
	2006	2005	**2006**	2005	**2006**	2005
	$	$	**$**	$	**$**	$
Balance at beginning	**229.5**	—	**57.2**	125.7	**286.7**	125.7
Acquisition of businesses	**8.4**	229.5	**—**	—	**8.4**	229.5
Reclassification after allocation of the acquisition price	**(2.1)**	—	**2.1**	—	**—**	—
Adjustment on previous years' transactions	**1.5**	—	**—**	(1.0)	**1.5**	(1.0)
Reclassification to intangible assets	**(228.9)**	—	**—**	(67.5)	**(228.9)**	(67.5)
Balance at the end	**8.4**	229.5	**59.3**	57.2	**67.7**	286.7

The amount shown in the adjustment on previous years' transactions line for the year 2005 represents the balance recovered from the purchase price and amount related to the transaction fees of BLCER and for the year 2006, an amount related to the transaction fees for Clarington.

11 › Intangible Assets

Intangible assets include:

		2006	
	Cost	Accumulated amortization	Net amount
	$	**$**	**$**
Intangible assets with indefinite life:			
Balance at beginning – Management contract	**67.5**	**—**	**67.5**
Business acquisition – Management contract	**1.6**	**—**	**1.6**
Reclassification after allocation of the acquisition price – Management contract	**228.9**	**—**	**228.9**
Adjustment on previous years' transactions	**(0.4)**	**—**	**(0.4)**
Balance at the end	**297.6**	**—**	**297.6**

		2005	
	Cost	Accumulated amortization	Net amount
	$	$	$
Intangible assets with indefinite life:			
Reclassification after allocation of the acquisition price – Management contract	67.5	—	67.5
Balance at the end	67.5	—	67.5

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

12 › Other Assets

Other assets consist of the following:

	2006	2005
	$	$
Systems hardware and software, furniture, and equipment, at cost	**93.5**	83.1
Less: accumulated depreciation	**66.6**	56.0
	26.9	27.1
Leasehold improvements, at cost	**59.4**	52.5
Less: accumulated depreciation	**31.1**	25.9
	28.3	26.6
Investment income due and accrued	**61.3**	62.2
Outstanding premiums	**45.7**	37.5
Due from reinsurers	**17.8**	45.8
Miscellaneous	**289.2**	192.6
	414.0	338.1
Total	**469.2**	391.8

The depreciation and amortization of fixed assets included in the general expenses and deferred sales commissions included in commissions are respectively $16.3 ($12.8 in 2005) and $20.0 ($1.4 in 2005).

The miscellaneous item includes primarily the amounts due from agents, prepaid expenses, deferred sales commissions and accounts receivable.

The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

13 › Policy Liabilities

Policy liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends and expenses on policies in force. Policy liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. Policy liabilities include provisions for future policy benefits, deposit liabilities and incurred but unpaid claims.

The composition of the Company's policy liabilities and the corresponding assets are as follows:

	2006				
	Individual		Group		
	Life & Health $	Wealth Management $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	**4,685.5**	**1,361.0**	**1,021.0**	**2,293.4**	**9,360.9**
United States	**126.0**	**273.0**	**—**	**0.2**	**399.2**
Other countries	**46.2**	**0.6**	**—**	**0.1**	**46.9**
Total	**4,857.7**	**1,634.6**	**1,021.0**	**2,293.7**	**9,807.0**
Assets backing policy liabilities					
Bonds and other fixed interest securities	**3,036.8**	**601.1**	**688.0**	**1,389.1**	**5,715.0**
Mortgages	**369.4**	**920.8**	**300.1**	**701.0**	**2,291.3**
Stocks	**1,154.1**	**16.2**	**1.8**	**37.8**	**1,209.9**
Real estate	**68.1**	**17.9**	**—**	**147.6**	**233.6**
Policy loans	**175.5**	**43.1**	**0.2**	**—**	**218.8**
Other invested assets	**53.8**	**35.5**	**30.9**	**18.2**	**138.4**
Total	**4,857.7**	**1,634.6**	**1,021.0**	**2,293.7**	**9,807.0**

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

13 › Policy Liabilities (continued)

	2005				
	Individual		Group		
	Life & Health $	Wealth Management $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	4,081.7	1,446.1	943.4	2,177.0	8,648.2
United States	109.9	250.0	—	0.2	360.1
Other countries	48.3	0.5	—	0.1	48.9
Total	4,239.9	1,696.6	943.4	2,177.3	9,057.2
Assets backing policy liabilities					
Bonds and other fixed interest securities	2,799.4	640.6	582.0	1,314.5	5,336.5
Mortgages	297.8	978.8	332.3	664.6	2,273.5
Stocks	895.0	15.3	1.8	34.2	946.3
Real estate	66.4	17.0	—	144.0	227.4
Policy loans	153.1	28.1	—	—	181.2
Other invested assets	28.2	16.8	27.3	20.0	92.3
Total	4,239.9	1,696.6	943.4	2,177.3	9,057.2

The fair value of assets backing policy liabilities as at December 31, 2006 was estimated at $11.2 billion ($10.5 billion in 2005). This value should not be compared to the amount of policy liabilities since policy liabilities are not valued at market. Changes in the fair value of assets backing policy liabilities are essentially offset by changes in the fair value of policy liabilities and thus have a limited impact on the Company's equity.

Assumptions

To compute the policy liabilities, the Company uses assumptions based on the Appointed Actuary's best estimate of future experience for certain variables. These variables include mortality, morbidity, investment returns, lapse rates, operating expense levels, inflation, policyholder dividends and taxes. The assumptions cover the term of the liabilities being valued, taking into consideration events that might occur in a distant future. All assumptions are examined periodically and are subject to changes to ensure they appropriately reflect emerging experience and changes in risk profile.

