www.inalco.com

2008 ANNUAL REPORT

ON SOLID FINANCIAL GROUND

A PARTNER YOU CAN TRUST.

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

WHO ARE WE?

Industrial Alliance Insurance and Financial Services Inc. 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 fourth 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 3 million Canadians, employs more than 3,300 people and manages and administers over $49 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange, under the ticker symbol IAG. The Company's market capitalization totalled $1.9 billion as at December 31, 2008, making Industrial Alliance one of the 100 largest public companies in Canada.

TABLE OF CONTENTS

ON SOLID FINANCIAL GROUND

Industrial Alliance has always put risk management at the core of its business process. Here are some of the measures that Industrial Alliance has taken to manage its risks in order to put the Company on solid financial ground.

SOUND RISK MANAGEMENT

- Conservative risk management culture
- Caution exercised to protect policyholders and shareholders
- Positioned to absorb further shocks
- Proactive risk management

GOOD CAPITAL STRENGTH

- Strong solvency ratio of 199% as at December 31, 2008, up from 193% as at December 31, 2007
- Solvency ratio at the top end of 175% - 200% target range
- Solvency ratio of around 175% as at December 31, 2008 if S&P/TSX had closed the year at 7,400 points and around 150% if S&P/TSX had closed at 5,700 points

PRUDENT ULTIMATE REINVESTMENT RATE (URR)

- URR used to evaluate provisions for future policy benefits already below the maximum rate that life companies will have to use at the end of 2009 if Government of Canada long-term bond rates stay at their 2008 year-end level

CONSERVATIVE PROVISIONS FOR STOCKS BACKING LONG-TERM LIABILITIES AND SEGREGATED FUND GUARANTEE RESERVE

- Provisions for future policy benefits strengthened and measures taken to protect the Company against an additional stock market downturn of about 13% in 2009

CONSERVATIVE SEGREGATED FUND GUARANTEE

- Well thought-out guarantee: guarantee by contract (not by deposits), no concentration of risk in any year, and average maturity of guarantee longer than 10 years
- No capital requirements at 2008 year-end

GOOD INVESTMENT QUALITY

- Creation of an Investment Risk Monitoring department to develop a global view of investment risks
- Overall investment portfolio
  - Conservative asset mix with strong bias towards fixed income: 79.5% of portfolio is made up of bonds or mortgage loans
  - Very low net impaired investments: 0.06% of portfolio
- Good positioning within each asset class
  - Bonds
    - High proportion of government or government-related bonds: 62.5%
    - Very few bonds rated BB or lower: 0.23%
  - Mortgages
    - Low delinquency rate: 0.26%
    - High proportion of insured loans: 71.3%
    - No investments in U.S. subprime market
  - Stocks
    - Most stocks bought on a buy and hold basis with a long term view to support Universal Life policies or to finance very long-term commitments
  - Real estate
    - High occupancy rate: 94.0%
    - High market value to book value ratio: 129.4%
  - Active management of exposure to impaired assets
    - Non-bank asset backed commercial paper (ABCP) written down by 29%
    - Weakened securities written down, sold or well provisioned
  - Immaterial exposure to U.S. asset-backed securities market
  - Minimal exposure to credit default swaps and no leverage
  - Liquid assets represent 177% of all redeemable contracts
  - Margins secured through strict asset-liability matching; difference in duration: 0.01 year

HIGHLIGHTS (Consolidated Financial Data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006
Profitability			
Net income available to common shareholders	**66.1**	242.2	223.0
Earnings per common share (diluted)	**$0.82**	$2.99	$2.74
Return on common shareholders' equity	**4.0%**	15.1%	15.7%
Specified Items – Impact on net income to common shareholders			
Impact of credit	**(25.0)**	(7.3)	---
Impact of stock market downturn[2]	**(38.3)**	---	---
Changes in assumptions	**(138.2)**	(0.7)	0.4
Net variation in the fair value of the debentures and the underlying assets	**7.6**	0.6	---
Restructuring charges[3]	**---**	---	(3.0)
Impact of the tax reduction on the future income tax liability	**---**	---	11.5
Total	**(193.9)**	(7.4)	8.9
Business Growth			
Premiums and deposits	**5,542.9**	5,826.2	4,990.6
Sales by line of business			
Individual Insurance	**146.9**	159.0	153.6
Individual Wealth Management			
General fund	**345.5**	334.4	289.2
Segregated funds	**815.7**	990.6	958.3
Mutual funds	**1,261.2**	1,796.9	1,227.6
Total	**2,422.4**	3,121.9	2,475.1
Group Insurance			
Employee Plans	**92.9**	72.0	70.8
Creditor Insurance	**194.2**	192.0	176.4
Special Markets Group (SMG)	**112.9**	104.4	92.6
Group Pensions	**1,114.9**	828.3	820.1
Financial Position			
Assets under management/administration			
Assets under management			
General fund	**15,415.2**	15,104.3	13,090.7
Segregated funds	**8,924.2**	10,210.9	9,204.1
Mutual funds	**5,277.7**	6,846.9	6,295.4
Other	**596.7**	630.6	501.3
Total	**30,213.8**	32,792.7	29,091.5
Assets under administration	**19,258.4**	17,618.9	17,812.6
Total	**49,472.2**	50,411.6	46,904.1
Capital structure	**2,270.8**	2,133.6	1,945.0
Solvency ratio	**199%**	193%	201%
Debt measures			
Debt/capital structure	**17.0%**	14.5%	15.9%
Debt and preferred shares/capital structure	**26.8%**	20.4%	22.4%
Quality of Investments			
Net impaired investments as a % of total investments	**0.06%**	0.08%	0.06%
Bonds: rated BB and lower as a % of the portfolio	**0.23%**	0.11%	0.31%
Mortgages: delinquency rate	**0.26%**	0.16%	0.06%
Real estate: occupancy rate	**94.0%**	95.5%	95.5%
Human Resources			
Number of employees	**3,363**	2,947	2,819

[1] Refer to the *Nine-Year History* for further detailed financial information and definitions.

[2] Estimated impact of stock market downturn as compared to the net earnings that the Company would have earned under normal market conditions.

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

MAIN ACHIEVEMENTS IN 2008

Like all companies, Industrial Alliance was faced with a challenging economic and financial environment in 2008, marked by a 35% drop in the stocks markets in Canada. Nevertheless, the Company ended the year with positive net income, improved financial strength, good quality of investments, business growth in all product categories except those linked to the equity markets, and even a certain amount of leeway in case of a further decline in the economic environment. Following are a few highlights for 2008.

Positive net income – Net income to common shareholders of $66.1 million, compared with $242.2 million in 2007. Income was affected by plunging stock markets, the credit crisis, and a strengthening of the provisions for future policy benefits, a measure designed to protect the Company from further stock market downturns and interest rate reductions.

Improved financial strength – Solvency ratio of 199% as at December 31, 2008, an increase over the 193% ratio recorded as at December 31, 2007. As a result, despite volatile financial markets, the Company's financial strength continued to improve in 2008. The solvency ratio is in the upper end of the Company's 175% to 200% target range.

Capital issues – Completion of two capital issues: a $100 million subordinated debenture, and $100 million in preferred shares. These issues helped bring the Company's capital to $2,270.8 million as at December 31, 2008, an increase of 6% compared to December 31, 2007.

Good quality of investments – Net impaired investments of $8.8 million as at December 31, 2008, down from $11.7 million as at December 31, 2007. The proportion of net impaired investments represents just 0.06% of total investments as at December 31, 2008. Despite the devaluation of certain securities during the year, the quality of investments is still good.

Increase in the dividend – A 24% increase in the dividend. The dividend was increased twice in 2008, to reach $0.94 per common share.

Business growth – $5,542.9 million in premiums and deposits, down 5% compared to 2007. In spite of the gloomy economic environment, all sectors experienced business growth except Individual Wealth Management, which was impacted by the stock market downturn. Two of the group sectors—Group Insurance Employee Plans and Group Pensions—even had record sales in 2008. Thanks to strong growth in the last few years, premiums and deposits grew by an average annual rate of 17% over the last five years.

Pursuit of development outside Quebec – For a third consecutive year, more than half of the sales from all business lines were made outside Quebec, which is in line with the Company's geographic diversification objective.

Conclusion of five new acquisitions – The Company continued to build for the future with the conclusion of five new acquisitions: The Excellence Life Insurance Company, which specializes in individual health and disability insurance; United Family Life Insurance Company in the United States; AEGON Dealer Services Canada Inc., a mutual fund brokerage firm, and its affiliated network Money Concepts (Canada) Limited, a financial services firm; Sarbit Asset Management Inc., a mutual fund management firm; and the Quebec-based mutual fund and insurance distribution network of DundeeWealth Inc.

GUIDANCE FOR 2009 AND SENSITIVITY ANALYSIS

Guidance

Return on common shareholders' equity – New target range of 12% to 14%

Earnings per common share – New target range of $2.50 to $3.00

Solvency ratio – Target range of 175% to 200% maintained

Dividend – Quarterly dividend to common shareholders maintained at the current level of $0.245 per common share

Effective tax rate – 1 to 2 percentage point drop in the effective tax rate, bringing it to around 26% to 27%

Sensitivity Analysis

If the S&P/TSX index remains at around 9,000 points in 2009, the return on common shareholders' equity and the earnings per common share should be in the lower end of the target range in 2009, and the solvency ratio should be in the upper end of the target range at the end of 2009.

Solvency ratio – If the S&P/TSX index had closed 2008 at 7,400 points, the solvency ratio would have been around 175%, and if it had closed 2008 at 5,700 points, the ratio would have been around 150%.

Earnings per common share – If the S&P/TSX index were to drop 10% at the very beginning of 2009, to subsequently recover a portion of this loss during the year, earnings per common share would be about $0.20 lower than expected in 2009.

