

EXECUTING THE RIGHT STRATEGY



A PARTNER YOU CAN TRUST.

WHO ARE WE?

Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) is a life and health insurance company that was founded over 100 years ago.

Today, Industrial Alliance has operations in both 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 Company's products are offered either directly or through subsidiaries, on an individual or group basis.

Dynamic expansion over the years has made Industrial Alliance a national financial group—the Industrial Alliance group—with operations in all regions of Canada, as well as in the Western United States.

The fifth largest life and health insurance company in Canada, Industrial Alliance stands out through the size and diversity of its distribution networks. It contributes to the financial well-being of over three million Canadians, employs more than 2,900 people and manages and administers over \$50 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange, under the ticker symbol IAG. The Company's market capitalization totalled \$3.4 billion as at December 31, 2007, making Industrial Alliance one of the 100 largest public companies in Canada.

TABLE OF CONTENTS

2	Highlights
3	Main Achievements in 2007
3	Market Guidance for 2008
4	Message from the Chairman of the Board
5	President and Chief Executive Officer's Report
7	Industrial Alliance Planning Committee
8	Industrial Alliance Organization Chart
10	Management's Discussion and Analysis (Including the <i>Eight-Year History</i>)
61	Consolidated Financial Statements
107	Industrial Alliance Board of Directors
108	Social Responsibility Report
110	Management of Industrial Alliance and its Subsidiaries
111	Offices of Industrial Alliance and its Subsidiaries
112	Shareholder Information

EXECUTING THE RIGHT STRATEGY

To achieve success, a company must have the right strategy, but it must also execute it well. Here are the main components of Industrial Alliance's strategy that have enabled it to position itself among the most dynamic financial institutions in the country.



1 DEVELOP

THE WEALTH MANAGEMENT SECTOR

At the beginning of 2000, Industrial Alliance set itself an objective to actively develop the wealth management sector. Since then, the Company has acquired twelve companies in the wealth management sector. In addition to opening the door to a rapidly-growing market segment, these acquisitions provide the Company with better diversification of its sources of earnings and they contribute to improving shareholder returns. Today, in the retail market, Industrial Alliance manages \$6.8 billion in mutual funds and \$6.7 billion in segregated fund assets, and administers \$15.3 billion in assets through its mutual fund and securities brokerage companies (data as at December 31, 2007).

2 GROW

THE DISTRIBUTION NETWORKS

Industrial Alliance has always stood out through the size and diversity of its distribution networks. Over the years, the Company's objective has always remained the same: to build diversified and efficient distribution networks to distribute products manufactured by the Company across Canada, through independent distribution networks and dedicated networks. Today, the Company's products are distributed in all regions of the country through thousands of specialized insurance, annuity, mutual fund and securities representatives.

3 ACCELERATE

GEOGRAPHIC DIVERSIFICATION

A few years ago, the Company established an objective to diversify its operations from a geographic standpoint by accelerating its growth outside Quebec. In 2007, for a second consecutive year, the Company's sales outside Quebec were higher than in this province, in all lines of business. For 2007, 56.9% of the Company's premiums and deposits were collected outside Quebec.

4 PENETRATE

NEW MARKET NICHES

The Company is constantly on the lookout for business opportunities to penetrate promising new markets. In the last few months, the Company entered the individual disability and health insurance market by acquiring The Excellence Life Insurance Company (the acquisition was completed on January 31, 2008). The Company intends to make Excellence the platform to develop its operations in this new market segment, which complements its life insurance operations both within and outside Quebec.

5 ESTABLISH

THE FOUNDATIONS OF A SOLID LOCAL PRESENCE IN THE UNITED STATES

In 2005, the Company established an objective to more thoroughly explore the possibilities offered by the U.S. market. The Company appointed an executive vice-president dedicated entirely to business development in the U.S. The Company's strategy took a step forward in 2007 with the opening of an office in Phoenix, Arizona. Over ten employees already work there. The Company also reviewed its strategy by establishing the middle-income market as its main target. The Company has launched a new Universal Life policy and new annuity products to fulfil the needs of this clientele.

6 MAXIMIZE

SYNERGIES WITHIN THE INDUSTRIAL ALLIANCE GROUP COMPANIES

Recognized as being a low-cost producer, Industrial Alliance has always made it a priority to search for synergies within Industrial Alliance group companies. In the last few years, the Company has efficiently integrated the operations of its life and health insurance subsidiary National Life, and rapidly harmonized the operations of its mutual fund subsidiary, Clarington Corporation, immediately upon its acquisition. Today, the Company is looking to maximize revenue synergies, by taking advantage of the opportunities offered by the complementarity of its various distribution networks to accelerate its sales, particularly for mutual fund products.

HIGHLIGHTS (Consolidated Financial Data¹)

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

	2007	2006	Variation
Profitability			
Net income available to common shareholders	242.2	223.0	9%
Net income available to common shareholders, adjusted ²	249.5	214.5	16%
Earnings per common share (diluted)			
According to net income	\$2.99	\$2.74	\$0.25
According to adjusted net income	\$3.08	\$2.64	\$0.44
Return on common shareholders' equity excluding accumulated OCI			
According to net income	15.2%	15.7%	(50 bps)
According to adjusted net income	15.6%	15.1%	50 bps
Business Growth			
Premiums and deposits	5,826.2	4,990.6	17%
Sales by line of business			
Individual Insurance	159.0	153.6	4%
Individual Wealth Management			
General fund	334.4	289.2	16%
Segregated funds	990.6	958.3	3%
Mutual funds	1,796.9	1,227.6	46%
Total	3,121.9	2,475.1	26%
Group Insurance			
Employee Plans	72.0	70.8	2%
Creditor insurance	192.0	176.4	9%
Special Markets Group (SMG)	104.4	92.6	13%
Group Pensions	828.3	820.1	1%
Financial Position			
Assets under management and under administration			
Assets under management			
General fund	15,104.3	13,090.7	15%
Segregated funds	10,210.9	9,204.1	11%
Mutual funds	6,846.9	6,295.4	9%
Other	630.6	501.3	26%
Total	32,792.7	29,091.5	13%
Assets under administration	17,618.9	17,812.6	(1%)
Total	50,411.6	46,904.1	7%
Capitalization	2,133.6	1,945.0	10%
Solvency ratio	193%	201%	---
Debt measures			
Debt ³ /capitalization	14.5%	15.9%	---
Debt ³ and preferred shares/capitalization	20.4%	22.4%	---
Quality of Investments			
Net impaired investments as a % of total investments	0.08%	0.06%	---
Bonds: BB and lower as a % of the portfolio	0.11%	0.31%	---
Mortgage Loans: delinquency rate	0.16%	0.06%	---
Stocks: market value/book value	---	110.1%	---
Real estate: occupancy rate	95.5%	95.5%	---
Human Resources			
Number of employees	2,947	2,819	128

¹ Refer to the *Eight-Year History* at the end of the *Management's Discussion and Analysis* for further detailed financial information and definitions.

² Refer to the *Eight-Year History* at the end of the *Management's Discussion and Analysis* for adjustment details.

³ Debt includes subordinated debentures and other debts.

MAIN ACHIEVEMENTS IN 2007

RECORD NET INCOME

9% increase in net income to common shareholders and 16% increase in adjusted net income to common shareholders¹. Net income to common shareholders reached a record \$242.2 million in 2007.

RETURN ABOVE THE TARGET

Return on common shareholders equity above the 13% to 15% target range for the second consecutive year: 15.2% according to GAAP and 15.6% according to adjusted data.

STRONG BUSINESS GROWTH

17% increase in premiums and deposits. Premiums and deposits reached a new high of \$5.8 billion, mainly due to strong mutual fund sales. This is the sixth consecutive year where premiums and deposits have achieved double-digit growth. Since 1999, the year before Industrial Alliance converted to a stock company, premiums and deposits have increased by an average of 14% per year.

RECORD MUTUAL FUND SALES

Considerable increase in mutual fund sales. Gross sales were up 46% in 2007, to reach a high of \$1.8 billion, and net sales nearly tripled, totalling \$799.2 million. This is the first year of operation for IA Clarington after the integration of its operations (Clarington Corporation was acquired at the end of 2005).

¹ Refer to the *Profitability* and *Eight-Year History* sections of the *Management's Discussion and Analysis* for more details on the adjustments made to the results.

CONTINUED DEVELOPMENT OUTSIDE QUEBEC

For a second consecutive year, more than half of the sales from all business lines were made outside Quebec. This result is in line with the Company's geographic diversification objective and its desire to expand in all regions of the country.

EFFICIENT AND SUCCESSFUL MANAGEMENT OF PROFIT MARGINS AND SALES IN THE INDIVIDUAL INSURANCE SECTOR

Record sales of \$159.0 million in the Individual Insurance sector, up 4% over the previous year, thanks to a very strong year-end. This increase was obtained despite adjustments made to the product line in the last two years to improve profit margins. Good management of profit margins in the Individual Insurance sector contributed to increasing the sector's operating profit by 41% in 2007.

ACQUISITION OF EXCELLENCE

Acquisition of The Excellence Life Insurance Company (the acquisition was completed on January 31, 2008). This acquisition will allow the Company to enter a new market niche: the individual disability and health insurance market. This is the Company's thirteenth acquisition in the retail sectors since 2000, with the first twelve taking place in the wealth management segment.

INCREASE IN THE DIVIDEND

27% increase in the dividend. The dividend was increased twice in 2007, to reach \$0.76 per common share. The payout ratio amounted to 24% of earnings per common share (adjusted). The Company aims to increase the payout ratio to 28% of sustainable net earnings in 2008.

MARKET GUIDANCE FOR 2008

EARNINGS PER COMMON SHARE

The Company estimates that under normal circumstances, it is able to grow earnings per common share by 10% to 13% per year in the medium term (based on sustainable earnings).

SENSITIVITY TO STOCK MARKETS

The Company estimates that a sudden 10% drop in the stock markets at the beginning of the year, followed by stock market growth according to forecasts for the year, would lead to an \$18.6 million (\$0.23 per common share) decrease in the net income available to common shareholders. The Company is providing this guidance due to the volatility of the stock markets at the beginning of 2008.

STRAIN ON SALES

The Company estimates that the current pricing structure in the Individual Insurance sector should allow it to maintain the new business strain around 50% to 55% in the medium term.

EFFECTIVE TAX RATE

The Company expects a 1 percentage point reduction in its effective tax rate, which should decrease to about 28% in 2008, due to the application of measures to further optimize the Company's tax situation.

DIVIDEND

The Company is maintaining its target of a 28% dividend payout ratio, which is in the upper end of the Company's 20% to 30% target range of sustainable net earnings.

SOLVENCY RATIO

The Company continues to target a solvency ratio within the 175% to 200% target range.

EXCESS CAPITAL

The Company estimates that under normal circumstances, about one third of the net income is added to the excess capital each year.

BUY-BACK OF SHARES

The Company plans to use its normal course issuer bid to eliminate any dilutive effect caused by the issuance of common shares as part of the stock option plan or the acquisition of business.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Governance and Performance

I am pleased to be delivering my message as Chairman of the Industrial Alliance Board of Directors. 2007 was a good year for the Company.

As the President and Chief Executive Officer indicates in his report, profits continued to grow, the Company's active management of the profit margins and individual life insurance sales was successful, growth in the Wealth Management sector continued in full force, business growth outside Quebec persisted, and, with the acquisition of Excellence, we may soon be able to develop a new market segment.

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

CORPORATE GOVERNANCE AND PERFORMANCE

The message I want to pass on to the shareholders this year is very simple. It can be summed up in two words: governance and performance.

I have sat on the Board of Directors of public companies for many years, and in this capacity, I have seen how quickly the rules of corporate governance have evolved. Today I realize how closely corporate governance and performance are intertwined. In fact, without good results, good governance means very little.

Analysts often separate the principles of good corporate governance into two categories: those that are tangible, objective and quantitatively measurable, and those that are intangible, subjective and only qualitatively measurable.

For those that are tangible, objective and quantitatively measurable, I believe the Industrial Alliance Board of Directors is doing a good job. These principles concern such things as the Board composition, the separation of the positions of Chairman of the Board and Chief Executive Officer, independence of committees, compensation of Board members and senior management, shareholder rights and disclosure. The Company's practices in these areas were recognized at the beginning of 2008 in the sixth edition of the *Korn/Ferry – Commerce Magazine* Excellence in Corporate Governance contest, when the Company was tied for first place in the "Large Company" category.

In terms of the principles that are intangible, subjective and only qualitatively measurable, and which are perhaps the most important ones of all, I believe the Board has done a good job there as well. These principles apply to such things as the selection of Board members, the richness and diversity of their work experience, the dynamics and cohesion within the Board, respect and trust among Board members, and, generally speaking, the value added by the Board in helping the Company make the right strategic choices.

With respect to performance, the results are much easier to measure, and at Industrial Alliance, these results speak for themselves. From a financial standpoint, for the second year in a row the Company

has exceeded its 13% to 15% target range for the return on common shareholders equity. What's more, the Company's performance has been recognized by the financial markets, with Industrial Alliance stock increasing by some 350% since the Company's stock market debut on February 3, 2000, compared to approximately 50% for the Toronto Stock Exchange benchmark index.

These results confirm better than anything that the Company's strategy is a good one, and they encourage us to keep moving in the right direction.

BOARD ACTIVITIES

In 2007, the Board of Directors met nine times and the Board's various committees held a total of 21 meetings. The participation rate in these various meetings was 98%, which is excellent, especially considering the number of special meetings called with very little notice.

In addition to discussing the subjects that generally fall under the Board's responsibility, such as the quarterly financial results and acquisition projects, the Board of Directors also discussed various items of current interest, including risk management, an increasingly important topic, and the liquidity crisis that shook the financial markets in the second half of the year.

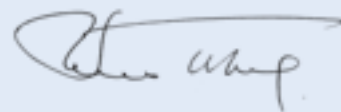
ACKNOWLEDGMENTS

On behalf of the Board of Directors, I would like to thank Anne Dutil, who did not seek a new term at the annual meeting, leading to her departure from the Board in May 2007. Ms. Dutil was a Board member since 1996, during which time she continuously served on the Audit Committee, where she was able to put her corporate management experience to good use. I would like to thank Ms. Dutil for her regular contribution to the Board, and for her interest in the Company.

CONCLUSION

In conclusion, I would like to congratulate everyone who, under the leadership of Yvon Charest, has contributed to the success of Industrial Alliance. The favourable results of the past year represent the culmination of their efforts, and they can be very proud of their achievements. I, personally, am proud to be the Chairman of the Board for a company that continues to be so successful year after year.

Sincere thanks, and best of luck in 2008.




John LeBoutillier
Chairman of the Board

Executing the Right Strategy



Yvon Charest
President and Chief
Executive Officer

How else to describe 2007, except to say that it was another good year for Industrial Alliance. As you read this annual report, you will notice that the 2007 results and achievements are in line with, and even build on, the accomplishments of the past few years.

In fact, net income reached a new high in 2007, the Company's active management of the profit margins and individual life insurance sales was successful, growth in the wealth management sector continued in full force, thanks in particular to strong mutual fund sales, business growth outside Quebec persisted in all regions and all activity sectors, the development of a new market segment—the individual disability and health insurance market—may soon be possible following the acquisition of Excellence, and the dividend was increased twice.

Behind all of these achievements and results is a strategy—a winning strategy—executed by a devoted, highly-skilled team of individuals. This strategy has been well thought out and developed over the years with one goal in mind: to create value for the shareholders.

2007 RESULTS AND ACHIEVEMENTS

In terms of profitability, the year ended with record net income to common shareholders of \$242.2 million, a 9% increase over 2006. The return on common shareholders equity was 15.2%, which is above our 13% to 15% target range.

In terms of business growth, premiums and deposits reached a new high of \$5.8 billion, a 17% increase over 2006. This is the sixth consecutive year where premiums and deposits have achieved double-digit growth. In the eight years since we converted to a stock company, premiums and deposits have increased by an average of 14% per year.

The 2007 growth comes primarily from the Individual Wealth Management sector, owing to a substantial increase in mutual fund sales. Gross mutual fund sales were up 46% in 2007 to reach a high of \$1.8 billion, while net sales nearly tripled, totalling \$799.2 million. This is the first year of operation for IA Clarington, our mutual fund management subsidiary, following the integration of Clarington Corporation, a company acquired at the end of 2005.

We are also very pleased to see that for a second consecutive year, more than half of the sales from all business lines were made outside Quebec, which is in line with our goal of geographic diversification and our desire to expand in all regions of the country.

Nevertheless, our greatest achievement for the year may have been our successful improvement of the profit margins for a second consecutive year in the Individual Insurance sector, while continuing to maintain good sales growth. That was quite a challenge.

The profit margins on life insurance products have sustained pressure over the past few years due to the decrease in interest rates. This decrease affects all life and health insurance companies. As a result, we have taken some energetic measures over the past two years

to remedy the situation. Today we are reaping the rewards of these efforts.

Good management of the profit margins in the Individual Insurance sector helped to increase this sector's operating profit by 41% in 2007.

From a strategic standpoint, the highlight of the year was, without a doubt, the acquisition of The Excellence Life Insurance Company. This acquisition was completed on January 31, 2008, and will enable us to enter a new market segment, namely individual disability and health insurance. This is our thirteenth acquisition in the personal financial services sectors since our demutualization in 2000, with the first twelve taking place in the wealth management segment.

The acquisition of Excellence represents an investment that could reach \$67.3 million, if certain conditions are met and if existing debt is taken into account. The transaction was partially financed in cash and partially through the issuance of common shares of Industrial Alliance. Most of these shares were bought back early at the end of 2007 and the beginning of 2008 in order to eliminate the dilutive effect of this acquisition on the earnings per share.

We plan to use our normal course issuer bid to buy back all the shares that have not yet been bought back as part of the acquisition of Excellence. We also plan to use this bid to buy back the common shares that could be issued under the stock option plan. This would be the first time we would use our normal course issuer bid in this manner.

Our only disappointment in 2007 was the 15% devaluation we had to take on the \$104.1 million in non-bank asset-backed commercial paper (ABCP) to which we are exposed. This devaluation, of which one third has been absorbed by the provisions for future policy benefits, led to a \$7.3 million decrease in net income to common shareholders in 2007, or \$0.09 per common share.

Three quarters of our exposure comes from our decision, announced on August 21, 2007, to buy back all non-bank ABCP that was held by our clients in the money market investment funds. These buy-backs were announced to protect our clients against the uncertainty surrounding the liquidity crisis that struck the non-bank ABCP market.

We are confident that the agreement in principle announced on December 23, 2007 by the pan-Canadian committee responsible for overseeing the restructuring of the non-bank ABCP covered by the Montreal Agreement will be successful.

Were it not for the devaluation for the non-bank ABCP to which we are exposed, we would have ended the year with net income to common shareholders of \$249.5 million. This would have been an increase of 16% over the adjusted result from 2006. This increase is in line with our guidance to the markets that we can grow sustainable net earnings by a low double-digit rate year over year.

The year's positive results enabled us to increase our dividend by 27% in 2007, on the heels of a 20% increase in 2006. In 2007, we paid out 24% of the Company's net earnings in the form of dividends to common shareholders, if earnings are adjusted to exclude the loss associated with the commercial paper.

Even though this rate compares favourably with that of other public companies, we want to do even better. As a result, a little over a year ago we set a goal of increasing the payout ratio to 28% of sustainable net earnings in 2008. We have already taken a step in this direction by announcing a 12.5% increase in the quarterly dividend at the beginning of 2008. The dividend that will be paid in the first quarter of 2008 will therefore increase from \$0.20 to \$0.225 per common share.

OUTLOOK FOR 2008

While we are proud of our results for 2007, we understand that investors have now turned their attention to 2008.

As we head into 2008, the economic situation looks a little uncertain, with fears of an economic slowdown and particularly volatile stock markets. We would therefore like to provide some guidance on our growth prospects for the next few years, and on our sensitivity to the stock markets.

When we published our fourth quarter 2007 results on February 13, 2008, we indicated that based on our business plan, the size and scope of our distribution networks and the quality of our management team, we believe that under normal circumstances, we will be able to grow the Company's earnings per share by 10% to 13% per year in the medium term. This guidance is based on the Company's sustainable earnings.

However, given the volatility of the stock markets at the beginning of 2008, we estimate that if the stock markets were to sustain a sudden 10% decrease at the very beginning of the year, followed by a 7.25% increase (the normal annual growth of the stock markets that we anticipate), the net income available to common shareholders would be reduced by \$18.6 million, or \$0.23 per common share, compared to what it normally would have been.

We do not believe there is much to worry about in terms of investments. The good quality of our investments places us in a good position in the event of a deterioration in the economic situation.

Our net impaired investments totalled \$11.7 million as at December 31, 2007, which represents just 0.08% of total investments. We do not hold any investments in the U.S. subprime mortgage loans market, and we have less than \$0.2 million in investments guaranteed by monoline financial guarantors. We also have minimal exposure to the most highly-publicized securities in the aviation, automobile, telecommunications and printing sectors.

In terms of financial strength, our solvency ratio was 193% as at December 31, 2007, which is in the upper end of our 175% to 200% target range.

EXECUTING THE RIGHT STRATEGY

As I mentioned at the beginning of this report, our success over the past few years is based on a well-designed, well-articulated and well-executed strategy that is carried out by a highly-skilled and devoted team of individuals. This strategy consists of the following six components:

- › Develop the wealth management sector
- › Grow the distribution networks
- › Accelerate our geographic diversification
- › Penetrate new market segments
- › Establish the foundations of a solid local presence in the U.S.
- › Maximize the synergies within the Industrial Alliance group of companies

This is the strategy that has brought us to where we are today. I invite you to read the first page of this annual report for more details on the main achievements surrounding the various components of this strategy.

CHANGES TO SENIOR MANAGEMENT

Before concluding this report, I would like to announce the retirement of Yvon Côté, who left Industrial Alliance in February 2008 after 38 years with the Company, including 25 as the Company's head of investments. Mr. Côté was one of the pillars of what I could call "the modern era" of Industrial Alliance. He contributed to the training of an entire generation of young fund managers, and played a key role in the Company's transformation from a mutual company to a stock company in 2000. I would like to thank Mr. Côté for his many years of loyal service to Industrial Alliance, and wish him a happy retirement.

I would also like to welcome Michel Tremblay, who joined Industrial Alliance as Mr. Côté's replacement, and who will be taking on the role of Executive Vice-President, Investments. Mr. Tremblay has a vast amount of experience in the financial markets, having worked in several large financial institutions in senior management positions. He will also be replacing Mr. Côté on the Planning Committee. I wish Mr. Tremblay all the best in his new role.

CONCLUSION

As I have had the opportunity to tell the members of the Board of Directors, despite the Company's good results over the past few years, we are not taking anything for granted. In order to succeed, we must continually evolve. And to evolve, we rely on the men and women who are willing to invest their skills and energy in the success of Industrial Alliance.

This is why one of our priorities for 2008 will be to focus on recognizing the essential role our employees play in our business processes, as well as finding new talent and developing talent within the Company. We are a growing company, and with the anticipated labour shortage, we need to do everything we can to attract, grow and retain our human resources.

As I have often had occasion to say, Industrial Alliance has everything it needs to continue 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.

Thank you to everyone who has contributed to this success.



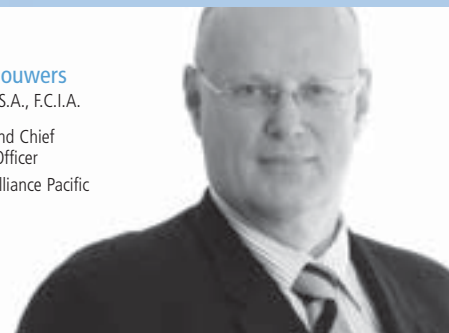
INDUSTRIAL ALLIANCE PLANNING COMMITTEE

Yvon Charest

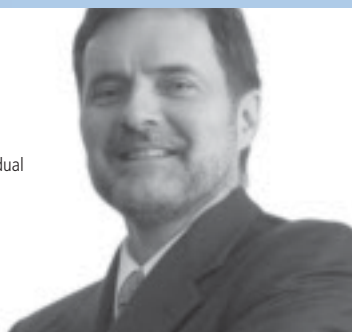
F.S.A., F.C.I.A.

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**Normand Pépin**

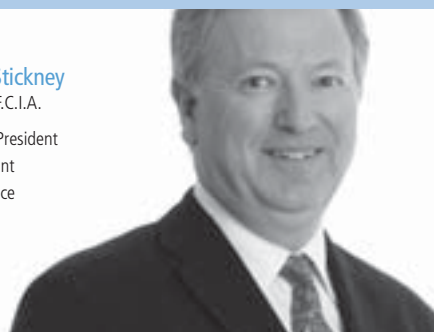
F.S.A., F.C.I.A.

Executive Vice-President
Life Subsidiaries and Individual
Insurance and Annuities
Industrial Alliance**Yvon Côté¹**

CFA

Vice-President and
General Manager
Finance and Investments
Industrial Alliance**Michael L. Stickney**

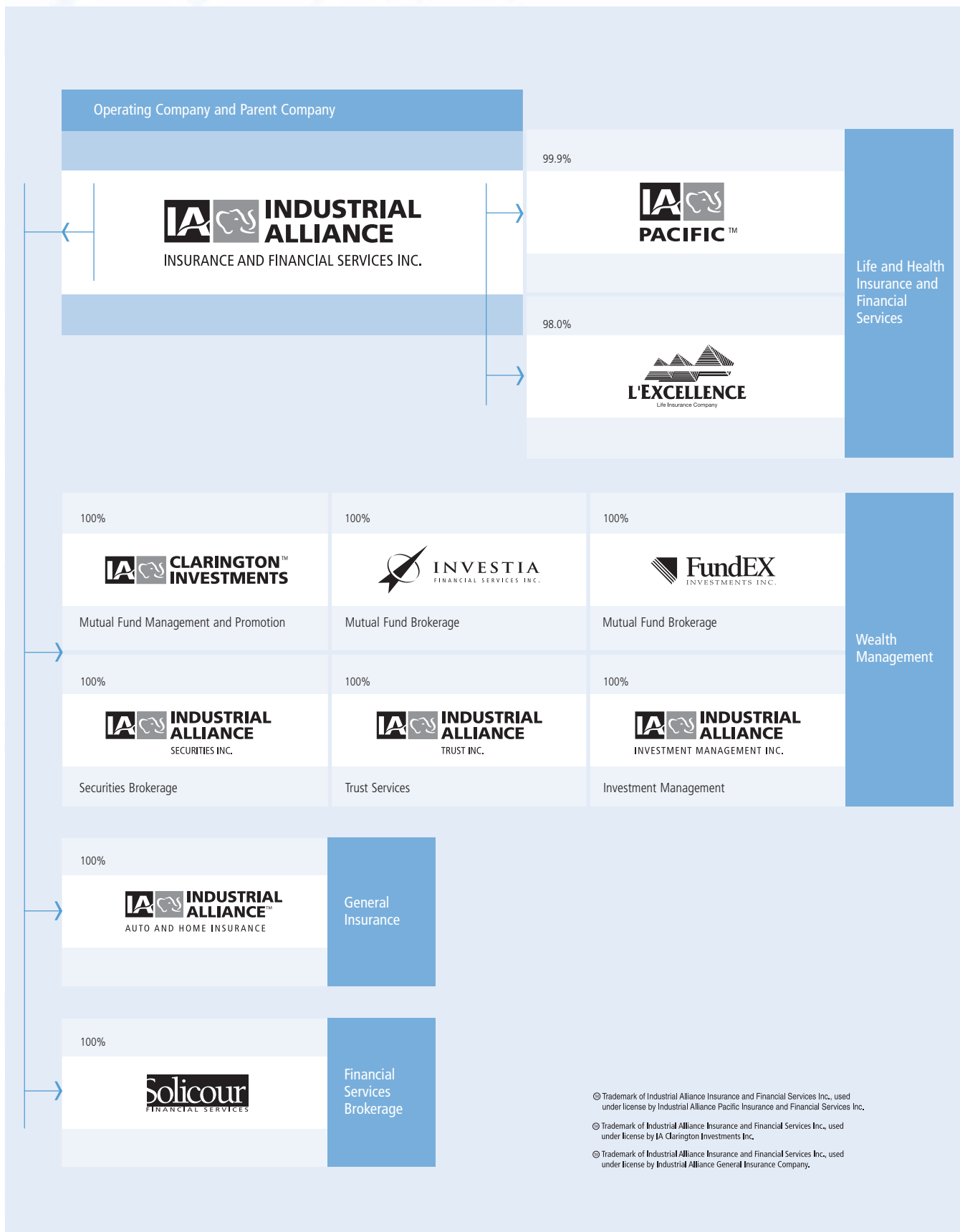
M.B.A., F.S.A., F.C.I.A.

Executive Vice-President
U.S. Development
Industrial Alliance**Michel Tremblay²**

F.S.A., F.C.I.A., CFA

Executive Vice-President
Investments
Industrial Alliance¹ Member of the Committee until February 29, 2008, his retirement date.² Member of the Committee as of March 17, 2008, to replace Yvon Côté.

INDUSTRIAL ALLIANCE ORGANIZATION CHART



› Industrial Alliance Insurance and Financial Services Inc.

Assets under management and under administration:
\$50.4 billion (consolidated data)

Founded 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 Western United States. You will find a detailed description of Industrial Alliance on page twelve of this annual report.

› Industrial Alliance Pacific Insurance and Financial Services Inc.

Assets under management: \$4.0 billion

Industrial Alliance Pacific Insurance and Financial Services Inc. (Industrial Alliance Pacific) is a life and health insurance company that offers a wide range of insurance products and financial services. Its head office is located in Vancouver, British Columbia. Created in 1951, Industrial Alliance Pacific previously operated under the name 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, as well as in the Western United States. Its operations are largely integrated with those of Industrial Alliance, its parent company.

› The Excellence Life Insurance Company

Premiums: \$84.8 million

Created in 1962, and acquired by Industrial Alliance at the beginning of 2008, The Excellence Life Insurance Company (Excellence) is a life and health insurance company that specializes in the manufacturing and distribution of life and health insurance products for individuals, corporations and professional associations. It offers a broad range of disability insurance, medical care and hospitalization benefits insurance, life and accident insurance products. Excellence and the brokerage companies with which it is associated employ some 170 people. The head office of Excellence is located in Montreal.

› IA Clarington Investments Inc.

Assets under management: \$7.7 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: \$3.7 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: \$9.8 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 some 600 licensed advisors, who distribute funds primarily to high-income clients. Industrial Alliance initially acquired 25% of FundEX, in 2002, and gradually increased its ownership over time to reach 100% in 2007. In 2006, FundEX was merged with FundTrade Financial Corporation, a mutual fund brokerage firm that Industrial Alliance acquired in 2006.

› Industrial Alliance Securities Inc.

Assets under administration: \$1.7 billion

Industrial Alliance Securities Inc. is a full-service brokerage firm. It offers advisory and brokerage services in stocks, bonds and mutual funds to individuals and institutions. Industrial Alliance Securities also operates a capital markets division, performing institutional financing, research and negotiation of securities. Created in 2002, Industrial Alliance Securities resulted from the merger of five securities brokerage firms. It has 25 employees and over 15,000 clients and distributes its products in Canada through over 160 representatives.

› Industrial Alliance Trust Inc.

Assets under management and under administration: \$3.0 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: \$17.7 billion

Industrial Alliance Investment Management Inc. is an investment management firm. Created in 2004, Industrial Alliance Investment Management oversees the management of Industrial Alliance's 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 diversified funds, in addition to supervising the managers of all external funds offered by Industrial Alliance and its subsidiaries.

› Industrial Alliance General Insurance Company

Direct written premiums: \$113.9 million

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

› Solicour Inc.

Premiums: \$33.5 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

11	Notice
12	Description of Industrial Alliance
13	Summary
15	Profitability
20	Solvency and Capitalization
23	Personal Financial Services
	Individual Insurance
	Individual Wealth Management
	Development Strategy for Personal Financial Services
	Information on Auto and Home Insurance Operations
29	Group Products and Services
	Group Insurance – Employee Plans
	Group Insurance – Creditor Insurance
	Group Insurance – Special Markets Group (SMG)
	Group Pensions
36	Investments
	General Fund
	Investment Funds (Segregated Funds and Mutual Funds)
42	Risk Management
48	Additional Information
53	Embedded Value
55	Eight-Year History

NOTICE

GENERAL INFORMATION

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2007 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 13, 2008.

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 – adjusted data – concerning mainly the profit, earnings per share and return on 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. Unless otherwise indicated, any forward-looking information that presents prospective results of operations, financial position or cash flows was approved by management on the date of this report.

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. A description of significant factors that could affect forward-looking statements is contained in Industrial Alliance's most recent annual management's discussion and analysis.

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. Where the forward-looking statements are presented as guidance regarding future financial results of Industrial Alliance, they are provided in order to assist investors in understanding the impact on earnings of the Company's current plans and objectives. The Company may also provide objectives from time to time. An objective should be taken as a statement of management's goals in managing the Company, and not necessarily as a forecast that the objective will be met.

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, whether or not foreseeable, 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 Senior Vice-President and Chief Actuary acting as 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, 2007, 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, 2007 which have had, or which are likely to have, a significant impact on its internal control over financial reporting. They concluded that no changes of this type took place.

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.

DESCRIPTION OF INDUSTRIAL ALLIANCE

INDUSTRIAL ALLIANCE

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

The primary mission of Industrial Alliance is to offer its clients financial protection in the event of death, disability or illness, and to help them achieve financial independence for retirement or turn special projects into reality.

In this regard, 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. Its products are offered on both an individual and group basis.

The fifth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large group – the Industrial Alliance group – which has operations in a number of financial services sectors. In particular, Industrial Alliance has subsidiaries in the following sectors: life and health insurance (Industrial Alliance Pacific Insurance and Financial Services Inc. and The Excellence Life Insurance Company), mutual fund management (IA Clarington Investments Inc.), mutual fund brokerage (Investia Financial Services Inc. and FundEX Investments Inc.), securities brokerage (Industrial Alliance Securities Inc.), financial services brokerage (Solicour Inc.), investment management (Industrial Alliance Investment Management Inc.), general insurance (Industrial Alliance Auto and Home Insurance) and trust services (Industrial Alliance Trust Inc.).