The following methods were used to establish the most significant assumptions:

Mortality

For individual life insurance, the Company conducts mortality experience studies annually. The mortality assumption is based on the results of these studies over the last few years. Overall, the Company's mortality experience has exhibited a gradually declining trend. However, no future mortality improvements are assumed in the calculation of policy liabilities for this block of business.

With respect to individual wealth management and group pensions, the assumption used is based on Company and industry experience. Emphasis is placed on industry experience where the Company's experience is insufficient to be statistically reliable. Mortality improvement has been projected to occur throughout the future lifetime of annuitants.

With respect to group insurance, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of policy liabilities for this block but no future mortality improvement is assumed.

To manage the mortality risk, actual claims experience is monitored on a monthly basis. Reinsurance is utilized to limit the losses from any single claim or catastrophic event.

Morbidity

The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect emerging Company experience.

Investment Return and Interest Rate Risk

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the policy liabilities.

The CALM involves projecting asset and liability cash flows for each business segment under a set of prescribed interest rate scenarios, plus additional scenarios chosen by the Appointed Actuary, if applicable. Net cash flows are invested in new assets, if positive, or assets are sold or borrowed against to meet cash needs in accordance with the assumptions of each scenario. The policy liabilities are at least as great as the liabilities determined under the worst of the scenarios tested. Moreover, the projected asset cash flows include assumptions for investment expenses and credit risk. For fixed income securities, the total valuation margin for asset credit risk included in the policy liabilities as at December 31, 2006 is $73.1 ($77.7 in 2005).

13 › Policy Liabilities (continued)

Investment Return and Interest Rate Risk (continued)

The interest rate risk is the risk of loss due to changing interest rates. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages the interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For unmatched liabilities, primarily individual insurance products that have very long term commitments, the Company favours an investment strategy that tends to maximize the after-tax return since it is impossible to apply an immunization strategy due to a lack of availability of fixed income securities for such maturities.

The Company estimates that a sudden and permanent decrease of 0.1% on the entire interest rate curve would lead to a $37.8 reduction in the net income ($36.4 in 2005). The impact of a sudden and permanent increase would have a similar impact to a 0.1% decrease, but with the opposite effect.

Currency Risk

To manage exposure to currency risk, the Company's strategy is to match assets with related liabilities by currency.

Expenses

Policy maintenance expenses were calculated using the Company's internal expense allocation studies. Maintenance expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an expected inflation rate.

Lapses

Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited.

Long-term lapse rate assumptions take into account the emerging trend of lower lapse rates with respect to lapse-supported types of products.

Margins for Adverse Deviations

The best estimate assumptions are adjusted to include margins for adverse deviations to recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in expected experience. These margins increase policy liabilities and provide reasonable assurance that the amount of assets backing the policy liabilities is sufficient to cover the impact of adverse experience.

The range for these margins is set out in standards issued by the CIA. The factors considered in the selection of appropriate margins include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses. To the extent that the amounts provided for adverse deviations are not required to offset future adverse experience, they will be released back into income over the remaining term of the policies.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amount limits, which vary by line of business, are established for life and health insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

To reduce the risk of reinsurance, the reinsurance agreements are with well established, well rated reinsurers. Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders.

Total policy liabilities on the balance sheet are presented net of reinsurance ceded. In 2006, reinsurance ceded reduced the policy liabilities by $363.5 ($360.8 in 2005).

Guarantees on Segregated Funds

A liability for guarantees on segregated funds is maintained in the general fund. The amount of liability is at least as great as the amount determined using the methodology defined by the CIA.

Deferred Acquisition Costs

Deferred acquisition costs (DAC) are being held as a negative policy liability on the balance sheet. Acquisition costs are expenses incurred in the acquisition of individual wealth management and group annuity contracts that will be written off over the period of surrender charges. The liability recognizes the amount of future revenues that are available to recover the unamortized amount of the acquisition costs.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

13 › Policy Liabilities (continued)

Changes in policy liabilities*

	2006	2005
	$	$
Balance at beginning	**9,057.2**	8,493.7
Recapture of reinsurance	**—**	(6.2)
Reinsurance assumed	**—**	10.5
Retention on financial agreement	**11.3**	—
Reinsurance ceded	**(0.5)**	—
Changes in assumptions	**(3.4)**	2.3
Normal changes	**743.2**	566.5
Foreign currency translation	**(0.8)**	(9.6)
Balance at end	**9,807.0**	9,057.2

* Including participating policyholders' account

14 › Other Liabilities

Other liabilities consist of the following:

	2006	2005
	$	$
Unearned premiums	**86.3**	77.9
Other contractual liabilities	**26.0**	27.4
Mortgage debts	**25.5**	26.5
Future income tax liabilities	**285.7**	265.5
Amounts on deposit on products other than insurance	**79.9**	77.8
Accounts payable and miscellaneous	**255.2**	228.7
Due to reinsurers	**21.9**	13.9
Total	**780.5**	717.7

The mortgage debts bear interest between 6.82% and 7.17% with a maturity between 2009 and 2012. These mortgage debts are secured on real estate with a carrying value of $121.4 ($120.5 in 2005).

The reimbursement of the mortgage debts over the next 5 years will be:

2007	2008	2009	2010	2011
$	$	$	$	$
1.1	1.2	1.1	1.1	1.2

The interest expense on the mortgage debts is $1.7 ($2.3 in 2005).

The fair value of the other financial liabilities except the mortgage debts is approximately the same as the carrying value due to their short-term nature. The fair value of the mortgage debts is $26.6 ($27.8 in 2005) taking into consideration the interest rates attached to the mortgage debt and the current interest rates.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

15 › Deferred Net Realized Gains

Deferred net realized gains are realized gains and losses which have not yet been recognized in income and which will be amortized into future net investment income in accordance with the accounting policies described in note 2.