Provisions for future policy benefits:

- **Stocks backing long-term liabilities and segregated fund guarantee** – A 10% drop in the S&P/TSX index in 2009 would not have an impact on the provisions for future policy benefits for the stocks backing long-term liabilities and the segregated fund guarantee, since the Company has protected itself against a drop in the stock markets of about 13% in 2009.
- **Ultimate reinvestment rate (URR)** – Use of a lower ultimate reinvestment rate than the maximum rate expected at the end of 2009 for calculating the provisions for future policy benefits in 2008. A 10 basis point decrease in the ultimate reinvestment rate would require the provisions for future policy benefits to be strengthened by about $35 million after taxes.
- **Initial reinvestment rate (IRR)** – A 10 basis point increase in the initial reinvestment rate would allow the release of some $24 million after taxes in provisions for future policy benefits.
- **Mortality rate** – A 5% drop in the mortality rate could allow for the release of some $88 million after taxes in provisions for future policy benefits.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Like all companies, Industrial Alliance was faced with a challenging economic and financial environment in 2008. Plunging stock markets, the credit crisis and volatile interest rates all had an impact on Company results, as the President and Chief Executive Officer explains in detail in his report.

John LeBoutillier
Chairman of the Board

"The role of the Board of Directors is to ensure that the risk management mechanisms are adapted to the environment and can ensure the long-term sustainability and success of the organization."

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The current environment highlights how important it is for a company to have strong risk management mechanisms. In this regard, the role of the Board of Directors, as the representative of the shareholders and policyholders, is to ensure that the risk management mechanisms are adapted to the environment and can ensure the long-term sustainability and success of the organization. This aspect of corporate governance was at the forefront in 2008.

Life and health insurance companies are exposed to a wide variety of risks. The Board's role in this regard is to approve the Company's risk management policies and procedures, based on recommendations submitted by the Investment Committee and the Audit Committee. The Board also ensures that the appropriate resources and procedures are in place to monitor and control the risks, and that all actions taken by managers comply with in-house policies and with the standards of sound business and financial practices adopted by the Company.

The Board placed particular emphasis on managing three risks in 2008: the adequacy of the provisions for future policy benefits, the investment policy and the Company's solvency.

With respect to the provisions for future policy benefits, the Board reviewed with management the main assumptions used for their valuation. Board members were able to see the conservatism of the assumptions used and the adequacy of the margins for adverse deviation. They also looked at the sensitivity of the provisions to sudden, pronounced changes in the economic and financial environment. And they readily approved management's recommendation to strengthen the provisions sufficiently, in 2008, to protect the Company against a further decline in the current economic environment.

With respect to investments, the Board reviewed the Company's investment policy to ensure that it was appropriate in the current environment. The Board found that the policy's philosophy rests on a prudent approach. Rather than trying to maximize returns, the investment policy seeks to achieve the right balance between risk and return through sound diversification of investments. The Company uses its own managers to evaluate the investments in the general fund. It also safeguards the margins through a strict matching process. In 2008, it set up a new risk management team whose mission is to develop a global understanding of the control and monitoring of investment risks. In short, the Company is striving to obtain a clear understanding of its risks and to achieve good returns without taking any undue risk.

With respect to solvency, the Board carried out its regular annual review of the appointed actuary's report on the Company's current and future solvency. In this report, entitled *Dynamic Capital Adequacy Testing*, the appointed actuary presents the main risks that can affect the Company's solvency, assesses the potential impact of these risks, and proposes the most appropriate ways to alleviate them. Interest rate fluctuations and a stock market downturn are among the scenarios analyzed.

According to the most recent *Dynamic Capital Adequacy Testing* scenarios presented to the Board for the 2007 to 2012 period, even in the absence of corrective measures by management, the Board was able to see that for all scenarios analyzed, the Company's solvency remains higher than the standards set out by the regulatory authorities.

BOARD ACTIVITIES

The Board of Directors met nine times in 2008, and the Board's various committees held a total of 21 meetings. The participation rate in these various meetings was 97%, which is very good considering the number of special meetings called on very short notice.

On behalf of the Board of Directors, I would like to thank Gilles Laroche, who retired from the Board at the annual meeting in May 2008. Mr. Laroche joined the Board in 1994. He served as a member of the Human Resources and Corporate Governance Committee (1994 to 2004), which he also chaired (1996 to 2004), and he was a member of the Investment Committee (2005 to 2008). He also sat on the Board's Executive Committee, and was Vice-Chairman of the Board from 1998 until his retirement. In closing, I wish to single out Mr. Laroche's dedicated contribution to the Board, as well as his wisdom and sound judgment.

On behalf of the Board of Directors, I'd also like to welcome Robert Coallier to the Board. Mr. Coallier joined the Board in February 2008. He is Senior Vice President and Chief Financial Officer of Dollarama L.P. Mr. Coallier is a member of the Audit Committee. His accounting expertise and in-depth knowledge of financial statements will no doubt be an asset to this Committee.

CONCLUSION

Throughout its more than 100-year history, Industrial Alliance has faced adversity on more than one occasion. And each and every time, it has triumphed over this adversity.

Industrial Alliance's ability to once again weather strong headwinds is a tribute to the conservative and prudent actions of past generations, who have left us with a strong, financially sound and thriving company. Now it's our duty to do the same for future generations, and leave them with a company as financially sound as the one left to us. The Board is confident that the management team at Industrial Alliance has the ability to achieve this goal.

Thank you to all of our policyholders and shareholders for their continuing confidence and loyalty.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

In 2008, the world economy was hit head-on by an unprecedented financial and economic crisis. Although Canada has held up better than many other countries, it is not immune to the effects of the current turbulence. In the wake of plunging stock markets, the credit crisis and volatile interest rates, businesses and consumers were forced to take measures to adapt to the new environment.

Yvon Charest
President and Chief
Executive Officer

"We decided to exercise caution in 2008 and manage the assets entrusted to us in such a way as to protect ourselves from further stock market downturns and interest rate reductions."

Given the persistent volatility of the financial markets and Industrial Alliance's role as trustee for its policyholders, we decided to exercise caution in 2008 and manage the assets entrusted to us in such a way as to protect ourselves from further stock market downturns and interest rate reductions.

As a result, we ended the year with positive net income, improved financial strength, good quality of investments, business growth in all product categories except those linked to the equity markets, and even a certain amount of leeway in case of a further decline in the economic environment.

FINANCIAL STRENGTH

The good news for 2008 is that the Company's financial strength is rooted in solid foundations. Despite the volatility of the financial markets, the Company's financial strength continued to improve in 2008. We ended the year with a solvency ratio of 199%, which is higher than the 193% ratio recorded as at December 31, 2007. This ratio is in the upper end of our 175% to 200% target range.

Our solvency ratio is also very resilient. We estimate that even if the stock markets had ended the year at 7,400 points (the S&P/TSX index of the Toronto Stock Exchange closed the year at 8,988 points), the solvency ratio would still have been within our target range, and even if the markets had dropped as low as 5,700 points, it would still have been over 150%. This should be reassuring to our policyholders and shareholders.

The financial markets also showed their confidence in us in 2008 by injecting $200 million in fresh capital into the Company. The Solidarity Fund QFL underwrote a $100 million subordinated debenture, and the investing public purchased $100 million in preferred shares. We are grateful to everyone who supported us by purchasing these issues.

PROFITABILITY

From a profitability standpoint, despite the challenging economic environment, we ended the year with net income to common shareholders of $66.1 million, compared to $242.2 million in 2007. This income translates into diluted earnings per common share of $0.82 ($2.99 in 2007) and a return on common shareholders' equity of 4.0% (15.1% in 2007).

The decrease in income can primarily be explained by the sharp drop in the stock markets, which reduced the Company's expected profit by about $38.3 million after taxes, and by the credit crisis, which reduced the Company's profit by $25.0 million after taxes. In addition to reducing the value of a few securities that were weakened by the current economic environment, we devalued the non-bank sponsored asset-backed commercial paper to which we are exposed by an additional 14%. This brings the total devaluation of these securities to 29%.

However, the main reason for the decrease in income is that we decided to exercise caution by strengthening our provisions for future policy benefits by $138.2 million after taxes.

Although we were not required to do so, we decided to strengthen our reserves to take into account an additional 20 basis point drop in the ultimate reinvestment rate. We made this decision when we saw that the federal government's long-term interest rates had dropped abruptly at year-end. Although this drop may only be temporary, we felt that it was better to resolve the issue now so it doesn't come back to haunt us next year, or even for the next few years. Hence, to determine our provisions for future policy benefits, we now use a lower ultimate reinvestment rate than the maximum rate expected at the end of 2009.

Given the sharp drop in the stock markets in 2008, we also decided to strengthen our provisions for future policy benefits by reducing the expected return assumption for the stocks backing our very long-term liabilities. As you know, the S&P/TSX index of the Toronto Stock Exchange dropped 35% in 2008. Even though we had enough leeway to absorb the vast majority of this decrease, we decided to exercise caution and position ourselves so we can resist an additional drop in the stock markets of around 13% in 2009.

DIVIDEND

Our financial strength enabled us to increase our dividend by 24% in 2008. We expect to maintain the quarterly dividend at the current level ($0.245 per common share) for 2009.

BUSINESS GROWTH

In terms of business growth, the stock market downturn slowed sales in the Individual Wealth Management sector, but fortunately did not have a significant impact on other sectors, with some even having a record year.

Sales in the Individual Insurance sector continued to grow in the family market, which is the sector's primary source of profitability. Despite volatile financial markets, we managed to improve our ranking in the investment fund market. And we also achieved new highs in terms of sales in the Group Insurance Employee Plans sector and the Group Pensions sector, primarily due to strong business growth in Ontario and Western Canada. For the third year in a row, more than half of the sales from all business lines were made outside Quebec, which is in line with our desire to expand throughout Canada in all lines of business.