Industrial Alliance is a national insurance company, and has operations across Canada as well as in the western United States.

The Company contributes to the financial well-being of over three million Canadians, employs more than 2,900 people and manages and administers over \$50 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG, and closed 2007 at \$42.58. The Company has over 73,000 shareholders, with 79.8 million common shares issued and outstanding as at December 31, 2007. With a market capitalization of \$3.4 billion (as at December 31, 2007), Industrial Alliance is among the 100 largest public companies in Canada.

The Industrial Alliance head office is located in Quebec City, Quebec.

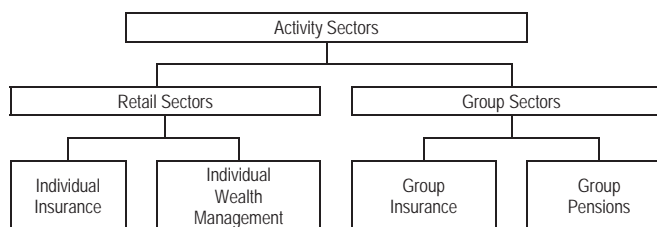
LEGAL CONSTITUTION

Industrial Alliance is a Quebec-chartered life and health insurance company regulated by the Autorité des marchés financiers. The subsidiaries of Industrial Alliance are authorized by the appropriate regulatory authorities to operate in all provinces and territories of Canada, and most of the United States. Industrial Alliance is also an issuer subject to the various securities laws in effect in the provinces of Canada.

In February 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's sources of profit are well spread out among the various sectors: for 2007, 37% of operating profit was from the Individual Insurance sector, 39% from Individual Wealth Management, 18% from Group Insurance, and 6% from Group Pensions.

Industrial Alliance's premiums and deposits are also well distributed among the various sectors and regions. By sector: for 2007, 15% of premiums and deposits came from Individual Insurance, 54% from Individual Wealth Management, 15% from Group Insurance, 14% from Group Pensions and 2% from general insurance operations. By region: for 2007, 6% of premiums and deposits came from the Atlantic provinces, 43% from Quebec, 31% from Ontario, 19% from the Western provinces, and 1% from the United States.

Note that the financial results of the Company's general insurance operations, which are provided through its subsidiary 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.

SUMMARY

HIGHLIGHTS OF 2007

Profitability

- › 9% increase in net income to common shareholders and 16% increase in adjusted net income to common shareholders¹. Net income to common shareholders reached a record \$242.2 million in 2007.
- › Return on common shareholders equity above the 13% to 15% target range for the second consecutive year: 15.2% according to GAAP and 15.6% according to adjusted data.
- › Efficient and successful management of profit margins and sales in the Individual Insurance sector. New business strain in the Individual Insurance sector decreased from 67% of sales in 2006 to 52% in 2007, which is in line with the Company's guidance that new business strain should be around 50% to 55% in the medium term. The decreased strain helped to increase the Individual Insurance sector's operating profit by 41% in 2007.
- › As in past years, no significant impact on net income following the revision of valuation assumptions at the end of 2007 (the provisions for future policy benefits were strengthened by \$1.0 million). As with previous years, the provisions for future policy benefits were strengthened to take into account a reduction in interest rates and lower lapse rates, and were released to take into account improved mortality rates and the lower than expected increase in unit costs.
- › 15% devaluation in non-bank asset-backed commercial paper (non-bank ABCP). This devaluation, of which one third has been absorbed by the provisions for future policy benefits, led to a \$7.3 million decrease in net income to common shareholders (\$0.09 per common share). The Company's exposure to non-bank ABCP amounts to \$104.1 million.

Business Growth

- › 17% increase in premiums and deposits. Premiums and deposits reached a new high of \$5.8 billion, primarily due to strong mutual fund sales. This is the sixth consecutive year where premiums and deposits have achieved double-digit growth. Since 1999, the year before Industrial Alliance converted to a stock company, premiums and deposits have increased by an average of 14% per year.
- › A considerable increase in mutual fund sales. Gross sales were up 46% in 2007, and net sales nearly tripled. This is the first year of operation for IA Clarington after the integration of its operations (Clarington Corporation was acquired at the end of 2005).
- › For a second consecutive year, more than half of the sales from all business lines were made outside Quebec, which is in line with the Company's desire to expand in all regions of the country.
- › Introduction of a new retirement product called Ecofl*extra*, which provides a guaranteed income for life with all the growth potential of the markets.

Dividend

- › 27% increase in the dividend. The dividend was increased twice in 2007, to reach \$0.76 per common share. The payout ratio amounted to 24% of earnings per common share (adjusted). The Company aims to increase the payout ratio to 28% of sustainable net earnings in 2008.

Quality of Investments

- › Quality of investments, which remains very high, placing the Company in a good position in the event of a deterioration in the economic situation. Net impaired investments totalled \$11.7 million as at December 31, 2007, which represents just 0.08% of total investments. The Company does not hold any investments in the U.S. subprime mortgage loans market, and it has less than \$0.2 million in investments guaranteed by monoline financial guarantors. The Company also has minimal exposure to the most highly-publicized securities in the aviation, automobile, telecommunications and printing sectors.

Capitalization and Solvency

- › Buy-back of 391,000 common shares of the Company at the end of 2007 and 130,400 at the beginning of 2008, for a total of 521,400 common shares. These purchases were made to preclude a portion of the dilutive effect of the common shares that will be issued in 2008 as part of the Company's stock option plan and the acquisition of The Excellence Life Insurance Company.
- › Very solid financially. The solvency ratio was 193% as at December 31, 2007, which is in the upper end of the Company's 175% to 200% target range, and excess capital totalled \$171 million.

Acquisition of Excellence

- › Acquisition of The Excellence Life Insurance Company (the acquisition was completed on January 31, 2008). This acquisition will allow the Company to enter a new market niche: the individual disability and health insurance market. This is the Company's thirteenth acquisition since 2000, with the first twelve taking place in the Individual Wealth Management sector.

Embedded Value

- › 16.3% increase in embedded value in 2007, before the payment of dividends to common shareholders, and 13.8% after the payment of these dividends. Embedded value amounted to \$2.8 billion as at December 31, 2007 (\$34.92 per common share). Recurring items (which are those over which the Company has a certain amount of control) helped to increase the embedded value by 11.7%. Since the Company began calculating its embedded value, recurring items have always grown embedded value by double digits, which is in line with the Company's expectations.
- › 27% increase in the value of new business. The value of new business reached a new high of \$121.0 million in 2007 (\$1.51 per common share). Approximately half of this growth was driven by strong sales, particularly in the Individual Wealth Management sector, and the other half by improved profit margins, primarily in the Individual Insurance sector.

¹ Refer to the *Profitability* and *Eight-Year History* sections for more details on the adjustments made to the results.

MARKET GUIDANCE FOR 2008

- › **Earnings per common share** – The Company estimates that under normal circumstances, it is able to grow earnings per common share by 10% to 13% per year in the medium term (based on sustainable earnings).

However, given the volatility of the stock markets at the beginning of 2008, the Company estimates that a sudden 10% drop in the stock markets at the beginning of the year, followed by stock market growth according to forecasts for the year, would lead to an \$18.6 million (\$0.23 per common share) decrease in the net income available to common shareholders.

- › **Strain on sales** – The Company estimates that the current pricing structure in the Individual Insurance sector should allow it to maintain the new business strain around 50% to 55% in the medium term.
- › **Effective tax rate** – The Company expects a 1 percentage point reduction in its effective tax rate, which should decrease to about 28% in 2008, due to the application of measures to further optimize the Company's tax situation.
- › **Dividend** – The Company is maintaining its target of a 28% dividend payout ratio, which is in the upper end of the Company's 20% to 30% target range of sustainable net earnings.
- › **Solvency ratio** – The Company continues to target a solvency ratio within the 175% to 200% target range.

- › **Excess capital** – The Company estimates that under normal circumstances, about one third of the net income is added to the excess capital each year.

- › **Buy-back of shares** – The Company plans to use its normal course issuer bid to eliminate any dilutive effect caused by the issuance of common shares as part of the stock option plan or the acquisition of business. The normal course issuer bid has also been renewed for another year.

DEVELOPMENT STRATEGY

The Company's strategic objectives can be summarized in six points:

- › Develop the wealth management sector
- › Grow the distribution networks
- › Accelerate our geographic diversification
- › Penetrate new market niches
- › Establish the foundations of a solid local presence in the U.S.
- › Optimize synergies within the Industrial Alliance group companies

PROFITABILITY

2007 HIGHLIGHTS

- › 9% increase in net income to common shareholders and 16% increase in adjusted net income to common shareholders. Net income to common shareholders reached a record \$242.2 million in 2007.
- › Return on common shareholders equity above the 13% to 15% target range for the second consecutive year: 15.2% according to GAAP and 15.6% according to adjusted data
- › Key Profitability Drivers
 - › Effective management of profit margins of new business in Individual Insurance
 - › Robust growth in expected profit on in-force business
 - › \$8.3 million in experience gains
 - › 15% markdown of non-bank-sponsored asset-backed commercial paper (non-bank ABCP), resulting in a \$7.3 million decrease in net income to common shareholders

The Company ended 2007 with net income attributed to shareholders of \$248.0 million, up 9% over 2006. Once the dividends paid to the preferred shareholders are deducted, the net income available to common shareholders amounted to \$242.2 million, which represents a 9% increase compared to the corresponding income in 2006. This income translates into diluted earnings per common share of \$2.99 (\$2.74 in 2006) and a rate of return on common shareholders equity of 15.2% (15.7% in 2006), which is above the Company's 13% to 15% target range.

Profitability	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003 ¹
Net income to shareholders	248.0	227.9	132.2	155.1	136.9
Less: dividends on preferred shares	5.8	4.9	--	0.1	0.3
Net income to common shareholders	242.2	223.0	132.2	155.0	136.6
Earnings per common share					
Basic	\$3.02	\$2.77	\$1.66	\$1.96	\$1.76
Diluted	\$2.99	\$2.74	\$1.65	\$1.95	\$1.74
Return on common shareholders equity	15.2%	15.7%	10.3%	13.6%	13.9%

All lines of business contributed to the income for the year, but the sector that stood out the most is Individual Insurance, particularly in terms of its strict management of new business strain².

The increased income primarily results from the following factors:

- › Effective management of the new business strain in Individual Insurance.
- › Strong growth of 10% in expected profit on in-force business.
- › \$8.3 million in experience gains.

Note that the Company marked down the value of its investments in non-bank-sponsored asset-backed commercial paper (non-bank ABCP) by 15%, which led to a \$7.3 million decrease in net income available to common shareholders in 2007 (for more details, refer to the "Note Regarding Non-Bank ABCP" section below).

If it were not for the markdown of the ABCP, net income to common shareholders would have amounted to \$249.5 million. This result would have represented a 16% increase compared to the previous year's result (adjusted to take into account National Life restructuring charges and the effect of the reduction in tax rates on the future income tax liability). This increase is in line with the Company's guidance to the markets that it can grow sustainable net earnings by a low double-digit rate year over year.

Adjusted Profitability	(In millions of dollars, unless otherwise indicated)		
	2007	2006	Variation
Net income to common shareholders	242.2	223.0	9%
Impact of the decrease in value of non-bank ABCP, net of tax	7.3	--	--
National Life restructuring charges, net of tax	--	3.0	--
Impact of the decrease in tax rates on the future income tax liability	--	(11.5)	--
Net income to common shareholders, adjusted	249.5	214.5	16%
Earnings per common share			
Diluted	\$2.99	\$2.74	\$0.25
Diluted, adjusted	\$3.08	\$2.64	\$0.44
Return on equity ³			
To common shareholders	15.2%	15.7%	(50 bps)
To common shareholders, adjusted	15.6%	15.1%	50 bps

All of the factors that had an impact on profitability are explained in greater detail below.

ANALYSIS OF INCOME BY SOURCES OF EARNINGS

The Company believes that sources of earnings is an important tool to help investors better understand the key drivers of profitability and growth in shareholder net income. In addition to providing an overview of these drivers, the sources of earnings also provides useful information about the relative contribution of each line of business. The main data concerning the sources of earnings for 2006 and 2007 are presented in the table below.

Expected profit on in-force – The expected profit on in-force business represents the profit that an insurance company expects to derive from 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 \$352.7 million in 2007, a 10% increase compared to 2006. This increase is in line with the Company's expectations of a low double-digit growth rate year over year. All lines of business contributed to this increase, which is the result of 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, the expected growth of business during the year and the conservatism with which the Company establishes its provisions for future policy benefits.

¹ 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.

² 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 the products materialize.

³ The calculation of the return on common shareholders' equity excludes accumulated other comprehensive income.

Sources of Earnings (In millions of dollars)	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Expected profit on in-force	184.5	172.5	106.0	92.9	46.0	40.5	16.2	15.3	352.7	321.2
Experience gains (losses)	0.1	2.6	6.1	9.4	0.4	5.3	1.7	1.4	8.3	18.7
Gain (strain) on sales	(83.0)	(102.7)	(4.6)	(5.4)	0.0	0.0	(2.1)	(1.3)	(89.7)	(109.4)
Changes in assumptions	(1.6)	(1.7)	(0.9)	1.4	1.5	1.3	0.0	(0.4)	(1.0)	0.6
Operating profit	100.0	70.7	106.6	98.3	47.9	47.1	15.8	15.0	270.3	231.1
Income on capital	58.4	50.6	5.5	4.8	15.5	13.2	9.4	9.4	88.8	78.0
Income taxes	(45.1)	(40.6)	(34.2)	(26.2)	(17.9)	(16.1)	(6.6)	(6.8)	(103.8)	(89.7)
Net income to shareholders, adjusted	113.3	80.7	77.9	76.9	45.5	44.2	18.6	17.6	255.3	219.4
Less: dividends on preferred shares	0.0	0.0	5.8	4.9	0.0	0.0	0.0	0.0	5.8	4.9
Net income to common shareholders, adjusted	113.3	80.7	72.1	72.0	45.5	44.2	18.6	17.6	249.5	214.5
Other items	(7.0)	5.1	0.0	0.9	(0.2)	2.6	(0.1)	(0.1)	(7.3)	8.5
Net income to common shareholders	106.3	85.8	72.1	72.9	45.3	46.8	18.5	17.5	242.2	223.0

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 \$8.3 million increase in operating profit in 2007 (\$5.9 million after taxes). All sectors contributed to these gains, particularly Individual Wealth Management, whose asset growth exceeded expectations (mainly due to strong net segregated fund and mutual fund sales). The experience gains are also the result of better than expected mortality experience and unit costs in most sectors.

Gain or strain on sales – During a given fiscal year, sales 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 provisions for future policy benefits are higher than the profit margins incorporated into product prices. Note that sales of a life insurance company's products generally produce a strain, particularly in the Individual Insurance sector, where commitments can extend over very long periods. Furthermore, certain products offered in this sector have features that make them more strain intensive than others. 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 \$89.7 million in 2007, which is 18% lower than the previous year. This decrease comes almost entirely from Individual Insurance, due to the long-term commitments in this sector. It results from the changes made to the product line in the last two years, as well as the impact of these modifications on the sales mix (Universal Life policy sales continue to shift in favour of yearly renewable term products, which are less strain intensive).

The strain in the Individual Insurance sector alone, expressed as a percentage of sales (measured in terms of first-year annualized premiums), decreased over the past year from 67% in 2006 to 52% in 2007. This rate is within the Company's 50% to 55% target range. The Company estimates that the current pricing structure in the Individual Insurance sector should allow it to maintain the new business strain around the 50% to 55% target range in the medium term.

Changes in assumptions – The Company 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 results.

In 2007, the changes in assumptions led to an increase of \$1.0 million (\$0.7 million after taxes) in the provisions for future policy benefits. The changes in assumptions have mainly affected the Individual Insurance sector. As with the last few years, the provisions for future policy benefits were strengthened to take into account a reduction in interest rates and lower lapse rates. The strengthened provisions in future policy benefits were offset by releases in the provisions for future policy benefits to take into account improved mortality rates and the lower than expected increase in 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 the net profits of subsidiaries that do not operate in one of its four lines of business.

Income on capital reached \$88.8 million in 2007, up 14% over 2006. Three factors contributed to this increase during the year: the good performance of the auto and home insurance subsidiary, the normal growth of the capital base (primarily retained earnings) and the good return on investments, particularly real estate.

Note that under the new accounting standards that took effect at the beginning of 2007, investments matched to equity and to certain liabilities, other than policy liabilities, can have an impact on earnings upon disposition. On the other hand, there is no longer any amortization of realized and unrealized gains when these investments are sold, as was the case in the past.

In 2007, the gains realized on the disposition of assets linked to equity amounted to \$8.9 million. These gains can be compared to the \$10.0 million gain posted in 2006 as amortization of realized and unrealized gains.

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 \$103.8 million in 2007, which is higher than in 2006, but in line with the Company's profitability. The effective tax rate was 28.9 % in 2007, compared to 29.0% the previous year. The Company expects that the effective tax rate should be around 28% in 2008, due to the application of measures to further optimize its tax situation.

Other items – Lastly, only one non-recurring item impacted earnings in 2007, and that was a markdown of the non-bank asset-backed commercial paper (ABCP) to which the company is exposed (refer to the "Note Regarding Non-Bank ABCP" section below).

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 \$100.0 million, a 41% increase compared to 2006. This increase was mainly the result of a decrease in new business strain. As indicated earlier, the decrease in strain is primarily due to changes made to the product line in 2006 and 2007, as well as changes to the sales mix.

Individual Wealth Management – The Individual Wealth Management sector posted excellent results for a second consecutive year, recording an operating profit of \$106.6 million, an 8% increase over the previous year. This increase can be attributed to the growth of mutual fund and segregated fund assets, primarily due to very good results in terms of net investment fund sales.

Group Insurance – The Group Insurance sector ended the year with an operating profit of \$47.9 million, a 2% increase compared to 2006. This is in line with the Company's expectations and takes into account the Company's substantial experience gains over the last few years.

Group Pensions – The Group Pensions sector realized an operating profit of \$15.8 million in 2007, 5% higher than in 2006. 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)		
	2007	2006	2005
Revenues	4,971.6	4,937.9	4,029.4
Policy benefits and expenses	4,659.0	4,638.3	3,835.4
Income before income taxes	312.6	299.6	194.0
Income taxes	(63.4)	(68.3)	(59.4)
Net income	249.2	231.3	134.6
Less: net income to participating policyholders	1.2	3.4	2.4
Net income to shareholders	248.0	227.9	132.2
Less: dividends on preferred shares	5.8	4.9	--
Net income to common shareholders	242.2	223.0	132.2
Earnings per common share			
Basic	\$3.02	\$2.77	\$1.66
Diluted	\$2.99	\$2.74	\$1.65

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 2007 totalled \$5.0 billion, which represents a 1% increase over 2006. The factors that contributed to this increase are explained below.

Revenues	(In millions of dollars)		
	2007	2006	2005
Premiums	4,029.3	3,763.0	3,171.1
Net investment income	578.8	860.0	690.9
Fees and other revenues	363.5	314.9	167.4
Total	4,971.6	4,937.9	4,029.4

Premiums increased by 7% in 2007, reaching \$4.0 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 \$5.8 billion, a 17% increase over 2006. The growth comes primarily from the Individual Wealth Management sector, due to strong sales growth for this line of business.

Premiums and Deposits	(In millions of dollars)		
	2007	2006	2005
Premiums			
General fund	2,463.6	2,209.0	1,981.2
Segregated funds	1,565.7	1,554.0	1,189.9
Total	4,029.3	3,763.0	3,171.1
Deposits – Mutual funds	1,796.9	1,227.6	412.6
Total	5,826.2	4,990.6	3,583.7

Net investment income totalled \$578.8 million in 2007, \$281.2 million less than in 2006. It is important to note, however, that the new accounting standards for financial instruments adopted at the beginning of 2007 make it difficult to compare investment income with past years. A very substantial proportion of the Company's assets, in particular those matched to policy liabilities, is now accounted for at the fair market value, whereas prior to 2007, these assets were measured using a different accounting method.

Because of the new accounting standards, the market value adjustments of assets matched to policy liabilities now have a direct impact on investment income. However, this impact is neutralized by a corresponding variation in the provisions for future policy benefits, so that the impact of the market value adjustments on net income is largely, if not totally, cancelled out.

It is important to note that net investment income for 2007 reflects the market value markdown of non-bank ABCP held in the Company's general fund, which was announced on November 7, 2007. One third of this markdown, however, was absorbed by a downward revision of the provisions for future policy benefits (for more details, refer to the "Note Regarding Non-Bank ABCP" section).

Net Investment Income	(In millions of dollars)		
	2007	2006	2005
Investment income	433.4	643.3	610.6
Amortization of realized and unrealized gains (losses)	10.4	214.7	156.6
Variation in the market value of assets held for trading	125.9	--	--
Gains (losses) realized on assets available for sale	8.9	--	--
Change in provisions for losses	0.2	2.0	(76.3)
Total	578.8	860.0	690.9

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 \$48.6 million (15%) increase in fees and other revenues recorded in 2007 reflects the growth of segregated fund and mutual fund assets.

Policy Benefits and Expenses

Policy benefits and expenses totalled \$4.7 billion in 2007, which represents a \$20.7 million increase over 2006. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses	(In millions of dollars)		
	2007	2006	2005
Change in provisions for future policy benefits	506.4	736.3	544.8
Payments to policyholders and beneficiaries	1,737.7	1,591.5	1,411.7
Net transfer to segregated funds	1,456.9	1,400.5	1,116.1
Commissions	519.2	484.7	388.6
General expenses	333.5	314.0	273.1
Other	105.3	111.3	101.1
Total	4,659.0	4,638.3	3,835.4

The change in provisions for future policy benefits totalled \$506.4 million in 2007, which compared to a \$736.3 million increase in 2006. The provisions for future policy benefits vary as a result of several factors, the most significant ones being premiums (upward impact on the provisions for future policy benefits), the return on the underlying assets (increase or decrease), claims incurred (decrease) and the net transfer to segregated funds (increase or decrease). It is important to note that because of the new accounting standards concerning financial instruments that took effect on January 1, 2007, variations in the market value of assets matched to the provisions for future policy benefits also have an impact (upward or downward) on the level of provisions for future policy benefits.

Payments to policyholders and beneficiaries in 2007 were \$146.2 million higher than in 2006. 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, illness or contract terminations, as well as annuity payments.

Net transfers to segregated funds totalled \$1.5 billion in 2007, which represents an increase of \$56.4 million over 2006. This increase was less than the \$284.4 million increase recorded in 2006, which can be explained by stock market growth that was less attractive for clients in 2007.

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 \$34.5 million in 2007 compared to the previous year. This increase is related to the generalized growth of sales in all lines of business. Commissions correspond to the remuneration of financial advisors for new sales and certain in-force contracts.

General expenses were \$19.5 million higher in 2007 than in 2006, primarily due to growth in the Company's business volume.

Income Taxes

Income taxes amounted to \$63.4 million in 2007. In December 2007, the federal government passed a bill to reduce the corporate tax rate. This reduced the Company's future income taxes by \$27.3 million.

However, this reduction was offset by the strengthening of the provisions for future policy benefits in anticipation of the tax measures introduced by the federal government in November 2007. These measures aim to ensure the matching of tax rules with the new accounting standards that took effect on January 1, 2007. These measures focus mainly on the taxation of investment property held by financial institutions, the technical provisions that can be deducted by insurance companies when calculating their income for tax purposes, and the minimum tax for life insurance companies.

NOTE REGARDING NON-BANK ABCP

The asset-backed commercial paper (ABCP) market was shaken by a liquidity crisis in August 2007. Hence, since August 13, 2007, Industrial Alliance has not been able to receive payments for the amounts due upon maturity of the non-bank-sponsored ABCP that it holds.

ABCP is a short-term financial instrument issued by trusts, also called "conduits." The paper is usually issued for a one or three month term. There are two main categories of ABCP: A paper, which comes with a backing agreement with a banking institution in the event of a liquidity problem, and E paper, which has an extension clause.

On August 15, 2007, a group of investors proposed an agreement, "the Montreal Agreement", to investors who hold non-bank-sponsored ABCP. Industrial Alliance is part of this group. Under this agreement, the investors agree to not place the conduits in default (22 in total) to avoid a forced sale of the underlying financial assets ("standstill agreement"). The group's objective is to restructure the paper by converting it into floating rate notes with a maturity that corresponds to that of the underlying assets. Since then, maturing paper has either been extended, in the case of E paper, or deferred, in the case of A paper.

On August 21, 2007, the Company announced that it would buy back all non-bank-sponsored ABCP held in the money market investment funds of the Industrial Alliance group's various companies (\$28.6 million in segregated funds, \$40.1 million in mutual funds and \$8.1 million in institutional funds subject to treasury portfolio management agreements). Industrial Alliance thus repurchased \$76.8 million in non-bank-sponsored ABCP. These purchases took place in September 2007, at 100% of the purchase price plus accrued interest. This measure was announced to protect the Company's clients against the uncertainty surrounding the liquidity crisis that struck the non-bank-sponsored ABCP market.

The repurchased ABCP was added to that already held by the Company in its general fund, valued at \$13.2 million, bringing the non-bank-sponsored ABCP held in the Company's general fund to \$90.1 million. Other than the ABCP held directly, the Company is also exposed to an amount of \$14.0 million in non-bank-sponsored ABCP through its 45% ownership in an entity subject to significant influence. Therefore, the Company's total exposure to non-bank-sponsored ABCP amounted to \$104.1 million as at December 31, 2007.

On September 6, 2007, a pan-Canadian committee headed by Purdy Crawford, and composed of participants in the Montreal Agreement, was formed to oversee the restructuring process.

On October 16, 2007, the committee chairman announced the successful restructuring of a first conduit of the 22 affected by the Montreal Agreement.

On November 7, 2007, when the Company announced its third quarter results, it also announced its decision to reduce by 15% the value of the non-bank-sponsored ABCP to which it was exposed.

On December 23, 2007, the Pan-Canadian Committee of Investors for non-bank ABCP announced that an agreement in principle had been reached regarding a comprehensive restructuring of the ABCP issued by 20 of the trusts covered by the Montreal Agreement. The Investors Committee approved the agreement in principle.

The restructuring is designed to i) extend the maturity of the ABCP to provide for a maturity similar to that of the underlying assets; ii) pool certain series of ABCP which are supported in whole or in part by underlying synthetic assets; iii) mitigate margin call obligations of existing conduits with margin call risk and create a structure to address margin calls if they occur; and iv) support the liquidity needs of those ABCP holders requiring it.

The assets will be broken down into three buckets: i) ABCP which is supported solely by traditional securitized assets (approximately \$3 billion, or 9.4% of the ABCP covered by the Montreal Agreement); ii) ABCP which is supported by synthetic assets (approximately \$26 billion, or 81.2% of the total); and iii) ABCP supported primarily by U.S. subprime assets (about \$3 billion, or 9.4% of the total). Approval of the restructuring is subject to a vote by all investors, and should be completed by March 2008.

According to the breakdown proposed by the committee, 40.7% of the ABCP to which the Company is exposed is in the traditional assets category (deemed the least risky of the three categories), 51.7% in the synthetic assets category and 7.6% in the U.S. subprime assets category (deemed the most risky).

The distribution of ABCP to which the Company is exposed is less risky than that of the market, since, relatively speaking, it contains more traditional assets and fewer synthetic assets.

Distribution of Industrial Alliance and Market Non-Bank ABCP	Industrial Alliance	Market
Traditional assets	40.7%	9.4%
Synthetic assets	51.7%	81.2%
Subprime assets	7.6%	9.4%
Total	100.0%	100.0%

Since non-bank ABCP is not traded on an active market, the Company estimated its fair value using a valuation method that takes into account the best public information available, market conditions and other factors, such as the credit risk of the underlying assets, the maturity dates and the assumption that the restructuring process will unfold as planned.

For the non-bank-sponsored ABCP directly held by the Company, this estimate has led to a \$13.5 million reduction in the estimated fair market value of these investments. Their fair value has therefore been reduced from \$90.1 million to \$76.5 million and it is presented in the Company's consolidated balance sheet under "Other Invested Assets." The non-bank-sponsored ABCP has been classified under "held-for-trading" and is used to match the policy liabilities in the Individual Insurance sector. This variation in the value of non-bank-sponsored ABCP has caused a \$4.5 million reduction in policy liabilities.

Moreover, the value of the investment in an entity subject to significant influence has suffered a \$0.9 million reduction in value, leading to a corresponding decrease in the investment income drawn from this company.

The total impact of the reduction in value of non-bank-sponsored ABCP on the Company's results as at September 30, 2007 is \$9.9 million before taxes (\$7.3 million after taxes or \$0.09 per common share).

This estimate contains a great deal of uncertainty and, even though the Company deems its estimate appropriate according to the current conditions, it is possible that the final value of these investments could vary from the current estimate, possibly even considerably, once the restructuring process is completed. Depending on the size of the variation, it could affect the Company's financial results.

SOLVENCY AND CAPITALIZATION

2007 HIGHLIGHTS

- › Solvency ratio of 193%, in the upper end of the Company's 175% to 200% target range
- › Prudent and conservative capital management
 - › \$2.1 billion in capital, a 10% increase
 - › 14.5% debt ratio, below the maximum levels accepted by the rating agencies
- › \$171 million in excess capital

Ensuring sound capital management and maintaining a high level of solvency are of utmost importance for any life and health insurance company looking to achieve long-term success. It is through these key success factors that Industrial Alliance is able to ensure the financial security of its clients, obtain favourable credit ratings and guarantee its growth.

SOLVENCY

The solvency ratio was 193% as at December 31, 2007, which is 8 percentage points lower than at the end of 2006. This ratio is in the upper end of the Company's 175% to 200% target range.

Several factors put upward or downward pressure on the solvency ratio in 2007. 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 313,250 common shares following the exercise of options under the stock option plan for Company management.

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

- › The impact of the new accounting standards that took effect at the beginning of 2007. It is estimated that the introduction of the new accounting standards decreased the solvency ratio by some 6.5 percentage points in 2007, and will decrease it by another 6.5 percentage points in 2008. The impact of the new accounting standards is being recognized gradually, at a rate of around 1.5 percentage points per quarter.
- › The buy-back of 391,000 common shares at the end of 2007 (see the "Buy-Back of Shares" section below).
- › 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.

The Company had about \$171 million in excess capital as at December 31, 2007. The new accounting standards concerning financial instruments that took effect on January 1, 2007 put downward pressure of \$78 million on the excess capital. Half of the value of this impact was amortized in 2007, and the other half will be amortized in 2008.

Solvency and Excess Capital	(In millions of dollars, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003 ¹
Solvency					
Available capital					
Net tier 1	1,685.6	1,498.9	1,187.5	1,246.2	996.1
Net tier 2	120.6	128.6	134.9	136.1	295.8
Total	1,806.2	1,627.5	1,322.4	1,382.3	1,291.9
Required capital	934.6	809.9	704.5	624.0	583.7
Solvency ratio²	193%	201%	188%	222%	221%
Excess capital	171	147	0	158	110

CAPITALIZATION

Industrial Alliance's capital structure can be divided into three main categories of capital: equity, debt securities and the participating policyholders' account. At the end of 2007, equity accounted for 84% of the Company's capital.

As at December 31, 2007, the Company's regulatory capital totalled \$2.1 billion, a 10% increase compared to December 31, 2006. The increase in capital in 2007 is due to two factors in particular: the increase in retained earnings and the issuance of common shares associated with the exercise of options under the Company's stock option plan. On the other hand, the growth of capital was slowed by the buy-back of common shares at the end of 2007 (see the "Buy-Back of Shares" section below).

Capital Structure and Debt Ratios	(In millions of dollars, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003 ¹
Capital structure					
Equity					
Common shares	513.1	507.7	510.6	458.1	438.3
Preferred shares	125.0	125.0	--	--	18.7
Retained earnings	1,148.3	971.3	845.4	751.7	627.5
Contributed surplus	17.1	14.6	12.3	9.5	6.5
Currency translation account	--	(6.8)	(7.1)	(5.8)	(2.5)
AOCI ³	(3.8)	--	--	--	--
Total	1,799.7	1,611.8	1,361.2	1,213.5	1,088.5
Debt securities					
Subordinated debentures	309.8	310.1	373.0 ⁴	150.0	135.0
Other debt (IATS) ⁵	--	--	--	150.0	150.0
Total	309.8	310.1	373.0	300.0	285.0
Participating policyholders' account	24.1	23.1	19.7	17.3	13.2
Total	2,133.6	1,945.0	1,753.9	1,530.8	1,386.7
Debt ratios					
Debt/Capital structure	14.5%	15.9%	21.3%	19.6%	20.6%
Debt and preferred shares/capital structure	20.4%	22.4%	21.3%	19.6%	21.9%

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.

³ AOCI: Accumulated other comprehensive income.

⁴ 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.

⁵ IATS: Industrial Alliance Trust Securities.

After all the changes that affected its capital structure in 2007, the Company is still in a good leverage position. As a result, the debt ratio, measured by the debt securities compared to the capital structure, decreased during the year from 15.9% as at December 31, 2006 to 14.5% as at December 31, 2007. If the preferred shares are added to the debt securities, the ratio still decreased from 22.4% as at December 31, 2006 to 20.4% as at December 31, 2007. These ratios are below the maximum levels accepted by the rating agencies, based on the credit ratings assigned to the Company.

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 shares as at December 31, 2007 was 79,841,363¹, a decrease of 77,750 compared to December 31, 2006. This decrease is attributable to the following factors:

- › The buy-back of 391,000 common shares of the Company (see the "Buy-Back of Shares" section below).
- › The issuance of 313,250 common shares following the exercise of options under the stock option plan for Company management.

The Company paid a dividend of \$0.18 per common share in the first two quarters of 2007 and \$0.20 per common share in the last two, for a total dividend of \$0.76 per common share. Hence, the Company paid out \$60.9 million in dividends to common shareholders. This dividend translates into a payout ratio of 25.2% of the net income available to common shareholders for 2007, or 24.4% of the adjusted net income available to common shareholders (refer to the *Eight-Year History* for more details on the adjustments). At the end of the year, the Company announced that it was maintaining its target dividend payout ratio of 28%.

Note that when the Company disclosed its fourth quarter results, it announced a \$0.025 increase in its quarterly dividend, which will increase to \$0.225 per common share. This dividend will be payable in the first quarter of 2008.