	2006	2005
	$	$
Related to policy liabilities		
Bonds	**490.9**	383.1
Stocks	**21.3**	15.0
Mortgages	**18.4**	16.3
Real estate	**4.0**	3.6
	534.6	418.0
Related to equity		
Bonds	**19.8**	15.6
Stocks	**4.6**	8.2
Mortgages	**(6.5)**	(5.0)
Real estate	**5.7**	7.3
	23.6	26.1
Total	**558.2**	444.1

16 › Debentures

Debentures

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
	$	**$**	$	$
Debenture, Series A, bearing interest of 5.714% payable semi-annually, redeemable at the option of the Company beginning in December 2008 or repayable on maturity in 2053.	**150.0**	**157.4**	150.0	160.2
Funding debenture, Series A, bearing interest of 5.714%, payable semi-annually, redeemable at the option of the Company at any time or repayable on maturity in 2053.	**10.1**	**10.6**	10.1	10.8
Subordinated debenture with a maturity on June 30, 2019 and bearing interest of 5.13% payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1% payable quarterly. This subordinated debenture is redeemable by the Company before June 30, 2014, wholly or partially, with the approval of the Autorité des marchés financiers at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem in whole, but not in part only on each payment date of quarterly interest, at par, with the prior approval of the Autorité des marchés financiers.	**150.0**	**154.6**	150.0	155.8
Subordinated debt obligation, bearing interest at a rate equal to the Canadian Banker's Acceptance rate + 1.75%, repayable over a period of 7 years beginning on December 31, 2004, prepayment subject to consent by the Ontario Securities Commission.	**—**	**—**	62.9	62.9
Total	**310.1**	**322.6**	373.0	389.7

The financing expense on the debentures is $17.8 ($17.0 in 2005).

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

During the months of January to March 2006, the Company increased a subordinated debt obligation by $4.7. On March 31, 2006, the Company reimbursed the subordinated debt obligation of an amount of $67.6.

17 › Share Capital

The authorized share capital consists of the following:

Common shares

Unlimited common shares without par value, with voting rights.

Preferred shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, with a non-cumulative preferential dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions, including approval by the Autorité des marchés financiers, convertible at the option of the holder over a period of 4 years starting in 2001 into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, redeemable at the option of the Company at the issuing value increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value at the Company's option, subject to prior approval by the Autorité des marchés financiers, or convertible into common shares at their market value.

An unlimited number of class A – Series A preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008 subject to approval by the Autorité des marchés financiers, for 25 dollars per share.

An unlimited number of class A – Series B preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in full or in part at the option of the Company after March 31, 2011, subject to approval by the Autorité des marchés financiers for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series YY preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.450 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the Autorité des marchés financiers. Also, convertible at the option of the shareholders into common shares at each conversion date, on the last day of June and December of each year commencing on June 30, 2014.

An unlimited number of class A – Series ZZ preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the Autorité des marchés financiers. Also, convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year after June 30, 2014.

	2006		2005	
	Number of shares **(in thousands)**	Amount **$**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	**81,387.2**	**510.8**	79,489.4	458.3
Shares issued on exercise of stock options	**244.8**	**6.0**	179.8	4.0
Shares issued on acquisition of business	**90.2**	**2.5**	1,721.0	48.5
Cancellation of shares issued at demutualization	**(3.1)**	**—**	(3.0)	—
Cancellation following the repurchase of common shares	**(1,800.0)**	**(11.4)**	—	—
Balance at end	**79,919.1**	**507.9**	81,387.2	510.8
Shares held in treasury	**(21.6)**	**(0.2)**	(21.6)	(0.2)
	79,897.5	**507.7**	81,365.6	510.6
Preferred shares, class A – Series A				
Balance at beginning	**4.0**	**0.1**	4.0	0.1
Shares issued	**—**	**—**	—	—
Balance at end	**4.0**	**0.1**	4.0	0.1
Shares held in treasury	**(4.0)**	**(0.1)**	(4.0)	(0.1)
	—	**—**	—	—
Preferred shares, class A – Series B				
Balance at beginning	**—**	**—**	—	—
Shares issued	**5,000.0**	**125.0**	—	—
Balance at end	**5,000.0**	**125.0**	—	—
Total share capital		**632.7**		510.6

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

17 › Share Capital (continued)

On February 24, 2006, the Company issued 5,000,000 class A – Series B preferred shares for an amount of $125.0.

On May 4, 2005, the shareholders approved a two-for-one split of the Company's common shares. The split took effect on May 18, 2005. The number of common shares, the number of stock options outstanding and the weighted average exercise price in the stock-based compensation and the earnings per share have been retroactively adjusted to reflect the split.

Following Board approval, the Company cancelled the outstanding common shares issued at the time of demutualization that have not been claimed. The impact of this cancellation is a decrease in the share capital and an increase in the retained earnings, less than $0.1.

The Company must satisfy Capital adequacy requirements.

18 › Earnings Per Share

	2006	2005
	$	$
Net income attributable to common shareholders	**223.0**	132.2
Weighted daily average number of shares outstanding	**80,485,354**	79,590,705
Add: diluted effect of stock options granted and outstanding	**776,201**	572,710
Weighted average number of shares outstanding on a diluted basis	**81,261,555**	80,163,415
Earnings per common share (in dollars)		
basic	**2.77**	1.66
diluted	**2.74**	1.65

19 › Stock-Based Compensation

Stock Option Plan

The Company grants a certain number of common stock options to the directors and management personnel and determines the exercise price of the options, the expiry dates and the dates on which the options can be exercised.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the 5 days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first 4 anniversaries of the grant. In certain cases, the Human Resources and Corporate Governance Committee can modify the number of options acquired following an event forwarding the expiration date of the option.

The Board can grant options for a total of 5,261,304 common shares (about 7% of the outstanding common shares upon the creation of the plan) and cannot grant more than 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

No options will be granted to the directors before approval by the shareholders.