Nevertheless, strong premium growth in the group sectors was not enough to erase the decline in individual savings and investment products, such that premiums and deposits totalled $5.5 billion in 2008, down 5% from 2007.

ACQUISITIONS

From a strategic standpoint, the economic environment did not prevent us from continuing to build for the future. We completed five new acquisitions in 2008: two life and health insurance companies, two mutual fund brokerage firms and one mutual fund manager. These acquisitions can be described as small, strategic and accretive, and are intended to expand our product line, our distribution networks and our geographic reach.

We concluded the acquisition of The Excellence Life Insurance Company, an acquisition that allowed us to enter a new market niche: the individual health and disability insurance market. Excellence, which only does business in Quebec, has been mandated to enter the market outside Quebec in 2009.

We also completed the acquisition of United Family Life Insurance Company in the United States. This acquisition allowed us to obtain the necessary licenses to operate from a U.S. subsidiary in 49 of the 50 U.S. states. The acquired company was rebranded IA American Life Insurance Company, and will become our platform for developing the U.S. market. Even though we've had operations in the U.S. for several years through our Vancouver subsidiary, our activities there are still fairly small. After reviewing our strategy, we concluded that to succeed in the U.S. market, we needed a solid local presence. With this in mind, we opened an office in Phoenix, Arizona, and developed a new marketing strategy aimed at developing the family market in the Western and Midwestern United States.

We also acquired the operations of two mutual fund distribution companies: AEGON Dealer Services Canada, a mutual fund brokerage firm, and its affiliated Money Concepts network, a financial services firm, as well as the Quebec-based mutual fund and insurance distribution network of DundeeWealth. These acquisitions added some 700 mutual fund advisors and $4.5 billion in assets under administration, as well as securing Industrial Alliance's position as one of the top five non-bank owned mutual fund dealerships in Canada.

Lastly, we acquired Sarbit Asset Management, a mutual fund management company that was managing some $100 million in assets. This company will be integrated with our mutual fund subsidiary, IA Clarington, which has over $5 billion in assets under management.

QUALITY OF INVESTMENTS

In terms of investment quality, despite the devaluation of a few securities that were weakened by the current economic context and the additional devaluation of the commercial paper, the quality of our investment portfolio continues to be good.

Our net impaired investments totalled only $8.8 million as at December 31, 2008, which represents just 0.06% of our $14.4 billion investment portfolio.

All of our portfolios were positioned so as to minimize risk. For example, over 62% of our bond portfolio is made up of government or government-related bonds, and almost the entire portfolio is made up of bonds rated BBB or higher. Over 71% of our mortgage loan portfolio is made up of insured loans. The occupancy rate of our real estate holdings remained high, at 94.0% as at December 31, 2008, and the market value of the real estate portfolio is still much higher than the book value.

Also, in addition to devaluing our commercial paper by 29%, we disposed of our investment in American International Group (AIG), we set up provisions for securities that were weakened by the current environment, we have very limited exposure to the U.S. market, we don't hold any investments in the U.S. subprime mortgage loans market or in monolines, and the value of our investments in securities guaranteed by mortgage loan companies and in asset-backed securities in the U.S. is practically nil.

GUIDANCE FOR 2009

The current economic and financial environment makes it more difficult than in past years to establish specific guidance to the financial markets. Given the complexity of modern institutions, we believe that it is useful to provide general market guidance for 2009 to help investors better understand the source of the Company's earnings.

The drop in the stock markets forced us to reassess our earning power. Hence, we believe we can achieve a return to common shareholders of between 12% and 14% in 2009. This target range is lower than the 14% to 16% range that has guided us for some time, but is similar to the one used when the Company demutualized in 2000. A return of between 12% and 14% translates into earnings per common share of between $2.50 and $3.00. These new targets take into account the implementation of tight controls over general expenses.

We also estimate that if the S&P/TSX index remains at around 9,000 points in 2009, the Company's return and the earnings per common share should be at the lower end of the new target ranges. Based on the same assumptions, the solvency ratio should be at the upper end of our 175% to 200% target range at the end of 2009.

Given the volatility of the stock markets, we thought it would also be useful for investors to have an idea of the sensitivity of our results in the event of a further drop in the stock markets in 2009. Thus, we estimate that if the stock markets were to drop 10% at the very beginning of 2009, to subsequently resume a normal upward trajectory, earnings per share would be about $0.20 per common share, or $17 million, lower than expected for 2009.

On the other hand, a 10% drop in the stock markets should not lead to a strengthening of the provisions for future policy benefits for the stocks backing the long-term liabilities or for the segregated fund guarantee since, as we indicated earlier, we are already positioned to be able to absorb a 13% drop in the stock markets in 2009.

CONCLUSION

In all the years that I've been President of Industrial Alliance—since the early 2000s—and even since I joined the Company in the early 1980s, never have I witnessed the kind of hostile environment we're seeing today.

As the Chairman of the Board indicated in his message, in times of turmoil, companies are measured by the quality of their risk management. Industrial Alliance has definitely done its homework in this regard. To combat the risks threatening financial institutions today, we have strengthened our reserves in order to protect ourselves against additional market downturns and interest rate reductions; our segregated fund guarantee is very conservative and we had no year-end capital requirements; the securities that were weakened by the current environment have either been devalued, sold or provisioned; the devaluation that was taken on the commercial paper reflects the relatively conservative composition of our portfolio; we have limited exposure to the U.S. market; we've made acquisitions that have expanded our product line and our distribution networks; and our solvency ratio continues to be very resilient.

In short, we've been proactive in managing our risks, we've remained focused on our long-term strategy, and we've prepared the Company to be able to capitalize on an eventual recovery.

Clearly we have weathered a good part of the storm without weakening the Company, and we are confident that we will be able to resist any further downturns, if they occur, for the greater good of our policyholders and shareholders.

Thank you to everyone who has contributed to the success of our organization, and to everyone who continues to support us and put their trust in us.

Yvon Charest

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

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

Executive Vice-President

U.S. Development

Industrial Alliance

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

Executive Vice-President

Investments

Industrial Alliance

INDUSTRIAL ALLIANCE ORGANIZATION CHART

Operating Company and Parent Company

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Life and Health Insurance and Financial Services

99.9%	PACIFIC™
98.0%	EXCELLENCE™ LIFE INSURANCE COMPANY
100%	AMERICAN™ LIFE INSURANCE COMPANY

Wealth Management

100%	CLARINGTON™ INVESTMENTS	Mutual Fund Management and Promotion
100%	INVESTIA FINANCIAL SERVICES INC.	Mutual Fund Brokerage
100%	FundEX INVESTMENTS INC.	Mutual Fund Brokerage
100%	INDUSTRIAL ALLIANCE SECURITIES INC.	Securities Brokerage
100%	INDUSTRIAL ALLIANCE TRUST INC.	Trust Services
100%	INDUSTRIAL ALLIANCE INVESTMENT MANAGEMENT INC.	Investment Management

General Insurance

100%	INDUSTRIAL ALLIANCE™ AUTO AND HOME INSURANCE INC.

Financial Services Brokerage

100%	Solicour FINANCIAL SERVICES

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance Pacific Insurance and Financial Services Inc.

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by The Excellence Life Insurance Company.

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by IA American Life Insurance Company

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by IA Clarington Investments Inc.

™ Trademark of Industrial Alliance Insurance and Financial Services Inc., used under license by Industrial Alliance Auto and Home Insurance Inc.

Industrial Alliance Insurance and Financial Services Inc.

Assets under management and under administration: $49.5 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 fourth 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 14 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. 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 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. Its head office is located in Vancouver, British Columbia.

The Excellence Life Insurance Company

Direct written premiums: $89.6 million

Created in 1962, 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 distributes it products in Quebec, but it intends to expand its operations throughout Canada. Excellence and the brokerage companies with which it is associated were acquired by Industrial Alliance in 2008. Their head office is located in Montreal, Quebec.

IA American Life Insurance Company

Equity: US$29.8 million

IA American Life Insurance Company (IA American) is a life and health insurance company that offers a wide range of life insurance and annuity products in the United States. IA American is the new corporate name of United Family Life Insurance Company, an American life insurance company acquired by Industrial Alliance in 2008. IA American will be used as Industrial Alliance's platform to market its products in the family market in the U.S. The company plans to distribute its products through independent brokers in the Western U.S. and the Midwest. The head office of IA American is located in Phoenix, Arizona.

IA Clarington Investments Inc.

Assets under management: $6.0 billion

IA Clarington Investments Inc. (IA Clarington) is a fund management firm that markets a wide range of investment products, including mutual funds, segregated funds, principal protected notes and closed end funds managed by leading portfolio managers. IA Clarington was created in 2006, when the operations of Industrial Alliance Fund Management Inc., a company that Industrial Alliance created in 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 2005. In 2008, IA Clarington acquired Sarbit Asset Management Inc., a mutual fund management firm. IA Clarington distributes its products throughout Canada. Its main office is located in Toronto, Ontario.

Investia Financial Services Inc.

Assets under administration: $7.7 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. Over the years, Investia has acquired the operations of several mutual fund brokerage firms: Groupe Financier Concorde (2001), Global Allocation Financial Group Inc. (2003), AEGON Dealer Services Canada Inc. and its affiliated network Money Concepts (Canada) Limited (2008) and the Quebec-based financial advisors network of DundeeWealth Inc. (2008). Investia distributes its products throughout Canada. Its head office is located in Quebec City, Quebec.

FundEX Investments Inc.

Assets under administration: $7.7 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 more than 600 licensed advisors, who distribute funds primarily in the high net-worth market. 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 acquired in 2006. FundEX distributes its products throughout Canada. Its head office is located in Markham, Ontario.