As at December 31, 2007, the last trading day of the year, IAG stock closed at \$42.58. The Company's market capitalization was \$3.4 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 16, 2005. This means that the Company's stock price grew 440% between February 3, 2000 and December 31, 2007.

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 \$5.8 million in dividends to preferred shareholders in 2007.

DEBENTURES

The Company had three debentures in its balance sheet as at December 31, 2007, with a total value of \$309.8 million.

- › A \$151.1 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 \$148.6 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.

The financing expenses on the debentures totalled \$3.3 million in 2007 (\$17.8 million in 2006). This amount of \$3.3 million corresponds to \$16.8 million in interest, less a market value gain of \$13.5 million posted to the 2007 results. Note that the Company began posting its debentures according to their fair value when the new accounting standards for financial instruments took effect on January 1, 2007.

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

STOCK OPTION PLAN

In accordance with the stock option plan adopted by the Board of Directors in 2001, in 2007 the Human Resources and Corporate Governance Committee issued 505,000 new stock options. These new options, which will expire in 2017, were granted at an average weighted exercise price of \$35.65. This issue increases the number of stock options outstanding to 3,300,000, or 4.1% of the number of issued and outstanding shares as at December 31, 2007.

CREDIT RATING

On May 31, 2007, the A.M. Best rating agency announced in a news release that the Company's outlook for all ratings had been increased to "positive" from "stable". According to the A.M. Best evaluation procedure, an outlook change of this nature means the Company is likely to have its credit ratings increased within twelve to twenty-four months following the change, provided its results and the market continue to show favourable trends.

In its news release, A.M. Best confirmed all the credit ratings assigned to Industrial Alliance, including a financial strength rating of A (Excellent).

¹ This number takes into account the shares purchased and settled at the end of 2007 and in the process of being cancelled.

The Standard & Poor's and DBRS rating agencies, which also rate Industrial Alliance, also renewed all of their ratings for 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	Outlook
Standard & Poor's	Financial Strength	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	A (Excellent)	Positive
	Issuer Credit Rating	a+	Positive
	Subordinated debentures	a-	Positive
	Industrial Alliance Trust Securities (IATS)		
	Canadian scale	bbb+	Positive
	Global scale	bbb+	Positive

NORMAL COURSE ISSUER BID

With the approval of the Toronto Stock Exchange, the Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has authorized the Company to purchase in the normal course of its activities, from February 15, 2008 to February 14, 2009, up to 3,900,000 common shares, representing approximately 4.9% of the 80,291,621 common shares issued and outstanding on February 8, 2008.

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.

The average daily trading volume of the Company's common shares was 165,548 on the TSX over the last six completed calendar months (the ADTV). Accordingly, the Company is entitled to purchase up to 25% of the ADTV on any trading day (being 41,387 common shares).

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. The Company may, subject to obtaining the prior written approval of the Exchange, enter into derivative transactions in the normal course of business, including forward contracts, pursuant to which it may acquire its common shares.

Shareholders may obtain without charge a copy of the documents filed with the Exchange concerning this Bid by writing to the Corporate Secretary of Industrial Alliance.

BUY-BACK OF SHARES

Under the previous Normal Course Issuer Bid, which extended from February 13, 2007 to February 12, 2008, the Company purchased 521,400 common shares, at an average price of \$42.77 per share, for a total amount of approximately \$22.3 million.

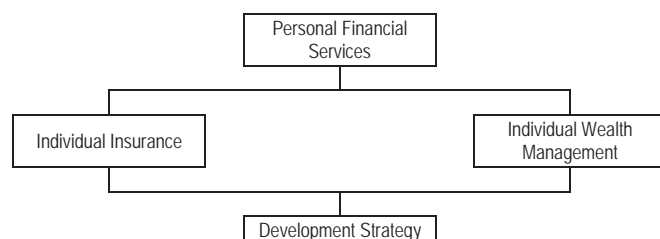
Of the 521,400 common shares purchased, 391,000 were purchased at the end of 2007, at an average price of \$42.76 per common share, and 130,400 were purchased at the beginning of 2008, at an average price of \$42.80 per common share. The common shares thus purchased were cancelled.

These purchases were made to preclude a portion of the dilutive effect of the common shares that will be issued in 2008 as part of the Company's stock option plan and the acquisition of Excellence (the acquisition of Excellence was completed on January 31, 2008).

The Company plans to use its normal course issuer bid to eliminate any dilutive effect caused by the issuance of common shares as part of the stock option plan or the acquisition of business.

PERSONAL FINANCIAL SERVICES

Industrial Alliance offers insurance and wealth management 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 life insurance (universal, permanent and term), health insurance, and mortgage insurance products.

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products, including registered and non-registered retirement savings plans, registered education savings plans, registered retirement income funds, life annuities and fixed-term annuities, which clients can invest in through various investment vehicles: segregated funds, mutual funds, securities and guaranteed-interest investments.

The Company has an integrated development strategy for all of its personal financial services. The insurance and savings and retirement products are distributed Canada-wide through three distribution networks:

- › the Career Agents network, which has over 1,600 dedicated agents
- › the General Agents network, which has over 12,000 insurance brokers
- › the National Accounts network, which has over 500 mutual fund and securities brokers

The savings products associated with the mutual funds are distributed Canada-wide through over 15,000 mutual fund and securities brokers associated with independent or affiliated networks.

INDIVIDUAL INSURANCE

2007 HIGHLIGHTS

- › Sales Growth
 - › Record sales of \$159.0 million
 - › Sales up 4%, owing to a very strong second half of the year
 - › First in Canada for Universal Life sales, with a market share of 16.9% for the first nine months of the year (industry results for the fourth quarter were not yet announced at the time this report was written)

› Main Achievements

- › Active and successful management of sales and profit margins
- › Acquisition of The Excellence Life Insurance Company
- › Revision of the Universal Life policy in order to maintain our competitive position in terms of level cost insurance
- › Launch of a new credit insurance product for insuring lines of credit and other loans
- › Addition of new insurance benefits and improvement of existing benefits for the family market
- › 4% increase in the number of Career network agents and expansion of the General Agents network, particularly in the high-income family market

In 2007, the Individual Insurance sector accomplished the major task of maintaining sales growth despite the pricing adjustments made the previous year, and carrying out the desired shift in Universal Life sales from level cost insurance products to yearly renewable term (YRT) products, which had a positive impact on the sector's profitability.

Another highlight of 2007 was the acquisition of The Excellence Life Insurance Company which, in addition to providing access to new distribution networks, will allow us to penetrate a new market niche: the individual disability and health insurance market.

BUSINESS GROWTH

Sales in the Individual Insurance sector totalled \$159.0 million for 2007, the highest volume of sales ever achieved by the Company. This represents a 4% increase over 2006, which could be similar to that of the industry, whose sales were up 5% in Canada after three quarters.

Individual Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003
Sales ¹	159.0	153.6	141.3	139.9	128.7
Growth	4%	9%	1%	9%	(3%)
Premiums	897.3	838.6	768.7	763.1	683.4
Growth	7%	9%	1%	12%	3%

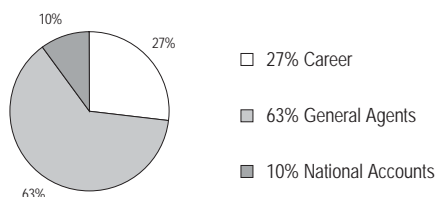
The Company is pleased with this result given that sales were down in the first two quarters of 2007. The decrease in long-term interest rates over the past few years affected the profitability of life insurance products. The Company reacted promptly to this situation by making some pricing adjustments to certain life insurance policies in 2006, and again in early 2007 to adapt to the changing market. The strong recovery of sales in the third and fourth quarters of 2007, which were up 11% and 20% respectively over the same quarters the previous year, reversed the trend and enabled the Company to end the year on a particularly positive note, which bodes well for 2008.

Industrial Alliance is still a leader in Canada in Individual Insurance sales, ranking fourth for the first nine months of the year, with a 12.7% market share, but ranking first for Universal Life sales, with a market share of 16.9% (the same rankings as in 2006).

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

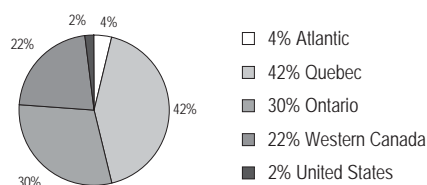
By distribution network, 2007 sales were up some 2% and 3% respectively in the Career and General Agents networks. In the National Accounts network, which primarily distributes highly capitalized policies, sales were up 9%. The improvements made during the year to make our Universal Life products more competitive (refer to 2007 Achievements below) had the biggest impact on sales in the National Accounts network.

Sales by Distribution Network
2007



By region, sales were up in Quebec and Ontario, with a similar growth rate (+9%) to the previous year, but were down in all other regions. As the figure below shows, individual insurance sales outside Quebec accounted for 58% of the new business for 2007.

Sales by Region
2007

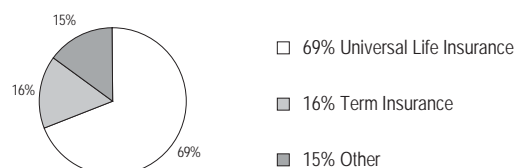


By product, sales of Universal Life policies were especially strong in 2007 (+12%), and the shift in sales in favour of yearly renewable term (YRT) Universal Life policies has continued, in accordance with the Company's wishes. YRT policies accounted for 49% of sales in 2007, compared to 38% in 2006. These policies are less strain-intensive, which is helpful for improving the business line's profitability.

Universal Life policies continue to be the Company's most popular product. As a percentage, these policies accounted for 69% of the sector's total sales, compared with 55% for the industry. The Company ranked number one in Canada for the first nine months of 2007 for the sale of new Universal Life policies, with 16.9% of all sales. The Company has held this rank for several years, thanks to the strategic development initiatives continually being introduced by the sector.

With respect to term product sales, which were down in 2007, 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.

Sales by Product
2007



Strong sales and good business persistency increased premium income in the Individual Insurance sector by 7%, bringing it to \$897.3 million in 2007.

Growth in premium income is important because, with the control of the new business strain, it is the key long-term profitability driver for the sector. Growth in premium income is a function of the persistency rate of in-force business and growth of new sales. This latter factor in turn is dependent on the ongoing growth of the 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.

2007 ACHIEVEMENTS

From a competitiveness standpoint, the major challenge in 2007 was putting measures in place to maintain our competitive position in the very important Universal Life market and preserve our relationship of trust with our distribution networks. The adopted measures primarily involved the improvement of our service offer for level cost Universal Life policies. A major concern, however, was maintaining the Company's sales growth momentum while increasing profitability, a goal that was successfully achieved.

On the product front, we continued to adapt our product line in order to maintain our competitive position, while seeking to stand out through innovation. Following are the three main initiatives introduced in 2007:

- › Universal Life insurance – In addition to the improvements made to the level cost of insurance of our Universal Life policy, we also added three new global active management index accounts, allowing us to meet the very specific needs of certain investors. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive financial planning investment vehicle.
- › Credit insurance – The sector continued to expand its family of individual insurance products with the launch 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.
- › Family insurance – In order to improve our competitive position in the more traditional family market, we introduced a new hospitalization insurance benefit to complement the government plan, which can be used to provide coverage for all family members at a very affordable cost.

In terms of distribution, we continued to actively develop our distribution networks. In particular, we succeeded in increasing our number of Career network agents by 4% (compared to an objective of 3%). This network includes over 1,600 agents. We also signed agreements with new general agents, particularly in the high-income family market.

In terms of acquisitions, on January 31, 2008, we completed the acquisition of The Excellence Life Insurance Company. This acquisition will allow Industrial Alliance to enter a new market niche: the individual disability and health insurance market. Excellence is an insurance company that specializes in the manufacturing and distribution of life and health insurance products for individuals, corporations and professional associations. It offers a broad range of disability insurance, medical care and hospitalization benefits insurance, and life and accident insurance products. It primarily distributes its products in Quebec through independent brokers and authorized agents working with professional associations. Industrial Alliance plans to make Excellence its platform for developing its operations in this new market segment, both within and outside Quebec.

Lastly, from a technological and administrative standpoint, the Company has nearly completed the harmonization of National Life's systems and administrative procedures with those of Industrial Alliance by converting all remaining blocks of business. This will now make it possible to reap the full benefits of the cost savings associated with the harmonization process.

INDIVIDUAL WEALTH MANAGEMENT

2007 HIGHLIGHTS

- › Business Growth
 - › Record sales totalling \$3.1 billion, an increase of 26%
 - › Exceptional year as a mutual fund manufacturer: \$1.8 billion in sales, an increase of 46% (net sales almost tripled in 2007)
 - › \$15.1 billion in funds under management, an increase of 8%
- › Main Achievements
 - › Launch of a new retirement income product, *Ecoflextra*, that ensures a guaranteed income for life with the growth potential of the markets
 - › Revamping of our single premium annuity products to increase our competitiveness in this market segment
 - › Implementation of the new computer system as an administrative platform for managing segregated funds, which could also be used for mutual funds

The Individual Wealth Management sector once again stole the spotlight in 2007. The sector's strong sales growth, which was primarily due to the significant contribution of IA Clarington on the mutual funds front, contributed to the sector's excellent results throughout the year.

BUSINESS GROWTH

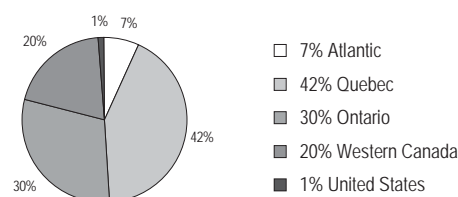
General fund, segregated fund and mutual fund sales totalled \$3.1 billion in 2007. This represents growth of 26% compared to the previous year. The sector recorded higher sales in all product categories, all distribution networks and all regions of Canada.

This result can be explained by the size and depth of the Company's distribution networks, as well as the successful integration of the operations of Clarington Corporation with those of the parent company.

Individual Wealth Management Sales ¹	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003
General fund	334.4	289.2	242.4	237.5	227.9
Segregated funds	990.6	958.3	805.2	669.3	430.8
Mutual funds	1,796.9	1,227.6	412.6	--	--
Total	3,121.9	2,475.1	1,460.2	906.8	658.7
Growth	26%	70%	61%	38%	12%

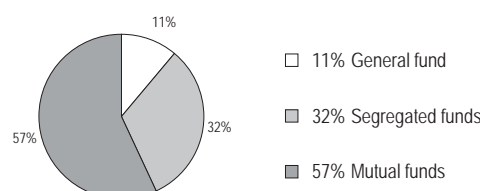
By region, 58% of sales were made outside Quebec in 2007. This can be explained by the acquisition of Clarington at the end of 2005, whose distribution network is Canada-wide.

Sales by Region
2007



Even though the Company is just starting out in the mutual fund sector, sales of this product accounted for 58% 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. 2007 was the first year that IA Clarington was fully operational, following the 2006 integration of Clarington's mutual fund operations with those of Industrial Alliance.

Sales by Product
2007



By product, segregated fund sales grew modestly, increasing 3% in 2007, due to the popularity of the new guaranteed retirement products launched last year on the market. We launched a similar product, *Ecoflextra*, in the last quarter of 2007, which should help to boost our segregated fund sales (for more details, refer to 2007 Achievements below).

For mutual funds, the Company had another excellent year as a manufacturer, with sales of this product growing 46% in 2007 thanks to the significant contribution of IA Clarington.

For traditional general fund products (essentially guaranteed interest products and insured annuities), fund entries grew by 16% in 2007. These products are more popular when the stock markets are down, as was temporarily the case during the year, resulting in increased demand for this type of product.

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.

With respect to net investment fund sales (segregated funds and mutual funds), the results were also excellent. Net sales totalled \$1.4 billion in 2007, a 58% increase compared to the previous year. Net sales correspond to 49% of gross investment fund sales, a particularly high proportion compared to the investment fund industry.

Investment Funds Net Sales	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003
Segregated funds	578.7	607.6	547.4	332.7	117.5
Mutual funds	799.2	267.0	148.7	--	--
Total	1,377.9	874.6	696.1	332.7	117.5
As a percentage of gross sales	49%	40%	57%	50%	27%

Positive net sales boosted the sector's assets under management to \$15.1 billion, an 8% increase for 2007. The Company was ranked fourth in Canada with respect to segregated fund assets as at December 31, 2007, with 8.9% of the market (8.8% as at December 31, 2006).

Individual Wealth Management Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003
General fund	1,584	1,632	1,695	1,771	1,775
Segregated funds	6,696	6,047	4,851	3,872	3,262
Mutual funds	6,835	6,281	5,660	1,018	94
Total	15,115	13,960	12,206	6,661	5,131
Growth	8%	14%	83%	30%	13%

Growth in assets under management is important because it is the key long-term profitability driver for the sector. Assets under management is reliant on gross sales, the persistency rate of in-force business, and the return on assets. Gross sales in turn are dependent on the aging of the population (and their growing need for savings and investment products), the size of the Company's distribution networks and the collective enrichment of the population. The segregated funds market also has a major competitive advantage thanks to the capital guarantee at maturity and at death.

2007 ACHIEVEMENTS

In terms of positioning, today Industrial Alliance is among the top 20 investment fund managers (mutual funds and segregated funds combined) in the retail market in Canada, with \$13.5 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 2007.

- › New retirement product – The highlight of the year was the launch of a new lifetime guaranteed retirement income product called *Ecoflextra*. This product allows clients to benefit from the investment advantages offered by segregated funds, while offering them a minimum guaranteed income during retirement and the possibility for this income to grow depending on market performance.
- › Single premium annuity products – We revised our service offer for our single premium annuity products in order to increase our competitiveness in this market segment reserved exclusively for insurance companies.

- › Leverage strategy – In order to help clients who use a leverage strategy to achieve their financial goals, we revamped our investment loan product by offering more competitive interest rates and a higher loan limit.

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.

Lastly, from a systems standpoint, we continued to work on designing a new administrative platform for managing segregated funds, which could also be used to manage mutual funds. The first phase of the new system was implemented in 2007, allowing new sales of segregated funds to be issued and administered using this new system. The implementation of two more phases is scheduled for 2008. One goal of this new system is to enhance the synergies among our various investment fund activities, in order to reduce operating expenses as much as possible.

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 following diagram, 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 the Career Agents network, our goal continues to be growing the number of Career network agents by 3% per year (we grew it by 4% in 2007).

The Company is not ruling out the possibility of expanding its networks through acquisitions, both in the Individual Wealth Management sector, as was the case in the past few years, and in the Individual Insurance sector, as was the case in 2007 with the signing of agreements with new general agents, including some who specialize in the sale of insurance to high-income families.

Lastly, we want to reap the full benefits of the possible synergies between the parent company and IA Clarington. Following the successful integration of IA Clarington Corporation in 2006 from both a distribution and administration standpoint, mutual fund sales had an excellent year in 2007. We plan to further develop our efforts to achieve synergies on the product front by considering the possibility of offering the new *Ecoflextra* retirement product to the IA Clarington distribution networks.

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 the high-income market. 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 maintain a balance between business growth and profitability.

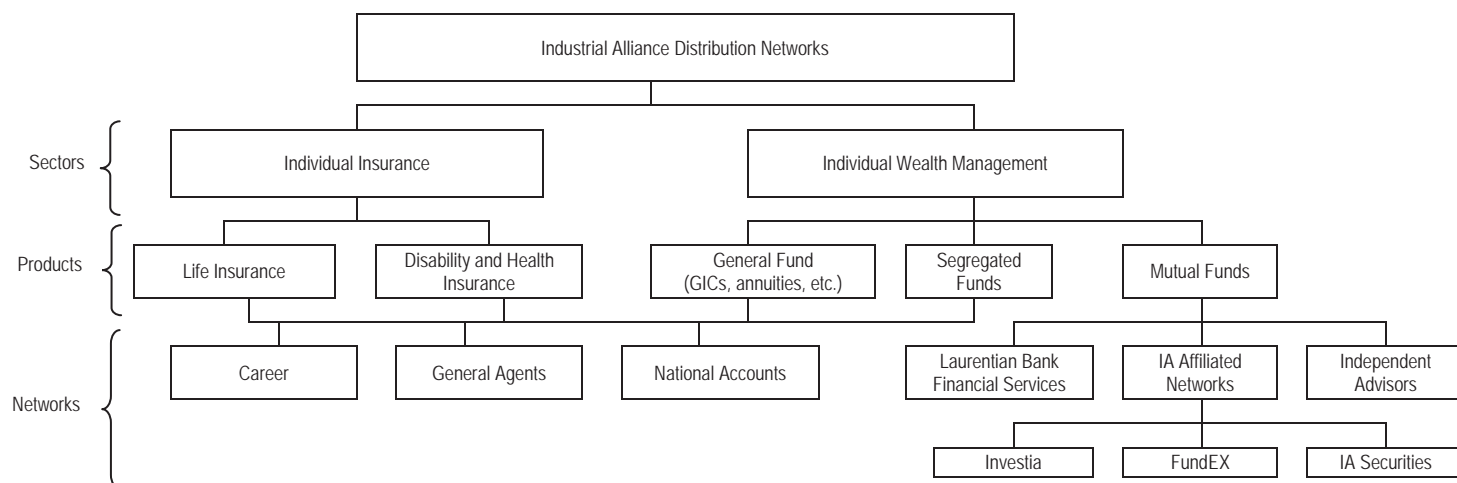
The acquisition of Excellence at the very end of 2007 will allow us to penetrate a new market niche: the individual disability and health insurance market. Industrial Alliance plans to make Excellence its platform for developing its operations in this new market segment, both within and outside Quebec.

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 would allow us to manage segregated funds and mutual 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.



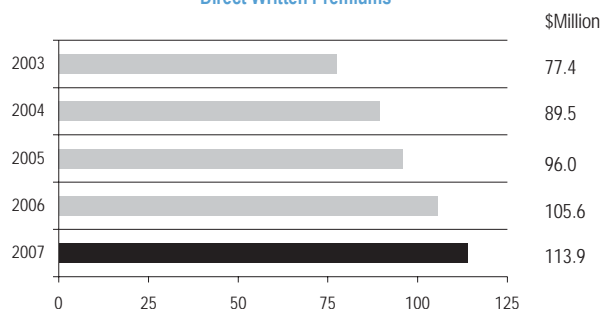
INFORMATION ON AUTO AND HOME INSURANCE OPERATIONS

Industrial Alliance markets its auto and home insurance products through its Industrial Alliance Auto and Home Insurance Inc. (IAAH) subsidiary. 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 almost quadruple its market share in the retail insurance market in Quebec, ranking 11th among automobile and home insurers in 2006 compared to 26th in 2000, while providing the parent company with a higher than expected return on investment. The main distinctive advantage that enabled IAAH to realize this achievement was referrals from the parent company's distribution networks, which represent a unique business development opportunity in the industry. The strong, positive reputation of the "Industrial Alliance" brand name in Quebec also contributed to the development of IAAH.

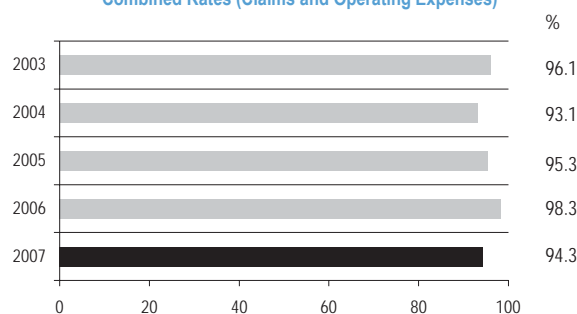
2007 was another good year for growth at IAAH. Direct written premium growth reached 8% at IAAH, while industry growth was around 3%. The company's business volume now amounts to \$113.9 million for retail insurance.

Direct Written Premiums¹

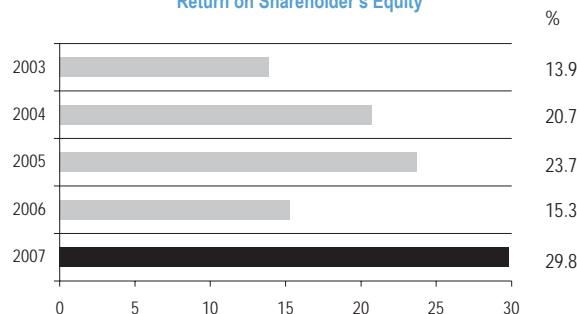


From a profitability standpoint, claims experience improved considerably in home insurance, primarily due to the adjustments made to rates and coverages, and much better weather in 2007 than in past years. In auto insurance, claims experience remained favourable despite the pricing decreases over the last few years. Although IAAH began making significant investments in technology in 2007 to improve its long-term efficiency, its operating expenses remained one of the best in the industry. The combination of these factors enabled the Company to earn net income of \$5.7 million, excluding accumulated other comprehensive income. This income represents a return on shareholder's equity of 29.8%, well above the group's target range.

Combined Rates (Claims and Operating Expenses)



Return on Shareholder's Equity



The major challenges that IAAH will have to face in the coming years continue to be the shortage of qualified personnel and the continually increasing competition. In order to meet these challenges, IAAH adopted a 5-year plan in 2005 that aims to significantly improve its internal efficiency through an in-depth review of its processes and the implementation of a more modern and user-friendly technological interface. In light of the major efficiency gains already achieved at the halfway point of the plan, this continues to be a very promising approach.

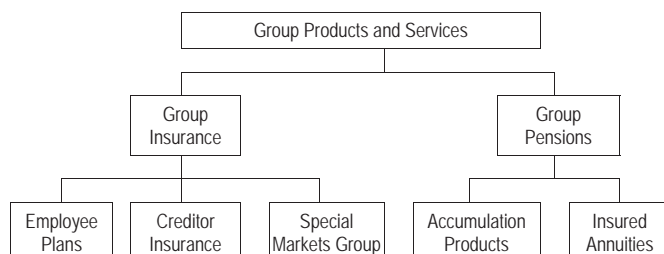
¹ Excluding the business written for Industrial-Alliance Pacific General Insurance Corporation.

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 markets (SMG). In 2007, the sector wrote \$955.2 million in premiums and premium equivalents. Of this amount, 72% came from employee plans, 17% from creditor insurance and 11% from special markets.

In the Group Pensions sector, the Company operates in two market segments: accumulation products and insured annuities. As at December 31, 2007, the sector had \$6.1 billion in assets under management. Of this amount, 58% came from accumulation products and 42% from insured annuities.



GROUP INSURANCE EMPLOYEE PLANS

2007 HIGHLIGHTS

- › Business Growth
 - › \$689.5 million in premiums and premium equivalents, up 9%
 - › \$72.0 million in sales, up 2%
 - › 52% of all sales made outside Quebec
 - › 5th in Canada in 2007 for sales in our target market of groups with 50 to 999 employees, with an 8.1% market share
- › Main Target Markets
 - › Canada-wide development, particularly outside Quebec
 - › Medium-sized businesses (50 to 999 employees)

DESCRIPTION OF SECTOR

In the Group Insurance Employee Plans sector, the Company distributes a broad range of life and health insurance, accidental death and dismemberment (AD&D insurance), dental care insurance, short and long-term disability insurance, critical illness and home care insurance, and medical insurance outside Canada.

In addition, the Company offers a number of tools and services for the effective administration of group insurance plans, including a health spending account and a support program for employees and employers (employee assistance program, disability management, drug payment card, etc.). The Company also has a state-of-the-art transaction-driven website called Web@dmn for plan administrators, members and business partners.

The Company's products and services are available on an insured, experience or administrative services only (ASO) contract basis.

The products are marketed Canada-wide through specialized brokers and actuarial consulting firms. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

SUMMARY

The Group Insurance Employee Plans sector continued to grow in 2007, thanks to business growth of 9%. Sales in Quebec experienced strong growth in 2007, but sales outside the province still represented 52% of total sales for the sector. This is the third consecutive year where sales have mostly come from outside Quebec.

BUSINESS GROWTH

Group Insurance Employee Plan sales totalled \$72.0 million in 2007, a 2% increase over the previous year.

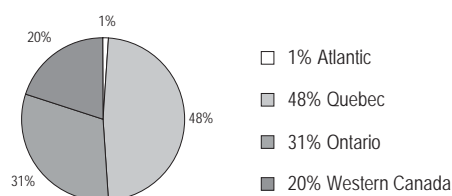
Group Insurance (Employee Plans) Business Growth	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003
Sales ¹	72.0	70.8	52.3	55.7	53.3
Growth	2%	35%	(6%)	5%	(42%)
Premiums	594.8	509.2	475.4	448.4	426.0
Premium equivalents ²	94.7	124.1	102.9	96.1	99.2
Total	689.5	633.3	578.3	544.5	525.2
Growth	9%	10%	6%	4%	24%

By region, sales were up in Quebec, and remained high in Ontario and Western Canada, but low in the Atlantic provinces.

¹ In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only).

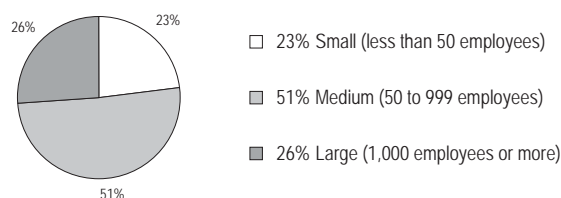
² Premium equivalents are income from administrative services only (ASO) contracts.

Sales by Region
2007



By group size, sales were especially strong in the small groups market, with growth of 45%, and the large groups market, with growth of 15%. For our target market of medium-sized groups (with 50 to 999 employees), our sales were down 7%. Sales in this segment accounted for 51% of our sales for the year.

Sales by Group Size
2007



According to 2007 data, industry sales were up 10% in 2007, primarily due to strong growth in the very large groups market (over 5,000 employees). Excluding these large groups, industry sales were down 3%. In terms of market share, at the end of the year we were ranked sixth, with 4.1% of the market (sixth in 2006, with 4.9% of the market).

For our target market of companies with 50 to 999 employees, our sales were down from 2006, as were industry sales. We ended the year in fifth position, with 8.1% of the market (fifth in 2006, with 8.5% of the market).

With good sales and business persistency above expectations, growth in premiums and premium equivalents was similar to that of 2006. Revenue peaked at \$689.5 million in 2007, which represents growth of 9% compared to the previous year.

Growth in premiums and premium equivalents is important because these are the key long-term profitability drivers for Group Insurance Employee Plans. Premiums and premium equivalents are a function of in-force business persistency, the increase in gross sales, and growth in premiums from renewed contracts. Gross sales are primarily dependent on employment growth in the economy and the size of the distribution network. Premiums from renewed groups are a function of the change in the number of employees within in-force groups, as well as salary growth (which influences the volume of life and disability insurance) and changes in health care costs (more specifically medications).

2007 ACHIEVEMENTS

Several client-based initiatives were implemented in 2007.

We continued our positioning efforts to make Industrial Alliance be recognized as an insurer that focuses on client needs, with a particular emphasis on 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 has shown that clients place just as much importance on 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). We surveyed brokers and consultants, plan administrators and claimants to give us a better idea of the critical success factors and how well we are achieving them.
- › Establishment and measurement of success indicators for the sector (performance indicators). These indicators, which were initially focused on service times, are becoming increasingly focused on qualitative indicators like client satisfaction.
- › Creation of performance indicators for policyholders that illustrate the key indicators for managing their plans (service times, claims payment statistics, etc.). We also met with several of our policyholders' plan administrators to explain any changes to their employee benefit plans, which proved to be a very valuable service.

We are continuing our initiative to audit the business practices of health care providers in an effort to avoid paying questionable claims. Our clients have expressed an interest in this type of service, which will focus primarily on health insurance and dental insurance claims.

In addition, we are continually adding new functions to Web@dmin, our transactional website for clients (intermediaries, plan administrators and members). At the end of 2006 we introduced the Webhe@lth portal, which gives members access to a wealth of information to help them deal with situations affecting their health, either in the workplace or in day-to-day life. Several groups benefited from Web@dmin's Flex enrolment software, which allows members with modular plans¹ to select their coverage directly on the site.

Lastly, members can now be reimbursed for medical and dental expenses without any documents being printed. Members already had the option of having their reimbursements deposited directly into their bank account; now they can obtain information about these reimbursements through an email notifying them to access the secure website.

We completed the implementation of the TIDE system for clients administered at our Toronto office. TIDE is now the only system used to manage disability insurance claims for all clients. This implementation was driven by the hard work and dedication of many people, and resulted in a more harmonized claims management process, better file follow-up and improved service quality.

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

We also provided access to the Best Doctors service in 2007. Through this service, employees and their families can access a network of over 50,000 medical professionals. The mission of these professionals is to confirm the diagnosis of 18 conditions or pathologies and determine the best treatment in cooperation with the attending physician. This service allows insureds to receive the best possible care, shorten their recovery time and receive added value under their group insurance plan. Many of our clients already benefit from this service, which is offered on an optional basis.

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 2008 focuses on the following six elements:

- › **Canada-wide development** – In terms of business growth, we are aiming to grow our market share outside Quebec, especially in Ontario.
- › **Focus on the medium-sized business market** – Groups with 50 to 999 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 continue focusing on a smaller number of intermediaries that specialize in the distribution and administration of insurance plans for small and medium-sized businesses. This strategy has generated strong growth in operations in this segment over the last two years.
- › **Opportunistic attitude towards larger group sales** – Our goal is to increase our market share for the larger business market (groups with 1,000 employees or more). 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, in 2008 we will be inviting selected intermediaries to take part in advisory committees.
- › **Continued development of Web@dmn** – Additional resources will be working on designing new functions in order to maintain our competitive position. The focus will be on development with regard to the electronic information sent to administrators, members and intermediaries.
- › **Reengineering of the business process for managing disability insurance claims** – In partnership with an external resource, a group of employees will analyze the current processes and determine an action plan for improving them. The purpose of this exercise is to improve the quality of our services and to reduce service times, starting from when the first documents are received (the initial claim) until a decision is made regarding the claim (when the first cheque is issued, in most cases).

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 was introduced in 2007.

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 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 maintaining our "client vision" and "superior service"** – Our clients want service that meets their needs and expectations quickly and effectively, as well as state-of-the-art technology tools, at competitive prices. This is what we intend to continue offering them.