The following table presents the activities:

	2006		2005	
	Number of stock options outstanding **(in thousands)**	Weighted average exercise price **(in dollars)**	Number of stock options outstanding (in thousands)	Weighted average exercise price (in dollars)
At beginning	**2,898.3**	**22.53**	2,609.1	21.09
Options granted	**508.0**	**30.22**	536.0	28.72
Options exercised	**(244.8)**	**20.79**	(179.8)	20.22
Options forfeited	**(45.5)**	**24.41**	(67.0)	21.92
At end	**3,116.0**	**23.89**	2,898.3	22.53
Exercisable at end	**1,901.5**	**21.54**	1,650.9	20.76

Fair value of 2006 options was estimated to be $7.14 ($6.83 in 2005) at the grant date using the Black-Scholes option pricing model. The pricing model assumes the following information:

	2006	2005
Risk free interest rate	**4.17%**	3.89%
Expected volatility	**20%**	20%
Expected life	**7 years**	7 years
Expected dividends	**1.98%**	1.55%

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stock. Changes in assumptions can materially affect estimates of fair values.

19 › Stock-Based Compensation (continued)

Stock Option Plan (continued)

Exercise prices **(in dollars)**	Options outstanding: Number of options outstanding **(in thousands)**	Options outstanding: Average remaining life **(in years)**	Number of exercisable options **(in thousands)**
19.06	**569.5**	**3.92**	**569.5**
22.81	**689.0**	**4.79**	**689.0**
18.63	**366.0**	**5.82**	**274.5**
19.00	**10.0**	**6.82**	**7.5**
23.44	**460.5**	**6.83**	**232.0**
28.72	**513.0**	**8.10**	**129.0**
30.22	**508.0**	**9.10**	**—**
Total	**3,116.0**	**6.31**	**1,901.5**

The charge related to the stock-based compensation during the year is $3.3 ($3.3 in 2005).

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 1,500 dollars per year. The Company matches 50% of the employee's contribution amount. The Company's contribution is charged as a general expense. The shares purchased by the employees under the share purchase plan have to be kept by the employees for a minimum period of two years.

Deferred Share Units (DSU)

The plan is offered to the directors and management personnel of the Company. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration or management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis. Each DSU is equivalent to one common share and earn dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares.

20 › Employee Future Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits and a defined contribution plan.

Defined Benefit Plans

The defined benefit plans are end of career plans based on the average of the best 5 years of salary. No indexation clause is included in the plan.

The Company provides other post-retirement benefits. These include health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits, such as salary continuation for short-term disabilities and continuation of health and dental benefits while on long-term disability.

Other plans are contributory life and health care plans with employee contributions adjusted annually, and non-contributory life insurance plans.

For accounting purposes, the Company measures by extrapolation its accrued benefit obligation for the current year from the previous year's actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2005 and the next required valuation will be as at December 31, 2008.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

20 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

	2006		2005	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning	**348.2**	**—**	299.3	—
Actual return on assets	**42.4**	**—**	48.5	—
Company contributions	**7.0**	**—**	13.1	—
Employee contributions	**5.4**	**—**	5.2	—
Benefits paid	**(17.1)**	**—**	(17.9)	—
Fair value at end	**385.9**	**—**	348.2	—
Accrued benefit plan obligations				
Balance at beginning	**350.5**	**22.8**	321.8	20.1
Current service cost	**17.8**	**1.9**	12.2	1.1
Interest cost	**16.8**	**1.2**	18.5	1.2
Employee contributions	**5.4**	**—**	5.2	—
Benefits paid	**(17.1)**	**(1.0)**	(17.9)	(1.1)
Actuarial (gains) losses	**74.1**	**6.6**	10.7	1.5
Plan amendments	**—**	**1.2**	—	—
Balance at end	**447.5**	**32.7**	350.5	22.8
Accrued plan obligations are composed of:				
Funded plans	**389.1**	**—**	302.4	—
Unfunded plans	**58.4**	**32.7**	48.1	22.8
	447.5	**32.7**	350.5	22.8
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	**385.9**	**—**	348.2	—
Accrued benefit plan obligations	**447.5**	**32.7**	350.5	22.8
Funded status of plans – surplus (deficit)	**(61.6)**	**(32.7)**	(2.3)	(22.8)
Unamortized net actuarial (gains) losses	**54.7**	**9.4**	(0.5)	3.0
Unamortized past service costs	**4.7**	**1.1**	5.2	—
Unamortized transitional obligation	**(4.1)**	**0.5**	(4.6)	0.5
Accrued benefit asset (liability), net of valuation allowance	**(6.3)**	**(21.7)**	(2.2)	(19.3)
The amounts in the balance sheet are:				
Other assets (note 12 included in Miscellaneous)	**—**	**—**	7.1	—
Other liabilities (note 14 included in Accounts payable and miscellaneous)	**6.3**	**21.7**	9.3	19.3

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

20 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

Funded plans with accrued benefit obligations in excess of plan assets:

Included in the above defined benefit plan obligations and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	2006		2005	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Funded status – plan deficit				
Accrued benefit plan obligations	**317.2**	**—**	8.0	—
Fair value of plan assets	**302.3**	**—**	6.7	—
Funded status – plan deficit	**(14.9)**	**—**	(1.3)	—
Benefit plan expenses				
Current service cost	**17.8**	**1.9**	12.2	1.1
Interest cost	**16.8**	**1.2**	18.5	1.2
Actual return on plan assets	**(42.4)**	**—**	(48.5)	—
Actuarial loss (gain) on plan	**74.1**	**6.6**	10.7	1.5
Plan amendments	**—**	**1.2**	—	—
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**66.3**	**10.9**	(7.1)	3.8
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual and expected return	**18.2**	**—**	27.5	—
Difference between actuarial (gain) loss recognized for the year and actuarial (gain) loss on accrued benefit plan obligations for the year	**(73.4)**	**(6.5)**	(9.9)	(1.4)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**0.5**	**(1.0)**	0.5	—
Amortization of the transitional obligation	**(0.5)**	**—**	(0.5)	—
Defined benefit costs recognized	**11.1**	**3.4**	10.5	2.4