Industrial Alliance Securities Inc.

Assets under administration: $1.6 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 corporate financing, research and negotiation of securities. Created in 2002, Industrial Alliance Securities resulted from the merger of five securities brokerage firms. It has some 45 employees and over 17,000 clients and distributes its products in Canada through over 150 representatives. Its head office is located in Quebec City, Quebec.

Industrial Alliance Trust Inc.

Assets under management and under administration: $2.6 billion

Created in 2000, Industrial Alliance Trust Inc. offers Industrial Alliance and its subsidiaries select trust products and services that complement their operations. Its head office is located in Quebec City, Quebec.

Industrial Alliance Investment Management Inc.

Assets under management: $14.1 billion

Industrial Alliance Investment Management Inc. is an investment advisor. Created in 2004, Industrial Alliance Investment Management oversees the management of Industrial Alliance's segregated fund and mutual fund portfolios. It relies on a team of over 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. Its head office is located in Quebec City, Quebec.

Industrial Alliance Auto and Home Insurance Inc.

Direct written premiums: $122.0 million

Industrial Alliance Auto and Home Insurance Inc. is a property and casualty insurance company. It has been operating in its present form since 2000. It distributes auto and home insurance products for individuals in the province of Quebec. Industrial Alliance Auto and Home Insurance is a direct distributor. Its head office is located in Quebec City, Quebec.

Solicour Inc.

Premiums: $43.9 million

Solicour Inc. is a financial services firm. It offers 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. Its head office is located in Quebec City, Quebec.

FOR THE YEAR ENDED DECEMBER 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

NOTICE

GENERAL INFORMATION

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2008 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, 2009.

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 – mainly concerning the profit, earnings per share and return on 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.

Forward-looking 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 the Risk Management section of the 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 the future financial results of Industrial Alliance, they are provided to help investors understand 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 interpreted 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.

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. The Company's products and services are offered on both an individual and group basis.

The fourth 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 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 Inc.) 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.

Industrial Alliance contributes to the financial well-being of over 3 million Canadians, employs more than 3,300 people and manages and administers over $49 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG, and closed 2008 at $23.31. The Company has over 72,000 shareholders, with 80.3 million common shares issued and outstanding as at December 31, 2008. With a market capitalization of $1.9 billion (as at December 31, 2008), Industrial Alliance is among the 100 largest public companies in Canada.

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

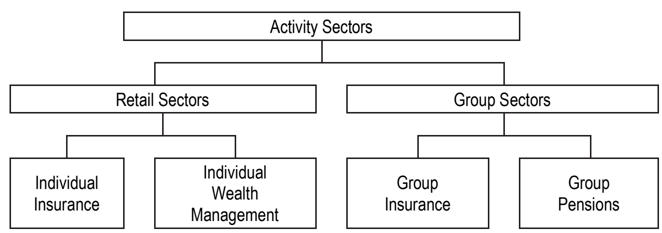
LEGAL CONSTITUTION

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.



In 2008, 17% of premiums and deposits came from Individual Insurance, 44% from Individual Wealth Management, 17% from Group Insurance, 20% from Group Pensions and 2% from general insurance operations.

By region, 5% of premiums and deposits in 2008 came from the Atlantic provinces, 43% from Quebec, 32% 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 the purpose of presenting the financial results.

SUMMARY

In 2008, the world economy was hit head-on by an unprecedented financial and economic crisis. Although Canada has held up better than many other countries, it is not immune to the effects of the current turbulence. In the wake of plunging stock markets (the S&P/TSX index of the Toronto Stock Exchange lost 35% of its value in 2008), volatile interest rates and the credit crisis that weakened many companies, businesses and consumers were forced to take measures to adapt to the new environment.

Given the persistent volatility of the stock markets and Industrial Alliance's role as trustee for its policyholders, the Company decided to exercise caution in 2008 and manage the assets entrusted to it in such a way as to protect itself from further stock market downturns and interest rate reductions.

As a result, Industrial Alliance ended the year with improved financial strength, positive profit, good quality of investments, business growth in all product categories except those linked to the equity markets, and even a certain amount of leeway in case of a further deterioration in the economic environment.

Following are the highlights of the Company's results for 2008.

PROFITABILITY

The Company ended 2008 with net income to common shareholders of $66.1 million, compared with $242.2 million in 2007. This income translates into diluted earnings per common share of $0.82 ($2.99 in 2007) and a return on common shareholders' equity of 4.0% (15.1% in 2007).

Profitability	(In millions of dollars, unless otherwise indicated)	
	2008	2007
Net income to common shareholders	66.1	242.2
Earnings per common share (diluted)	$0.82	$2.99
Return on common shareholders' equity	4.0%	15.1%

The decreased income results primarily from the following three factors:

- The sharp drop in the stock markets, which reduced the Company's expected profit by about $38.3 million after taxes ($0.47 per common share).
- The credit crisis, which reduced the Company's profit by $25.0 million after taxes ($0.31 per common share). In addition to reducing the value of a certain number of securities that were weakened by the current economic environment, the Company devalued the non-bank sponsored asset-backed commercial paper to which it is exposed by an additional 14%, increasing the total devaluation of these securities to 29%.
- A $138.2 million strengthening of the provisions for future policy benefits after taxes ($1.71 per common share). The Company decided to proceed with caution by strengthening its provisions for future policy benefits, while implementing additional measures to protect itself against an additional stock market downturn of about 13% in 2009 and, even though it was not required to do so, in order to take into account an additional 20 basis point drop in the ultimate reinvestment rate (URR).

The Company's results were enhanced by gains of $7.6 million after taxes ($0.09 per common share) resulting from a favourable evolution in the difference between the market value of debt instruments and the underlying assets.

DIVIDEND

The Company announced two increases in the quarterly dividend in 2008, which brought the annual dividend to $0.94 per common share in 2008, up 24% over the previous year. Given the decreased income during the year, the payout ratio exceeded the 25% to 35% target range set by the Company.

GUIDANCE FOR 2009

The current economic and financial environment makes it more difficult than in past years to establish specific guidance to the financial markets. Given the current environment, however, the Company believes that it is useful to provide general market guidance for 2009 to help investors better understand the source of the Company's earnings. Following are a few indications for 2009 to the best of the Company's knowledge.

Return on equity – The Company estimates that the return on common shareholders' equity (ROE) should be between 12% and 14% in 2009. This target range is lower than the 14% to 16% range announced in June 2008. The decrease in the target ROE is primarily explained by the stock market downturn, which reduced the income on capital and management fee income drawn from segregated funds, mutual funds, Universal Life policy funds and group pension plan accumulation funds, as well as the cost of the subordinated debentures and preferred shares issued in 2008.

Earnings per common share – An ROE of between 12% and 14% translates into earnings per common share of between $2.50 and $3.00. The Company estimates however, that if in 2009, the S&P/TSX index should hover around the December 31, 2008 level, earnings per common share (EPS) should be within the lower end of the $2.50 to $3.00 range.

Solvency ratio – The Company continues to target a solvency ratio in the 175% to 200% range. If 2009 ends with an ROE of about 12% and the S&P/TSX index at around 9,000 points, the Company estimates that the solvency ratio should be in the upper end of the 175% to 200% range at the end of 2009.

Dividend – For 2009, the Company expects to maintain the quarterly dividend to common shareholders at the 2008 fourth quarter level, namely $0.245 per common share.

Effective tax rate – The Company anticipates a 1 to 2 percentage point drop in the effective tax rate, which should be around 26% to 27% in 2009. This decrease is primarily due to the reduction in corporate tax rates announced by the governments in the last few years.

SENSITIVITY ANALYSIS

Following is the sensitivity of the Company's results for a certain number of key indicators.

Net income and stock market downturn – The Company estimates that if the stock markets drop 10% at the very beginning of 2009, to subsequently recover a portion of this loss during the year, net income to common shareholders for 2009 would be about $17 million lower than expected. On the other hand, a 10% drop should not affect the Company's net income in relation to stocks backing the long-term liabilities.

Solvency ratio – The solvency ratio was 199% as at December 31, 2008. The S&P/TSX index was at 8,988 points on that date. The Company estimates that if the S&P/TSX index had been at 7,400 points as at December 31, 2008, the solvency ratio would have been around 175%, and if the index had been at 5,700 points, the ratio would have been around 150%.

Stocks matching long-term liabilities and segregated funds guarantee – The Company believed that it was more prudent to sufficiently strengthen its provisions for future policy benefits in 2008, while implementing additional measures, so that an additional strengthening would not necessarily be required if there was an additional drop in the stock markets of about 13% compared to December 31, 2008 (which would place the S&P/TSX index at about 7,850 points). Such a decrease in the stock markets should not affect the Company's profit.

Ultimate reinvestment rate (URR) – To calculate its provisions for future policy benefits, as at December 31, 2008, the Company used a lower ultimate reinvestment rate (URR) than the maximum rate expected at the end of 2009 if the rates of long-term federal government bonds remain at the 2008 year-end level (3.45%) for all of 2009. According to the Company's most recent simulations, a 10 basis point decrease in the URR would require the provisions for future policy benefits to be strengthened by about $35 million after taxes.

Initial reinvestment rate (IRR) – To calculate its provisions for future policy benefits, as at December 31, 2008, the Company used an initial reinvestment rate (IRR) that takes into account existing rates of return on the valuation date, considering the target asset mix. According to the Company's most recent simulations, a 10 basis point increase in the IRR would allow the release of about $24 million after taxes in provisions for future policy benefits.

Mortality rate – As required by the standards of actuarial practice, the Company does not anticipate an improvement in the mortality rate when it determines its provisions for future policy benefits in individual insurance. However, given the ongoing improvement of mortality rates in Canada, the Company regularly releases excess reserves that are no longer necessary. Hence, the Company estimates that a 5% reduction in the mortality rate could result in the release of about $88 million after taxes in provisions for future policy benefits for all lines of business.