GROUP INSURANCE CREDITOR INSURANCE

2007 HIGHLIGHTS

- › **Business Growth**
 - › \$192.0 million in sales, up 9%, outperforming the light vehicle sales market
- › **Competitive Advantages**
 - › Leader in the motor vehicle dealers market, with over 40% of the market
 - › Exclusive direct nationwide distribution network (unique in the market)
 - › Low unit costs owing to economies of scale based on company size
- › **Key Business Development Initiatives**
 - › Expand distribution in Ontario and British Columbia
 - › Maximize penetration rate of newly-expanded product line, mainly non-creditor products
 - › Optimize operations by electronically processing new business

DESCRIPTION OF SECTOR

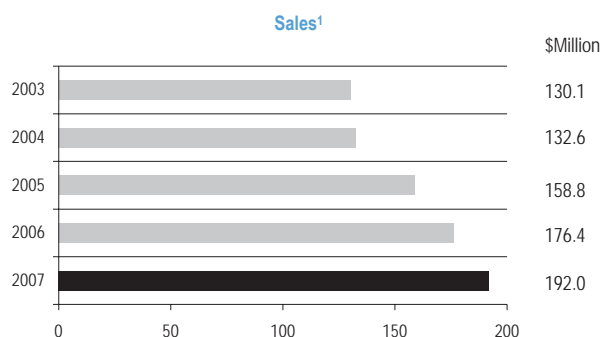
In addition to employee benefit and special market plans, the Group Insurance sector also distributes creditor insurance products (life, disability and critical illness) to automobile and other motor vehicle dealers. These products are offered through an exclusive Canada-wide direct distribution network 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.

The Group Creditor Insurance sector with auto dealers distributes its products from seven sales offices: Halifax, Quebec City, Montreal, Toronto, Winnipeg, Edmonton and Vancouver.

2007 ACHIEVEMENTS

The Group Creditor Insurance sector had a very impressive year again in 2007, significantly outperforming the light vehicle sales market, which was up 2.4%. Creditor insurance sales reached \$192.0 million, up 9% over 2006 and 9% on average over the past five years (slightly down for the light vehicle market over the same period).

Sales growth is the main profitability driver for the Group Creditor Insurance sector. Sales are mainly reliant on the number of new vehicles sold, the expansion of the distribution network and to a lesser degree, the demand for credit products such as mortgage loans or personal loans.



The main achievement of the Group Creditor Insurance sector in 2007 was its continued outperformance of the light vehicle sales market. This growth was primarily attributable to the following factors:

- › 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.
- › Improved penetration rate among the dealer's clients.
- › Competitive pricing, which is made possible through strict management of operating expenses.

Group Creditor Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2007	2006	2005	2004	2003
Sales	192.0	176.4	158.8	132.6	130.1
Reinsurance	30.7	28.6	26.7	22.8	24.6
Premiums	161.3	147.8	132.1	109.8	105.5
Growth	9%	12%	20%	4%	7%

COMPETITIVE ADVANTAGES

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

- › It is 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, concentrating on the Ontario and B.C. markets.
- › Focus on maximizing the existing product portfolio, with reduced emphasis on the development of new products.

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

- › **Expand in Ontario and British Columbia** – Considering 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 over the past 2 years, and we accordingly anticipate favourable sales results.
- › **Maximize the penetration rate of the newly-expanded product line** – Although we will continue to develop new products, the bulk of our efforts will be focused on maximizing the penetration of the existing product portfolio. 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. In particular, we are concentrating on our new mechanical warranty product line, which is eligible for participation in the dealer reinsurance program.
- › **Optimize operations** – We will continue to look for opportunities to vertically integrate our participation in the P&C and ancillary product lines we market. We have also signed an agreement with a third party to electronically connect the dealers to our administration system. This e-contract rating and generation will optimize the process for issuing new coverages.

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

GROUP INSURANCE SPECIAL MARKETS GROUP (SMG)

2007 HIGHLIGHTS

- › Business Growth
 - › \$104.4 million in sales, up 13%
- › Competitive Advantages
 - › Considerable expertise in the AD&D and special risks market
 - › Excellent reputation for customized service and business solutions
 - › Local presence
- › Development Strategy
 - › Improve penetration rate of recently-expanded product line
 - › Develop relationships with new distributors of AD&D insurance and other specialized products
 - › Exploit new niche markets

DESCRIPTION OF SECTOR

The Special Markets Group (SMG) is a division of Industrial Alliance Pacific that specializes in niche 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, as well as 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.

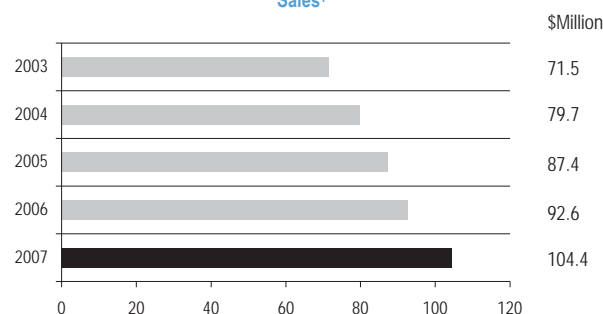
2007 ACHIEVEMENTS

SMG obtained good double-digit growth in 2007, with sales growing 13% over 2006 to \$104.4 million.

All main segments of SMG business achieved good growth in 2007. Travel business was the growth engine for 2007, with sales up 22%, followed by student health insurance, with sales up 14% over 2006. Sales for the core AD&D business grew by 7%, a good result considering the maturity of the AD&D market overall.

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.

Sales¹

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 is based on the following components:

- › Improve the penetration rate of the recently-expanded product line, by focusing on distribution.
- › Develop relationships with new distributors of specialized insurance products.
- › 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.

GROUP PENSIONS

2007 HIGHLIGHTS

- › Business Growth
 - › New high for recurring premiums on accumulation products, up 16% to reach \$289.6 million
 - › Record sales of \$232.4 million in insured annuities
 - › Sales of new accumulation plans outside Quebec higher than plan sales in Quebec for the third consecutive year
- › Development Strategy
 - › Focus on accumulation products
 - › Canada-wide development
 - › Development of institutional money management
 - › Growth of distribution networks
 - › Enhancement of product and service offer

DESCRIPTION OF SECTOR

The Group Pensions sector offers a wide range of products and services that are adapted to the needs of retirement plan members. The products offered can be broken down into two categories: accumulation products (savings products, such as defined contribution or defined benefit plans, and institutional money management services) and disbursement products (primarily insured annuities).

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

The business line's products are marketed Canada-wide through specialized brokers, actuarial consulting firms and representatives from the Career and General Agents networks in the Personal Financial Services sectors.

For savings products, the Company's main target market is medium-sized businesses with 100 to 2,500 employees; for institutional money management services, it targets pension funds valued from \$25 to \$500 million; and for disbursement products, it targets plans of all sizes.

The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

SUMMARY

Group Pensions is continuing its momentum of the last few years. In 2007, business growth surpassed the objectives set for the year in both market segments: accumulation products and insured annuities.

On the accumulation product front, recurring premiums reached a new high, and the volume of business written outside Quebec was higher than that written in Quebec for the third consecutive year. On the insured annuities front, a strong market enabled the sector to achieve a new record and greatly exceed the objectives set out at the beginning of the year.

BUSINESS GROWTH

Overall, 2007 premiums totalled \$828.3 million, an increase of 1% for the year. Insured annuities grew 19%, with \$232.4 million in premiums, while accumulation products were down 5% from the excellent results achieved in 2006. It is important to note that over the last five years, average annual premium growth was 22% on our 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)				
	2007	2006	2005	2004	2003
Insured Annuities	232.4	195.2	154.3	99.8	109.9
Accumulation Products					
Recurring premiums	289.6	250.7	231.4	192.1	159.3
Transfers	306.3	374.2	179.1	169.2	99.7
Total – Regular operations	595.9	624.9	410.5	361.3	259.0
National Bank Trust transfer	--	--	--	--	187.5
Grand total	828.3	820.1	564.8	461.1	556.4

Accumulation Products

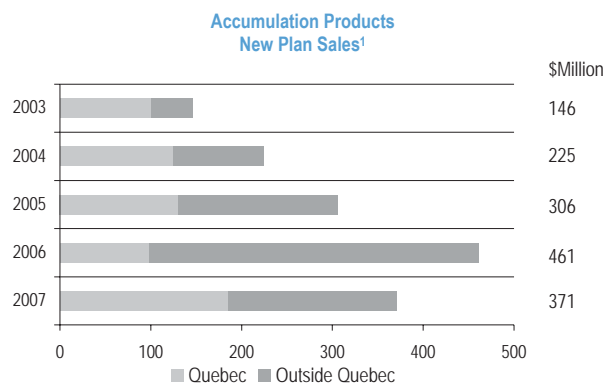
Two factors contributed to the \$595.9 million in new premiums for accumulation products:

- Recurring premiums totalling \$289.6 million, a new high in this regard and a 16% increase over 2006. 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 \$306.3 million. These results surpassed expectations for 2007, but are 18% lower than the excellent results achieved in 2006, which had been favourably affected by a few large mandates.

For the sector to successfully grow its business volume, it needs to do two things: sell new plans and maintain existing plans. With respect to new plan sales, we underwrote \$371 million in annualized premiums in 2007.

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 were slightly higher than those in Quebec in 2007, reaching \$186 million.



Net fund entries were once again very good in 2007. As we can see in the table below, net fund entries represented over 50% of gross entries for a third consecutive year.

Accumulation Products Net Fund Entries	(In millions of dollars)				
	2007	2006	2005	2004	2003
Entries	595.9	624.9	410.5	361.3	259.0
Disbursements	289.1	270.5	185.3	186.3	169.0
Net entries	306.8	354.4	225.2	175.0	90.9

Insured Annuities

The insured annuities sector had an excellent year with a record \$232.4 million in premiums, a 19% increase over 2006. This achievement was primarily due to the activity in the insured annuities market, which was very intense once again in 2007. Our market share was 19% in 2007, which ranks us second in Canada. Our goal in this sector is to maintain our market share while managing risk appropriately.

FUNDS UNDER MANAGEMENT

Funds under management amounted to \$6.1 billion in 2007, a 14% increase over the previous year. However, without the changes made to the accounting standards, which had an impact on the data presented in the insured annuities segment, growth would have been around 10%.

¹ New plan sales are measured by first-year annualized premiums.

- › Accumulation contracts recorded an overall increase of 11%, with assets approaching \$3.6 billion.
- › For insured annuities, assets grew 19% to reach \$2.6 billion. However, without the aforementioned changes to the accounting standards, growth in this segment would have been closer to 8%, which 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	(In millions of dollars) As at December 31				
	2007	2006	2005	2004	2003
Accumulation Products	3,560	3,220	2,588	2,120	1,799
Insured Annuities	2,557	2,151	2,026	1,936	1,905
Total	6,117	5,371	4,614	4,056	3,704

Growth in assets under management is important because it is the key long-term profitability driver for the sector. Assets under management are reliant on gross sales, the persistency rate of in-force business (or payments made to annuitants in the case of insured annuities) and the return on assets, which is itself a function of stock market performance and interest rates.

For accumulation products, gross sales are primarily dependent on employment growth, the general increase in wealth of the workers and the size of the distribution networks. For insured annuities, sales are mainly dependent on the cancellation of defined benefit plans.

2007 ACHIEVEMENTS

In 2007, Group Pensions had an excellent year of achievements.

- › On the accumulation product front, we finalized an outsourcing agreement with the Promutuel Group in the fourth quarter of 2007. Under this agreement, Industrial Alliance is responsible for maintaining the records for GIC investors, whose assets total \$200 million.
- › We completed the launch of the *Attitude* portfolios, which are Life-Cycle Fund portfolios that combine retirement date with risk profile. We also launched our new communication tool, *Your Retirement Tracker*, which will provide plan sponsors and members with much better guidance and support to help them achieve the goals of their retirement plans. This tool, combined with our new ability to record phone calls, will allow us to expand the services offered by our Customer Service staff.
- › We began setting up our communication team, which will be responsible for encouraging plan members to think about financial planning.
- › We established a national service standard that will be uniformly applied in all of our sales offices nation-wide.
- › We improved our telephone system that was implemented in 2006 by adding the ability to record calls in order 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.
- › For the third consecutive year, more than half of our business was written outside Quebec (for accumulation products), which is in line with our Canada-wide development objective.
- › In an effort to develop the institutional money management market, our main progress was in the area of representation. Three of our products (our two bond mandates and the Canadian equities - dividends mandate) were presented to various actuarial consulting firms across Canada, and some strides were made regarding our relative positioning. Our two bond products, managed by experienced managers, have steadily 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 2008.
 - › 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 are aiming to increase our 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 over half of our total sales over the last three years. Our operations are continuing to expand in all parts of the country.
- › **Development of institutional money management** – We are going to carry on with the initiatives introduced in 2007. We plan to increase our development and representation efforts in the institutional money management market, and our game plan will continue to 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.

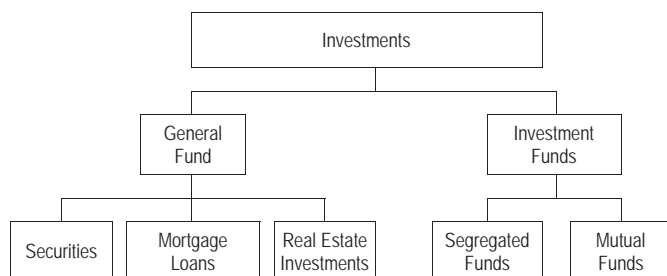
INVESTMENTS

2007 HIGHLIGHTS

- › Assets under management and under administration: \$50.4 billion, up 7%
- › General fund: quality of investments remains excellent
 - › Net impaired investments remain very low: 0.08% of investments
 - › Bond portfolio
 - › No defaults in 2007
 - › Bonds rated BB and lower: just 0.10%
 - › Mortgage loan portfolio
 - › Delinquency rate: 0.16% (41% insured loans)
 - › Proportion of insured loans: 65.0%
 - › Real estate portfolio: very high occupancy rate: 95.5%
 - › Very strict matching: difference in duration of 0.04 years
- › Growth of segregated and mutual fund assets: 10%, 3% higher than industry growth

DESCRIPTION OF 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 Funds 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 another subsidiary, IA Clarington. 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 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 grew 13% in 2007 to reach \$32.8 billion at the end of the year. This growth is mainly attributable to strong net segregated fund and mutual fund sales, and good premium growth from the various business lines. It is important to note, however, that the new accounting standards for financial instruments, which took effect on January 1, 2007, increased the value of the Company's assets under management by 4.5% when they were adopted. This increase was the result of a market value revaluation of a large portion of the general fund assets, in particular the bond portfolio.

The introduction of the new accounting standards at the beginning of 2007 led to a change in accounting method for measuring financial instruments. Because of this change, securities held in the Company's general fund investment portfolio are now mostly measured at their market value. As a result, the value of the assets is now subject to greater fluctuation than in the past. In addition, the change in accounting method makes it more difficult to compare previous years' results, which have not been restated to take into account the change in accounting method.

Assets under administration decreased slightly in 2007, amounting to \$17.6 billion as at December 31, 2007, down 1% during the year. Positive net sales and transfers did not succeed in erasing the negative variations in the market value of assets in the mutual fund and securities brokerage subsidiaries, which were affected by weak stock markets at the end of the year.

Assets under management and under administration totalled \$50.4 billion as at December 31, 2007, a 7% increase over the end of 2006.

Assets Under Management and Under Administration	(In millions of dollars) As at December 31				
	2007	2007 (Jan. 1)	2006	2005	2004
Assets under management					
General fund	15,104.3	14,406.9	13,090.7	11,972.9	11,030.8
Segregated funds	10,210.9	9,201.8	9,204.1	7,348.8	5,913.6
Mutual funds	6,846.9	6,295.4	6,295.4	5,672.7	1,018.5
Other	630.6	501.3	501.3	785.9	872.0
Total	32,792.7	30,405.4	29,091.5	25,780.3	18,834.9
Assets under administration ¹	17,618.9	--	17,812.6	12,390.9	9,641.1
Total	50,411.6	--	46,914.1	38,171.2	28,476.0

Assets under management and under administration are made up of five major categories:

- › General fund assets under management, which totalled \$15.1 billion as at December 31, 2007, up 15% compared to December 31, 2006 (growth is 5% excluding the market value revaluation on January 1, 2007).

¹ 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 brokerage company (Industrial Alliance Securities Inc.).

- › Segregated fund assets under management, which totalled \$10.2 billion, an increase of 11% for the year.
- › Mutual fund assets under management, which increased from \$6.3 billion as at December 31, 2006 to nearly \$6.9 billion as at December 31, 2007, a growth rate of 9%.
- › Other assets under management, which totalled \$630.6 million as at December 31, 2007, compared with \$501.3 million as at December 31, 2006.
- › Assets under administration, which totalled \$17.6 billion at the end of 2007, about the same as at the end of 2006.

GENERAL FUND

COMPOSITION OF GENERAL FUND INVESTMENTS

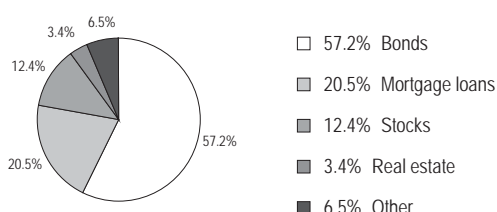
In accordance with sound asset management principles, the Company's investments are well diversified among issuers and operating sectors, as well as geographically. The investments related to the Company's insurance and annuity operations are mostly concentrated in fixed-income securities (particularly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

It should be noted that changes were made to the book value of the investments on January 1, 2007 due to the introduction of the new accounting standards for financial instruments. These changes affected bonds, mortgage loans and stocks.

General Fund Investments	(In millions of dollars) As at December 31				
	2007	2007 (Jan. 1)	2006	2005	2004
Bonds	8,127.2	8,358.3	7,189.4	6,619.6	6,074.5
Mortgage loans	2,920.2	2,460.0	2,457.2	2,420.8	2,491.8
Stocks	1,764.2	1,600.9	1,453.5	1,162.4	1,081.1
Real estate	481.6	451.8	451.8	446.3	444.5
Other invested assets	921.1	705.3	704.3	577.8	497.7
Total	14,214.3	13,576.3	12,256.2	11,226.9	10,589.6

At the end of 2007, 57.2% of the Company's investments were invested in bonds and 20.5% in mortgage loans, for a total of 77.7% 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, 2007



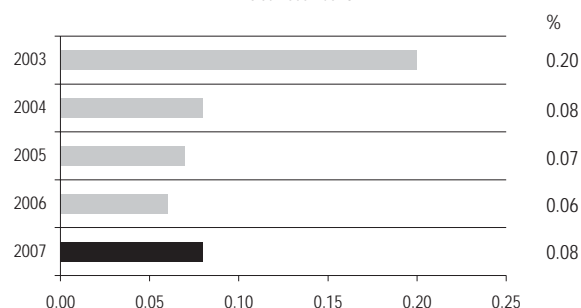
OVERALL QUALITY OF INVESTMENTS

The investment quality indices remained excellent in 2007. Net impaired investments totalled \$11.7 million as at December 31, 2007 (\$7.9 million as at December 31, 2006), which represents just 0.08% of total investments (0.06% as at December 31, 2006). The increase in net impaired investments over the past year comes from a few new defaulted mortgage loans and an increase in repossessed properties.

Net Impaired Investments (Excluding Insured Loans)	(In millions of dollars) As at December 31				
	2007	2006	2005	2004	2003
Bonds	1.2	1.2	1.2	1.2	1.2
Mortgage loans	2.8	0.2	0.5	1.4	11.1
Repossessed properties	7.7	6.5	5.9	5.9	7.5
Total	11.7	7.9	7.6	8.5	19.8

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 for losses set up in consideration of these assets.

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



The excellent quality of investments puts the Company in a good position to deal with a potential deterioration in the economic situation given its low exposure to risky sectors. The Company does not hold any investments in the U.S. subprime mortgage loans market, and it has less than \$0.2 million in investments guaranteed by monoline financial guarantors. The Company also has minimal exposure to the most highly-publicized securities in the aviation, automobile, telecommunications and printing sectors.

On August 21, 2007, the Company announced that it had been exposed to non-bank asset-backed commercial paper (ABCP) in the amount of \$104.1 million, \$90.1 million of which is directly held by the Company and currently appears in its general fund, and \$14.0 million of which comes from the Company's 45% ownership in an entity subject to significant influence.

The \$90.1 million investment posted to the general fund is presented in the Company's consolidated balance sheet under "Other Invested Assets" and is classified as "held-for-trading". It is used to match policy liabilities in the Individual Insurance sector. All non-bank ABCP held directly by the Company has been placed on the watch list.

When the Company announced its results for the third quarter of 2007, it also announced its decision to reduce the value of its non-bank ABCP by 15%.

A restructuring of the non-bank ABCP market, overseen by a pan-Canadian committee of investors, was still under way at the time this report was written. On December 23, 2007, the committee announced that an agreement in principle had been reached among the various participants in the restructuring. Given the plan proposed by the committee and the composition of the non-bank ABCP it holds, the Company believes that the 15% markdown taken on September 30, 2007 is adequate. However, this markdown could vary, perhaps even considerably, once the restructuring process is completed (refer to the *Profitability* section for more details on non-bank ABCP).

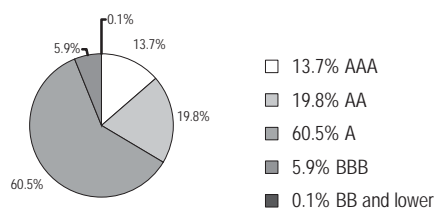
BOND PORTFOLIO

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.

The bond portfolio, which totalled \$8.1 billion as at December 31, 2007, continues to be very good, with no bonds defaulting during the year. The delinquency rate therefore remained unchanged, accounting for 0.02% of the portfolio. As at December 31, 2007, 94.0% of the bond portfolio (93.6% as at December 31, 2006) was made up of bonds rated A or higher. Bonds rated BB and lower represented just \$8.1 million (\$22.5 million as at December 31, 2006), or just 0.1% of the portfolio.

Note that tracking the bonds' market value/book value ratio has lost its significance since the introduction of the new accounting standards in 2007, since most of the Company's bonds are now posted on the balance sheet at their market value.

Bonds by Credit Rating
As at December 31, 2007



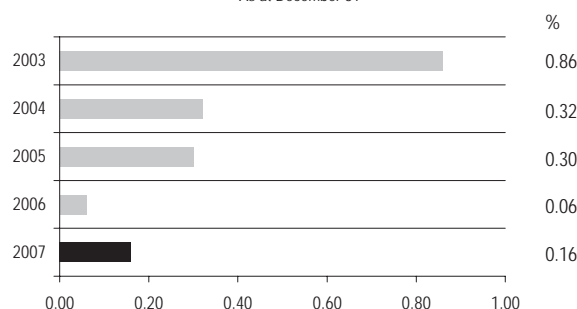
The Company also invests in bonds issued through private placements. These bonds generally offer higher returns, greater access to information from issuers and more favourable conditions than those offered for comparable securities placed with public companies. However, bonds issued through private placements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

Bond Portfolio	(In percent, unless otherwise indicated)				
	As at December 31				
	2007	2006	2005	2004	2003
Book value of the portfolio (\$Million)	8,127.2	7,189.4	6,619.6	6,074.5	5,527.9
Distribution by category of issuer					
Governments ¹	59.7	56.9	60.4	64.5	59.2
Municipalities	1.8	1.7	1.6	1.7	1.8
Corporations - Public issues	23.4	26.1	25.1	22.4	26.0
Corporations - Private placements	15.1	15.3	12.9	11.4	13.0
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.02	0.02	0.02	0.02	0.03

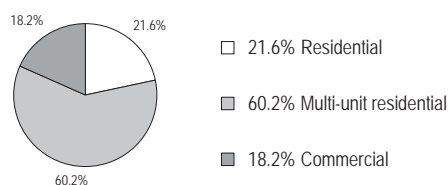
MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio remained excellent in 2007 despite an increase in the delinquency rate, which rose from 0.06% as at December 31, 2006 to 0.16% as at December 31, 2007 (the delinquency rate was 0.30% as at December 31, 2005). The amount owing with respect to mortgage loans in arrears is \$4.7 million out of a total portfolio of \$2.9 billion.

Mortgage Loan Delinquency Rate
As at December 31



Mortgage Loans by Type of Property
As at December 31, 2007



The delinquency rate figure includes both insured and uninsured loans. The statistics in the following table show that the proportion of delinquent loans that are insured was 41.0% as at December 31, 2007. This number is down from previous years. For uninsured loans, the amount is limited to 75% of the value of the property when the loan is granted.

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

Virtually all mortgage loans are secured by first mortgages. Furthermore, as at December 31, 2007, 65.0% of the portfolio (60.2% as at December 31, 2006) was made up of insured loans and 81.8% of the loans were secured by single-family or multi-unit residential properties (79.9% as at December 31, 2006).

Mortgage Loan Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003
Book value of the portfolio (\$Million)	2,929.2	2,457.2	2,420.8	2,491.8	2,490.4
Distribution by type of loan					
Insured loans	65.0	60.2	55.6	52.8	48.6
Conventional loans	35.0	39.8	44.4	47.2	51.4
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.10	0.09	0.50	0.50	0.75
Conventional loans	0.27	0.02	0.05	0.13	0.97
Total	0.16	0.06	0.30	0.32	0.86
Proportion of delinquent loans that are insured	41.0	88.0	93.0	81.0	42.2

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 aims 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.

As at December 31, 2007, investments in equity securities represented 12.4% of the Company's total investments, reaching \$1.8 billion. This value cannot be compared directly with previous years' values since, because of the new accounting standards that took effect on January 1, 2007, most of the equity securities held by the Company are now accounted for at their market value, which was not the case before. Also, for the same reason, it is no longer useful to monitor changes in the market value/book value ratio.

Stock Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003
Book value of the portfolio (\$Million)	1,764.2	1,453.5	1,162.4	1,081.1	930.3
Distribution by category of stock					
Common shares	5.7	5.0	4.9	4.1	4.1
Preferred shares	8.1	10.9	12.8	21.6	24.8
Market indices	25.6	23.6	18.2	12.0	11.1
Investment fund units and other	60.6	60.5	64.1	62.3	60.0
Total	100.0	100.0	100.0	100.0	100.0

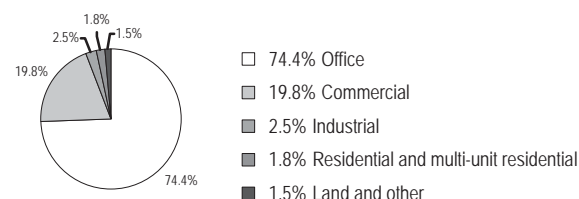
REAL ESTATE PORTFOLIO

As at December 31, 2007, the book value of the real estate portfolio totalled \$481.6 million (including repossessed properties), which represented 3.4% of total investments. According to Company policy, the target real estate portfolio should represent approximately 5% of the Company's total investments. It is important to point out that the accounting method for real estate investments was not affected by the introduction of the new accounting standards at the beginning of 2007.

The occupancy rate of the Company's real estate portfolio remained exactly the same as at December 31, 2006, at 95.5%. 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, 2007



The market value/book value ratio of the real estate portfolio has increased continually over the past five years, reaching the 129.5% threshold as at December 31, 2007. The increase for the year comes from a \$79.4 million increase in the market value of re-appraised buildings. The buildings are re-appraised every three years. This year, almost half of the Company's buildings were re-appraised, leading to an increase of about 24% in their market value.

Real Estate Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2007	2006	2005	2004	2003
Book value of the portfolio (\$Million)	481.6	451.8	446.3	444.5	425.7
Market value/book value of the portfolio	129.5	117.4	114.2	108.6	104.9
Occupancy rate	95.5	95.5	96.8	95.2	93.9

OTHER INVESTED ASSETS

The "Other Invested Assets" category (6.5% 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. As at December 31, 2007, this category also included a \$90.1 million investment associated with non-bank ABCP. This investment is part of the securities held for trading following the introduction of the new accounting standards for financial instruments.

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 195% as at December 31, 2007. This means that easily convertible assets, which represent the sources of liquidity, cover nearly 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.

It should be noted that in September 2007, Industrial Alliance repurchased \$76.8 million in non-bank ABCP held in its clients' money market investment funds. If it weren't for this repurchase, the Company's liquidity ratio would have reached 197% at the end of 2007 (rather than 195%). Hence, the repurchase of non-bank ABCP had no material impact on the Company's liquidity ratio. The Company does not expect the current financial market environment to have a substantial impact on its level of liquidity in the longer term.

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, 2007 the spread between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.04 years, well within the ± 0.25 -year tolerance level stipulated by the Company's investment policies. This figure excludes the Universal Life policy accounts, which are matched so as to strictly reproduce the variations in the market value of the liabilities. It also excludes non-immunized liabilities, that is, the very-long-term commitments portion of the individual life insurance and annuity products for which the Company favours a management strategy aimed at maximizing the return of a high-quality investment portfolio.

Liabilities According to Type of Matching	As at December 31, 2007	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,063	50%
Universal Life policy accounts	1,322	11%
Total	7,385	61%
Non-immunized liabilities	4,703	39%
Total	12,088	100%

DERIVATIVE FINANCIAL INSTRUMENTS (SWAPS)

The Company holds swap contracts that are calculated according to a notional amount of \$663.2 million as at December 31, 2007 (\$673.4 million as at December 31, 2006). These contracts are not used for speculation purposes, but rather for managing financial risks. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies, and stock markets.

The current credit risk, which corresponds to the amounts payable to the Company by the various counterparties, was \$14.4 million as at December 31, 2007 (\$15.2 million as at December 31, 2006). This amount fluctuates from one period to another according to changes in the interest rates and equity 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 \$30.8 million as at December 31, 2007 (\$29.9 million as at December 31, 2006).

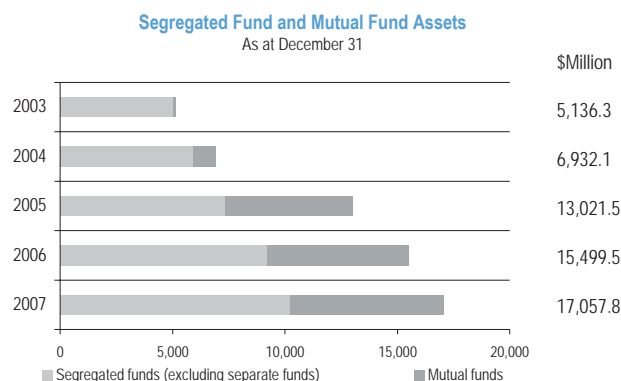
LINES OF CREDIT

As at December 31, 2007, the Company had operating lines of credit totalling \$90.0 million, the same amount as at December 31, 2006. As at December 31, 2007, 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 \$17.1 billion as at December 31, 2007. Made up of \$10.2 billion in segregated funds and \$6.9 billion in mutual funds, these assets grew 10% in 2007 and more than tripled over the last four years. The mutual fund assets were built up through the acquisition, just a few years ago, of three fund management companies: Co-operators Mutual Funds, BLC-Edmond de Rothschild Asset Management and Clarington Corporation. These three companies are now merged into a single company, IA Clarington Investments Inc. (IA Clarington). Since entering the mutual fund market, the Industrial Alliance group has successfully pursued its development in this wealth management sector.



RANGE OF FUNDS

Industrial Alliance offers a wide variety of segregated funds designed for its individual and group clients. As at December 31, 2007, 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 58. For the most part, each of these business lines offers funds that are designed specifically for their respective clientele, but there are some funds that can be distributed through both lines of business.

The two main fund families of segregated funds (individual and group sectors) continue to offer excellent diversification in terms of asset classes, management styles and geographic regions. As a result, very few changes were made to our fund offering in 2007, with the exception of certain funds launched by the Group Pensions sector. These new funds further expanded the options available to our clients, particularly with regard to certain asset classes and management styles. The consolidation efforts begun in the past few years continued in 2007. Also, certain segregated funds that were no longer offered for sale, particularly in Individual Wealth Management, were closed and their assets transferred to other funds.

Of the new segregated funds launched in 2007 by the Group Pensions sector, some are invested in mutual funds offered by IA Clarington, while others are invested in funds managed by external fund managers with whom we have partnership agreements. This approach creates good synergies for the entire group.

With respect to mutual funds, there were no changes to report over the last year, and as at December 31, 2007, our offer still included 49 funds. Following the acquisitions that took place over the last few years, a number of initiatives were introduced in 2006 to integrate the various families of mutual funds. Some of these initiatives were designed to eliminate duplications in our offer. In particular, a number of funds were closed or merged, and certain fund managers were changed.

Taking into account all Company investment funds (segregated funds and mutual funds combined), including those that are still active but are no longer being sold, our team of in-house managers was responsible for managing 70 funds as at December 31, 2007, representing 70% of funds under management. With the exception of a U.S. equities mandate, 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 83 funds, representing 30% of investment fund assets under management. The Industrial Alliance group has strategic alliances with over 30 external managers.

Investment Funds Offered by the Industrial Alliance Group As at December 31, 2007	Number of funds	Assets¹ (\$Million)	Distribution of assets	Proportion of assets managed in-house
Segregated funds	104	9,876.7	54%	74%
Mutual funds	49	8,277.5	46%	66%
Total	153	18,154.2	100%	70%

INVESTMENT FUND PERFORMANCE

As indicated in the table below, the relative performance of all our investment funds in 2007 was very good over a ten-year period, but was affected by less favourable markets over shorter periods. For example, the percentage of assets above the median over a ten-year period, as at December 31, 2007, was 84%, compared to 42% over a one-year period. The decline in short and medium term performances in 2007 was most noticeable with investment funds managed by our in-house management team. With the exception of dividend funds, which were mostly ranked in the first quartile in 2007, most of our funds (bond funds and diversified funds in particular) reacted to premature defensive strategies and the strong Canadian dollar. However, in the current economic and financial environment, considering the possibility of a U.S. recession, we feel we are well positioned to handle market fluctuations and to take advantage of opportunities that could be created by such fluctuations.

Gross Relative Performance of Investment Funds - Segregated Funds and Mutual Funds	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	12	16	18	42
2nd quartile	30	29	32	42
Above the median - As at December 31, 2007	42	45	50	84
Above the median - As at December 31, 2006	63	55	64	82

With respect to segregated funds, the relative performance of our funds has continued to be very good over three- and five-year periods and excellent over a ten-year period, but more modest over a one-year period. The percentage of assets above the median, over a one-year period, decreased from 66% as at December 31, 2006 to 35% as at December 31, 2007.