Plan assets consist of the following measured as at December 31 of each year:

	2006	2005
	%	%
Asset categories		
Bonds	**42**	40
Stocks	**52**	59
Other	**6**	1
Total	**100**	100

The pension plan assets did not contain any common shares of the Company in 2006. In 2005, the pension plan assets contained 285,352 common shares of the Company with a market value of $8.3.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

20 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

Significant assumptions

	2006		2005	
Accrued benefit plan obligations	Pension plans	Other plans	Pension plans	Other plans
Discount rate	**4.75%**	**4.75%**	5.75%	5.75%
Rate of compensation increase	**3.50%**	**—**	3.50%	—
Benefit plan expenses				
Discount rate	**4.75%**	**4.75%**	5.75%	5.75%
Expected long-term rate of return on plan assets	**7.00%**	**—**	7.00%	—
Rate of compensation increase	**3.50%**	**—**	3.50%	—

	2006			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Others
Initial health care cost trend rates	**10.80%**	**13.00%**	**5.75%**	**5.25%**
Cost trend rate declines to	**5.25%**	**5.00%**	**5.75%**	**5.25%**
Number of years required to stabilize the rate	**11**	**11**	**—**	**—**

	2005			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Others
Initial health care cost trend rates	11.25%	13.00%	5.75%	5.25%
Cost trend rate declines to	5.25%	5.00%	5.75%	5.25%
Number of years required to stabilize the rate	11	11	—	—

Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2006.

	Increase	Decrease
	$	**$**
Total of service and interest cost	**0.6**	**(0.5)**
Accrued benefit obligation	**5.5**	**(4.3)**

Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above.

The total cost recognized for the Company's defined contribution plan is $0.5 ($0.5 in 2005).

The liability related to this plan is presented in other liabilities (note 14 included in Accounts payable and miscellaneous) for an amount of $2.0 ($2.0 in 2005).

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

21 › Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates, currency exchange rates and market values of invested assets.

The following table summarizes the Company's derivative portfolio, the fair value and related credit exposure.

			2006		
	Equity contracts **$**	Currency contracts **$**	Interest rate contracts **$**	Credit contracts **$**	Total contracts **$**
Notional amount by term to maturity					
Less than 1 year	**291.2**	**17.9**	**46.0**	**36.0**	**391.1**
1 to 5 years	**129.5**	**18.9**	**44.9**	**44.9**	**238.2**
Over 5 years	**4.6**	**39.5**	**—**	**—**	**44.1**
Total	**425.3**	**76.3**	**90.9**	**80.9**	**673.4**
Fair value	**7.6**	**6.5**	**(0.2)**	**(0.6)**	**13.3**
Credit exposure risk					
Maximum credit risk	**8.3**	**6.6**	**0.3**	**—**	**15.2**
Potential future credit risk	**25.7**	**4.0**	**0.2**	**—**	**29.9**
Credit equivalent amount	**34.0**	**10.6**	**0.5**	**—**	**45.1**

			2005		
	Equity contracts $	Currency contracts $	Interest rate contracts $	Credit contracts $	Total contracts $
Notional amount by term to maturity					
Less than 1 year	251.0	19.9	41.0	26.0	337.9
1 to 5 years	81.6	10.6	47.0	37.0	176.2
Over 5 years	—	40.1	—	—	40.1
Total	332.6	70.6	88.0	63.0	554.2
Fair value	—	6.0	0.3	1.1	7.4
Credit exposure risk					
Maximum credit risk	1.9	6.1	0.7	1.3	10.0
Potential future credit risk	19.9	3.5	0.2	—	23.6
Credit equivalent amount	21.8	9.6	0.9	1.3	33.6

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing all derivative contracts which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from future movement in underlying market rates. The Company's exposure at each balance sheet date is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2006 and 2005 all counterparties have a credit rating of AA.

The fair value of derivative financial instruments represents the estimated amount that the Company should pay or receive on the balance sheet date to reverse its position.

22 › Participating Business

The net income available to the shareholders includes a portion of the net income of the participating policyholders' account that has been allocated during the year. There are regulatory restrictions on amounts of profit that can be transferred to shareholders. These restrictions generally take the form of a percentage of the dividends paid to policyholders.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

23 › Segmented Information

The Company operates principally in one dominant industry segment, the life and health insurance industry, and offers individual and group life and health insurance products, savings and retirement plans, and segregated funds. The Company also operates mutual fund, securities brokerage and trust businesses. These businesses are principally related to the Individual Wealth Management segment and are included in that segment with the Individual annuities. The Company operates mainly in Canada and the operations outside Canada are not significant.

Segmented income statements

	2006					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Revenues						
Premiums	**838.6**	**1,247.5**	**749.6**	**820.1**	**107.2**	**3,763.0**
Net investment income	**488.6**	**115.7**	**70.9**	**184.8**	**—**	**860.0**
Fees and other revenues	**1.9**	**273.5**	**14.1**	**21.3**	**4.1**	**314.9**
	1,329.1	**1,636.7**	**834.6**	**1,026.2**	**111.3**	**4,937.9**
Operating expenses						
Cost of commitments to policyholders	**872.3**	**224.5**	**543.7**	**644.4**	**80.1**	**2,365.0**
Net transfer to segregated funds	**—**	**1,068.5**	**—**	**332.0**	**—**	**1,400.5**
Commissions, general and other expenses	**346.3**	**241.2**	**231.5**	**26.4**	**27.4**	**872.8**
	1,218.6	**1,534.2**	**775.2**	**1,002.8**	**107.5**	**4,638.3**
Income before income taxes	**110.5**	**102.5**	**59.4**	**23.4**	**3.8**	**299.6**
Income taxes	**(23.5)**	**(24.6)**	**(13.0)**	**(5.5)**	**(1.7)**	**(68.3)**
Net income before allocation of other activities	**87.0**	**77.9**	**46.4**	**17.9**	**2.1**	**231.3**
Allocation of other activities	**1.5**	**(0.1)**	**0.4**	**0.3**	**(2.1)**	**—**
Net income	**88.5**	**77.8**	**46.8**	**18.2**	**—**	**231.3**
Attributable to shareholders	**85.8**	**77.8**	**46.8**	**17.5**	**—**	**227.9**
Attributable to participating policyholders	**2.7**	**—**	**—**	**0.7**	**—**	**3.4**