BUSINESS GROWTH

Following are the business growth highlights for 2008.

Premiums and deposits – After several years of strong growth, the stock market downturn has slowed investor enthusiasm in the savings market, but has not had a significant impact elsewhere, with some sectors even having a record year. Nevertheless, strong premium growth in the group sectors was not enough to erase the decline in the Individual Wealth Management sector, such that premiums and deposits totalled $5.5 billion at the end of 2008, down 5% compared to 2007.

Premiums and Deposits[1]	(In millions of dollars, unless otherwise indicated)		
	2008	**2007**	**Variation**
Individual Insurance	920.7	897.3	3%
Individual Wealth Management	2,422.4	3,121.9	(22%)
Group Insurance	956.5	860.5	11%
Group Pensions	1,114.9	828.3	35%
General Insurance	128.4	118.2	9%
Total	**5,542.9**	**5,826.2**	**(5%)**

Sales by line of business – Following are the sales highlights by line of business for 2008.

› *Individual insurance* – Individual Insurance sales continued to grow in the family market, but were down in the high net-worth market, resulting in an 8% decrease in total sales compared to the previous year. Investors who use their Universal Life policy as a financial planning tool decided to reduce the amounts they invest in their insurance policy savings account (excess premiums), due to the instability of the markets. On the other hand, clients continued to cover their basic insurance needs, since minimum premiums (the "insurance" component of premiums) were up 7% during the year. Also, the level of activity among agents remained high throughout the year, since the number of policies sold was up 4% in 2008. Minimum premiums and the number of policies sold are two of the most important factors the Company uses to measure the sector's profitability.

› *Individual Wealth Management* – Sales of savings and investment products were down due to the stock market downturn. Hence, after several years of strong growth, sales in the Individual Wealth Management sector were down 22% for 2008. Net sales of segregated funds and mutual funds, however, were positive every quarter, which is excellent under the circumstances. The Company improved its ranking in terms of net sales, both for segregated funds (third in 2008 compared to fifth in 2007) and mutual funds (ninth in 2008 compared to twelfth in 2007). The Company's wide range of funds, their good relative performance in the last year and the size of the Company's distribution networks should contribute to getting sales back on track as soon as the markets are more stable.

[1] Premiums include all amounts collected by the Company for its insurance and annuity activities (and posted to the Company's general fund), as well as all amounts collected for segregated funds (which are also considered to be premiums) and mutual fund deposits.

- *Group Insurance: Employee Plans* – The Group Insurance Employee Plans sector ended the year with record sales of $92.9 million, up 29% compared to the previous year. Sales were particularly strong in the West, thanks to the close ties developed with new distributors in the last few years. More than half of all sales came from outside Quebec for a fourth consecutive year, in accordance with the Company's desire to expand throughout the country.

- *Group Creditor Insurance* – Despite a drop of just over 1% in car sales in Canada, the Group Creditor Insurance sector ended the year with a 1% increase in sales compared to the previous year. Sales for this sector rely on car sales, since the products are distributed primarily by car dealers. The Company has been a leader in Canada in the creditor insurance market among car dealers for several years.

- *Special Markets Group (SMG)* – The SMG sector continued its regular growth, with an 8% increase in sales compared to 2007. This sector has so far been very resilient to the economic environment. It specializes in certain insurance markets that are not well served by traditional insurance carriers.

- *Group Pensions* – Sales in the Group Pensions sector reached a new high of $1.1 billion in 2008, an increase of 35% over the previous year. This is the first time that sales have surpassed the billion dollar mark in this sector. Sales were strong in the accumulation products market (savings products), thanks to the signing of a few large groups, and in the payout products market (insured annuity products), which was particularly active in 2008. As with the Group Insurance Employee Plans sector, for the fourth consecutive year more than half of all sales were made outside Quebec in 2008, in accordance with the Company's desire to expand throughout the country.

Sales by Line of Business[1]	(In millions of dollars, unless otherwise indicated) 2008	2007	Variation
Individual Insurance			
Minimum premiums	118.6	111.0	7%
Excess premiums	28.3	48.0	(41%)
Total	**146.9**	**159.0**	**(8%)**
Individual Wealth Management			
General fund	345.5	334.4	3%
Segregated funds	815.7	990.6	(18%)
Mutual funds	1,261.2	1,796.9	(30%)
Total	**2,422.4**	**3,121.9**	**(22%)**
Group Insurance			
Employee Plans	92.9	72.0	29%
Creditor Insurance	194.2	192.0	1%
Special Markets Group (SMG)	112.9	104.4	8%
Group Pensions	1,114.9	828.3	35%

Assets under management and under administration – Assets under management totalled $30.2 billion as at December 31, 2008, an 8% decrease compared to December 31, 2007. This decrease is primarily explained by the stock market downturn, which led to a decrease in the value of the general fund's stock portfolio, and the segregated fund and mutual fund portfolios. The decrease in assets under management was slowed, however, by good premium growth in most sectors, and by positive net investment fund sales.

Despite the stock market downturn, assets under administration continued to grow, amounting to $19.3 billion as at December 31, 2008, a 9% increase since December 31, 2007. This increase is primarily explained by two acquisitions in the mutual fund brokerage market: AEGON Dealer Services Canada Inc. and the Quebec-based distribution operations of DundeeWealth. These two acquisitions added more than $4.5 billion to the Company's assets under administration.

Assets under management and under administration totalled $49.5 billion as at December 31, 2008, a 2% decrease compared to December 31, 2007.

Assets Under Management and Under Administration	(In millions of dollars, unless otherwise indicated) As at December 31		
	2008	2007	Variation
Assets under management	30,213.8	32,792.7	(8%)
Assets under administration	19,258.4	17,618.9	9%
Total	**49,472.2**	**50,411.6**	**(2%)**

Value of new business – The value of new business increased by 1.5% (or $1.8 million) in 2008 compared to the previous year, reaching a new high of $122.8 million ($1.53 per common share). The value of new business was up in all sectors except Individual Wealth Management. In total, the improved profit margins increased the value of new business by $12.5 million, while lower sales reduced it by $10.7 million.

FINANCIAL STRENGTH

Following are the financial strength highlights for 2008.

Solvency ratio – Despite the volatility of the financial markets, the Company's financial strength continued to improve in 2008. Hence, the Company ended the year with a solvency ratio of 199% as at December 31, 2008. This is higher than the 193% ratio recorded as at December 31, 2007, and is at the top of the Company's 175% to 200% target range.

The solvency ratio benefited primarily from the issuance of a $100 million subordinated debenture (addition of 10 percentage points to the solvency ratio), the issuance of $100 million in preferred shares (addition of 10 percentage points) and changes made to the solvency standards by the regulatory authorities. These changes allowed the Company to eliminate the interest margin pricing risk (addition of 10 percentage points), eliminate the unrealized gains and losses on available-for-sale debt securities (addition of 4 percentage points) and reduce the requirements for the segregated funds guarantee (addition of 12 percentage points). Changes to the segregated funds guarantee allowed the Company to avoid having capital requirements for the segregated funds guarantee. The solvency ratio was also favourably impacted by the net issuance of common shares following the acquisition of Excellence.

[1] Sales (new business) are defined as follows for each sector: Individual Insurance: first-year annualized premiums; Individual Wealth Management: premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance Employee Plans: first-year annualized premiums, including premium equivalents (Administrative Services Only (ASO) contracts); Group Creditor Insurance: gross premiums (before reinsurance); Special Markets Group (SMG): premiums; Group Pensions: premiums.

On the other hand, there was downward pressure on the solvency ratio due to the normal increase in the required capital for business growth, as well as business acquisitions and the amortization of the impact of the new accounting standards for financial instruments that took effect on January 1, 2007 (the effect of the new accounting standards has now been fully absorbed by the solvency ratio).

Solvency and Capitalization (As at December 31)	(In millions of dollars, unless otherwise indicated) 2008	2007
Solvency ratio	199%	193%
Capitalization[1]	2,270.8	2,133.6
Book value per share	$20.35	$20.98
Debt ratio		
Subordinated debentures/capital	17.0%	14.5%
Subordinated debentures and preferred shares/capital	26.8%	20.4%

Capitalization – The Company's capital totalled $2,270.8 million as at December 31, 2008, an increase of 6% compared to December 31, 2007.This increase is primarily explained by the issuance of a $100 million subordinated debenture, the issuance of $100 million in preferred shares, and the net issuance of common shares primarily due to the acquisition of Excellence. The increase was slowed, however, by the increase in unrealized losses on available-for-sale securities.

Book value per common share – The Company's book value per common share amounted to $20.35 as at December 31, 2008, down 3% (or $0.63) compared to December 31, 2007. This decrease is primarily explained by the increase in unrealized losses on available-for-sale securities.

Financial leverage – The issuance of a subordinated debenture and preferred shares increased the Company's debt ratio, which nevertheless remains at a prudent level. The debt ratio increased from 14.5% as at December 31, 2007 to 17.0% as at December 31, 2008, if the subordinated debentures alone are included in the debt items, and from 20.4% as at December 31, 2007 to 26.8% as at December 31, 2008 if the preferred shares are added.

QUALITY OF INVESTMENTS

Despite the devaluation of certain securities during the year, the quality of investments was still good given the gloomy economic environment. Following are a few highlights for the year:

- As indicated earlier, the Company devalued the $104.1 million in non-bank sponsored asset-backed commercial paper to which it is exposed by 14%, increasing the total devaluation of these securities to 29%. This devaluation reduced income by $10.6 million after taxes in 2008.

- The Company sold the bond that it held in American International Group, Inc. (AIG), after devaluing it by 40% in the third quarter. The Company had a $15.8 million bond in AIG (the parent company). This devaluation led to a reduction in income of $4.6 million after taxes.