As indicated earlier, this decline primarily results from our defensive positioning within some of our funds and our exposure to U.S. currency. The defensive positioning primarily affected our largest fund in terms of assets, which ended the year with a return just below the median (52nd percentile). With respect to medium and long term performance, that is, over three, five and ten years, the proportion of assets above the median was 68%, 74% and 94% respectively as at December 31, 2007.

Gross Relative Performance of Segregated Funds (Excluding Separate Funds)	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	21	26	28	51
2nd quartile	14	42	46	43
Above the median - As at December 31, 2007	35	68	74	94
Above the median - As at December 31, 2006	66	83	84	98

The performance of mutual funds was good over a one-year period – 50% of assets were above the median for this period. The Company has only been responsible for the performance of mutual funds for a few years, since it is a recent entrant in the mutual fund market. It was only at the end of the first quarter of 2006 that the primary external manager used by Clarington, when it was acquired by Industrial Alliance, was replaced.

Gross Relative Performance of Mutual Funds	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	2	2	7	25
2nd quartile	48	14	14	43
Above the median - As at December 31, 2007	50	16	21	68
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.

¹ This amount does not take into account the duplication of certain funds.

RISK MANAGEMENT

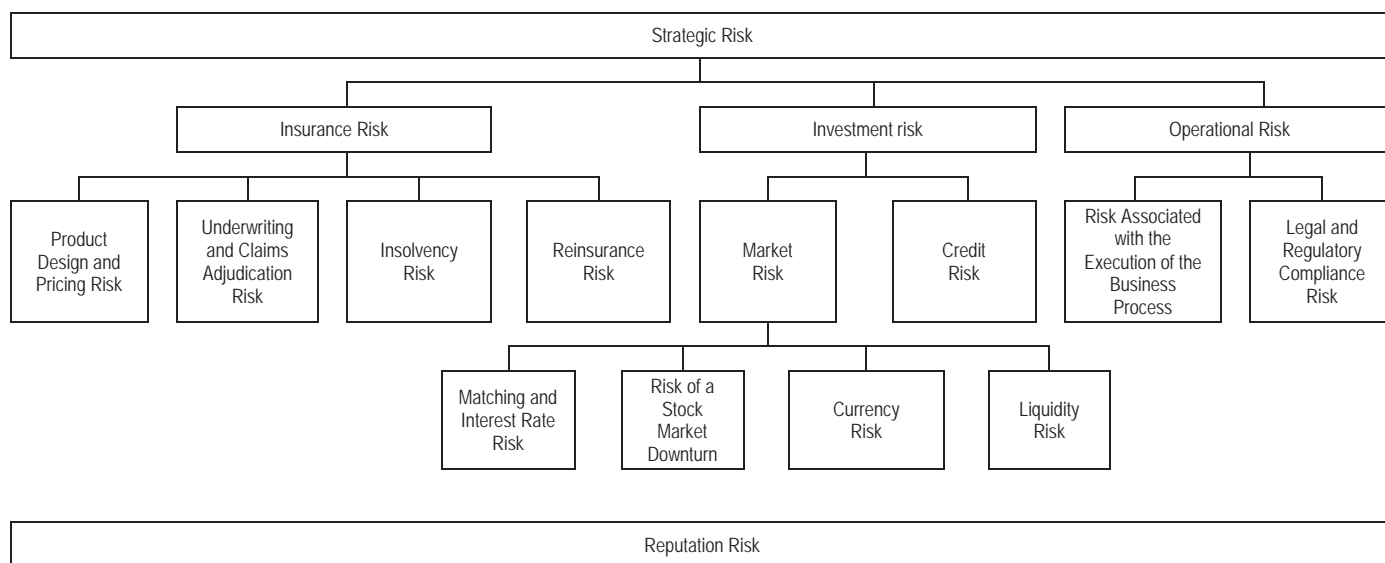
In the course of its operations, Industrial Alliance needs to manage a variety of risks in order to achieve profitable growth. The Company strives to be as effective as possible in managing these risks, seeking to obtain a balance between optimizing value for the shareholders and meeting the needs and 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 includes 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 mainly through its Management Committee.

The Board of Directors and its committees, in particular the Audit Committee and the Investment Committee, oversee the actions taken by the managers in charge of the business lines and the subsidiaries in risk management matters. This is done 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 by 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.

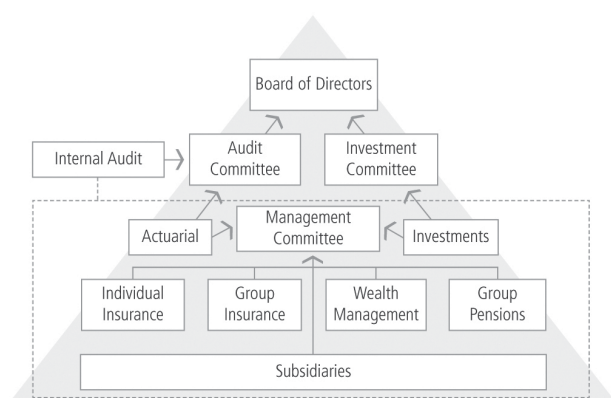
Together, the Audit Committee and the Investment Committee oversee all of the risk management policies and report to the Board of Directors, which must authorize the development, revision and implementation of risk policies, as well as the procedures required to monitor and control the risks.

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 its performance in carrying out the 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 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 each risk. 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 estimates that a 5% permanent deterioration in mortality rates would result in a \$77.3 million reduction in net income to common shareholders 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 annually 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 2006 to 2011 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, currency risk, and liquidity risk.

Matching and Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums from the time they are received until benefits become payable. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. Matching and interest rate risk is the risk of financial loss that can occur if the asset cash flows cannot be reinvested at high enough interest rates compared to the interest rates on the corresponding liabilities, or if an asset needs to be liquidated in order to match the liability cash flows and a loss in market value of the liquidated asset occurs due to rising interest rates. This risk depends on the allocation of the selected assets, as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

In order to mitigate this risk, the Company has developed a strict matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

The Company's investment policy clearly defines the type of matching that is appropriate for each type of liability, as well as the constraints and guidelines to follow for choosing the assets. To illustrate the application of this policy, the liabilities are divided into three main categories, as presented below, based on the structure of the underlying financial commitments.

Liabilities According to Type of Matching	As at December 31, 2007	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,063	50%
Universal Life policy accounts	1,322	11%
Total	7,385	61%
Non-immunized liabilities	4,703	39%
Total	12,088	100%

1 ▸ Liabilities Immunized on a Cash Flow Basis

This category represents 50% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than thirty years.

For liabilities immunized on a cash flow basis, the primary objective of the matching is to minimize the volatility of the deviations that can occur between the returns realized on the assets and those expected for the liabilities. In terms of the liabilities, the expected returns include the interest rates credited to client contracts and the fluctuation margins set out in the actuarial valuation of the policy liabilities. To appropriately monitor matching, investments are segmented by blocks established based on the cash flow structure of the liabilities, and these blocks are grouped together by line of business. A careful examination of these matching blocks is carried out once a month, and a number of techniques are used to assess the quality of the matching in order to guide the selection of investments.

To measure the sensitivity to interest rate fluctuations, the Company uses measures recognized by immunization experts, such as duration and dispersion. The investment policy sets out a maximum spread between the result of the measures applied to the assets and the corresponding result obtained for the liabilities. These results are provided to the Investment Committee on a quarterly basis.

The Company also carries out sensitivity analyses to assess the financial impact that would result from various types of fluctuations in the interest rate yield curve. These analyses are carried out using stochastic scenarios that are used to quantify the residual risks that may remain in the portfolios. Simulations based on predefined scenarios are also analyzed to measure the impact of specific fluctuations. The sensitivity analyses are also used to assess the behaviour of the future fluctuation margins projected in the actuarial valuation of the policy liabilities. The matching policy sets limits as to the sensitivity of these margins.

In addition, in order to minimize the reinvestment risk that can arise when the maturity of the assets does not match the maturity of the corresponding liabilities, the investment policy also requires that an effort be made to ensure that the asset cash flows correspond to the liability cash flows. To this end, the policy sets relative and absolute limits regarding the size of the cumulative net cash flows, both for all the matching blocks combined and for each individual block.

For this liability category, the use of a very strict immunization approach means that the impact on net income of a decrease or increase in interest rates would be negligible.

2 › Immunized Liabilities Linked to Universal Life Policy Accounts

This category represents 11% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities may either be based on a guaranteed interest rate accounts, or determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

For this category, the impact on net income of a change in interest rates applied to the assets would be negligible, since an equivalent change would be applied to the corresponding liabilities.

3 › Non-Immunized Liabilities

This category, which accounts for 39% of the Company's policy liabilities, primarily encompasses individual insurance products, which include liabilities that extend over very long periods, well beyond a 30-year horizon. A classic immunization strategy cannot be applied to these liabilities because of the rarity of fixed income securities for these kinds of maturities. Therefore, for this category, the Company instead advocates an investment management strategy designed to maximize the long-term after-tax returns on the assets.

To cover these commitments, the Company uses high-quality investments, primarily made up of long-term fixed-income securities, 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 the capital requirements, expectations regarding the interest rate structure and the performance of the stock markets. At the same time, the strategy takes into account the constraints imposed by the investment policy, particularly with regard to diversification of the portfolio.

For this category, a decrease in interest rates could have an adverse impact on annual net income to common shareholders, 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 estimates that a sudden, permanent drop of 10 basis points in the entire interest rate yield curve would lead to a \$51.6 million decrease in net income to common shareholders. 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 it is more difficult to completely isolate the interest rate risk for this category of liabilities since they are supported by a diversified investment portfolio that includes, among other things, 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 that this kind of downturn could have an adverse impact on the management fees collected on mutual funds, segregated funds and universal policy index accounts, the charge resulting from the capital guarantee offered on segregated funds, as well as the return on assets backing the capital and the Company's general fund actuarial liabilities.

The Company estimates that 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, would decrease the annual net income to common shareholders by \$18.6 million.

On the other hand, a sudden 10% increase in the stock markets at the beginning of the year, followed by growth according to the forecasts, 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 designed to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

Currency Risk – Currency risk represents the risk that the Company incurs from losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to currency risk. To this end, liabilities are generally matched with assets of the same currency; otherwise, hedging financial instruments are used.

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 financial commitments, and strict cash flow management. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable investments. One of the tools used to monitor the liquidity risk is a report sent by the Investment department once a month to the Investment Committee, which shows the liquidity adequacy according to different adverse scenarios.

The Company maintains nearly two times the liquidity level that would be required under an extreme adverse scenario where the Company would have to redeem all of its redeemable contracts.

It should be noted that in September 2007, Industrial Alliance repurchased \$76.8 million in non-bank ABCP held in its clients' money market investment funds. If it weren't for this repurchase, the Company's liquidity ratio would have reached 197% at the end of 2007 (rather than 195%). Hence, the repurchase of non-bank ABCP had no material impact on the Company's liquidity ratio. The Company does not expect the current financial market environment to have a substantial impact on its level of liquidity in the longer term.

Credit Risk

Credit risk is the risk that counterparties or debtors do not respect their obligations to the Company. The Company's investment policies aim to limit this risk by ensuring the sound diversification of the counterparties or debtors, 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 activity 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 stock markets.

The Company's Sensitivity to Certain Insurance and Investment Risks

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

Decrease in Net Income to Common Shareholders Resulting from Unfavourable Deviations from the Assumptions	
Risk	In millions of dollars
Insurance risk: unfavourable deviation of 5%	
Mortality rate	77.3
Lapse rate ¹	89.5
Units costs	22.2
Investment risk	
Sudden, permanent drop in interest rates of 10 basis points ²	51.6
Sudden decrease of 10% in the stock markets ³	18.6

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

Risk associated with the execution of the business process means the risk of loss that can arise from faulty or inadequate internal processes, human error or external events. This risk is present in all the Company's activities and can come from different sources: the Company's breach of duties or obligations as a trustee, technology failure, interruption of activities, an unsuccessful integration of a newly acquired company, inadequate management of human resources, failure to be environmentally responsible, a legal dispute, theft or fraud, and damage to property. The risk can take the form of financial losses, loss of competitive position, or injury to reputation.

To manage the risk associated with the execution of the business process, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are implemented, and by utilizing competent, well-trained employees at all levels. 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.

Reliable, secure and sophisticated information and communications technologies (ICTs) are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. In fact, it has set up a comprehensive plan for controlling the risk of ICT failure. Inspired by the ISO international standard on information technologies, the Company has broken down the main risks that could affect its operations into four main categories: risk associated with the non-availability of essential components (this risk is controlled by the implementation of a detailed business continuity plan); risk of outside penetration of systems (this risk is controlled by the presence of 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 the use of security protocols). The management of these risks is reviewed regularly in order to adapt it to changing technologies and Company needs.

¹ The unfavourable deviation 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 lead to a \$17.0 million decrease in investment fund management fees and a \$1.6 million decrease in income on capital.

The business continuity plan implemented by the Company also covers the risk associated with the physical occupancy of the premises and disruptions in service in the event of a natural or other disaster. The Company has procedures in place in all of its business offices to minimize service recovery wait times. These procedures are reviewed and tested on a regular basis.

During the year, a Coordination Committee carried out various initiatives to update the business continuity plan, particularly with regard to the companies acquired in recent years. These initiatives focused on adding a special component for the risk of a pandemic, and on extending the business continuity plan to all lines of business and all subsidiaries. Readiness testing exercises were carried out and the subsidiaries were integrated into the global communication plan that was implemented for the entire group.

Preserving the environment is of fundamental importance to the Company. As a result, an environmental policy has been developed and programs have been implemented for the sound management of Company buildings and property. These programs focus on energy savings, waste reduction and recycling. The Company's purchasing policy is guided by environmental considerations, and there are programs in place to educate employees about the protection and improvement of the environment.

The competency of human resources is an essential factor in implementing business strategies. In this regard, the Company has well defined policies with respect to compensation, recruiting, training, employment equity and occupational health and safety. Designed to attract and retain the best candidates at every level of the Company, these policies are kept up to date and submitted for approval to the Human Resources and Corporate Governance Committee made up of members of the Board of Directors. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle. In 2007, a survey on employee wellness was conducted throughout the Company, including the group's subsidiaries. The results of this survey will help to further improve the quality of life programs for Company employees.

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 in-house Legal Department 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.

Throughout the year, the Company continued its efforts to implement a procedure to monitor internal control over financial reporting. The work carried out focused mainly on the most recent proposed changes to the legal requirements announced by the regulatory authorities.

ADDITIONAL INFORMATION

FOURTH QUARTER 2007

Industrial Alliance ended the fourth quarter of 2007 with net income available to common shareholders of \$63.1 million, a 12% increase over the same period last year. This income translates into diluted earnings per common share of \$0.78, up \$0.08 compared to the same period last year, and a return on common shareholders equity of 15.2% for the quarter on an annualized basis, which exceeds the Company's 13% to 15% target range.

The good performance for the quarter is primarily explained by strict management of profit margins on individual insurance products and by strong business growth in most lines of business.

In terms of business growth, the highlight of the quarter was Individual Insurance sales, which surpassed the old mark by a wide margin, amounting to \$48.9 million in the fourth quarter. This represents a record increase of 20% compared to the same period in 2006. Mutual funds continued their momentum of the first three quarters, carrying premiums and deposits to \$1.3 billion in the fourth quarter, a 10% increase over the same period the previous year.

The good results for the quarter enabled the Company to announce a 12.5% increase in the quarterly dividend, from \$0.20 to \$0.225 per common share. This raises the payout ratio to 28% of the net earnings for the quarter, which is in keeping with the Company's objective to gradually increase the payout ratio to 28% of the sustainable net earnings in mid-2008.

Highlights	(In millions of dollars, unless otherwise indicated)			
	Fourth quarter		Year	
	2007	2006	2007	2006
Net income to common shareholders	63.1	56.4	242.2	223.0
Earnings per common share (diluted)	\$0.78	\$0.70	\$2.99	\$2.74
Return on common shareholders' equity ¹	15.2%	15.4%	15.2%	15.7%
Premiums and deposits	1,317.6	1,202.6	5,826.2	4,990.6
	December 31, 2007	September 30, 2007	December 31, 2007	December 31, 2006
Assets under management and under administration	50,411.6	50,802.1		46,904.1

Following are the main highlights for the fourth quarter with respect to profitability.

- › **Profit margins in the Individual Insurance sector** – The main factor that explains the improved income in the quarter is the strict management of profit margins in the Individual Insurance sector. New business strain in the Individual Insurance sector decreased considerably during the quarter, dropping from \$25.2 million in the fourth quarter of 2006 to \$22.5 million in the fourth quarter of 2007. This represents an 11% decrease, despite a 20% increase in sales. This decrease results from the changes made to the product line in the last two years, as well as the impact of these modifications on the sales mix (Universal Life policy sales continue to shift in favour of yearly renewable term products, which are less strain intensive).

Expressed as a percentage of sales, the strain amounted to 46% of first-year annualized premiums for the fourth quarter, compared to 62% in the fourth quarter of 2006. This rate is below the Company's 50% to 55% target range (medium-term target). The strain was 52% for 2007, which is within the 50% to 55% target range. The Company estimates that the current pricing structure should allow it to maintain strain around the 50% to 55% target range in the medium term.

- › **Expected profit on in-force** – Good business growth in the last few years increased the expected profit on in-force by 10% in the fourth quarter, compared to the same period the previous year, carrying it to \$91.2 million. This growth is in line with expectations and comes from all sectors, particularly Individual Wealth Management, which has experienced strong growth for the past several years, particularly since the Company entered the mutual fund management market.
- › **Experience gains** – The Company did not realize any significant experience gains in the fourth quarter (gains totalled \$0.1 million). The results vary from one sector to another, however, since Group Insurance suffered \$2.7 million in experience losses (poor mortality and accidental death and dismemberment insurance results), whereas the other three sectors realized gains. Experience gains amounted to \$3.9 million in the fourth quarter of 2006.
- › **Changes in assumptions** – Year-end changes in assumptions did not have a significant impact on the profit for the quarter, which was reduced by \$1.0 million before tax in the fourth quarter. As in previous years, changes in assumptions mainly affected the Individual Insurance sector, due to the long-term commitments in this sector. As with the last few years, the provisions for future policy benefits were strengthened to take into account a reduction in interest rates and lower lapse rates. The strengthened provisions for future policy benefits were offset by provisions for future policy benefits released to take into account improved mortality rates and the lower than expected increase in unit costs.
- › **Income on capital** – Income on capital increased by 5% during the quarter, growing from \$23.0 million in the fourth quarter of 2006 to \$24.2 million in the fourth quarter of 2007. Three factors contributed to this increase during the year: the good performance of the auto and home insurance subsidiary, the normal growth of the capital base (primarily retained earnings) and the good return on investments, particularly real estate.

On the other hand, growth of the income on capital was slowed by a \$2.4 million accounting loss (\$1.7 million after tax, or \$0.02 per common share) resulting from the asymmetric evolution of the market value of debt instrument liabilities and the assets supporting them, following the realignment of risk premiums that followed last summer's liquidity crisis. In the third quarter, this same phenomenon resulted in an accounting gain of \$4.1 million before tax (\$2.7 million after tax, or \$0.03 per common share). This is due to the application of the new accounting standards which, for a second consecutive quarter, induced a certain volatility in the results. Without this accounting loss, income on capital would have grown 16% in the fourth quarter, compared to the same period last year.

¹ The calculation of the return on common shareholders equity excludes accumulated other comprehensive income.

- › **Earning Power** – If the \$0.02 per common share accounting loss is added to the net income for the quarter, the result is earnings per common share of \$0.80 for the fourth quarter. To a certain degree, this is a measure of the Company's true earning power.
- › **Effective tax rate** – The effective tax rate was 28.8% for the fourth quarter (29.4% for the same period in 2006), which is in line with the Company's expectations. The Company is expecting a 1 percentage point decrease in the effective tax rate in 2008, which should be around 28%, due to the application of measures to further optimize the Company's tax situation.

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 third quarter of 2007 compared to the third quarter of 2006 was primarily due to higher sales of segregated funds and higher fund entries in the Group Pensions and Group Insurance sectors. 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 2007 compared to 2006 reflects normal business growth resulting from good persistency of in-force contracts and good sales performance in all lines of business.

Because of the new accounting standards adopted at the beginning of 2007, the market value adjustments of assets matched to policy liabilities now have a direct impact on net investment income, making it more volatile from one period to the next. This impact is neutralized, however, by a corresponding variation in the provisions for future policy benefits, so that the impact of these assets' market value adjustments on net income is largely, if not totally, cancelled out (for more details, refer to the "Change in Accounting Policies" section below).

It is important to note that net investment income for 2007 cannot be compared with that of previous years given that the data for these years has not been restated to reflect the changes in the accounting policies.

Net investment income reached \$317.5 million in the fourth quarter of 2007, which was the highest level of all four quarters last year. The fourth quarter increase results primarily from the increase in the market value of the investments, as well as the good return on assets, primarily real estate.

It is important to note that net investment income for the third quarter of 2007 reflects the full 15% market value devaluation of non-bank-sponsored asset-backed commercial paper (ABCP) held in the Company's general fund. One third of this devaluation, however, was absorbed by a downward revision of the provisions for future policy benefits (for more details, refer to the "Note Regarding Non-Bank ABCP" in the Profitability section).

The Company posted negative net investment income of \$79.9 million in the second quarter of 2007. This can be explained by the decrease in the market value of assets held for trading during the quarter, following the increase in interest rates. This market value decrease was largely offset by a corresponding variation in the provisions for future policy benefits.

Fees and other revenues were higher during each quarter of 2007 compared to 2006, primarily due to the growth of operations in the Individual Wealth Management sector. Investment fund assets increased 10% in 2007, primarily due to strong net sales, resulting in higher management fees associated with these funds.

Quarterly Results (In millions of dollars, unless otherwise indicated)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Premiums	920.5	900.7	1,030.7	1,177.4	907.9	770.1	1,006.9	1,078.1
Net investment income	317.5	170.9	(79.9)	170.3	281.2	222.1	133.1	223.6
Fees and other revenues	94.6	90.8	91.7	86.4	84.6	83.6	73.2	73.5
Total	1,332.6	1,162.4	1,042.5	1,434.1	1,273.7	1,075.8	1,213.2	1,375.2
Income before income taxes	50.2	87.4	90.6	84.4	83.5	79.7	63.6	72.8
Income taxes	12.7	(25.6)	(26.1)	(24.4)	(24.5)	(22.5)	2.4	(23.7)
Net profit	62.9	61.8	64.5	60.0	59.0	57.2	66.0	49.1
Less: net income (loss) to participating policyholders	(1.7)	1.3	0.9	0.7	1.1	1.1	0.9	0.3
Net income to shareholders	64.6	60.5	63.6	59.3	57.9	56.1	65.1	48.8
Less: dividends to preferred shareholders	1.5	1.4	1.5	1.4	1.5	1.4	1.4	0.6
Net income to common shareholders	63.1	59.1	62.1	57.9	56.4	54.7	63.7	48.2
Earnings per common share								
Basic	\$0.79	\$0.74	\$0.78	\$0.72	\$0.71	\$0.68	\$0.79	\$0.59
Diluted	\$0.78	\$0.73	\$0.77	\$0.72	\$0.70	\$0.68	\$0.78	\$0.59
Premiums invested in segregated funds	318.1	282.2	408.3	557.0	317.8	249.5	454.5	532.2
Change in provisions for future policy benefits	303.8	166.4	(87.7)	123.9	279.0	180.8	120.0	156.5
Total general fund assets	15,104.3	14,778.8	14,565.8	14,623.0	13,090.7	12,669.1	12,365.9	12,243.1
Segregated fund net assets	10,210.9	10,170.1	10,051.6	9,708.9	9,204.1	8,456.9	8,060.6	7,999.4

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 2007, the cash flows related to the operating activities were \$32.9 million higher than in 2006, primarily due to the increase in premiums in 2007. The investment operations were \$82.5 million higher than in 2006, which reflects the normal course of operations during the year. Also of note with respect to the financing operations carried out in 2007 is the payment of \$60.9 million in dividends to common shareholders (\$48.3 million in 2006), the buy-back of \$16.7 million in common shares (\$57.9 million in 2006) and the payment of \$5.8 million to preferred shareholders (\$4.9 million in 2006).

Cash Flows	(In millions of dollars)		
	2007	2006	2005
Cash flows related to the following activities:			
Operating activities	674.8	641.1	489.5
Investing activities	(609.1)	(526.6)	(349.8)
Financing activities	(71.0)	(48.4)	(48.3)
Gains (losses) resulting from the currency translation of cash and cash equivalents	(4.7)	--	--
Increase (decrease) in cash and cash equivalents	(10.0)	66.1	91.4
Cash and cash equivalents at beginning	371.8	305.7	214.3
Cash and cash equivalents at end	361.8	371.8	305.7

RELATED PARTY TRANSACTIONS

Current Company policy does not allow for loans to be granted to the Company's managers, except for mortgage loans in the normal course of business. However, the Company did grant loans to managers when the Company demutualized in 2000. As at December 31, 2007, the balance of the loans granted to the Company's managers totalled \$1.2 million (\$1.6 million as at December 31, 2006).

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 corresponds to the amount of the consideration established and accepted by the related parties.

The value of the related party transactions is presented in note 27 of the Company's consolidated 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; auto and home 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 used by the Company 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 2007, reinsurance ceded reduced the policy liabilities by \$217.9 million (\$363.5 million in 2006). Overall, the Company's mortality experience in 2007 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 \$77.3 million reduction of the net income to common shareholders 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 in the opposite direction.

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 2007 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 2007 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 an \$89.5 million reduction in the net income to common shareholders 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 2007 was favourable in comparison with the Company's assumptions. The Company estimates that an unfavourable variation of 5% in the expenses incurred as compared to those projected would result in a \$22.2 million reduction in the net income to common shareholders.

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 2007, 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 \$51.6 million reduction in the net income to common shareholders. 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 an \$18.6 million reduction in its net income to common shareholders.

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

An important item to consider when reading the 2007 financial results is the adoption of the new accounting policies for financial instruments. The application of these new policies required the revaluation of certain items on the balance sheet as at January 1, 2007, due to the use of the fair market value for a major portion of the assets. For more information, refer to note 3 of the Company's consolidated financial statements.

Generally speaking, for assets that are matched to the provisions for future policy benefits, the new accounting standards have no impact on the Company's income because the provisions for future policy benefits are established according to the Canadian Asset Liability Method (CALM). Under this method, any variation in the value of the assets leads to a corresponding variation in the provisions for future policy benefits, which neutralizes the volatility on the Company's net income induced by the market value adjustments.

On the other hand, for assets that are matched to the equity and to liabilities other than the provisions for future policy benefits, under the new standards, any variation in the market value is generally only recognized in the financial results when the assets are sold. Variations in the market value of the assets held are posted in a new item on the balance sheet called "Accumulated other comprehensive income". As a result, the disposition of the financial assets that are matched to the equity and to liabilities other than the provisions for future policy benefits may lead to more volatility in shareholder net income, since the realized gains, as well as the unrealized gains other than real estate, are no longer deferred or amortized, as was previously the case. In 2007, \$8.9 million in gains were realized on the sale of assets matched to the equity. This amount can be compared to the \$10.0 million gain posted in 2006 as amortization of realized and unrealized gains.

The new accounting standards led to more volatility in the financial results of the last two quarters of 2007 because the market value of the debt instrument liabilities did not evolve proportionately to the market value of the supporting assets, following the realignment of risk premiums on the financial markets in the second half of 2007. This asymmetric evolution of assets and debt instrument liabilities increased net income to the Company's common shareholders by \$2.7 million in the third quarter, but had an adverse impact of \$1.7 million in the fourth quarter. In total, for 2007, quarterly variations were practically cancelled out, so that net income to common shareholders was increased by \$1.0 million in 2007 (\$0.01 per common share).

Aside from the impact indicated above and in the Solvency and Capitalization section (regarding the solvency ratio and excess capital), the new accounting standards had no other significant impact on the Company's financial situation, including its 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	(In millions of dollars)		
	2007	2006	2005
Debentures	309.8	310.1	373.0
Preferred shares	125.0	125.0	--
Total	434.8	435.1	373.0

ACQUISITION OF EXCELLENCE

On December 13, 2007, the Company announced the signing of agreements to acquire The Excellence Life Insurance Company and the brokerage companies associated with it ("Excellence").

The Company received all the regulatory approvals to conclude this acquisition, and the transfer was completed on January 31, 2008.

The acquisition of Excellence represents an investment that could reach \$67.3 million for Industrial Alliance, if certain conditions are met and if existing debt is taken into account. The transaction was partially financed in cash and partially through the issuance of common shares of Industrial Alliance, a portion of which was bought back early at the end of 2007 and at the beginning of 2008 (refer to the "Buy-Back of Shares" in the Solvency and Capitalization section). The Company estimates that this acquisition should help grow its earnings per share by \$0.04 in 2008.

DISPOSITIONS DURING THE PERIOD

The Company received all the regulatory approvals to conclude the sale of its Caribbean life insurance business block. The transfer was completed on January 18, 2008.

On December 12, 2006, Industrial Alliance announced the signing of an agreement to sell its Caribbean business block to Sagicor Capital Life Insurance Company Limited, a subsidiary of Sagicor Life Inc., of Barbados. This block is primarily made up of individual life insurance. It contains some 9,500 policies and generates some \$9 million Canadian in direct annual premium income.

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, 2007, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period	(In millions of dollars)				
	Total (As at 31-12-07)	Less than 1 year	1 year to 3 years	4 years to 5 years	More than 5 years
Debentures ¹	309.8	--	--	--	309.8
Capital lease	--	--	--	--	--
Operating lease	45.1	14.9	19.5	9.7	1.0
Purchasing commitments	5.9	3.1	2.5	0.3	--
Other long-term commitments	122.1	79.3	9.9	32.9	--
Total of contractual obligations	482.9	97.3	31.9	42.9	310.8

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2007, these investment commitments totalled \$304.1 million (\$234.7 million in 2006), including \$233.6 million that will be maturing in the next year (\$185.8 million in 2006), and \$70.5 million that will be maturing in more than one year (\$48.9 million in 2006).

OUTSTANDING SHARES

On February 8, 2008, Industrial Alliance had 80,291,621 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 17 of Industrial Alliance's consolidated financial statements for more information on debentures.

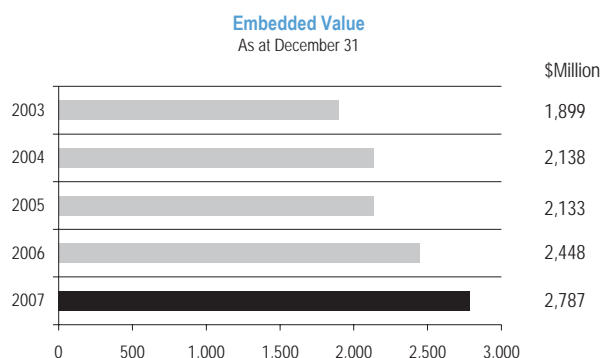
EMBEDDED VALUE

HIGHLIGHTS

- › Embedded value of \$2.8 billion as at December 31, 2007 (\$34.92 per common share), up 13.8% compared to December 31, 2006 after the payment of dividends (16.3% before the payment of dividends)
- › Embedded value/book value ratio: 1.66x as at December 31, 2007
- › Addition of new business to embedded value in 2007: \$1.51 per common share, 27% higher than in 2006
- › Contribution of recurring items to growth in embedded value: 11.7% in 2007
- › Market guidance: the Company expects the recurring portion of embedded value to grow at a low double-digit rate each year

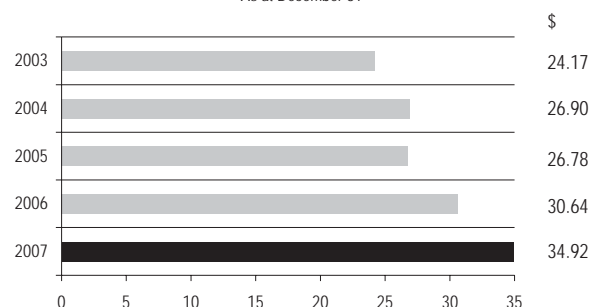
Embedded value is one of the best tools life insurance companies have for measuring their economic worth. It is also a way to quantify the factors that create value for the shareholders over the year, which allows for a better understanding of the financial dynamics of a life insurance company. It should be noted, however, that embedded value is not a measurement defined under generally accepted accounting principles (GAAP). Furthermore, it includes 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. In these ways, embedded value differs from book value and market value.

As at December 31, 2007, Industrial Alliance's embedded value reached \$2.8 billion, or \$34.92 per common share. This is a 16.3% increase over the value calculated as at December 31, 2006, before the payment of dividends to common shareholders, and 13.8% after the payment of these dividends. This value of \$34.92 per common share gives an idea of the economic worth of each outstanding share. The difference between the economic worth and the stock trading price is related to what investors estimate the value of the Company's future sales to be, and the evaluation they make of the Company's development capabilities.



Embedded Value per Common Share

As at December 31



Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 11.7% in 2007 (11.4% in 2006). 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—that is, the portion over which it has a certain amount of control—to grow at a low double-digit rate each year.

Certain non-recurring items also affect the growth of embedded value. The most significant item in 2007 was the decrease in the federal tax rate, which led to a reduction in the Company's future income taxes. This decrease in future income taxes makes up the majority of the experience gains not related to the equity markets, which totalled \$127 million (+5.2%).

The Company's decision to reduce by 15% the value of its non-bank asset-backed commercial paper (non-bank ABCP) in 2007 led to a \$7 million decrease in embedded value (-0.3%).

Other non-recurring items included stock market performance, which led to a \$6 million decrease in embedded value (-0.3%), and changes in assumptions, which led to a \$7 million increase (+0.3%).

Changes to the capital structure in 2007 included common share buy-backs, common shares issued following the exercise of stock options, and contributed surplus. In total, these changes led to a \$7 million decrease in embedded value (-0.3%) in 2007.

In 2007, the Company also paid \$61 million in dividends to its shareholders, which represented a 2.5% decrease in embedded value.