	2005					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Revenues						
Premiums	768.7	1,047.6	694.9	564.8	95.1	3,171.1
Net investment income	392.4	48.0	66.6	182.4	1.5	690.9
Fees and other revenues	7.6	133.2	11.0	15.7	(0.1)	167.4
	1,168.7	1,228.8	772.5	762.9	96.5	4,029.4
Operating expenses						
Cost of commitments to policyholders	702.3	218.0	504.6	495.8	68.2	1,988.9
Net transfer to segregated funds	—	891.1	—	225.0	—	1,116.1
Commissions, general and other expenses	346.1	124.6	217.6	21.4	20.7	730.4
	1,048.4	1,233.7	722.2	742.2	88.9	3,835.4
Income (loss) before income taxes	120.3	(4.9)	50.3	20.7	7.6	194.0
Income taxes	(37.3)	2.8	(16.2)	(6.2)	(2.5)	(59.4)
Net income (loss) before allocation of other activities	83.0	(2.1)	34.1	14.5	5.1	134.6
Allocation of other activities	2.7	0.7	1.0	0.7	(5.1)	—
Net income (loss)	85.7	(1.4)	35.1	15.2	—	134.6
Attributable to shareholders	80.4	(1.4)	35.1	18.1	—	132.2
Attributable to participating policyholders	5.3	—	—	(2.9)	—	2.4

* Includes other segments and intercompany eliminations.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

23 › Segmented Information (continued)

Segmented general fund assets

	2006					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	**6,271.9**	**1,879.1**	**1,289.0**	**2,623.7**	**192.5**	**12,256.2**
Goodwill	**30.5**	**17.3**	**19.9**	**—**	**—**	**67.7**
Intangible assets	**—**	**297.6**	**—**	**—**	**—**	**297.6**
Other assets	**133.9**	**137.5**	**74.4**	**45.9**	**77.5**	**469.2**
Total	**6,436.3**	**2,331.5**	**1,383.3**	**2,669.6**	**270.0**	**13,090.7**

	2005					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	5,496.9	1,789.5	1,203.2	2,545.9	191.4	11,226.9
Goodwill	30.5	236.3	19.9	—	—	286.7
Intangible assets	—	67.5	—	—	—	67.5
Other assets	77.8	152.2	53.8	43.3	64.7	391.8
Total	5,605.2	2,245.5	1,276.9	2,589.2	256.1	11,972.9

* Includes other segments and intercompany eliminations.

24 › Premiums

	2006					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	**838.6**	**289.2**	**749.6**	**224.4**	**107.2**	**2,209.0**
Invested in segregated funds	**—**	**958.3**	**—**	**595.7**	**—**	**1,554.0**
Total	**838.6**	**1,247.5**	**749.6**	**820.1**	**107.2**	**3,763.0**

	2005					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	768.7	242.4	694.9	180.1	95.1	1,981.2
Invested in segregated funds	—	805.2	—	384.7	—	1,189.9
Total	768.7	1,047.6	694.9	564.8	95.1	3,171.1

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

25 › Guarantees, Commitments and Contingencies

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

Contracts

The Company currently has contracts covering various products and services, principally leased premises and outsourced computer services, which, due to their nature, are difficult to cancel. The minimum obligations for each of the next 5 years and thereafter are as follows:

2007	2008	2009	2010	2011	2012 and thereafter
$	$	$	$	$	$
16.4	10.9	7.7	4.8	2.5	1.3

In addition, from time to time, the Company makes financial commitments in the ordinary course of business. The maximum amount of such commitments as at December 31, 2006 is $1.1 ($2.0 as at December 31, 2005).

Investment commitments

In the normal course of business, various outstanding contractual commitments related to offers for commercial and residential loans and private placements are not reflected in the consolidated financial statements and may not be fulfilled.

Expires in		
30 days	31 to 366 days	2008 and thereafter
$	$	$
44.2	141.6	48.9

Legal Proceedings

In connection with its operations, from time to time, the Company is named as defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

Letters of Credit

In the normal course of its operations, the Company establishes bank letters of credit. The balance of these letters is $1.7 ($2.4 in 2005).

Indemnifications

Under certain unusual circumstances, the Company could be called upon to pay specific indemnification. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Coverages

In the management of its operations, the Company must sometimes cover certain defaults of credit or payment conditions. These coverages represents a maximum amount of $2.3 ($2.3 in 2005).

Others

On December 31, 2004, the Company purchased 100% of the common shares of BLCER and changed its name to Industrial Alliance Fund Management Inc. and then to IA Clarington Investments Inc. Also, an amount up to a maximum of $8.3 can be paid at the end of 2009 if certain conditions are met.

The Company could have to pay an amount up to a maximum of $3.0 at the end of 2009 in the acquisition of FundTrade if certain conditions are met (note 4).

Lines of Credit

As at December 31, 2006, the Company had operating lines of credit totalling $90.0 ($85.0 as at December 31, 2005). As at December 31, 2006 and 2005, none of the lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company’s operations and meet its temporary working capital requirements.

Years ended December 31, 2006 and 2005 (in millions of dollars, unless otherwise indicated)

26 › Related Party Transactions

The Company granted loans to its directors and managers under variable conditions. As at December 31, 2006, the balance of loans granted to them was $1.6 ($2.2 in 2005).