- Given the economic environment, the Company reduced the value of a number of other securities that were weakened by the current context, leading to a $9.8 million shortfall after taxes.

- Net impaired investments decreased slightly during the year, from $11.7 million as at December 31, 2007 to $8.8 million as at December 31, 2008. The proportion of net impaired investments represented just 0.06% of total investments as at December 31, 2008 (0.08% as at December 31, 2007).

- Almost the entire bond portfolio is composed of securities rated BBB or higher (99.77% as at December 31, 2008 compared to 99.89% as at December 31, 2007).

- The delinquency rate of the mortgage loan portfolio increased slightly during the year, from 0.16% of the portfolio as at December 31, 2007 to 0.26% as at December 31, 2008. This increase is primarily explained by three mortgage loans that defaulted in the U.S. These loans total $7.2 million and the Company does not expect to sustain any losses on them. These defaults, which affect multi-unit residential buildings, are not related to the current subprime mortgage loan crisis in the U.S. Delinquent mortgage loans represent just $9.2 million of a $3.5 billion portfolio.

- The real estate occupancy rate remained high during the year at 94.0% as at December 31, 2008 (95.5% as at December 31, 2007), and the market value of the real estate portfolio is still much higher than the book value.

- Lastly, the good quality of its investments has put the Company in a favourable position to deal with the financial crisis given its low exposure to risky sectors. In addition to selling its interest in AIG, the Company does not hold any investments in the U.S. subprime mortgage loans market or in monolines, and the value of its investments in securities guaranteed by mortgage loan companies and in asset-backed securities in the U.S. is practically nil.

Investment Quality Indices (In millions of dollars, unless otherwise indicated)	(As at December 31) 2008	2007
Net impaired investments	8.8	11.7
Net impaired investments as a % of total investments	0.06%	0.08%
Bonds – Proportion rated BB and lower	0.23%	0.11%
Mortgage loans – Delinquency rate	0.26%	0.16%
Real estate – Market/book value	129.4%	129.5%

ACQUISITIONS

In spite of the gloomy economic environment, the Company continued to build for the future with the conclusion of five new acquisitions in 2008:

- Excellence Life Insurance Company, which enabled the Company to enter a new market niche: the individual health and disability insurance market.

- United Family Life, a life insurance company in the United States. This acquisition allowed the Company to obtain the necessary approval to operate from a U.S. subsidiary in 49 of the 50 states.

- AEGON Dealer Services Canada Inc., a mutual fund brokerage firm, and its affiliated Money Concepts network, a financial services firm. This acquisition added some 400 mutual fund advisors and over $2.1 billion in assets under administration.

- Sarbit Asset Management Inc., a mutual fund management firm. Sarbit was managing approximately $100 million in assets.

[1] Capitalization includes equity, debt securities and the participating policyholders account.

- The Quebec-based mutual fund and insurance distribution network of DundeeWealth Inc. This acquisition added some 300 mutual fund advisors and over $2.4 billion in assets under administration.

EMBEDDED VALUE

The stock market downturn and interest rate reductions had a significant impact on embedded value. The embedded value was $2,510 million ($31.26 per common share) as at December 31, 2008, down 7.2% from December 31, 2007, before the payment of dividends to common shareholders, and down 9.9% after the payment of these dividends.

Recurring items (which are those over which the Company has a certain amount of control) helped to increase embedded value by 11.2%. Since the Company began calculating its embedded value, recurring items have always grown embedded value by low double digits.

To calculate embedded value, the Company uses a number of assumptions that reflect the current financial environment and that are consistent with the best estimates used by the appointed actuary in evaluating the provisions for future policy benefits. One of these assumptions is the risk premium. Like in past years, to calculate the embedded value as at December 31, 2008, the Company used a risk premium of 3%. Given the current financial environment and the importance that risk premium has gained in the economy, the Company used an additional test this year to measure the impact of a 3% increase in the risk premium. This test shows that a 3% increase in the risk premium would lead to a 29% or $735 million decrease in embedded value ($9.15 per common share). Embedded value would then amount to $1,775 million, or $22.11 per share.

PROFITABILITY

2008 HIGHLIGHTS

- Positive net income to common shareholders of $66.1 million despite the economic and financial crisis
- Main factors that affected profit:
  - Stock market downturn
  - Credit crisis
  - Strengthening of the provisions for future policy benefits in order to protect the Company from further stock market downturns and interest rate reductions

Industrial Alliance ended 2008 with net income to common shareholders of $66.1 million, compared with $242.2 million in 2007. This income translates into diluted earnings per common share of $0.82 ($2.99 in 2007) and a return on common shareholders' equity of 4.0% (15.1% in 2007).

Profitability	(In millions of dollars, unless otherwise indicated)				
	2008	**2007**	**2006**	**2005**	**2004**
Net income to shareholders	71.9	248.0	227.9	132.2	155.1
Less: dividends on preferred shares	5.8	5.8	4.9	--	0.1
Net income to common shareholders	**66.1**	**242.2**	**223.0**	**132.2**	**155.0**
Earnings per common share					
Basic	$0.82	$3.02	$2.77	$1.66	$1.96
Diluted	$0.82	$2.99	$2.74	$1.65	$1.95
Return on common shareholders' equity	4.0%	15.1%	15.7%	10.3%	13.6%

The decreased income in 2008 results primarily from the following three factors:

- The sharp drop in the stock markets, which reduced the Company's expected profit by about $38.3 million after taxes ($0.47 per common share). The S&P/TSX index of the Toronto Stock Exchange dropped 35% in 2008. The stock market downturn reduced the fees collected on the segregated funds and mutual funds managed by the Company, decreased the discounted future revenues on Universal Life policy funds and reduced the income on capital.

- The credit crisis, which reduced the Company's profit by $25.0 million after taxes ($0.31 per common share). The Company reduced the value of a certain number of securities that were weakened by the current economic environment (impact on profit of $14.4 million after taxes) and devalued the non-bank sponsored asset-backed commercial paper (ABCP) to which it is exposed by an additional 14% (impact on profit of $10.6 million after taxes). This devaluation was posted primarily to take into account the estimated loss in value of the ABCP due to the widening of interest rate spreads that occurred at the end of 2008. It brings the Company's total devaluation of these securities to 29% (refer to the "Note Regarding Non-Bank ABCP" in the "Investments" section).

- A strengthening of the provisions for future policy benefits by $138.2 million after taxes ($1.71 per common share). Given the current economic and financial environment, the Company felt it was more prudent to strengthen its provisions for future policy benefits in order to protect itself from further stock market downturns and interest rate reductions.

  At the end of each quarter, the Company makes sure its provisions are sufficient, given the existing economic environment, but it only reviews its valuation assumptions at the end of each year to take into account the most recent developments in the market and its own experience in terms of mortality, morbidity, lapse rates, unit costs and other factors. This year, the year-end review of assumptions led the Company to strengthen its provisions for future policy benefits to take into account three factors in particular:

  - An additional 20 basis point decrease in the ultimate reinvestment rate (URR). Even though the Company was not required to strengthen its provisions for future policy benefits for the URR, since it already uses a lower rate than the maximum rate determined under the standards of actuarial practices, it decided to exercise caution by reducing its rate once again to take into account the significant reduction in long-term interest rates at the end of the year (the maximum URR is calculated by using data on long-term federal government bond rates for the last 10 years). Hence, to evaluate its provisions for future policy benefits, the Company now uses a lower URR than the maximum rate expected at the end of 2009, should long-term federal government bond rates remain at the 2008 year-end level (3.45%) for all of 2009.

  - The sharp decline in the value of stocks backing the Company's very long-term liabilities. Given the volatility of the stock markets, the Company felt it was more prudent to strengthen its provisions for future policy benefits, while implementing additional measures, such that an additional strengthening would not necessarily be required if there was an additional drop in the stock markets of about 13% compared to December 31, 2008 (which would place the S&P/TSX index at about 7,850 points).

  - The decrease in life insurance policy lapse rates.

  The strengthening of the provisions for future policy benefits was partially offset by a release of reserves to take into account two factors in particular, namely the ongoing improvement in mortality rates in individual insurance and the slight increase (15 basis points) in the initial reinvestment rate (IRR). This rate is determined from a basket composed primarily of long-term provincial government bonds and reflects the current rates applicable on these bonds on the valuation date, which is December 31, 2008.

  The revision of other valuation assumptions did not have a material impact on the provisions for future policy benefits in 2008.

The Company's results were enhanced by gains of $7.6 million after taxes ($0.09 per common share) resulting from a favourable evolution of the difference between the market value of debt instruments and the underlying assets.

Also, the contribution by Excellence and its affiliated brokerage companies was in line with the Company's expectations in 2008. When Excellence was acquired, the Company had indicated that it expected Excellence would contribute to improving its earnings per share by $0.04 in 2008.

ANALYSIS OF INCOME BY SOURCES OF EARNINGS

Analyzing income by sources of earnings helps to determine the sources of variance between the real and expected net income. The Company believes that this analysis 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 sources of earnings highlights for 2007 and 2008 are indicated below.

Expected profit on in-force – The expected profit on in-force business represents the before-tax 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 rates, stock market and expense assumptions deemed the most likely. It also includes the before-tax expected profit from the management and administration of investment funds.

The expected profit on in-force business is established by the Company at the very beginning of the year.

For 2008, the expected profit on in-force totalled $391.4 million, an 11% increase compared to 2007. All lines of business contributed to this increase, which is the result of strong business growth in the last few years (and expected growth for the current year), the incorporation of experience gains that the Company considers to be permanent, and the conservatism with which the Company establishes its provisions for future policy benefits.