Lastly, the acquisition of Excellence, which was completed on January 31, 2008, will decrease the embedded value by \$36 million. This is because, in addition to the value of the in-force block of business, the purchase price includes other considerations that are not included in the calculation of the embedded value, such as the value of the distribution network and of the acquired company's future sales.

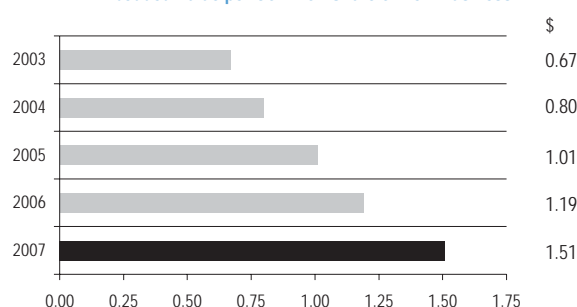
Embedded Value Added in 2007	Embedded value (\$Million)	Contribution to growth (%)	Embedded value per share (\$)
Embedded value as at December 31, 2006	2,448	--	30.64
Recurring items			
Expected growth of embedded value	165	6.7	2.07
New sales	121	5.0	1.51
Total	286	11.7	3.58
Non-recurring items			
Experience gains or losses – related to the equity markets	(6)	(0.3)	(0.08)
Experience gains or losses – other	127	5.2	1.59
Changes in assumptions	7	0.3	0.09
Decrease in value of non-bank-sponsored ABCP	(7)	(0.3)	(0.09)
Total	121	4.9	1.51
Changes in capital structure	(7)	(0.3)	(0.05) ¹
Embedded value as at December 31, 2007, before dividends	2,848	16.3	35.68
Dividends paid to common shareholders	(61)	(2.5)	(0.76)
Embedded value as at December 31, 2007	2,787	13.8	34.92

EMBEDDED VALUE OF NEW SALES

The embedded value of new sales indicates the proportion in which new contracts sold during the year contribute to the increase in the embedded value. This is important because it 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 2007, the contribution of new sales to the increase in Industrial Alliance's embedded value was \$121.0 million, or \$1.51 per common share. This is 27% (or \$25.5 million) higher than in 2006. This increase can be explained by improved profit margins (\$12.1 million), primarily in the Individual Insurance sector, and steady sales growth (\$13.4 million), primarily in the Individual Wealth Management sector.

Embedded Value per Common Share of New Business



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 2007, the embedded value represented 1.66x the Company's book value, slightly higher than at December 31, 2006 (1.65x).

UNDERLYING ASSUMPTIONS

Embedded value is defined as being equal to the value of the Company's equity, adjusted to include the cost of the required capital and certain other items, plus the current value of shareholder net income that will be derived in the future from the in-force block of business. As a result, the discounting of future net income associated with in-force business involves the use of actuarial assumptions, and these assumptions must be consistent with the best estimates used by the appointed actuary in evaluating the provisions for future policy benefits. The main economic assumptions used to calculate the embedded value over the last two years are presented in the table below.

Economic Assumptions	As at December 31	
	2007	2006
Discount rate	7.25%	7.25%
Risk premium	3.00%	3.00%
Return on shareholders' equity	4.25%	4.25%
Inflation rate	1.50%	1.50%
Solvency ratio ²	150%	150%

Other assumptions are used to calculate the embedded value as well, including the future mortality rate assumption. Given that Industrial Alliance retains a larger portion of the mortality risk than other insurers, relatively speaking (since it reinsures less than other insurers), the calculation of the Company's embedded value takes into account the current trend of mortality rates to improve over the years.

¹ Including an adjustment to take into account the variation in the number of shares.

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

EIGHT-YEAR HISTORY

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

	2007	2006	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001	2000
PROFITABILITY								
Net income								
Net income	249.2	231.3	134.6	159.2	140.3	103.5	106.6	100.8
Less: net income attributed to participating policyholders	1.2	3.4	2.4	4.1	3.4	6.1	2.7	2.7
Net income attributed to shareholders	248.0	227.9	132.2	155.1	136.9	97.4	103.9	98.1
Less: preferred shareholders dividends	5.8	4.9	---	0.1	0.3	0.7	0.7	0.7
Net income available to common shareholders	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
Net income, adjusted								
Net income available to common shareholders	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
Decrease in value of the non-bank-sponsored ABCP ³ , net of taxes	7.3	---	---	---	---	---	---	---
Restructuring charges, net of tax ⁴	---	3.0	4.1	6.1	---	---	---	---
Impact of the tax reduction on the future income tax liability	---	(11.5)	---	---	---	---	---	(6.0)
Change of reinsurer, net of tax	---	---	(4.2)	---	---	---	---	---
Provision for the Norshield funds, net of tax ⁵	---	---	52.1	---	---	---	---	---
Provision for Teleglobe, net of tax ⁶	---	---	---	---	---	19.4	---	---
Goodwill expense, net of tax ⁷	---	---	---	---	---	---	3.4	2.9
Net income available to common shareholders, adjusted	249.5	214.5	184.2	161.1	136.6	116.1	106.6	94.3
Preferred shareholders dividends	5.8	4.9	---	0.1	0.3	0.7	0.7	0.7
Net income attributed to shareholders, adjusted	255.3	219.4	184.2	161.2	136.9	116.8	107.3	95.0
Earnings per common share⁸								
Earnings per common share								
Basic	\$3.02	\$2.77	\$1.66	\$1.96	\$1.76	\$1.29	\$1.38	\$1.30
Diluted	\$2.99	\$2.74	\$1.65	\$1.95	\$1.74	\$1.29	\$1.38	\$1.30
Earnings per common share, adjusted								
Basic	\$3.11	\$2.67	\$2.31	\$2.04	\$1.76	\$1.55	\$1.42	\$1.26
Diluted	\$3.08	\$2.64	\$2.30	\$2.02	\$1.74	\$1.55	\$1.42	\$1.26
Return on common shareholders' equity excluding accumulated OCI⁹								
According to net income	15.2%	15.7%	10.3%	13.6%	13.9%	11.8%	14.0%	15.0%
According to adjusted net income	15.6%	15.1%	14.0%	14.1%	13.9%	14.0%	14.4%	14.5%
Net income (loss) available to common shareholders by line of business								
Individual Insurance	106.3	85.8	80.4	73.4	72.8	50.2	55.3	54.7
Individual Wealth Management	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9	24.9
Group Insurance	45.3	46.8	35.1	33.6	19.8	18.3	11.8	2.9
Group Pensions	18.5	17.5	18.1	14.7	14.0	10.1	15.2	14.9
Total	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
Net income available to common shareholders by line of business, adjusted								
Individual Insurance	113.3	80.7	81.3	78.2	72.8	66.7	57.0	47.4
Individual Wealth Management	72.1	72.0	49.0	34.3	30.0	18.4	21.2	26.9
Group Insurance	45.5	44.2	35.7	33.9	19.8	18.7	12.7	4.4
Group Pensions	18.6	17.6	18.2	14.7	14.0	12.3	15.7	15.6
Total	249.5	214.5	184.2	161.1	136.6	116.1	106.6	94.3

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

	2007	2006	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001	2000
BUSINESS GROWTH								
Premiums and deposits								
Premiums								
General fund	2,463.7	2,209.0	1,981.2	1,870.9	1,724.7	1,580.5	1,504.2	1,545.5
Segregated funds	1,565.6	1,554.0	1,189.9	981.5	842.0	756.7	572.8	693.5
Total	4,029.3	3,763.0	3,171.1	2,852.4	2,566.7	2,337.2	2,077.0	2,239.0
Deposits								
Individual Wealth Management – Mutual funds	1,796.9	1,227.6	412.6	---	---	---	---	---
Total	5,826.2	4,990.6	3,583.7	2,852.4	2,566.7	2,337.2	2,077.0	2,239.0
Revenues								
Premiums	4,029.3	3,763.0	3,171.1	2,852.4	2,566.7	2,337.2	2,077.0	2,239.0
Net investment income								
Investment income	433.4	643.3	610.6	596.0	574.5	557.4	561.1	573.2
Amortization of realized and unrealized gains (losses)	10.4	214.7	156.6	100.1	102.9	(78.3)	(16.6)	28.2
Realized gains (losses) on assets available-for-sale	8.9	---	---	---	---	---	---	---
Variations in the market value of assets held-for-trading	125.9	---	---	---	---	---	---	---
Change in provision for losses	0.2	2.0	(76.3)	0.8	(0.1)	(28.9)	(2.2)	(2.2)
Total	578.8	860.0	690.9	696.9	677.3	450.2	542.3	599.2
Fees and other income	363.5	314.9	167.4	128.9	99.5	90.8	92.0	87.4
Total revenues	4,971.6	4,937.9	4,029.4	3,678.2	3,343.5	2,878.2	2,711.3	2,925.6
Assets under management/administration								
Assets under management								
General fund	15,104.3	13,090.7	11,972.9	11,030.8	10,307.6	9,289.2	8,886.3	8,571.8
Segregated funds	10,210.9	9,204.1	7,348.8	5,913.6	5,042.2	4,173.5	4,049.6	5,432.8
Mutual funds	6,846.9	6,295.4	5,672.7	1,018.5	94.1	---	---	---
Other	630.6	501.3	785.9	872.0	---	---	---	---
Total	32,792.7	29,091.5	25,780.3	18,834.9	15,443.9	13,462.7	12,935.9	14,004.6
Assets under administration	17,618.9	17,812.6	12,390.9	9,641.1	4,129.6	3,298.2	2,192.7	90.6
Total	50,411.6	46,904.1	38,171.2	28,476.0	19,573.5	16,760.9	15,128.6	14,095.2
Individual Insurance								
Sales ¹⁰	159.0	153.6	141.3	139.9	128.7	133.3	145.0 ¹¹	134.1 ¹¹
Premiums	897.3	838.6	768.7	763.1	683.4	663.9	658.8	607.8
Individual Wealth Management								
Sales ¹⁰								
General fund	334.4	289.2	242.4	237.5	227.9	198.7	147.4	163.9
Segregated funds	990.6	958.3	805.2	669.3	430.8	392.0	381.7	449.9
Mutual funds	1,796.9	1,227.6	412.6	---	---	---	---	---
Total	3,121.9	2,475.1	1,460.2	906.8	658.7	590.7	529.1	613.8
Net investment fund sales								
Segregated funds	578.7	607.6	547.4	332.7	117.5	152.1	199.0	264.6
Mutual funds	799.2	267.0	148.7	---	---	---	---	---
Total	1,377.9	874.6	696.1	332.7	117.5	152.1	199.0	264.6
Funds under management								
General fund	1,584.4	1,631.7	1,695.5	1,770.9	1,775.3	1,737.5	1,721.7	1,786.0
Segregated funds	6,695.9	6,046.8	4,851.2	3,871.6	3,261.5	2,795.2	2,928.1	2,859.8
Mutual funds	6,834.7	6,281.2	5,659.8	1,018.5	94.1	---	---	---
Total	15,115.0	13,959.7	12,206.5	6,661.0	5,130.9	4,532.7	4,649.8	4,645.8

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

	2007	2006	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001	2000
BUSINESS GROWTH (continued)								
Group Insurance								
Sales ¹⁰								
Employee Plans	72.0	70.8	52.3	55.7	53.3	92.4	59.1	37.4
Creditor insurance	192.0	176.4	158.8	132.6	130.1	124.5	108.0	100.3
Special Markets Group (SMG)	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Premiums and premium equivalents								
Employee Plans	594.8	509.2	475.4	448.4	426.0	378.6	331.6	276.5
Creditor insurance	161.3	147.8	132.1	109.8	105.5	98.7	85.9	84.6
Special Markets Group (SMG)	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Total premiums	860.5	749.6	694.9	637.9	603.0	543.0	449.8	388.9
Premium equivalents	94.7	124.1	102.9	96.1	99.2	43.9	33.5	29.0
Total	955.2	873.7	797.8	734.0	702.2	586.9	483.3	417.9
Group Pensions								
Sales ¹⁰								
Accumulation contracts								
General fund	20.9	29.2	25.8	49.1	35.3	40.7	82.0	309.8
Segregated funds	575.0	595.7	384.7	312.2	411.2	364.7	191.1	243.6
Total	595.9	624.9	410.5	361.3	446.5	405.4	273.1	553.4
Insured annuities (general fund)	232.4	195.2	154.3	99.8	109.9	86.0	133.9	63.1
Total	828.3	820.1	564.8	461.1	556.4	491.4	407.0 ¹¹	616.5 ¹¹
Funds under management								
Accumulation contracts								
General fund	147.0	142.4	150.4	158.8	162.5	153.7	147.5	203.2
Segregated funds	3,379.5	3,041.5	2,402.9	1,927.8	1,599.6	1,143.8	923.9	2,412.5
Other	34.1	36.4	34.7	33.3	36.8	35.1	5.3	0.2
Total	3,560.6	3,220.3	2,588.0	2,119.9	1,798.9	1,332.6	1,076.7	2,615.9
Insured annuities (general fund)	2,556.6	2,150.9	2,026.2	1,936.4	1,905.1	1,652.3	1,639.7	1,562.2
Total	6,117.2	5,371.2	4,614.2	4,056.3	3,704.0	2,984.9	2,716.4	4,178.1
INVESTMENTS								
Value and distribution of investments								
Book value of investment portfolio	14,214.3	12,256.2	11,226.9	10,589.6	9,925.5	8,934.9	8,570.7	8,260.9
Market value of investment portfolio	---	13,759.8	12,809.6	11,720.6	10,893.7	9,751.8	9,173.7	8,839.9
Market value/book value	---	112.3%	114.1%	110.7%	109.8%	109.1%	107.0%	107.0%
Distribution of investments by asset category								
Bonds	57.2%	58.6%	58.9%	57.4%	55.7%	52.5%	48.9%	46.9%
Mortgages	20.5%	20.1%	21.6%	23.5%	25.1%	28.3%	31.0%	33.0%
Stocks	12.4%	11.9%	10.4%	10.2%	9.4%	8.1%	8.2%	8.6%
Real estate	3.4%	3.7%	4.0%	4.2%	4.3%	4.9%	5.0%	4.8%
Other	6.5%	5.7%	5.1%	4.7%	5.5%	6.2%	6.9%	6.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region								
Atlantic provinces	4.1%	3.9%	4.8%	5.1%	4.6%	5.3%	4.4%	4.0%
Quebec	48.1%	48.0%	49.5%	49.6%	50.1%	50.5%	49.3%	49.8%
Ontario	20.6%	20.6%	20.3%	20.7%	20.5%	20.3%	20.5%	20.1%
Western provinces	16.8%	16.6%	16.9%	17.3%	17.9%	18.1%	18.5%	20.2%
Outside Canada	10.4%	10.9%	8.5%	7.3%	6.9%	5.8%	7.3%	5.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2007	2006	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001	2000
INVESTMENTS (continued)								
Impaired investments and provisions								
Gross impaired investments (excluding insured loans)	21.3	95.2	96.8	47.6	60.5	60.4	39.8	35.7
Gross impaired investments	20.7	95.2	96.8	47.6	60.5	60.4	39.8	35.7
Provisions for losses	(9.0)	(87.3)	(89.2)	(39.1)	(40.7)	(41.1)	(15.7)	(14.3)
Net impaired investments (excluding insured loans)	11.7	7.9	7.6	8.5	19.8	19.3	24.1	21.4
Net impaired investments as a % of total investments	0.08%	0.06%	0.07%	0.08%	0.20%	0.22%	0.28%	0.26%
Provisions as a % of gross impaired investments	43.6%	91.7%	92.1%	82.0%	67.3%	68.0%	39.1%	39.9%
Bonds								
Book value of the bond portfolio	8,127.2	7,189.4	6,619.6	6,074.5	5,527.9	4,686.4	4,193.2	3,874.5
Market value of the bond portfolio	---	8,409.3	7,997.0	7,046.8	6,368.7	5,423.1	4,691.6	4,383.9
Market value/book value	---	117.0%	120.8%	116.0%	115.2%	115.7%	111.9%	113.1%
Distribution by credit rating								
Rating – AAA	13.7%	17.4%	12.3%	9.8%	11.3%	12.2%	12.4%	10.9%
Rating – AA	19.8%	17.9%	16.3%	17.1%	15.7%	15.0%	13.1%	14.8%
Rating – A	60.5%	58.3%	63.7%	65.7%	66.6%	65.0%	65.9%	66.9%
Rating – BBB	5.9%	6.1%	7.3%	7.2%	6.3%	7.7%	8.6%	7.2%
Rating – BB and lower	0.1%	0.3%	0.4%	0.2%	0.1%	0.1%	0.0%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by category of issuer								
Governments	59.7%	56.9%	60.4%	64.5%	59.2%	55.1%	52.4%	51.9%
Municipalities	1.8%	1.7%	1.6%	1.7%	1.8%	2.5%	1.2%	1.7%
Corporates – Public issues	23.4%	26.1%	25.1%	22.4%	26.0%	28.2%	32.9%	34.1%
Corporates – Private issues	15.1%	15.3%	12.9%	11.4%	13.0%	14.2%	13.5%	12.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures								
Delinquency rate	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%	0.00%
Mortgages								
Book value of the mortgage portfolio	2,920.2	2,457.2	2,420.8	2,491.8	2,490.4	2,526.5	2,660.4	2,729.6
Market value of the mortgage portfolio	---	2,516.0	2,469.8	2,562.7	2,570.1	2,615.5	2,750.6	2,760.7
Market value/book value	---	102.4%	102.0%	102.8%	103.2%	103.5%	103.4%	101.1%
Distribution by type of property								
Residential	21.6%	20.4%	16.3%	16.4%	17.1%	18.4%	18.7%	19.0%
Multi-residential	60.2%	59.5%	58.9%	59.5%	55.6%	52.5%	51.3%	49.7%
Non-residential	18.2%	20.1%	24.8%	24.1%	27.3%	29.1%	30.0%	31.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of loan								
Insured	65.0%	60.2%	55.6%	52.8%	48.6%	45.3%	40.9%	39.3%
Conventional	35.0%	39.8%	44.4%	47.2%	51.4%	54.7%	59.1%	60.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures								
Delinquency rate								
Insured loans	0.10%	0.09%	0.50%	0.50%	0.75%	0.80%	0.27%	0.48%
Conventional loans	0.27%	0.02%	0.05%	0.13%	0.97%	0.69%	0.62%	0.08%
Total	0.16%	0.06%	0.30%	0.32%	0.86%	0.74%	0.48%	0.23%
Proportion of delinquent loans that are insured	41.0%	88.0%	93.0%	81.0%	42.2%	49.0%	23.3%	80.4%

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

	2007	2006	2005	2004	2003 (restated ¹)	2002 (restated ²)	2001	2000
INVESTMENTS (continued)								
Stocks								
Book value of the stock portfolio	1,764.2	1,453.5	1,162.4	1,081.1	930.3	720.1	703.2	707.9
Market value of the stock portfolio	---	1,599.7	1,255.1	1,130.5	957.3	691.7	690.7	722.6
Market value/book value	---	110.1%	108.0%	104.6%	102.9%	96.1%	98.2%	102.1%
Distribution of stocks by category								
Common	5.7%	5.0%	4.9%	4.1%	4.1%	6.1%	7.4%	4.6%
Preferred	8.1%	10.9%	12.8%	21.6%	24.8%	32.4%	29.8%	31.6%
Market indices	25.6%	23.6%	18.2%	12.0%	11.1%	15.3%	19.3%	13.6%
Investment fund units and other	60.6%	60.5%	64.1%	62.3%	60.0%	46.2%	43.5%	50.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Real estate								
Book value of the real estate portfolio	481.6	451.8	446.3	444.5	425.7	436.0	424.9	392.3
Market value of the real estate portfolio	623.7	530.5	509.9	482.9	446.4	455.6	451.8	416.1
Market value/book value	129.5%	117.4%	114.2%	108.6%	104.9%	104.5%	106.3%	106.1%
Occupancy rate	95.5%	95.5%	96.8%	95.2%	93.9%	92.1%	96.3%	96.7%
Other								
Provision for potential loss on fixed-income securities contained in the policy liabilities	78.3	73.1	77.7	97.5	---	---	---	---
CAPITALIZATION AND SOLVENCY								
Capital structure								
Subordinated debentures ¹²	309.8	310.1	373.0	150.0	135.0	185.0	185.0	185.0
Other debt (IATS ¹³) ¹²	---	---	---	150.0	150.0	---	---	---
Participating policyholders' account	24.1	23.1	19.7	17.3	13.2	59.5	53.4	50.7
Equity								
Common shares	513.1	507.7	510.6	458.1	438.3	382.0	382.0	379.2
Preferred shares	125.0	125.0	---	---	18.7	75.0	75.0	75.0
Contributed surplus	17.1	14.6	12.3	9.5	6.5	3.3	---	---
Retained earnings	1,148.3	971.3	845.4	751.7	627.5	470.2	397.6	316.9
Accumulated other comprehensive income	(3.8)	---	---	---	---	---	---	---
Currency translation account	---	(6.8)	(7.1)	(5.8)	(2.5)	7.5	10.2	7.4
Total	1,799.7	1,611.8	1,361.2	1,213.5	1,088.5	938.0	864.8	778.5
Total capital structure	2,133.6	1,945.0	1,753.9	1,530.8	1,386.7	1,182.5	1,103.2	1,014.2
Solvency ratio								
Available capital								
Tier 1 (net)	1,685.6	1,498.9	1,187.5	1,246.2	996.1	695.0	681.0	614.0
Tier 2 (net)	120.6	128.6	134.9	136.1	295.8	342.4	317.8	329.5
Total	1,806.2	1,627.5	1,322.4	1,382.3	1,291.9	1,037.4	998.8	943.5
Required capital	934.6	809.9	704.5	624.0	583.7	556.5	534.3	503.4
Solvency ratio ¹⁴	193%	201%	188%	222%	221%	186%	187%	187%
Debt measures								
Debt ¹⁵ /capital structure	14.5%	15.9%	21.3%	19.6%	20.6%	15.6%	16.8%	18.2%
Debt ¹⁵ and preferred shares/capital structure	20.4%	22.4%	21.3%	19.6%	21.9%	22.0%	23.6%	25.6%
Coverage ratio (in number of times) ¹⁶	12.2	12.1	11.0	13.4	9.6	8.7	---	---

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

2007 2006 2005 2004 2003
(restated¹) (restated²) 2002 2001 2000

MISCELLANEOUS INFORMATION

Market data³

Common shares

Number of common shares outstanding (in millions)	79.8	79.9	81.4	79.5	78.6	75.4	75.4	75.2
Share price at end of period	\$42.58	\$36.14	\$29.07	\$27.50	\$21.90	\$19.75	\$23.33	\$20.33
Average share price	\$40.58	\$32.42	\$28.49	\$23.44	\$18.69	\$20.18	\$21.16	\$17.72
Weighted average number of common shares (in millions)								
Basic	80.1	80.5	79.6	79.2	77.6	75.1	74.9	75.1
Diluted	81.1	81.3	80.2	79.7	79.6	75.1	75.0	75.1

Dividends

Dividends paid per common share	\$0.76	\$0.60	\$0.50	\$0.41	\$0.35	\$0.32	\$0.30	\$0.08
Dividend payout ratio	24%	23%	22%	20%	20%	21%	21%	6%

Company's worth

Market capitalization	3,399.6	2,887.6	2,366.3	2,185.6	1,721.3	1,486.8	1,756.3	1,527.7
Book value per common share	\$20.98	\$18.61	\$16.72	\$15.27	\$13.61	\$11.46	\$10.49	\$9.36
Embedded value per common share	\$34.92	\$30.64	\$26.78	\$26.90	\$24.17	\$21.89	\$20.56	\$18.54

General expenses

General expenses	333.5	314.0	273.1	257.8	237.4	229.9	212.0	205.4
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Human resources

Number of employees								
Life insurance companies	2,318	2,192	2,115	2,159	2,138	2,110	2,035	1,948
General insurance company	367	386	367	346	329	305	237	178
Other	262	241	264	121	36	19	9	8
Total	2,947	2,819	2,746	2,626	2,503	2,434	2,281	2,134
Number of Career representatives	1,608	1,550	1,445	1,379	1,309	1,310	1,270	1,218

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 ABCP: Asset-backed commercial paper.

⁴ 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.

⁵ 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.

⁶ 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.

⁷ Goodwill expense has been adjusted pursuant to the introduction of new accounting rules with respect to the amortization of goodwill.

⁸ For comparison purposes, the market data for 2000 to 2004 have been recalculated to reflect the two-for-one split of the Company's common shares effective on May 16, 2005.

⁹ OCI: Other Comprehensive Income.

¹⁰ 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.

¹¹ Sales, excluding Canadian Medical Association (CMA) for 2001 and 2000, would respectively be \$135.6 million and \$125.3 million in Individual Insurance and \$235.0 million and \$202.8 million in Group Pensions.

¹² Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust securities (IATS) 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.

¹³ IATS: Industrial Alliance Trust Securities.

¹⁴ The solvency ratio is calculated in accordance with capital adequacy requirements.

¹⁵ Debt includes subordinated debentures and other debts.

¹⁶ Obtained by dividing pre-tax income and financing expenses, by financing expenses.

Note: for comparison purposes, certain previous data have been reclassified.

CONSOLIDATED FINANCIAL STATEMENTS

62	Responsibility for Financial Statements
63	Appointed Actuary's Report
63	Auditor's Report
64	Consolidated Income Statements
65	Consolidated Balance Sheets
66	Consolidated Participating Policyholders' Account
66	Consolidated Contributed Surplus
66	Consolidated Shareholders' Retained Earnings and Consolidated Accumulated Other Comprehensive Income Statements
67	Consolidated Comprehensive Income Statement
68	Consolidated Cash Flows Statements
69	Consolidated Financial Statements of Segregated Funds
70	Notes to 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. 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 Audit Committee of the Board of Directors, which is comprised solely of independent directors, 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* (Quebec), 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,



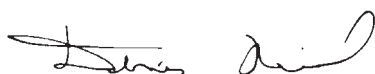
Yvon Charest
President and Chief Executive Officer
Quebec, February 11, 2008

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, 2007 and 2006 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
Quebec, February 11, 2008

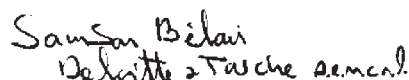
AUDITORS' REPORT

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, 2007 and 2006 and the consolidated income statements, the consolidated participating policyholders' account statements, the consolidated contributed surplus statements, the consolidated shareholders' retained earnings and consolidated accumulated other comprehensive income statements, the consolidated comprehensive income statement, 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, 2007 and 2006 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.



Chartered Accountants
Quebec, February 11, 2008

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2007	2006
	\$	\$
Revenues		
Premiums (note 25)	4,029	3,763
Net investment income (note 7)	579	860
Fees and other revenues	363	315
	4,971	4,938
Policy benefits and expenses		
Payments to policyholders and beneficiaries	1,738	1,592
Net transfer to segregated funds	1,457	1,400
Dividends, experience rating refunds and interest on amounts on deposit	44	37
Change in provisions for future policy benefits	506	736
	3,745	3,765
Commissions	519	485
Premium and other taxes	58	56
General expenses (notes 8 and 13)	334	314
Financing expenses (note 17)	3	18
	4,659	4,638
Income before income taxes	312	300
Less: income taxes (note 9)	63	69
Net income	249	231
Less: net income attributed to participating policyholders	1	3
Net income attributed to shareholders	248	228
Less: preferred share dividends	6	5
Net income available to common shareholders	242	223
Earnings per common share (in dollars) (note 19)		
basic	3.02	2.77
diluted	2.99	2.74

The accompanying notes are an integral part of these consolidated financial statements.

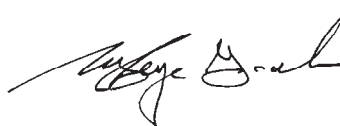
CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of dollars)	2007	2006
	\$	\$
Assets		
Invested assets (note 10)		
Bonds	8,127	7,189
Mortgages	2,920	2,457
Stocks	1,764	1,454
Real estate	482	452
Policy loans	267	220
Cash and cash equivalents	362	372
Other invested assets	292	112
	14,214	12,256
Intangible assets (note 12)	298	298
Other assets (note 13)	524	469
Goodwill (note 11)	68	68
Total general fund assets	15,104	13,091
Segregated funds net assets	10,211	9,204
Liabilities		
Policy liabilities (note 14)		
Provisions for future policy benefits	11,705	9,447
Provisions for dividends to policyholders and experience rating refunds	41	38
Benefits payable and provision for unreported claims	160	147
Policyholders' amounts on deposit	182	175
	12,088	9,807
Other liabilities (note 15)	579	495
Future income tax (note 9)	294	286
Deferred net realized gains (note 16)	10	558
Debentures (note 17)	310	310
Participating policyholders' account	24	23
	13,305	11,479
Equity		
Share capital (note 18)	638	633
Contributed surplus	17	15
Retained earnings and accumulated other comprehensive income	1,144	971
Currency translation account	---	(7)
	1,799	1,612
Total general fund liabilities and equity	15,104	13,091
Segregated funds liabilities	10,211	9,204

The accompanying notes are an integral part of these consolidated financial statements.



Yvon Charest,
President and Chief Executive Officer



L.G. Serge Gadbois,
Chairman of Audit Committee

CONSOLIDATED PARTICIPATING POLICYHOLDERS' ACCOUNT

Years ended December 31 (in millions of dollars)	2007	2006
	\$	\$
Balance at beginning	23	20
Net income for the year	5	7
Dividends	(4)	(4)
Net income attributed to participating policyholders	1	3
Balance at end	24	23

CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 31 (in millions of dollars)	2007	2006
	\$	\$
Balance at beginning	15	12
Current year contribution for the stock option plan (note 20)	4	4
Stock options exercised	(2)	(1)
Balance at end	17	15

CONSOLIDATED SHAREHOLDERS' RETAINED EARNINGS AND CONSOLIDATED ACCUMULATED OTHER COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	2007	2006
	\$	\$
Consolidated shareholders' retained earnings		
Balance at beginning	971	845
Impact of adopting new accounting standards (note 3)	10	---
Net income attributed to shareholders	248	228
Common share dividends	(61)	(48)
Preferred share dividends	(6)	(5)
Issue cost of preferred shares, net of taxes	---	(2)
Purchase and cancellation of common shares	(14)	(47)
Balance at end	1,148	971
Consolidated accumulated other comprehensive income		
Balance at beginning	---	---
Reclassification of currency translation account (note 3)	(7)	---
Impact of adopting new accounting standards (note 3)	28	---
Total other comprehensive income	(25)	---
Balance at end	(4)	---
Total	1,144	971

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

Year ended December 31 (in millions of dollars)	2007
	\$
Net income	249
Other comprehensive income	
Unrealized gains (losses) arising during the year on available-for-sale financial assets:	
Bonds (net of income tax of \$4)	(10)
Stocks (net of income tax of \$1)	(3)
Reclassification of (gains) losses on available-for-sale financial assets included in the net income:	
Bonds (net of income tax of \$1)	(2)
Stocks (net of income tax of \$2)	(4)
Change in unrealized gains (losses) on available-for-sale financial assets	(19)
Change in unrealized currency translation gains (losses) on self-sustaining foreign operations	(6)
Total other comprehensive income	(25)
Comprehensive income	224
Comprehensive income attributed to shareholders	223
Comprehensive income attributed to participating policyholders	1

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars)	2007	2006
	\$	\$
Cash flows from operating activities		
Net income	249	231
Items not affecting cash and cash equivalents:		
Change in provisions for future policy benefits	506	736
Share of results of entity subject to significant influence	(2)	(2)
Amortization of realized and unrealized (gains) losses	(10)	(194)
Amortization of premiums and discounts	---	(187)
Variation of realized and unrealized (gains) losses	(142)	---
Realized (gains) losses on available-for-sale financial assets	(9)	---
Future income taxes	(1)	25
Stock option plan	4	3
Provision on invested assets	---	(2)
Amortization of deferred sales commissions and depreciation of fixed assets	41	36
Other	37	11
	673	657
Changes in other assets and liabilities	2	(16)
Cash flows from operating activities	675	641
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	1,812	2,405
Mortgages	341	375
Stocks	329	463
Real estate	5	2
Policy loans	82	73
Other invested assets	3	57
	2,572	3,375
Purchases of the following items:		
Bonds	(1,550)	(2,635)
Mortgages	(841)	(404)
Stocks	(421)	(620)
Real estate	(24)	(1)
Policy loans	(129)	(106)
Other invested assets	(216)	(137)
Acquisition of cash and cash equivalents (note 5)	---	1
	(3,181)	(3,902)
Cash flows from investing activities	(609)	(527)
Cash flows from financing activities		
Issue of common shares	6	5
Redemption of common shares	(17)	(58)
Issue of preferred shares (less cost of issuance of \$3 in 2006)	---	122
Increase in debenture	---	5
Redemption of debenture	---	(68)
Preferred shareholders dividends	(6)	(5)
Common shareholders dividends	(61)	(48)
Increase (decrease) in mortgage debt	7	(1)
Cash flows from financing activities	(71)	(48)
Foreign currency gain (loss) on cash and cash equivalents	(5)	---
Increase (decrease) in cash and cash equivalents	(10)	66
Cash and cash equivalents at beginning	372	306
Cash and cash equivalents at end	362	372
Supplementary information:		
Cash	9	(11)
Cash equivalents	353	383
Total cash and cash equivalents	362	372
Interest paid	19	22
Income taxes paid, net of refunds	53	29

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS OF SEGREGATED FUNDS

Consolidated statements of net assets

As at December 31 (in millions of dollars)	2007	2006
	\$	\$
Assets		
Bonds	2,800	2,679
Mortgages and mortgage-backed securities	7	21
Stocks	2,750	2,412
Fund units	4,224	3,625
Cash, short-term investments and other invested assets	411	438
Other assets	55	50
	10,247	9,225
Liabilities		
Accounts payable and accrued expenses	36	21
Net assets	10,211	9,204

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	2007	2006
	\$	\$
Balance at beginning	9,204	7,349
Impact of adopting new accounting standards (note 3)	(2)	---
Additions:		
Amounts received from policyholders	1,816	1,676
Interest and dividends	280	223
Net realized gains	444	462
Net increase (decrease) in fair value	(386)	380
	11,356	10,090
Deductions:		
Amounts withdrawn by policyholders	959	736
Operating expenses	186	150
	1,145	886
Balance at end	10,211	9,204

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (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* (Quebec), constitutes, with its subsidiaries, a group of companies (the Company) engaged mainly in the development, marketing and distribution of individual and group 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 the province of Quebec.