In the normal course of its operations the Company concludes operations with an entity subject to significant influence and a variable interest entity, Industrial Alliance Capital Trust, which is not consolidated. These operations are measured by the exchange value, which is the amount of the counterpart established and accepted by the related parties.

Entity subject to significant influence

The following table provides a summary of the operations concluded by the Company with an entity subject to significant influence during the period:

	2006	2005
	$	$
Fees and other revenues	**9.6**	9.3

At the end of the period, the balances with the entity subject to significant influence were as follows:

	2006	2005
	$	$
Assets		
Accounts receivable	**0.9**	0.7
Liabilities		
Provisions for future policy benefits	**12.0**	10.5

In November 2006, the Company sold loans to the segregated funds of the entity subject to significant influence for a consideration of $15.5.

Variable interest entity

The following table provides a summary of the operations concluded by the Company with a variable interest entity during the period:

	2006	2005
	$	$
Financing expenses	**9.1**	9.1

At the end of the period, the balances with the variable interest entity were as follows:

	2006	2005
	$	$
Assets		
Notes receivable	**10.6**	11.1
Special trust securities	**0.5**	0.5
Liabilities		
Debenture – series A	**150.0**	150.0
Funding debenture – series A	**10.1**	10.1

27 › Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's presentation.

Industrial Alliance Board of Directors

■ ◆ ▼

John LeBoutillier
C.M., LL.L., M.B.A.

Chairman of the Board
since 2005
Board member since 1997

Lawyer
Chairman of the Board of Industrial Alliance Insurance and Financial Services Inc.

■ ●

Gilles Laroche
Eng.

Vice-Chairman of the Board
since 1998
Board member since 1994

Engineer
Corporate Director

Anne Bélec
B.Comm., M.B.A.

Board member since 2006

Executive
President and Chief Executive Officer of Volvo Cars of North America, a company in the automobile industry

● ◆

Pierre Brodeur

Board member since 1999

Corporate Director

■

Yvon Charest
F.S.A., F.C.I.A.

Board member since 1999

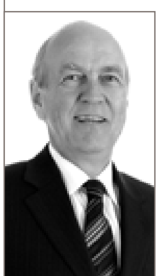
Actuary
President and Chief Executive Officer of Industrial Alliance Insurance and Financial Services Inc.

▲

Anne Dutil
Adm., B.A., B.Com.C.

Board member since 1996

Degree in administrative sciences
Corporate Director
President of Lacroix Dutil Investments Inc., a real estate firm



▲

L.G. Serge Gadbois
B.Sc.Com., M.B.A.

Board member since 2006

Chartered Accountant
Corporate Director

▲

Michel Gervais
O.C., O.Q., Ph.D.

Board member since 1997

Administrator
Executive Director of Centre hospitalier Robert-Giffard – Institut universitaire en santé mentale

● ◆

Lise Lachapelle
B.B.A.

Board member since 1995

Economist
Corporate Strategy Consultant

■ ▲

Robert Lacroix
B.Sc., M.Sc., Ph.D.

Board member since 2004

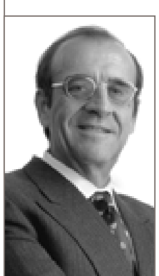
Economist
Emeritus Professor at the Université de Montreal and a Fellow at CIRANO, an interuniversity research centre in organizational analysis

▼

Francis P. McGuire
M.A., B.A.

Board member since 2001

Corporate Director
President and Chief Executive Officer of Major Drilling Group International Inc., a drilling company with operations around the world



● ◆

Jim Pantelidis
B.Sc., M.B.A.

Board member since 2002

Degree in science
Chairman of Parkland Income Fund and Chairman of The Consumers' Waterheater Income Fund

▼

David R. Peterson
P.C., Q.C., C. St. J., L. d'H., D.U., LL.D.

Board member since 1991

Lawyer
Chairman of the Board and Senior Partner at Cassels Brock and Blackwell LLP, a law firm

▲

Mary C. Ritchie
FCA

Board member since 2003

Chartered Accountant
President of Richford Holdings Ltd., an investment consultation services company

■ ●

Guy Savard
C.M., FCA

Board member since 1995

Chartered Accountant
Chairman of the Board of Merrill Lynch Canada Inc., an investment bank

■ Executive Committee
● Investment Committee
▲ Audit Committee
▼ Ethics Committee
◆ Human Resources and Corporate Governance Committee

Secretary of the Board
Douglas A. Carrothers
LL.B., M.B.A.

Assistant Secretary
Jennifer Dibblee
B.Sc., B.C.L., LL.B.

Values of Industrial Alliance and its Subsidiaries

Industrial Alliance derives its success from an entrepreneurial culture and a constant willingness to develop and maintain relationships of trust with its clients, distributors, employees, the community and shareholders. Industrial Alliance's success relies on the values that the company and its subsidiaries strive to promote among everyone who is associated with the organization.

Teamwork

- Using individual skills to help the team achieve its objectives
- Listening to the comments of others and engaging in frank and open dialogue
- Actively trying to find solutions to problems encountered by the team
- Dealing with conflict and finding ways to resolve differences
- Celebrating successes

High-Performance Environment

- Achieving results that exceed the quality standards
- Setting goals and objectives, and working toward them energetically and with perseverance
- Recognizing excellent results and efficiency

Continuous Improvement

- Challenging current practices and seeking new ways of doing things
- Innovating to increase efficiency
- Assuming one's own training and development
- Becoming a model that inspires others

Respect for Individuals and Distributors

- Clearly expressing our expectations
- Seeking to understand before being understood
- Treating distributors and co-workers as we would like to be treated

Service Oriented

- Continuing to distinguish ourselves among our distributors by maintaining close ties with them and by offering them a level of service that reflects our standards of excellence
- Showing courtesy and acting in a prompt, efficient manner
- Ensuring that the needs of clients are met

Management of Industrial Alliance and its Subsidiaries

Industrial Alliance Insurance and Financial Services Inc.