Sources of Earnings	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions		Total	
(In millions of dollars)	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Expected profit on in-force	200.4	184.5	117.9	106.0	53.4	46.0	19.7	16.2	391.4	352.7
Experience gains (losses)	(34.2)	(8.9)	(32.1)	6.1	(8.3)	0.4	(17.8)	1.7	(92.4)	(0.7)
Gain (strain) on sales	(81.6)	(83.0)	(3.7)	(4.6)	0.0	0.0	(2.7)	(2.1)	(88.0)	(89.7)
Changes in assumptions	(175.6)	(1.6)	(1.9)	(0.9)	(1.0)	1.5	(16.7)	0.0	(195.2)	(1.0)
Operating profit	(91.0)	91.0	80.2	106.6	44.1	47.9	(17.5)	15.8	15.8	261.3
Income on capital	41.5	57.2	5.9	5.4	9.0	15.1	6.0	9.2	62.4	86.9
Income taxes	17.8	(42.2)	(23.6)	(34.2)	(11.9)	(17.8)	3.8	(6.6)	(13.9)	(100.8)
Net income to shareholders, adjusted	(31.7)	106.0	62.5	77.8	41.2	45.2	(7.7)	18.4	64.3	247.4
Less: dividends on preferred shares	0.0	0.0	5.8	5.8	0.0	0.0	0.0	0.0	5.8	5.8
Net income to common shareholders, adjusted	(31.7)	106.0	56.7	72.0	41.2	45.2	(7.7)	18.4	58.5	241.6
Other items	4.8	0.3	0.6	0.1	1.4	0.1	0.8	0.1	7.6	0.6
Net income to common shareholders	**(26.9)**	**106.3**	**57.3**	**72.1**	**42.6**	**45.3**	**(6.9)**	**18.5**	**66.1**	**242.2**

Experience gains or losses – 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.

All lines of business were impacted by experience losses in 2008. These losses, which totalled $92.4 million, were almost entirely due to the economic and financial environment that prevailed in 2008, primarily in the second half of the year. The losses are primarily explained by:

› The stock market downturn, which reduced the Company's expected profit by $53.7 million before taxes.

› Reductions in the value of a certain number of securities that were weakened by the gloomy economic environment, totalling $34.9 million before taxes.

› Experience losses arising primarily from poor mortality and disability results.

Impact of the Economic and Financial Environment by Line of Business	Credit	Stock market downturn	Changes in assumptions	Total before taxes	Total after taxes
	(In millions of dollars)				
Individual Insurance	11.9	13.7	175.6	201.2	142.6
Individual Wealth Management	0.8	31.6	1.9	34.3	24.3
Group Insurance	1.1	--	1.0	2.1	1.5
Group Pensions	5.7	2.0	16.7	24.4	17.4
Operating profit	19.5	47.3	195.2	262.0	185.8
Income on capital	15.4	6.4	--	21.8	15.7
Total – Before taxes	**34.9**	**53.7**	**195.2**	**283.8**	**--**
Total – After taxes	**25.0**	**38.3**	**138.2**	**201.5**	**201.5**

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 $88.0 million in 2008, which is 2% lower than the previous year. This decrease comes primarily from Individual Insurance, due to the long-term commitments in this sector. It is the result of decreased sales in Individual Insurance throughout the year, and the changes made to the Individual Insurance product line in the last few years.

The strain in the Individual Insurance sector alone, expressed as a percentage of sales (measured in terms of first-year annualized premiums) reached 56% in 2008 compared to 52% in 2007. This increase is explained by the fact that the savings portion of the Universal Life policies was lower in 2008 than in 2007. Even though the strain is slightly above 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 – At the end of each quarter, the Company ensures the sufficiency of its provisions given the existing economic environment. It also does a complete update of all of its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience in terms of mortality, morbidity, lapse rates, unit costs and other factors.

Unlike in past years when they had very little impact on the Company's profit, the changes in assumptions impacted profit in 2008 due to the $195.2 million increase in the provisions for future policy benefits ($138.2 million after taxes), compared to a $1.0 million increase in 2007 ($0.7 million after taxes). The changes in assumptions have mainly affected the Individual Insurance sector. Given the current economic and financial environment, the Company felt it was more prudent to strengthen its provisions for future policy benefits in order to protect itself from further stock market downturns and interest rate reductions.

As explained earlier, the reserves were strengthened to take into account three particular factors: an additional 20 basis point decrease in the ultimate reinvestment rate, the decrease in the value of stocks backing very long-term commitments, and the decrease in life insurance policy lapse rates. The strengthening of the provisions for future policy benefits was partially offset by a release of reserves to take into account two factors in particular, namely the ongoing improvement in mortality rates in individual insurance and the slight increase in the initial reinvestment rate. Finally, the revision of other valuation assumptions did not have a material impact on the provisions for future policy benefits in 2008.

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 $62.4 million in 2008, down $24.5 million or 28% compared to 2007. This decrease is primarily due to the stock market downturn and the decrease in the value of a certain number of securities. These two factors accounted for $21.8 million of the decrease in income on capital.

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 $13.9 million in 2008 ($100.8 million in 2007), which represents an effective tax rate of 17.8% for 2008, compared to 28.9% for the previous year. The 2008 tax rate is lower than the one usually applicable to the Company (which is around 28%). This difference is due to the fact that there was a higher proportion of non-taxable items in the Company's income in 2008 compared to 2007. For 2009, the Company expects that its effective tax rate should be around 26% to 27%. This decrease reflects the reduction in the tax rates previously announced by the governments.

Other items – Only one item was classified under Other items in 2008, and that was the asymmetric evolution of the difference between the fair value of the Company's debt instruments and the fair value of the assets matching them. This difference generated a net profit of $7.6 million ($0.09 per common share) in 2008. The Company considers the effect resulting from the posting of debt instruments as being part of the "unusual" items since any difference between the variation in the market value of the debt instruments and the market value of the corresponding assets will be recovered by the time the debt instruments mature, namely in the next six years.

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 loss of $91.0 million, primarily due to the strengthening of the provisions for future policy benefits, which had a $175.6 million impact on this sector before taxes.

Individual Wealth Management – The Individual Wealth Management sector was affected by the market downturn, recording an operating profit of $80.2 million in 2008 compared to $106.6 million in 2007. This decrease was due to the fact that investment fund management fees are calculated based on a percentage of the funds' value, which dropped considerably in 2008. For this sector, it is estimated that the shortfall caused by the stock market downturn totalled close to $32 million.

Group Insurance – The Group Insurance sector ended the year with an operating profit of $44.1 million, an 8% decrease compared to 2007. This sector was largely impacted by poor disability experience.

Group Pensions – The Group Pensions line of business recorded a $17.5 million operating loss in 2008, compared to a $15.8 million operating profit in 2007. This sector was impacted by poor mortality experience in 2008 and by the $16.7 million strengthening of the provisions for future policy benefits.

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) 2008	2007	2006
Revenues	4,465.1	4,971.6	4,937.9
Policy benefits and expenses	4,373.5	4,659.0	4,638.3
Income before income taxes	91.6	312.6	299.6
Income taxes	(16.8)	(63.4)	(68.3)
Net income	74.8	249.2	231.3
Less: net income to participating policyholders	2.9	1.2	3.4
Net income to shareholders	71.9	248.0	227.9
Less: dividends on preferred shares	5.8	5.8	4.9
Net income to common shareholders	**66.1**	**242.2**	**223.0**
Earnings per common share			
Basic	$0.82	$3.02	$2.77
Diluted	$0.82	$2.99	$2.74

Revenues

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

Revenues for 2008 totalled $4.5 billion, which represents a 10% decrease compared to 2007. This was due to the substantial decrease in net investment income, as explained below.

Revenues	(In millions of dollars) 2008	2007	2006
Premiums	4,281.7	4,029.3	3,763.0
Net investment income	(188.0)	578.8	860.0
Fees and other revenues	371.4	363.5	314.9
Total	**4,465.1**	**4,971.6**	**4,937.9**

Premiums increased by 6% in 2008, reaching $4.3 billion for the year. This is due to the excellent results in the Group Insurance and Group Pensions sectors, which more than offset the decrease in the Individual Wealth Management sector caused by the stock market downturn.

If mutual fund deposits are added to the premiums, premiums and deposits totalled $5.5 billion in 2008, a 5% decrease from 2007. This decrease is explained by the fact that mutual fund deposits were down in 2008 as a result of the stock market downturn.

Premiums and Deposits	(In millions of dollars) 2008	2007	2006
Premiums			
General fund	2,620.1	2,463.7	2,209.0
Segregated funds	1,661.6	1,565.6	1,554.0
Subtotal	4,281.7	4,029.3	3,763.0
Deposits – Mutual funds	1,261.2	1,796.9	1,227.6
Total	**5,542.9**	**5,826.2**	**4,990.6**

The main items that make up net investment income are: investment income as such (including interest income, dividends and net income from rental properties), the amortization of realized and unrealized gains and losses on real estate, realized gains and losses on the disposition of assets available for sale and variations in the market value of assets held-for-trading.

The accounting of assets held-for-trading (other than real estate) according to the market value results from the adoption of the new accounting standards concerning financial instruments at the beginning of 2007. This item may lead to significant volatility of the net investment income from period to period since variations in the market value of these assets now directly impacts net investment income rather than being amortized on the income statement, as was the case in the past. However, a large portion of these variations in market value are offset by corresponding variations in the provisions for future policy benefits, so that their overall impact on net income is largely mitigated.

Net investment income was a negative amount of $188.0 million in 2008, compared to positive net investment income of $578.8 million recorded in 2007. This difference essentially results from the decrease in the market value of assets held-for-trading ($596.0 million decrease). This decrease is primarily explained by the stock market downturn, which led to a decrease in the value of the stock portfolio, and by the decrease in the market value of bonds, a consequence of the widening of interest rate spreads during the year.