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 year. Actual results could differ from Management's best estimates. The most significant estimates are related to the determination of policy liabilities, employee future benefits and the fair values of invested assets.

The 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 financial statements of subsidiaries are consolidated and the results of operations of 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 Insurance Company, for 45% of the share capital. This investment is reported in Other Invested Assets with the Company's share of earnings reported in net investment income;
- › Variable Interest Entities (VIE) are entities in which equity investors do not have a controlling financial interest or where 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.

Intercompany transactions and balances have been eliminated.

Classification of Financial Instruments

The Company has chosen to designate its assets matching the provisions for future policy benefits as held-for-trading with the exception of mortgages, stocks, and bonds that are not quoted on an active market. According to the Canadian Asset Liability Method (CALM), any change in the fair value of underlying assets matched to the future policy benefits is directly reflected in the provisions for future policy benefits. Changes in fair value of assets matching these liabilities and in provisions for future policy benefits are recognized in income in order to avoid a mismatch that would otherwise arise.

Bonds and stocks quoted on an active market, that are not matched with provisions for future policy benefits, are classified as available-for-sale. The change in fair value of these assets is presented in the other comprehensive income. Mortgages and bonds not quoted on an active market are classified as loans and receivables and carried at amortized cost using the effective interest rate method. Stocks not quoted on an active market are classified as available-for-sale but are carried at cost.

Regular-way Purchases and Sales of Financial Instruments

For assets acquired or disposed of a regular-way contract, the Company continues to apply the settlement-date accounting method. Under this method, the gain or loss in fair value between the transaction date and the settlement date is recognized in the income for assets held-for-trading and in other comprehensive income for the assets available-for-sale.

Transaction Costs on Financial Instruments

Transaction costs related to financial assets classified as available-for-sale or held-for-trading and financial liabilities classified as held-for-trading are recorded in income as incurred. Transaction costs related to assets classified as loans and receivables and liabilities classified as other financial liabilities are capitalized and amortized to income using the effective interest rate method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

2 > Accounting Policies (continued)

Fair Value

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 who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If not, 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.

Bonds

Held-for-trading:

Bonds classified as held-for-trading are measured at fair value with gains and losses recognized in income.

Available-for-sale:

Bonds classified as available-for-sale are carried at fair value and unrealized gains and losses are recognized in other comprehensive income. Upon realization, gains or losses are reclassified to income.

Bonds classified as available-for-sale are tested for impairment and when there is evidence of impairment, and the decline in value is considered other than temporary, the loss accounted in the accumulated other comprehensive income is reclassified to income. Once an impairment loss is recorded in income, it is not reversed. Following impairment loss recognition, these assets continue to be recorded at fair value with changes in fair value recorded in other comprehensive income.

Loans and receivables:

Private bonds not traded on an active market are classified as loans and receivables and carried at amortized cost using the effective interest rate method.

Mortgages

Mortgages are classified as loans and receivables and carried at amortized cost using the effective interest rate method, 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 in income immediately.

Commissions paid and other costs incurred on the issuance of new loans are recorded as part of the mortgage. These items are included in the calculation of amortized cost using the effective interest rate method.

Realized gains and losses on the sale of mortgages are recorded in income.

Stocks

Held-for-trading:

Stocks classified as held-for-trading are carried at fair value with gains and losses recognized in income.

Available-for-sale:

Stocks classified as available-for-sale are carried at fair value and unrealized gains and losses are recognized in other comprehensive income. Upon realization, gain or losses are reclassified in income.

Stocks, not quoted on an active market, are classified available-for-sale and are carried at cost. Realized gains and losses are recorded in income.

Stocks classified as available-for-sale are tested for impairment and when there is evidence of impairment, and the decline in value is considered other than temporary, the loss accounted in the accumulated other comprehensive income is reclassified to income. Once an impairment loss is recorded in income, it is not reversed. Following impairment loss recognition, these assets continue to be recorded at fair value with change in fair value recorded in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

2 Accounting Policies (continued)

Real Estate

Real estate held for investment, which includes own-use properties, is carried at the moving average market method whereby the carrying value is adjusted towards fair value at a rate of 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 portfolio held for investment (determined net of deferred realized gains), are immediately recognized in income.

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

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, classified as loans and receivables, 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

Cash and cash equivalents consist of cash, payments in transit, bank acceptances and Treasury bills, bank asset-backed commercial paper that are highly liquid investments held for the purpose of meeting short-term cash commitments and are classified as held-for-trading.

Other Invested Assets

Other invested assets include the investment in an entity subject to significant influence, notes receivable, non-bank-sponsored asset-backed commercial paper and cash in trust. Notes receivable are classified as loans and receivables. Cash in trust and non-bank-sponsored asset-backed commercial paper are classified as held-for-trading.

Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rates, 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 fair value of derivative financial instruments is determined using a quoted price. When the quoted price is not available, the fair value is estimated using price fixation models or according to of a quoted price instrument with similar characteristics or by discounted cash flows.

The Company believes that derivative financial instruments provide efficient matching when implemented and 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 are accounted in net investment income.

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 currency gains and losses resulting from these swaps are offset by corresponding currency gains and losses on the matched items and are accounted in net investment income.

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 are accounted in net investment income.

Accounts receivable and payable on derivative financial instruments are included with Other Assets and Other Liabilities respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Embedded Derivative Financial Instruments

For embedded derivatives, changes in fair value of derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts are recorded at fair value. The fair value of these embedded derivative financial instruments is reported in net investment income.

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 actuarial standards.

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 on impaired assets is no longer accrued and recognized in the income, and previous interest accruals are reversed.

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. Indefinite-life intangible assets are exclusively management contracts.

Fixed Assets

Fixed assets, consisting mainly of systems hardware and software, leasehold improvements to real estate held for investment purposes, office furniture and equipment 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.

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.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net identifiable assets and is not amortized. 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 in income.

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 policyholders have no direct access to the specific assets, the policyholders bear 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 policy 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 fair value. The Company derives fee income from the management of its segregated funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

2 Accounting Policies (continued)

Other Assets

The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

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 Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice established by the Canadian Institute of Actuaries (CIA). Total policy liabilities are presented net of ceded reinsurance.

Income Taxes

The Company uses the liability method of tax allocation to record income taxes. According to this method, 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 expected to reverse. 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.

Other Liabilities

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.

Debentures

The Company has chosen to classify its debentures as held-for-trading. The debentures are measured at fair value with gains and losses presented as a financing expense.

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 self-sustaining foreign activities are recorded in Equity in Accumulated other comprehensive income, whereas those related to operations are recognized immediately as income.

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.

Net Investment Income

Net investment income is recorded on an accrual basis and is reported net of related expenses. These expenses are related to the operating expenses of the real estate and investment management.

Fees and Other Revenues

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

2 > Accounting Policies (continued)

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, accordingly to the higher of the two amounts, 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 included in general expenses. The corresponding amount is recorded in the Company's contributed surplus. For 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. Stock-based compensation is recognized at the grant date for grants to directors or management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to directors or management personnel who will become eligible to retire during the vesting period.

Share Purchase Plan for Employees

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

Deferred Share Units

The cost related to deferred share units (DSU) settled in cash corresponds 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 compensation 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies

Impact of the Change in Accounting Policies

On January 1, 2007, the Company adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: section 1530 – Comprehensive Income, section 3251 – Equity, section 3855 – Financial Instruments, Recognition and Measurement and section 4211 – Life Insurance Enterprises.

These accounting changes were implemented prospectively without any restatement of comparative figures.

Financial Instruments – Recognition and Measurement

Financial assets subject to the new standard are classified as one of the following: held-for-trading, available-for-sale, held-to-maturity and loans and receivables. Financial liabilities subject to the new standard are classified as held-for-trading or other financial liabilities. 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. Financial instruments classified as held-for-trading under the fair value option should have a reliable fair value.

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 who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If not, 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.

Comprehensive Income

As a result of adopting these standards, a new category, Accumulated other comprehensive income (AOCI), has been added to Shareholders' equity on the Consolidated Balance Sheets. This new category includes unrealized gains and losses, net of income taxes, for financial assets classified as available-for-sale as well as unrealized gains and losses on currency translation of self-sustaining foreign operations.

Impact of initial adoption of new standards

Fair value adjustments attributable to the classification of certain assets and liabilities as instruments held-for-trading and the elimination of unamortized deferred gains and losses, impact the provisions for future policy benefits due to the re-evaluation of the financial assets matching these liabilities. These adjustments have been recognized as an adjustment to the opening balance of retained earnings on January 1, 2007. The impact is a \$10 increase in retained earnings.

The adjustments resulting from the re-evaluation of financial assets classified as available-for-sale are recognized in the opening balance of AOCI on January 1, 2007. The impact is a \$28 increase.

The adjustments from the re-evaluation of segregated fund assets to use the bid price are a \$2 reduction of the net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies (continued)

Impact of the Change in Accounting Policies

	As at December 31	Impact of adopting new accounting standards		As at January 1
	2006	Retained earnings	AOCI	2007
	\$	\$	\$	\$
Assets				
Invested assets				
Bonds	7,189	1,161	8	8,358
Mortgages	2,457	3	---	2,460
Stocks	1,454	114	33	1,601
Real estate	452	---	---	452
Policy loans	220	---	---	220
Cash and cash equivalents	372	---	---	372
Other invested assets	112	1	---	113
	12,256	1,279	41	13,576
Intangible assets	298	---	---	298
Other assets	469	(4)	---	465
Goodwill	68	---	---	68
Total general fund assets	13,091	1,275	41	14,407
Liabilities				
Policy liabilities				
Provisions for future policy benefits	9,447	1,799	---	11,246
Provisions for dividends to policyholders and experience rating refunds	38	---	---	38
Benefits payable and provision for unreported claims	147	---	---	147
Policyholders' amounts on deposit	175	---	---	175
	9,807	1,799	---	11,606
Other liabilities	781	1	13	795
Deferred net realized gains	558	(548)	---	10
Debentures	310	13	---	323
Participating policyholders' account	23	---	---	23
Equity				
Share capital	633	---	---	633
Contributed surplus	15	---	---	15
Retained earnings	971	10	---	981
Currency translation account	(7)	---	7	---
Accumulated other comprehensive income	---	---	21	21
	1,612	10	28	1,650
Total general fund liabilities and equity	13,091	1,275	41	14,407

The accumulated other comprehensive income includes the impact of the \$28 and a restatement of the opening balance of the currency translation account \$(7), for a total of \$21.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies (continued)

Future Changes in Accounting

In December 2006, the CICA issued three new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. These standards will be effective for the Company on January 1, 2008.

Capital Disclosure

Section 1535 – Capital Disclosure establishes the required disclosure concerning the Company's objectives, policies and procedures for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and the consequences of non-compliance with such capital requirements.

Financial Instruments – Disclosure and Financial Instruments – Presentation

Section 3862 and 3863 replace section 3861 Financial instrument-disclosure and presentation, revising and enhancing its disclosure requirements. Section 3862 and 3863, will increase the emphasis on disclosure that enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks.

4 › Asset-Backed Commercial Paper

The asset-backed commercial paper (ABCP) market was shaken by a liquidity crisis in August 2007. Hence, since August 13, 2007, the Company has not been able to receive the amounts due upon maturity of the non-bank-sponsored ABCP that it holds.

ABCP is a short-term financial instrument issued by trusts, also called "conduits." Commercial paper is usually issued for a one or three month term. There are two large categories of ABCP: A paper, which comes with a backing agreement with a banking institution in the event of a liquidity problem, and E paper, which has an extension clause.

On August 15, 2007, a group of investors, including the Company, proposed an agreement, "the Montreal agreement," to investors who hold non-bank-sponsored ABCP. Under this agreement, the investors agree to not place the conduits in default (22 in total) to avoid a forced sale of the underlying financial assets ("standstill agreement").

On September 6, 2007 a pan-Canadian committee was formed to supervise the restructuring process to convert the commercial paper into floating rate notes with a maturity corresponding to the underlying assets. On October 16, 2007, the committee chairman announced the successful restructuring of a first conduit of the 22 affected by the Montreal agreement, and the acceptance by the participants in the agreement of the extension of the standstill agreement until December 14, 2007.

On December 23, 2007 an agreement in principle was reached regarding a comprehensive restructuring of the ABCP issued by 20 of the trusts. The restructuring will (i) extend the maturity of the note to provide a maturity similar to that of the underlying assets, (ii) pool certain series of ABCP which are supported in whole or in part by synthetic assets, (iii) mitigate margin call obligations of existing conduits and (iv) support the liquidity needs of those ABCP holders requiring it. All ABCP has been categorized between i) traditional securitized series, ii) synthetic series and iii) U.S. subprime related series. Financial instruments derived from these restructurings will be specific for each category. It is anticipated that the restructuring will be completed by March 2008.

In September 2007, Industrial Alliance bought back all non-bank-sponsored ABCP held in the money market investment funds of the various companies of the group (\$29 in segregated funds, \$40 in mutual funds and \$8 in institutional funds subject to treasury portfolio management agreements). The company purchased \$77 at 100% of the purchase price plus accrued interest. This measure was announced to protect the Company's clients against the uncertainty surrounding the liquidity crisis that struck the ABCP market. This non-bank-sponsored ABCP and the \$13 already held in the Company's general funds represent a total of \$90. Other than this ABCP directly held, the Company is exposed to \$14 through a 45% ownership in an entity subject to significant influence.

The ABCP owned by the Company and the entity subject to significant influence is categorized as follows:

	Industrial Alliance	Entity subject to significant influence
	\$	\$
Traditional securitized series	41	1
Synthetic series	44	10
U.S. subprime related series	5	3
Total	90	14

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

4 › Asset-Backed Commercial Paper (continued)

Considering that these securities are not negotiable on an active market, management has estimated the fair value of these investments using a valuation method that takes into account the best public information available, market conditions and other factors such as the credit risk of the underlying assets, the maturity dates and the assumption that the restructuring process will unfold as planned. This estimate contains a great deal of uncertainty and even though the Company deems its estimations appropriate according to the current conditions, it is possible that the final value of these investments could vary from the current estimate, possibly even considerably, once the restructuring is completed. Depending on the size of the variation, it could affect the Company's results. With respect to the non-bank-sponsored ABCP held directly by the Company, this evaluation resulted in a reduction of the estimated fair value of these investments, which decreased from \$90 to \$77 and is presented in the Company's consolidated balance sheet under "Other Invested Assets." The non-bank-sponsored ABCP is classified under the category held-for-trading and matches the individual life insurance policy liabilities. The fair value variation of non-bank-sponsored ABCP has decreased the policy liabilities by \$5.

The value of the Company's investment in an entity subject to significant influence (included under "Other Invested Assets") decreased by \$1, leading to a corresponding decrease in investment income drawn from this company.

The total impact on the Company's results of the reduction of non-bank-sponsored ABCP is \$10 (\$7 after tax) as at December 31, 2007.

5 › Acquisitions and Disposition of Businesses

Acquisitions

On December 13, 2007, the Company announced the conclusion of agreements to acquire all the shares of a group of companies controlling The Excellence Life insurance Company (Excellence), for an amount estimated to be \$67 payable partly in cash, by the issuance of common share and by debt undertaking. Excellence is specialized in individual disability and health insurance. The Company has received all the regulatory approvals for this acquisition which was finalized as of January 31, 2008.

On August 18, 2006, the Company completed the acquisition of 100% of the common shares of FundTrade Financial Corporation Inc. (FundTrade), a mutual fund dealer, for a cash consideration of \$8. Also, an amount up to a maximum of \$3 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. FundTrade's results have been recognized in the income as at the acquisition date. The final allocation of the purchase price has been done and the excess price was allocated to the goodwill.

On June 19, 2006, the Company completed the acquisition of an additional 8.25% of the common shares of FundEX Investments Inc. (FundEX), a mutual fund dealer, increasing its ownership in that company to 91.75%, for a cash consideration of \$1. As at December 31, 2006, an amount of \$1 had been accounted for the future purchase of the remaining 8.25% that had been finalized in June 2007.

The assets acquired and liabilities assumed are summarized as follows:

	2006	
	FundTrade \$	FundEX \$
Assets acquired		
Cash and cash equivalents	1	---
Intangible assets	---	2
Other assets	2	---
	3	2
Liabilities assumed		
Other liabilities (including restructuring charges)	3	---
Net assets acquired	---	2
Preliminary goodwill	8	---
Transaction amount	8	2
Transaction fees	---	---
Purchase price	8	2

Goodwill and intangible assets with indefinite life from these transactions are not deductible for tax purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

5 › Acquisitions and Disposition of Businesses (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 for \$3. This block is primarily made up of individual life insurance. This transaction was subject to Caribbean regulatory approvals and therefore has not been reflected in the financial statements of the Company. The transaction was completed on January 18, 2008.

The assets sold and liabilities assumed are estimated as follows:

	2007
	\$
Assets sold	
Invested Assets	42
Other assets	6
	48
Liabilities assumed by purchaser	
Actuarial reserve	45
Net assets sold	3

6 › Restructuring Costs

IA Clarington Investments Inc.

The Company acquired BLC-Edmond de Rothschild Asset Management Inc. (BLCER) on December 31, 2004 and Clarington Corporation (Clarington) on December 28, 2005. On June 30, 2006, Industrial Alliance Fund Management Inc. (formerly BLCER) and Clarington were merged to create a single entity, IA Clarington Investments Inc.

On acquisition of both entities, the Company established a plan to restructure and consolidate the activities involving Clarington's business operations, locations and back-office systems. These costs, amounting to \$22, were accounted for as part of the purchase prices.

		Accrued on acquisition			Balance as at
	Expected costs	Cumulative amount incurred as at December 31, 2006	Amounts incurred in 2007	Cumulative amount incurred to date	December 31, 2007
	\$	\$	\$	\$	\$
Termination of contract	10	6	2	8	2
Conversion systems, integration and other	12	6	1	7	5
Cost of restructuring operations	22	12	3	15	7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

7 Net Investment Income

Net investment income was derived from the following sources:

			2007		
	Held-for-trading	Available-for-sale	Loans and	Other	Total
	\$	\$	receivables	\$	\$
			\$		
Bonds					
Interest	140	41	49	---	230
Change in fair value	67	---	---	---	67
Gains (losses) realized	---	3	1	---	4
Mortgages					
Interest	---	---	150	---	150
Gains (losses) realized	---	---	2	---	2
Stocks					
Dividends	9	8	---	---	17
Change in fair value	74	---	---	---	74
Gains (losses) realized	---	6	---	---	6
Real estate					
Rental income (net of \$54 of operating expenses)	---	---	---	31	31
Amortization of realized gains (losses)	---	---	---	6	6
Amortization of unrealized gains (losses)	---	---	---	4	4
Cash and cash equivalents					
Interest	22	---	---	---	22
Derivative financial instruments	(29)	---	---	---	(29)
Entity subject to significant influence	---	---	---	2	2
Other	(13)	---	21	---	8
	270	58	223	43	594
Investment expenses	---	---	---	(15)	(15)
Total	270	58	223	28	579

			2006	
	Investment	Amortization of	Change in provision	Total
	income	realized and	for losses	\$
	\$	unrealized gains	\$	
		\$		
Bonds	418	49	---	467
Mortgages	143	6	2	151
Stocks	16	153	---	169
Real estate (net of \$49 of operating expenses)	31	7	---	38
Cash and cash equivalents	16	---	---	16
Entity subject to significant influence	2	---	---	2
Other	30	---	---	30
	656	215	2	873
Investment expenses	(13)	---	---	(13)
Total	643	215	2	860

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

8 › Government Assistance

The Company accounted for government assistance, in reduction of general expenses for \$10 (\$7 after tax) in 2007 (\$8 in 2006 (\$5 after tax)). These amounts were accounted for based upon receipt of formal confirmation in 2007 and 2006 from the Quebec government. The program calls for annual eligibility certification by the Quebec government on a prospective basis.

9 › 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:

	2007		2006	
	\$	%	\$	%
Income before income taxes	312	---	300	---
Provision for income tax at Canadian statutory rates	113	36	104	35
Non-taxable income	(23)	(7)	(10)	(4)
Change in tax rate	(27)	(9)	(25)	(8)
Income taxes and effective income tax rates	63	20	69	23

Income taxes charged to the income statement are divided as follows:

	2007	2006
	\$	\$
Current income taxes	64	44
Future income taxes	(1)	25
Total	63	69

The future income tax liability is related to the following principal items:

	2007	2006
	\$	\$
Future income tax liabilities		
Policy liabilities	171	247
Real estate	26	51
Other	97	(12)
Total	294	286

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets

The Company is exposed to various types of risk according to the nature of its operations, including risks related to the use of financial instruments. Controls have been put in place to manage the risks associated with the use of financial instruments, such as bonds, stocks, mortgage loans, various types of short-term investments and derivative financial instruments. These controls include risk management policies and various risk limits. These measures primarily aim to optimize the matching of the Company's assets to its policy liabilities and long-term debt. The primary risks to which the Company is exposed are described below.

Market Risk

Market risk corresponds to the risk that the value of a financial instrument fluctuates due to the variation of parameters underlying their valuation, including interest rates, exchange rates and stock market prices.

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.

Credit Risk

The use of financial instruments may lead to a credit risk that corresponds to the risk of financial loss resulting from a counterparty's inability or refusal to completely fulfil their contractual obligations.

The Company's risk management policies include the assignment of risk ratings, management of impaired loans and the establishment of provisions, as well as a level of authorization according to the rating and the amount of the financial instrument. Consequently, the Company manages credit risk in accordance with established investment policies.

The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. These policies define the credit risk limits according to the characteristics of the counterparties.

The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk evaluation after the initial granting of credit.

The Company also requires a review and an independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors.

The credit risk related to derivative financial instruments is managed by following the same standards of credit approval, limits and monitoring that are applied to other types of investments. The highest portion of the Company's credit concentration in derivative financial instruments primarily concerns financial institutions. The maximum credit risk corresponds to the estimated replacement cost of the various derivative products that have a positive value if a counterparty does not honour their contractual obligations. Future credit risks represent possible future losses that can result from rate fluctuations of the underlying market. The credit equivalent amount for a derivative financial instrument corresponds to the total of the future credit risk and the maximum credit risk.

Concentration Risk

Concentration risk arises when investments are made with several entities with similar characteristics or when a substantial investment is made with a single entity.

Illiquidity Risk

Illiquidity risk represents the contingency that the Company is unable to gather the funds required to respect its financial obligations at the appropriate time and under reasonable conditions. The Company manages this risk so as to ensure that it has sufficient liquidity at all times to be able to honour its current and future financial obligations, in normal conditions and in exceptional circumstances. Financing strategies to ensure Management of this risk include resorting to the capital markets, the issuance of equity or debt securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 ▸ Invested Assets (continued)

a) Carrying Value and Fair Value

	Held-for-trading	Available-for-sale	2007 Loans and receivables	Other	Total
	\$	\$	\$	\$	\$
Bonds					
Governments	4,493	305	54	---	4,852
Municipalities	134	12	3	---	149
Corporate and other	1,778	644	704	---	3,126
	6,405	961	761	---	8,127
Mortgages					
Insured	---	---	1,894	---	1,894
Conventional	---	---	1,026	---	1,026
	---	---	2,920	---	2,920
Stocks	1,489	275	---	---	1,764
Real estate					
Held for investment	---	---	---	474	474
Held for resale	---	---	---	8	8
	---	---	---	482	482
Policy loans	---	---	267	---	267
Cash and cash equivalents	362	---	---	---	362
Other invested assets	115	---	160	17	292
Total	8,371	1,236	4,108	499	14,214

	2006				
	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Fair value
	\$	\$	\$	\$	\$
Bonds					
Governments	4,090	---	4,090	1,058	5,148
Municipalities	124	---	124	19	143
Corporate and other	2,974	1	2,975	143	3,118
	7,188	1	7,189	1,220	8,409
Mortgages					
Insured	1,478	1	1,479	43	1,522
Conventional	978	---	978	16	994
	2,456	1	2,457	59	2,516
Stocks	1,454	---	1,454	146	1,600
Real estate					
Held for investment	445	---	445	79	524
Held for resale	---	7	7	---	7
	445	7	452	79	531
Policy loans	220	---	220	---	220
Cash and cash equivalents	372	---	372	---	372
Other invested assets	112	---	112	---	112
Total	12,247	9	12,256	1,504	13,760

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

Other Invested Assets

	2007	2006
	\$	\$
Entity subject to significant influence	17	14
Cash in trust	38	28
Notes receivable	160	70
Non-bank-sponsored asset-backed commercial paper (note 4)	77	---
Total	292	112

In 2006, the fair value of stocks and bonds is determined with reference to the quoted market price 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 of 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, 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 and current market rates.

Fair Value of Assets and Liabilities

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 who are under no compulsion to act. There is no market for a substantial portion of the Company's financial instruments. Consequently, for these instruments, the fair values presented are estimates established using discount techniques or other recognized valuation techniques, which may not be representative of the net realizable value. When the fair value is established from valuation models, assumptions as to the amount and maturity of estimated future cash flows and discount rates may have to be used. These assumptions consider the risks inherent in financial instruments.

The amounts below represent the fair value of the Company's financial instruments, established using the valuation methods and assumptions described below.

	2007			2006		
	Book value \$	Fair value \$	Variations \$	Book value \$	Fair value \$	Variations \$
Assets						
Invested assets (note 10)						
Bonds	8,127	8,127	---	7,189	8,409	1,220
Mortgage loans	2,920	2,973	53	2,457	2,516	59
Stocks	1,764	1,764	---	1,454	1,600	146
Real estate	482	624	142	452	531	79
Policy loans	267	267	---	220	220	---
Cash and cash equivalents	362	362	---	372	372	---
Other investments	292	292	---	112	112	---
	14,214	14,409	195	12,256	13,760	1,504
Other assets (note 13)	524	524	---	469	469	---
Liabilities						
Other liabilities (note 15)	579	579	---	495	495	---
Debentures (note 17)	310	310	---	310	323	13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

Methods and assumptions used to estimate fair market values of financial instruments

Cash and cash flows, policy loans and other invested assets

The fair value of cash and cash equivalents, policy loans and other invested assets is deemed to approximately correspond to the book value due to their short-term maturity.

Bonds and stocks

The fair value of bonds and stocks is based on market prices; if they are not available, the fair value is estimated according to valuation techniques.

Mortgage loans

The fair value of mortgage loans is estimated by discounting the interest rate cash flows currently prevailing on the market, for new loans with substantially the same terms.

Real estate

The fair value of real estate is estimated thanks to valuations made by chartered appraisers.

Debentures

The fair value of debentures corresponds to the value of securities traded on the market.

Other assets and other liabilities

The book value of other assets and other liabilities corresponds approximately to their fair value.

b) Credit Risk and Concentration Risk

The following tables provide information about credit risk and concentration risk:

Bonds by investment grade

	2007	2006
	Carrying value	
	\$	\$
AAA	1,114	1,254
AA	1,609	1,289
A	4,920	4,185
BBB	476	439
BB and lower	8	22
Total	8,127	7,189

The investment grades of bonds take into account the characteristics of issuers of derivative financial instruments (Credit contracts – note 22) matching certain securities held, thus reducing the credit risk.

The value of the Company's investments in securities in investments guaranteed by monoline financial guarantors is less than \$0.2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 ▸ Invested Assets (continued)**b) Credit Risk and Concentration Risk** (continued)**Mortgages by region and type**

2007						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
Residential	---	585	42	3	---	630
Multi-residential	36	847	236	453	185	1,757
Non-residential	33	169	97	211	23	533
Total	69	1,601	375	667	208	2,920

2006						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
Residential	1	453	43	5	---	502
Multi-residential	21	718	175	329	219	1,462
Non-residential	25	186	73	187	22	493
Total	47	1,357	291	521	241	2,457

Real estate by type of property

	2007	2006
	Carrying value \$	Carrying value \$
Residential and multi-residential	9	8
Office	360	332
Retail	94	91
Industrial	12	11
Land and other	7	10
Total	482	452

Stocks by category

	2007	2006
	Carrying value \$	Carrying value \$
Common stocks	101	73
Preferred stocks	144	158
Stock indexes	451	343
Investment fund units	1,068	880
Total	1,764	1,454

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)**b) Credit Risk and Concentration Risk** (continued)**Provisions for Credit Losses**

	2007	2006
	\$	\$
Bonds	5	5
Conventional mortgage loans	---	1
Real estate held for resale	4	3
Other	---	78
Total	9	87
Continuity of provisions		
Balance at beginning	87	89
Net increase in provisions for losses	---	---
Impact of adopting new accounting standards (note 3)	(78)	(2)
Balance at end	9	87

c) Interest Rate Risk

The following tables provide information about the maturity dates of the Company's invested assets that are subject to interest rate risk.

	2007	
	Bonds	Mortgages
	Carrying value	
	\$	\$
Due in 1 year or less	644	328
Due after 1 year through 5 years	1,260	1,343
Due after 5 years through 10 years	1,480	519
Due after 10 years	4,743	730
Total	8,127	2,920

	2006			
	Bonds		Mortgages	
	Carrying value	Fair Value	Carrying value	Fair Value
	\$	\$	\$	\$
Due in 1 year or less	726	727	311	313
Due after 1 year through 5 years	1,207	1,243	1,350	1,358
Due after 5 years through 10 years	1,410	1,529	373	393
Due after 10 years	3,846	4,910	423	452
Total	7,189	8,409	2,457	2,516

The effective yield is between 1.08% and 12.22% (2.89% and 12.21% in 2006) for bonds, between 3.82% and 12.75% (3.03% and 12.75% in 2006) for mortgages and between 5.00% and 10.00% (5.00% and 10.00% in 2006) for policy loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

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, matches its liabilities until they expire and uses derivative financial instruments 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 matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in fair value of the asset held for matching 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 14, the Company takes into account the level of matching achieved between assets and liabilities.

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 fair 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 collateral deficiency. As at December 31, 2007, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately \$319 (\$220 (fair value of \$230) in 2006).

11 › Goodwill

The carrying value of goodwill and changes in the carrying value are as follows:

	Preliminary goodwill		Goodwill		Total	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Balance at beginning	9	230	59	57	68	287
Acquisition of businesses	(9)	8	9	---	---	8
Reclassification after allocation of the acquisition price	---	(2)	---	2	---	---
Adjustment on previous year's transactions	---	2	---	---	---	2
Reclassification to intangible assets	---	(229)	---	---	---	(229)
Balance at end	---	9	68	59	68	68

The amount shown in the adjustment on the previous year's transactions line for 2006 represents an amount related to the transaction fees for Clarington.

12 › Intangible Assets

Intangible assets include:

	2007	2006
	\$	\$
Unamortized intangible assets with indefinite life:		
Balance at beginning – management contract	298	67
Business acquisition – management contract	---	2
Reclassification after allocation of the acquisition price – management contract	---	229
Balance at end	298	298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

13 Other Assets

Other assets consist of the following:

	2007	2006
	\$	\$
Systems hardware and software, furniture, and equipment, at cost	114	94
Less: accumulated depreciation	74	67
	40	27
Leasehold improvements, at cost	69	59
Less: accumulated depreciation	37	31
	32	28
Investment income due and accrued	65	61
Derivative instruments	11	15
Outstanding premiums	50	46
Due from reinsurers	23	18
Due from agents	28	24
Accounts receivable	168	159
Deferred sales commissions	82	61
Prepaid expenses	6	16
Miscellaneous	19	14
Total	524	469

The depreciation and amortization of fixed assets included in the general expenses and the deferred sales commissions included in commissions are respectively \$15 (\$16 in 2006) and \$26 (\$20 in 2006).

14 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:

	Individual		2007	Group	
	Life & Health	Wealth Management	Life & Health	Pensions	Total
	\$	\$	\$	\$	\$
Policy liabilities					
Canada	6,505	1,346	1,121	2,704	11,676
United States	117	244	3	---	364
Other countries	48	---	---	---	48
Total	6,670	1,590	1,124	2,704	12,088
Assets backing policy liabilities					
Bonds and other fixed interest securities	4,317	570	757	1,425	7,069
Mortgages	494	849	336	1,051	2,730
Stocks	1,451	12	---	54	1,517
Real estate	107	20	---	152	279
Policy loans	243	24	---	---	267
Other invested assets	58	115	31	22	226
Total	6,670	1,590	1,124	2,704	12,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

14 Policy Liabilities (continued)

	Individual		2006 Group		
	Life & Health \$	Wealth Management \$	Life & Health \$	Pensions \$	Total \$
Policy liabilities					
Canada	4,686	1,361	1,021	2,293	9,361
United States	126	273	---	---	399
Other countries	46	1	---	---	47
Total	4,858	1,635	1,021	2,293	9,807
Assets backing policy liabilities					
Bonds and other fixed interest securities	3,037	601	688	1,389	5,715
Mortgages	369	921	300	701	2,291
Stocks	1,154	16	2	38	1,210
Real estate	68	19	---	147	234
Policy loans	176	43	---	---	219
Other invested assets	54	35	31	18	138
Total	4,858	1,635	1,021	2,293	9,807

The fair value of assets backing policy liabilities as at December 31, 2007 was estimated at \$12,231 (\$11,183 in 2006). As at December 31, 2007, the policy liabilities are valued at fair value, except for liabilities backed by assets which are not at fair value, such as mortgages and real estate.

As at December 31, 2006, the fair value of assets backing policy liabilities should not be compared to the amount of policy liabilities since policy liabilities are not valued at fair value. Changes in the fair value of assets backing policy liabilities are essentially offset by changes in the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

14 Policy Liabilities (continued)

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, 2007 is \$78 (\$73 in 2006).

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 \$52 reduction in the net income (\$38 in 2006). 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 reinsurance risk, reinsurance agreements are concluded with well-established, highly-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 ceded reinsurance. In 2007, ceded reinsurance reduced the policy liabilities by \$218 (\$363 in 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

14 Policy Liabilities (continued)

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.

Changes in Policy Liabilities

The changes in policy liabilities include the participating policyholders' account.