■ Yvon Charest – F.S.A., F.C.I.A.
President and Chief Executive Officer

■ Normand Pépin – F.S.A., F.C.I.A.
Executive Vice-President
Life Subsidiaries and
Individual Insurance and Annuities

■ Michael L. Stickney – M.B.A., F.S.A., F.C.I.A.
Executive Vice-President
U.S. Development

■ Yvon Côté – CFA
Vice-President and General Manager
Finance and Investments

Michel Gauthier – B.Sc. Math., CMA, F.L.M.I.
Vice-President and General Manager
Administration
Individual Insurance and Annuities

René Chabot – F.S.A., F.C.I.A.
Senior Vice-President, Group Pensions

Gary J. Coles – F.L.M.I./M., A.C.S.
Senior Vice-President, Administration
Toronto Service Centre

Paul R. Grimes – CFP, CLU, Ch.F.C.
Senior Vice-President, Sales
(Ontario and Western Canada)

Bruno Michaud – B.B.A., F.L.M.I./M.
Senior Vice-President, Sales
(Quebec and Atlantic Provinces)

Jacques Parent – F.S.A., F.C.I.A.
Senior Vice-President
Group Insurance

Denis Ricard – F.S.A., F.C.I.A.
Senior Vice-President and
Chief Actuary

Jean-François Boulet – B.R.I., CRIA
Vice-President, Human Resources

Jacques Carrière – M.E.Sc.
Vice-President
Investor Relations
Secretary of the Management Committee

Douglas A. Carrothers – LL.B., M.B.A.
Vice-President, Legal Department
Corporate Secretary

Guy Daneau – B.B.A., M.B.A.
Vice-President, Information Systems

Maurice Germain – F.S.A., F.C.I.A.
Vice-President, Internal Audit

Renée Laflamme – CA, CFA
Vice-President, Mortgage Loans

François Lalande – CFA
Vice-President, Investments
Portfolio Management

Richard Legault – CA, CFA
Vice-President
Investments, General Fund

David Q. Potter – CLU
Vice-President, Sales
National Accounts and Specialized Marketing

Johnny Roy – RLU, Fin. Pl.
Vice-President, Sales
Career Section

Yvon Sauvageau – M.E.Sc.
Vice-President
Development, Financial Services

Sharon Smith – B.A.
Vice-President, Administration
Individual Insurance and Annuities

Claude Tessier – B.Sc.A.
Vice-President
Real Estate Investments

Industrial Alliance Pacific Insurance and Financial Services

■ Gerald Bouwers – M.Math., F.S.A., F.C.I.A.
President and Chief Operating Officer

Kathryn M. Cooper
Vice-President, Human Resources

Mary Dinkel – CLU
Vice-President, U.S. Sales Development

Alnoor R. Jiwani, F.L.M.I.
Vice-President
Claims and Information Services

Greg McCormack – F.S.A., F.C.I.A.
Vice-President
Marketing and Administration, SAL

Gordon A. Robinson – M.A.
Vice-President and Controller

David L. Stewart
Vice-President, Sales, SAL

Paul A. Tatay
Vice-President, Special Markets Group (SMG)

Anthony Silvestrin – B.A. (Economics)
Senior Vice-President
Private Wealth Management

Eric Frape – CA
Vice-President, Product Management

IA Clarington Investments Inc.

David Scandiffio – CFA
President

Adrian Brouwers
Executive Vice-President
Sales and Marketing
Vice-Chairman of the Board

Gavin Foo – CA
Vice-President, Finance
Chief Financial Officer

Investia Financial Services Inc.

Bruno Michaud – B.B.A., F.L.M.I./M.
President

Pierre Massicotte – CFA, CA, FCSI, Fin. Plan.
General Manager, Chief Financial Officer
Chief Compliance Officer

Louis H. DeConinck
National Director
Development

FundEX Investments Inc.

Michael S. Greer
President

Christopher Enright
Executive Vice-President

Robert Corbett
Vice-President, Sales

David Hawkins
Vice-President, Business Development

Betty Jo Royce
Vice-President and Chief Compliance Officer

Rene Van Kestern
Vice-President, Insurance Services

Karen Woodman
Vice-President, Operations

Industrial Alliance Securities Inc.

Gaétan Plante – FCSI
President

Lise Douville
Executive Vice-President

Tom Lynch
Vice-President

Geneviève Castonguay
Chief Financial Officer

Linda Boiteau
Chief Compliance Officer

Industrial Alliance Auto and Home Insurance

Michel Laurin – F.C.I.A., F.C.A.S.
President and Chief Operating Officer

Jocelyne Guay
Vice-President, Client Services

■ Member of the Planning Committee

Offices of Industrial Alliance and its Subsidiaries

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1 877 656-9817

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604 689-0388

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1 888 368-7738

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1 877 585-8832

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Special Markets Group (SMG)

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1 866 499-3748

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1 800 661-1699

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1 888 725-2886

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Group Creditor Insurance (SAL)

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Shareholder Information

How To Reach Us

There are three different options at your disposal, depending on the type of information you wish to obtain.

› For questions regarding your shares, contact Industrial Alliance's share transfer agent:

Computershare Investor Services Inc.
Telephone: 514 982-7555
1 877 684-5000 (toll-free)
E-mail: inalco@computershare.com

› For questions regarding Industrial Alliance products and services, contact your agent. If you do not have one, consult the *Offices of Industrial Alliance and its Subsidiaries* page of this annual report to find the office nearest you.

› To obtain financial information on Industrial Alliance, contact:

Investor Relations Department
Industrial Alliance Insurance and Financial Services Inc.
Telephone: 418 684-5000, extension 5282
1 800 463-6236, extension 5282 (toll-free)
Fax: 418 684-5050
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Website: www.inalco.com

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