	2007	2006
	\$	\$
Balance at beginning	9,807	9,057
Impact of adopting new accounting standards (note 3)	1,799	---
Reinsurance assumed	10	---
Retention on financial agreement	4	9
Changes in assumptions – provision for future policy benefits	1	(3)
Normal changes – provision for future policy benefits	505	739
Changes in other items of policy liabilities	23	4
Foreign currency translation	(61)	1
Balance at end	12,088	9,807

Changes in other items of policy liabilities correspond to the variation of the following items: provisions for dividends to policyholders and experience rating refunds, benefits payable and provisions for unreported claims, and policyholders' amounts on deposit.

15 Other Liabilities

Other liabilities consist of the following:

	2007	2006
	\$	\$
Unearned premiums	90	86
Other contractual liabilities	25	26
Mortgage debts	32	25
Derivative instruments	1	3
Income tax payable	24	26
Amounts on deposit on products other than insurance	90	79
Accounts payable	253	200
Future employee benefit	39	28
Due to reinsurers	25	22
Total	579	495

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 \$144 (\$121 in 2006).

The reimbursement of the mortgage debts over the next 5 years will be:

2008	2009	2010	2011	2012
\$	\$	\$	\$	\$
2	1	1	2	26

The interest expense on the mortgage debts is \$2 (\$2 in 2006).

The fair value of the mortgage debts is \$33 (\$27 in 2006) taking into consideration the interest rates attached to the mortgage debt and the current interest rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

16 ▸ 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.

	2007	2006
	\$	\$
Related to policy liabilities		
Bonds	---	491
Stocks	---	21
Mortgages	---	18
Real estate	4	4
	4	534
Related to equity		
Bonds	---	20
Stocks	---	5
Mortgages	---	(7)
Real estate	6	6
	6	24
Total	10	558

Following the adoption of the new accounting standards in 2007, only the realized gains and losses on real estate are considered deferred net realized gains (see note 3).

17 ▸ Debentures

	2007	2006	
	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.	151	150	157
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	10	11
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.	149	150	155
Total	310	310	323

The financing expense on the debentures is \$3 (\$18 in 2006), which includes \$14 of decrease of market value and \$17 (\$18 in 2006) of interest.

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

The fair value of the debentures can fluctuate, due to interest rates and the credit risks associated with these instruments. To manage these risks, the Company has matched the debentures with investments that have similar features. The variation in the fair value of these investments is posted in the net investment income. Any difference between the variation in the fair value of investments matched to the debenture and the variation in the fair value of debentures affects the Company's results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

18 › 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

18 › Share Capital (continued)

	2007		2006	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
Common shares				
Balance at beginning	79,919	508	81,387	511
Shares issued on exercise of stock options	313	8	245	6
Shares issued on acquisition of business	---	---	90	2
Cancellation of shares issued at demutualization	---	---	(3)	---
Cancellation following the repurchase of common share	---	---	(1,800)	(11)
Common shares repurchased and in the process of being cancelled	(391)	(3)	---	---
Balance at end	79,841	513	79,919	508
Shares held in treasury	(22)	---	(22)	---
	<u>79,819</u>	<u>513</u>	<u>79,897</u>	<u>508</u>
Preferred shares, class A – Series A				
Balance at beginning and at end	4	---	4	---
Shares held in treasury	(4)	---	(4)	---
	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Preferred shares, class A – Series B				
Balance at beginning	5,000	125	---	---
Shares issued	---	---	5,000	125
Balance at end	<u>5,000</u>	<u>125</u>	<u>5,000</u>	<u>125</u>
Total share capital		<u>638</u>		<u>633</u>

On February 24, 2006, the Company issued 5,000,000 class A – Series B preferred shares for an amount of \$125.

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 of less than \$1.

The Company must satisfy capital adequacy requirements. As at December 31, 2007 and 2006 the Company satisfies this requirement.

Normal Course Issuer Bid

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

19 › Earnings Per Common Share

	2007	2006
	\$	\$
Net income available to common shareholders	242	223
Weighted daily average number of shares outstanding	80,119,806	80,485,354
Add: diluted effect of stock options granted and outstanding	994,540	776,201
Weighted average number of shares outstanding on a diluted basis	81,114,346	81,261,555
Earnings per common share (in dollars)		
basic	3.02	2.77
diluted	2.99	2.74

20 › 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:

	2007		2006	
	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	3,116	23.89	2,898	22.53
Options granted	505	35.65	508	30.22
Options exercised	(313)	20.64	(245)	20.79
Options forfeited	(8)	33.20	(45)	24.41
At end	3,300	25.98	3,116	23.89
Exercisable at end	2,055	22.64	1,901	21.54

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The fair value weighted average for the granted option of 2007 is \$8.39 (\$7.14 in 2006). The pricing model assumes the following information:

	2007	2006
Risk free interest rate	4.10%	4.17%
Expected volatility	20%	20%
Expected life	7 years	7 years
Expected dividends	2.29%	1.98%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

20 › Stock-Based Compensation (continued)

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.

Exercise prices (in dollars)	Number of options outstanding (in thousands)	Options outstanding	
		Average remaining life (in years)	Number of exercisable options (in thousands)
19.06	459	3.02	459
22.81	567	4.00	567
18.63	298	4.85	298
19.00	10	5.82	10
23.44	448	5.75	339
28.72	511	6.97	255
30.22	508	7.94	127
35.64	489	9.10	---
36.03	10	9.33	---
Total	3,300	6.02	2,055

The charge related to the stock-based compensation during the year is \$4 (\$4 in 2006).

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 earns 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 immediately be based on the fair market value of the common shares.

21 › 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.

The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2006 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

21 Employee Future Benefits (continued)

	2007		2006	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Defined benefit plan assets				
Fair value at beginning	386	---	348	---
Actual return on assets	11	---	43	---
Company contributions	7	---	7	---
Employee contributions	6	---	5	---
Benefits paid	(21)	---	(17)	---
Fair value at end	389	---	386	---
Accrued benefit plan obligations				
Balance at beginning	448	33	351	23
Current service cost	19	1	18	2
Interest cost	21	2	17	1
Employee contributions	6	---	5	---
Benefits paid	(21)	(2)	(17)	(1)
Actuarial (gains) losses	(80)	(9)	74	7
Plan amendments	---	---	---	1
Balance at end	393	25	448	33
Accrued plan obligations are composed of:				
Funded plans	345	---	389	---
Unfunded plans	48	25	59	33
	393	25	448	33
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	389	---	386	---
Accrued benefit plan obligations	393	25	448	33
Funded status of plans—surplus (deficit)	(4)	(25)	(62)	(33)
Unamortized net actuarial (gains) losses	(11)	---	55	9
Unamortized past service costs	4	1	5	1
Unamortized transitional obligation	(4)	---	(4)	1
Accrued benefit asset (liability), net of valuation allowance	(15)	(24)	(6)	(22)
The amounts in the balance sheet are:				
Other liabilities (note 15)	15	24	6	22

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

21 › 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:

	2007		2006	
	Pension plans \$	Other plans \$	Pension plans \$	Other plans \$
Funded status – plan deficit				
Accrued benefit plan obligations	11	---	317	---
Fair value of plan assets	10	---	302	---
Funded status – plan deficit	(1)	---	(15)	---
Benefit plan expenses				
Current service cost	19	1	18	2
Interest cost	21	2	17	1
Actual return on plan assets	(11)	---	(43)	---
Actuarial loss (gain) on plan	(80)	(9)	74	7
Plan amendments	---	---	---	1
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(51)	(6)	66	11
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	(16)	---	18	---
Difference between actuarial (gain) loss recognized for the year and actuarial (gain) loss on accrued benefit plan obligations for the year	82	10	(73)	(7)
Difference between amortization of past service costs for the year and actual plan amendments for the year	1	---	1	(1)
Amortization of the transitional obligation	(1)	---	(1)	---
Defined benefit costs recognized	15	4	11	3

Plan assets consist of the following, measured as at December 31 of each year:

	2007 %	2006 %
Asset categories		
Bonds	41	42
Stocks	56	52
Other	3	6
Total	100	100

The pension plan assets did not contain any common shares of the Company in 2007 and 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

21 Employee Future Benefits (continued)**Defined Benefit Plans** (continued)**Significant Assumptions**

	2007		2006	
Accrued benefit plan obligations	Pension plans	Other plans	Pension plans	Other plans
Discount rate	5.80%	5.80%	4.75%	4.75%
Rate of compensation increase	3.50%	---	3.50%	---
Benefit plan expenses				
Discount rate	4.75%	4.75%	4.75%	4.75%
Expected long-term rate of return on plan assets	7.00%	---	7.00%	---
Rate of compensation increase	3.50%	---	3.50%	---

	2007			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Other
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	---	---

	2006			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Other
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	---	---

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 2007.

	Increase	Decrease
	\$	\$
Total of service and interest cost	---	---
Accrued benefit obligation	4	(3)

The total of service and interest cost for 2007 and 2006 is less than \$1.

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 \$1 (\$1 in 2006). The liability related to this plan is presented in other liabilities (note 15 included in Accounts payable) for an amount of \$2 (\$2 in 2006).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

22 › 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 fair values of invested assets.

The following table summarizes the Company's derivative portfolio, the fair value and related credit exposure.

	2007				
	Equity contracts \$	Currency contracts \$	Interest rate contracts \$	Credit contracts \$	Total contracts \$
Notional amount by term to maturity					
Less than 1 year	422	---	32	24	478
1 to 5 years	---	50	64	39	153
Over 5 years	7	25	---	---	32
Total	429	75	96	63	663
Fair value	(1)	12	---	---	11
Credit exposure risk					
Maximum credit risk	2	12	---	---	14
Potential future credit risk	26	4	---	---	30
Credit equivalent amount	28	16	---	---	44

	2006				
	Equity contracts \$	Currency contracts \$	Interest rate contracts \$	Credit contracts \$	Total contracts \$
Notional amount by term to maturity					
Less than 1 year	291	18	46	36	391
1 to 5 years	129	19	45	45	238
Over 5 years	5	39	---	---	44
Total	425	76	91	81	673
Fair value	8	6	---	(1)	13
Credit exposure risk					
Maximum credit risk	8	7	---	---	15
Potential future credit risk	26	4	---	---	30
Credit equivalent amount	34	11	---	---	45

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.

23 › Participating Business

The net income attributed 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 fixed percentage of the dividends paid to policyholders. In 2007 and 2006, this transfer to shareholders is less than \$1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

24 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

	Individual		2007 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	Other activities* \$	
Revenues						
Premiums	897	1,325	861	828	118	4,029
Net investment income	292	87	64	136	---	579
Fees and other revenues	2	326	8	24	3	363
	1,191	1,738	933	988	121	4,971
Operating expenses						
Cost of commitments to policyholders	739	173	623	671	82	2,288
Net transfer to segregated funds	---	1,190	---	267	---	1,457
Commissions, general and other expenses	334	270	253	27	30	914
	1,073	1,633	876	965	112	4,659
Income before income taxes	118	105	57	23	9	312
Less: income taxes	15	27	13	5	3	63
Net income before allocation of other activities	103	78	44	18	6	249
Allocation of other activities	4	---	1	1	(6)	---
Net income	107	78	45	19	---	249
Attributed to shareholders	106	78	45	19	---	248
Attributed to participating policyholders	1	---	---	---	---	1

	Individual		2006 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	Other activities* \$	
Revenues						
Premiums	839	1,247	750	820	107	3,763
Net investment income	488	116	71	185	---	860
Fees and other revenues	2	274	14	21	4	315
	1,329	1,637	835	1,026	111	4,938
Operating expenses						
Cost of commitments to policyholders	872	225	544	644	80	2,365
Net transfer to segregated funds	---	1,068	---	332	---	1,400
Commissions, general and other expenses	347	241	232	26	27	873
	1,219	1,534	776	1,002	107	4,638
Income before income taxes	110	103	59	24	4	300
Less: income taxes	23	25	13	6	2	69
Net income before allocation of other activities	87	78	46	18	2	231
Allocation of other activities	1	---	1	---	(2)	---
Net income	88	78	47	18	---	231
Attributed to shareholders	86	78	47	17	---	228
Attributed to participating policyholders	2	---	---	1	---	3

* Includes other segments and intercompany eliminations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

24 › Segmented Information (continued)

Segmented General Fund Assets

	Individual		2007 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	Other activities* \$	
Assets						
Invested assets	7,804	1,836	1,420	2,924	230	14,214
Intangible assets	---	298	---	---	---	298
Other assets	145	157	81	55	86	524
Goodwill	31	17	20	---	---	68
Total	7,980	2,308	1,521	2,979	316	15,104

	Individual		2006 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	Other activities* \$	
Assets						
Invested assets	6,272	1,879	1,289	2,624	192	12,256
Intangible assets	---	298	---	---	---	298
Other assets	134	137	74	46	78	469
Goodwill	31	17	20	---	---	68
Total	6,437	2,331	1,383	2,670	270	13,091

* Includes other segments and intercompany eliminations.

25 › Premiums

	Individual		2007 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	General Insurance \$	
Invested in general fund	897	334	861	253	118	2,463
Invested in segregated funds	---	991	---	575	---	1,566
Total	897	1,325	861	828	118	4,029

	Individual		2006 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Pensions \$	General Insurance \$	
Invested in general fund	839	289	750	224	107	2,209
Invested in segregated funds	---	958	---	596	---	1,554
Total	839	1,247	750	820	107	3,763

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

26 › 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:

2008	2009	2010	2011	2012	2013 and thereafter
\$	\$	\$	\$	\$	\$
18	13	9	6	4	1

In addition, from time to time, the Company will make financial commitments in the ordinary course of business. The maximum amount of such commitments as at December 31, 2007 is \$1 (\$1 as at December 31, 2006).

Investment commitments

In the normal course of business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements and real estate are not reflected in the consolidated financial statements and may not be fulfilled.

	30 days	Expires in 31 to 366 days	2009 and thereafter
	\$	\$	\$
	72	162	70

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 \$2 (\$2 in 2006).

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 (\$2 in 2006).

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 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 at the end of 2009 in the acquisition of FundTrade if certain conditions are met (note 5).

Lines of Credit

As at December 31, 2007, the Company had operating lines of credit totalling \$90 (\$90 as at December 31, 2006). As at December 2007 and 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in millions of dollars, unless otherwise indicated)

27 ▶ Related Party Transactions

Related party transactions are measured by the exchange value, which is the amount of the counterpart established and accepted by the related parties.

The Company granted loans to its directors and managers under variable conditions. As at December 31, 2007, the balance of loans granted to them was \$1 (\$2 in 2006).

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.

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:

	2007	2006
	\$	\$
Fees and other revenues	9	10

At the end of the period, the balances with the entity subject to significant influence were as follows:

	2007	2006
	\$	\$
Assets		
Account receivable	2	1
Liabilities		
Account payable	5	---
Provisions for future policy benefits	22	12

In May 2007, the Company assumed reinsurance from the entity subject to significant influence for an amount of \$10.

In 2007, the Company bought loans from the segregated funds of the entity subject to significant influence for a consideration of \$12.

In November 2006, the Company sold loans to the segregated funds of the entity subject to significant influence for a consideration of \$15.

Variable Interest Entity

The following table provides a summary of the operations concluded by the Company with a variable interest entity during the period:

	2007	2006
	\$	\$
Financing expenses	9	9

At the end of the period, the balances with the variable interest entity were as follows:

	2007	2006
	\$	\$
Assets		
Notes receivable	10	11
Special trust securities	---	---
Liabilities		
Debenture – series A	151	150
Funding debenture – series A	10	10

28 ▶ Comparative Figures

Certain comparative figures have been reclassified to comply with the current year's presentation.

INDUSTRIAL ALLIANCE BOARD OF DIRECTORS

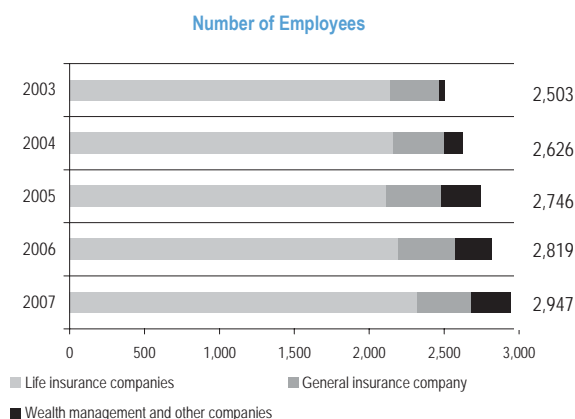
 <p>John LeBoutillier C.M., LL.L., M.B.A. Chairman of the Board since 2005 Board member since 1997 Lawyer Chairman of the Board of Industrial Alliance Insurance and Financial Services Inc.</p>	 <p>Gilles Laroche Eng. Vice-Chairman of the Board since 1998 Board member since 1994* Engineer Corporate Director *Will step down on May 7, 2008, due to the age limit for sitting on the board</p>	 <p>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</p>	 <p>Pierre Brodeur Board member since 1999 Corporate Director</p>	 <p>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.</p>
 <p>Robert Coallier B.A., M.B.A. Board member since February 13, 2008 Economist Senior Vice-President and Chief Financial Officer of Dollarama Group L.P., a discount store operator</p>	 <p>L.G. Serge Gadbois FCA, M.B.A. Board member since 2006 Chartered Accountant Corporate Director</p>	 <p>Michel Gervais O.C., O.Q., Ph.D. Board member since 1997 Executive Executive Director of Centre hospitalier Robert-Giffard – Institut universitaire en santé mentale</p>	 <p>Lise Lachapelle B.B.A. Board member since 1995 Economist Corporate Strategy Consultant</p>	 <p>Robert Lacroix B.Sc., M.Sc., Ph.D. Board member since 2004 Economist Emeritus Professor at the Université de Montréal and a Fellow at CIRANO, an interuniversity research centre in organizational analysis</p>
 <p>Francis P. McGuire M.A., B.A. Board member since 2001 Executive President and Chief Executive Officer of Major Drilling Group International Inc., a drilling company with operations around the world</p>	 <p>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</p>	 <p>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</p>	 <p>Mary C. Ritchie FCA Board member since 2003 Chartered Accountant President of Richford Holdings Ltd., an investment consultation services company</p>	 <p>Guy Savard C.M., FCA Board member since 1995 Chartered Accountant Chairman of the Board of Merrill Lynch Canada Inc., an investment bank</p>
<p>■ Executive Committee ● Investment Committee</p>	<p>▲ Audit Committee ▼ Ethics Committee</p>	<p>◆ Human Resources and Corporate Governance Committee</p>	<p>Secretary of the Board Douglas A. Carrothers LL.B., M.B.A.</p>	<p>Assistant Secretary Jennifer Dibblee B.Sc., B.C.L., LL.B.</p>

SOCIAL RESPONSIBILITY REPORT

The following section describes the main achievements of Industrial Alliance and its subsidiaries in 2007 with respect to human resources management, community commitment and protection of the environment.

OUR EMPLOYEES

At the end of 2007, Industrial Alliance and its subsidiaries had 2,947 employees, which is 128 more than in 2006. This increase is due to the normal growth of business in the insurance and wealth management sectors. Since 2003, the number of employees working for the Industrial Alliance group has grown by 444, representing an increase of 18%.



The companies in the Industrial Alliance group have adopted policies to provide employees with a work environment that fosters growth and personal development. In order to meet employee expectations, compensation and training policies, as well as programs to promote advancement within the company, have been put in place.

Remuneration

Under the Company's compensation policy, most Industrial Alliance group's employees are eligible to receive a bonus. In 2007, employees received a bonus of 3.3% of their regular salary, which is higher than the Company's target of 3%. This bonus is calculated 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). In 2007, the maximum bonus was increased to 5% of the employee's regular earnings.

Share Purchase Plan

To foster a sense of belonging, a Share Purchase Plan is offered to most Industrial Alliance group employees. Under this plan, employees can purchase up to 5% of their annual salary in Industrial Alliance shares, to a maximum of \$1,500 per year. They also benefit from an employer contribution equivalent to 50% of the invested amount. As at December 31, 2007, 1,146 employees were enrolled in the plan, which represents a participation rate of 49.2%.

Five Corporate Values

After careful consideration, Industrial Alliance defined five values that sum up its corporate philosophy. These values, which were announced to employees in 2007, are: team work, high-performance environment, continuous improvement, respect for individuals and distributors, and service oriented. Employees are encouraged to share these values and promote them in their day-to-day work.

Employee Engagement Survey

In the interest of improving employee wellness, Industrial Alliance requested that a survey be conducted on various aspects of the work environment. The study, which was conducted by the firm Hewitt in the spring of 2007, prompted an excellent response rate of 75%, with 1,761 employees responding Canada wide. The results of the survey were used to identify the Company's strengths, as well as areas requiring improvement. In the medium term, the goal is to make the Company an "employer of choice" in Canada. An action plan has been drawn up in this regard and the first steps will be taken in 2008.

Training

In an effort to upgrade the skills of their employees, Industrial Alliance and its subsidiaries promote a number of different training programs. These include insurance industry programs, as well as learning a second language, mastering the use of business software, and so on.

In 2007, 157 Company employees successfully completed courses under the LOMA (Life Office Management Association Inc.) program. One of these employees earned the distinction of being the top FLMI (Fellow, Life Management Institute) student in the country, a prize awarded by the Life Insurance Institute of Canada.

Training is also available for Industrial Alliance managers, with a program designed specifically for them (called the learning path). The program, which is spread over several months and overseen by a professional advisor, is focused on putting specific skills into practice.

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.

Recruiting

Hiring qualified resources is essential to the success of any company. This is why, in 2007, Industrial Alliance teamed up with ten other insurance companies having their head office in the Greater Quebec City Area to create the *Centre de développement en assurances et services financiers* (Insurance and Financial Services Development Centre). The goal of the Centre is to promote the numerous career opportunities for young people in the insurance industry, and to encourage the creation of a high-quality, bilingual work force.

The Company also set up a referral program in 2007 as a means to facilitate employee recruiting. Under this program, when a vacant position is posted within the Company, employees have the opportunity to propose a candidate outside of Industrial Alliance. If this candidate is hired, the employee who recommended the person receives a bonus of either \$500 or \$1,000.

OUR COMMUNITY COMMITMENT

Industrial Alliance makes it a priority to improve the quality of life in its community through donations, sponsorships and incentive programs, primarily in the areas of education and health.

In terms of donations, Industrial Alliance endorses the principles of the Imagine program, which encourages companies to donate 1% of their profits to organizations that play an essential support role in their communities. This contribution corresponds to 1% of the average annual profits for the previous three years, before taxes and unusual items.

DISTINCTIONS RECEIVED

- › Diamond certificate, which is the highest honour granted by the United Way to a company (distinction received for a third consecutive year)
- › *Coup de cœur* – Major Donors for the exceptional and original work of Industrial Alliance during the 2007 United Way campaign
- › Tied for 1st place in the "Large Company" category in the sixth edition of the Korn/Ferry – *Commerce Magazine* Excellence in Corporate Governance contest
- › 21st among 190 Canadian public companies with respect to corporate governance (*The Globe and Mail*)
- › *Gouvernance Pluri'elles* prize awarded by the Quebec YWCA for female representation on the Board of Directors
- › Selected employer of the year by the *Ordre des comptables en management accrédités du Québec* – Quebec City chapter

Industrial Alliance also supports employees who collect donations from colleagues for humanitarian organizations. Industrial Alliance Pacific offers its employees a volunteer work incentive program where employees can do up to 18 hours of volunteer work a year during their normal working hours.

Canada-Wide Contributions

Across Canada, Industrial Alliance group employees collected over \$425,000 for the 2007 United Way campaign. At the Company's head office in Quebec City, this outpouring of generosity earned Industrial Alliance a Diamond certificate from the United Way for a third consecutive year.

In Western Canada, Industrial Alliance Pacific provided financial support to the Vancouver General Hospital. It was also involved in the cultural community through its support of the Arts Club Theatre Company, the Calgary Opera, Festival Vancouver and the Vancouver Symphony Orchestra.

In Ontario, Industrial Alliance offered its support to the Toronto Rehab Foundation and the University of Toronto. It was also involved in the health sector through its support of the Campbellford Memorial Hospital, the Princess Margaret Hospital Foundation and the Toronto General & Western Hospital Foundation.

In Quebec, Industrial Alliance supported the Chair in Leukemia Research at the University of Montreal, and the *Fondation du CHUQ*. In the arts community, the Mondial des cultures de Drummondville and the Domaine Forget International Festival received financial assistance from the Company. The Company also renewed its commitment to Laval University in 2007, donating \$1.5 million over a 10-year period. This amount has been distributed among the Industrial-Alliance Insurance and Financial Services Chair, the Chair for Women in Sciences and Engineering, and the Managers Without Borders project.

In 2008, Quebec City will be celebrating its 400th anniversary, and Industrial Alliance will be playing an active role in the celebrations for this historic event. Founded in Quebec City in 1905, the Company will be highlighting its attachment to the Old Capital.

OUR ENVIRONMENTAL INITIATIVES

In accordance with its Environmental Policy, Industrial Alliance is committed to respecting three major principles: recycle what is consumed, consume recycled materials, and consume less.

Each year, Industrial Alliance takes concrete steps to satisfy these three principles. One of these steps was the creation of a "green committee" at head office in 2007. This committee is made up of employees, and its role is to ensure that we carry out our business in keeping with the Environmental Policy. It also aims to educate employees about adopting environmentally-friendly behaviour in the workplace.

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.). The Industrial Alliance head office has achieved an overall recuperation rate of over 76% for its waste materials and 95% for fibres (paper and cardboard), the most common waste material in the Company. Its high waste material recuperation rates allowed Industrial Alliance to receive the ICI ON RECYCLE! Performance Certificate from RECYC-QUÉBEC in 2005. Industrial Alliance is hoping to renew this certificate in 2008.

Also, as of 2007, kitchen scraps from the head office cafeteria are being converted to compost. This pilot project helps reduce waste since 150,000 meals are served every year in the cafeteria.

Over 2,500 fluorescent lightbulbs in the buildings owned by the Company were also changed to more energy-efficient bulbs in 2007. In addition, the lightbulbs that were replaced were destroyed responsibly in order to reduce the quantity of toxic waste released into the environment.

At the Industrial Alliance Pacific head office, a paper recycling program has been in place for several years. In 2007, the Vancouver offices recycled enough paper to save the equivalent of 523 trees.

Consume Recycled Materials

Industrial Alliance and its subsidiaries encourage the use of products made from recycled materials, including hand towels, bathroom tissue, certain types of envelopes and certain types of printing paper.

As of 2007, the Company also uses recycled ink cartridges for its printers and fax machines. These cartridges—some 1,500 of them—are in turn recycled after use.

For the last two years, the Company's annual report has been printed on paper made from 100% recycled postconsumer fibres. The paper used has an alkaline or neutral base, is produced using biogas energy, with no elemental chlorines, and is Eco-Logo certified.

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.

When mechanical equipment or energy systems need to be replaced, preference is given to equipment that uses less gas or reduces energy consumption. As a result, the Company's various buildings are gradually being equipped with more energy efficient heat recovery systems and lighting.

In January 2007, a new high-efficiency natural gas heating system was installed to heat one of our buildings. This system reduced energy consumption and the production of greenhouse gas by 545 tonnes, or 66%, compared to the previous year.

Also, to encourage employees to leave their cars at home, the showers at head office were fully renovated, and additional bicycle racks were installed.

Lastly, many shareholders accepted the Company's invitation to read the annual report online rather than receiving a hard copy in the mail, reducing the number of printed reports by some 75,000.

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
 - Michel Tremblay – F.S.A., F.C.I.A., CFA
Executive Vice-President
Investments
- 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
Administration and Sales
- 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

Normand Gervais – LL.B., M.Fisc.
Vice-President, Administration
Individual Insurance and Annuities

Renée Laflamme – CA, CFA
Vice-President, Mortgage Loans

François Lalonde – CFA
Vice-President, Investments
Portfolio Management

Richard Legault – CA, CFA
Vice-President, Investments
General Funds

Denis Majeau – B.Ad., CA
Vice-President
Accounting and Taxation

David Q. Potter – CLU
Vice-President, Sales
National Accounts and Specialized Marketing

Jacques Potvin – F.S.A., F.C.I.A.
Vice-President, Marketing
Individual Insurance and Annuities

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
Toronto Service Centre

Claude Tessier – B.Sc.A.
Vice-President
Real Estate Investments

Industrial Alliance Pacific Insurance and Financial Services Inc.

- 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, Treasurer and Controller
- David L. Stewart
Vice-President, Sales, SAL
- Paul A. Talay
Vice-President, Special Markets Group (SMG)
- IA Clarington Investments Inc.**
David Scandiffio – CFA
President
- Adrian Brouwers
Executive Vice-President, Sales and Marketing
Vice-Chairman of the Board
- Kamal Mahant – CA
Assistant Vice-President, Finance
Interim Chief Financial Officer

Eric Frape – CFA
Senior Vice-President
Product and Business Development

Carl Mustos – M.B.A.
Senior Vice-President and
Manager of National Sales

Anthony Silvestrin – B.A. (Economics)
Senior Vice-President
Private Wealth Management

Investia Financial Services Inc.
Bruno Michaud – B.B.A., F.L.M.I./M.
President

Pierre Massicotte – CFA, CA, FCSI, Fin. Pl.
General Manager
Chief Financial 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, Finance

Industrial Alliance Securities Inc.
Lise Douville
President

Paul Bernard – M.B.A.
Executive Vice-President
Capital Markets

Hervé Pizem
Senior Vice-President

Geneviève Castonguay
Chief Financial Officer

Linda Boileau
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 and
Organizational Strategy

Industrial Alliance Trust Inc.
Yvon Sauvageau – M.E.Sc.
Vice-President
Strategic Planning

Daniel Marceau – F.S.A., F.C.I.A.
General Manager

- Member of the Planning Committee

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1 800 665-4458
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Group Insurance

Special Markets Group (SMG)

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1 866 499-3748

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1 800 661-1699

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604 688-9641
1 888 725-2886

Group Insurance

Group Creditor Insurance (SAL)

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SHAREHOLDER INFORMATION

To Reach Us

There are three ways to reach us, depending on the type of information you want to obtain.

- › For questions regarding your shares, contact Industrial Alliance's share transfer agent:
Computershare Investor Services Inc.
Telephone: 514 982-7555
Toll-free: 1 877 684-5000
Email: 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 about Industrial Alliance, contact:
Investor Relations Department
Industrial Alliance Insurance and Financial Services Inc.
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Toll-free: 1 800 463-6236, extension 5282
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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.

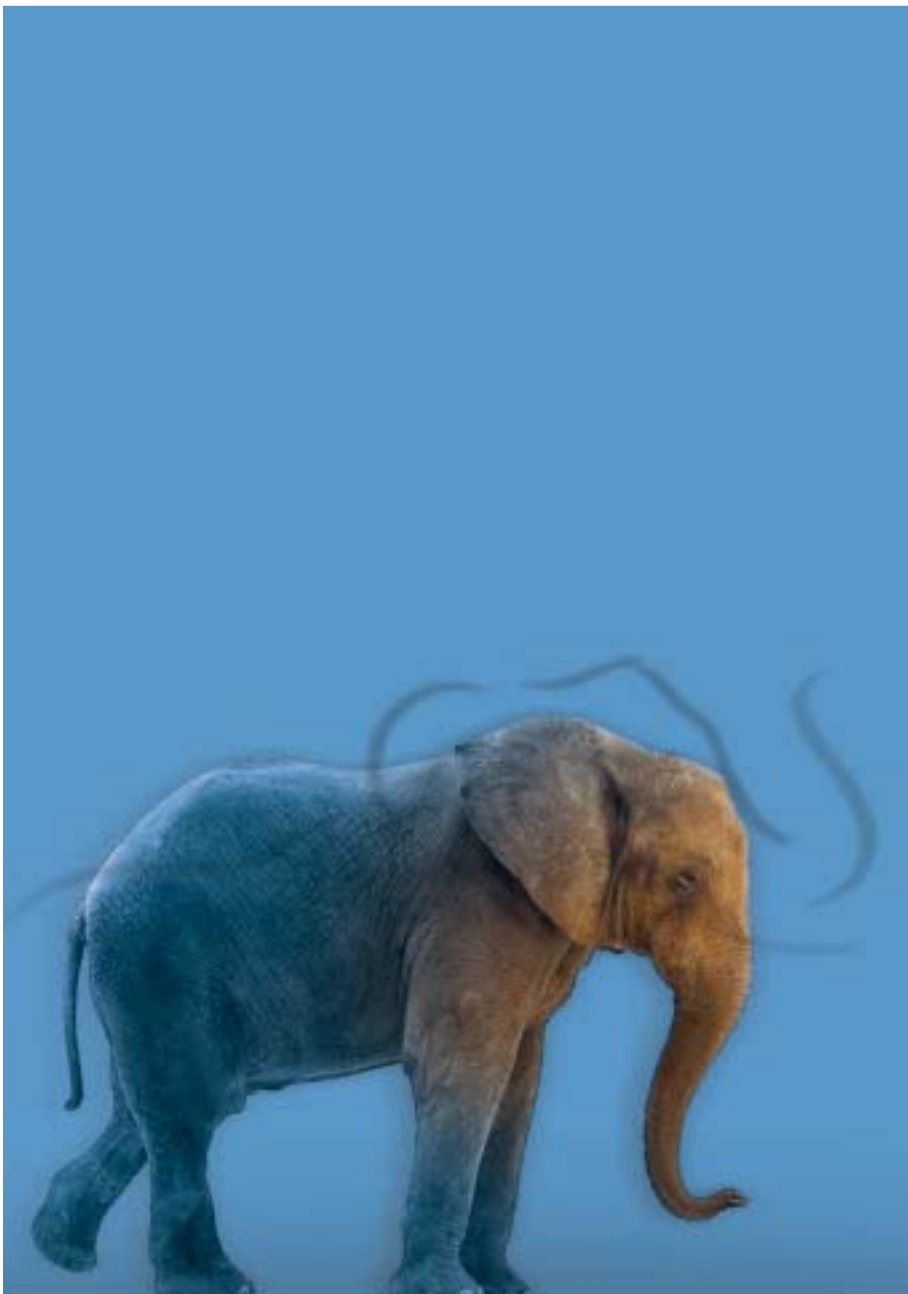
Industrial Alliance and the elephant share exceptional strength. Both are highly energetic and can easily take on the most colossal of tasks.

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

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

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

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



www.inalco.com

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and protecting the environment

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