It should be noted that the variation in the fair value of the assets held-for-trading includes a $15.0 million before-tax permanent devaluation of the fair value of the non-bank ABCP posted in the last quarter of 2008. This decrease in value had a negative impact on the Company's profit.

Net investment income also includes a permanent impairment in value of $7.8 million for available-for-sale securities, as well as provisions for credit losses of $5.2 million for loans and receivables. These items also had a negative impact on the Company's profit.

The table below provides an overview of the composition of net investment income.

Net Investment Income	(In millions of dollars) 2008	2007	2006
Investment income	393.3	433.4	643.3
Amortization of realized and unrealized gains (losses)	16.3	10.4	214.7
Variation in the fair value of assets held-for-trading	(596.0)	125.9	--
Permanent impairment in value of assets available-for-sale	(7.8)	--	--
Gains realized on the disposition of assets available-for-sale	11.4	8.9	--
Change in provisions for losses	(5.2)	0.2	2.0
Total	**(188.0)**	**578.8**	**860.0**

Fees and other revenues represent fees earned from the management of the segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the brokerage firms. Even though the funds managed by the Company decreased in value in 2008, having a downward impact on fees collected on the funds, fees and other revenues posted a 2% increase over 2007. This is due to increased income from ASO contracts in the Group Insurance Employee Plans sector, and the contribution of the newly acquired companies, namely the brokerage firms affiliated with Excellence.

Policy Benefits and Expenses

Policy benefits and expenses totalled $4.4 billion in 2008, which represents a $285.5 million decrease compared to 2007. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses	(In millions of dollars) 2008	2007	2006
Change in provisions for future policy benefits	53.2	506.4	736.3
Payments to policyholders and beneficiaries	1,950.1	1,737.7	1,591.5
Net transfer to segregated funds	1,346.9	1,456.9	1,400.5
Commissions	545.1	519.2	484.7
General expenses	358.4	333.5	314.0
Other	119.8	105.3	111.3
Total	**4,373.5**	**4,659.0**	**4,638.3**

The variation in provisions for future policy benefits evolves according to several factors, including the increase in premiums (upward impact on the provisions for future policy benefits), the return on the underlying assets (increase), claims incurred (decrease), net transfer to segregated funds (increase or decrease), and the strengthening (increase) or release (decrease) of provisions for future policy benefits.

Since the new accounting standards concerning financial instruments took effect at the beginning of 2007, the variation in the market value of the assets underlying the provisions for future policy benefits (increase or decrease) must be added to this list of factors. The impact of the new accounting standards on the variation in provisions for future policy benefits had little impact on the net income, given that a corresponding increase in net investment income is recorded on the income statement.

Although the year-end changes in assumptions led to a $195.2 million strengthening of the provisions for future policy benefits, they actually only increased by $53.2 million in 2008. As indicated earlier, the provisions for future policy benefits vary not only according to changes in assumptions, but also according to several other factors, including the variation in the fair value of assets held-for-trading. In 2008, the variation in the fair value of assets held-for-trading had a significant downward impact on the provisions for future policy benefits. However, this impact was largely offset by the decrease in net investment income related to these assets, and therefore did not have a significant impact as such on net income.

Payments to policyholders and beneficiaries in 2008 were $212.4 million higher than in 2007. This increase is related to the normal growth of business and reflects the increase in the in-force block of business. In addition, mortality and disability experience were less favourable than usual in 2008. 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 $1.3 billion in 2008, which represents a decrease of $110.0 million over 2007. This decrease can be explained by lower segregated fund sales in the Individual Wealth Management sector.

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. Segregated fund deposits in the Group Pensions sector can fluctuate substantially from one year to another according to the size of the mandates granted by certain groups.

Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts. Commissions increased by $25.9 million in 2008 compared to the previous year. This increase comes primarily from the companies acquired in 2008 (namely Excellence and its affiliated brokerage companies), and strong sales in the group sectors.

General expenses were up $24.9 million in 2008 compared to the previous year. This increase is primarily attributable to the various companies acquired during the year.

Income Taxes

Income taxes amounted to $16.8 million in 2008, compared to $63.4 million in 2007. This decrease can be explained in part by the Company's lower income, and in part by a higher proportion of its income and expenses being classified as non-taxable items.

CAPITALIZATION AND SOLVENCY

2008 HIGHLIGHTS

- Increased financial strength despite the financial market crisis
  - Solvency ratio of 199% as at December 31, 2008, up from 2007 and in the upper end of the Company's 175% to 200% target range
- Prudent and conservative capital management
  - Issuance of a $100 million subordinated debenture
  - Issuance of $100 million in preferred shares
  - $2.3 billion in capital, a 6% increase
  - 17.0% debt ratio, below the maximum levels accepted by the rating agencies

The particularly challenging financial markets in 2008 highlighted the importance of ensuring sound capital management and maintaining a high level of solvency. These aspects are essential for any life and health insurance company looking to achieve long-term success. In this regard, through the sound and prudent management of its capital, Industrial Alliance was able to not only soften the impact of the unfavourable environment in 2008, but to actually improve its solvency and maintain its credit ratings throughout the year, thereby ensuring the financial security of its clients.

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 2008, equity accounted for 82% of the Company's capital.

As at December 31, 2008, the Company's capital totalled $2.3 billion, a 6% increase compared to December 31, 2007. The main items that caused the capital to increase in 2008 are: the issuance of a $100 million subordinated debenture, the issuance of $100 million in preferred shares, and the issuance of common shares associated with the exercise of options under the Company's stock option plan and the acquisition of Excellence. On the other hand, the growth of capital was slowed by the increase in unrealized losses on available-for-sale securities and by the buy-back of common shares (see the "Outstanding Shares" section below).

FINANCIAL LEVERAGE

The issuance of a subordinated debenture and additional preferred shares in 2008 increased the Company's debt ratios. As a result, the debt ratio, measured by the debt securities compared to the capital structure, went from 14.5% as at December 31, 2007 to 17.0% as at December 31, 2008. If the preferred shares are added to the debt securities, the ratio went from 20.4% as at December 31, 2007 to 26.8% as at December 31, 2008. These ratios are still below the maximum levels accepted by the rating agencies, based on the credit ratings assigned to the Company.

SOLVENCY

The solvency ratio was 199% as at December 31, 2008. This ratio is 6 percentage points higher than at the end of 2007, and 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 2008. Following are some of the main factors that caused the solvency ratio to increase:

- The issuance of a $100 million subordinated debenture (addition of 10 percentage points to the solvency ratio).

Capital Structure and Debt Ratios	(In millions of dollars, unless otherwise indicated) As at December 31				
	2008	2007	2006	2005	2004
Capital structure					
Equity					
Common shares	541.0	513.1	507.7	510.6	458.1
Preferred shares	223.7	125.0	125.0	--	--
Retained earnings	1,127.7	1,148.3	971.3	845.4	751.7
Contributed surplus	19.8	17.1	14.6	12.3	9.5
Currency translation account	--	--	(6.8)	(7.1)	(5.8)
AOCI[1]	(54.3)	(3.8)	--	--	--
Subtotal	1,857.9	1,799.7	1,611.8	1,361.2	1,213.5
Debt securities					
Subordinated debentures	385.9	309.8	310.1	373.0[2]	150.0
Other debt (IATS[3])	--	--	--	--	150.0
Subtotal	385.9	309.8	310.1	373.0	300.0
Participating policyholders' account	27.0	24.1	23.1	19.7	17.3
Total	**2,270.8**	**2,133.6**	**1,945.0**	**1,753.9**	**1,530.8**
Debt ratios					
Debt/Capital structure	17.0%	14.5%	15.9%	21.3%	19.6%
Debt and preferred shares/capital structure	26.8%	20.4%	22.4%	21.3%	19.6%
Coverage ratio (number of times)	3.9	12.2	12.1	11.0	13.4

- The issuance of $100 million in preferred shares (addition of 10 percentage points).
- Changes made to the solvency standards by the regulatory authorities. These changes allowed the Company to eliminate the interest margin pricing risk (addition of 10 percentage points), eliminate the unrealized gains and losses on available-for-sale debt securities (addition of 4 percentage points) and reduce the requirements for the segregated funds guarantee (addition of 12 percentage points). Reducing the requirements for the segregated fund products allowed the Company to avoid having capital requirements for the segregated funds guarantee.
- The issuance of 754,158 common shares following the exercise of options under the stock option plan and the acquisition of Excellence.

On the other hand, two of the main factors that put downward pressure on the solvency ratio are:

- Amortizing the impact of the new accounting standards for financial instruments that took effect at the beginning of 2007. It is estimated that amortizing the impact of these standards over two years – which has now been fully absorbed – reduced the solvency ratio by around 6.5 percentage points in 2008.
- The buy-back of 264,750 common shares following the exercise of options under the stock option plan and the acquisition of Excellence.

[1] AOCI: Accumulated other comprehensive income.
[2] Further to the application of AcG-15, the Company ceased to consolidate the Industrial Alliance Capital Trust (IATS) securities in the first quarter of 2005. Following this change, the $150.0 million in IATS as well as a $10.1 million Trust financing debenture were reclassified as subordinated debentures.
[3] IATS: Industrial Alliance Trust Securities.

› The five acquisitions concluded in 2008.

› The normal increase in required capital related to business growth.

The contribution of net income to the available capital usually contributes to an increase in the solvency ratio. This year, the contribution of income, after the payment of dividends, had little impact on the ratio.

Solvency (As at December 31)	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
Available capital					
Net tier 1	1,726.0	1,685.6	1,498.9	1,187.5	1,246.2
Net tier 2	195.4	120.6	128.6	134.9	136.1
Total	1,921.4	1,806.2	1,627.5	1,322.4	1,382.3
Required capital	967.1	934.6	809.9	704.5	624.0
Solvency ratio	**199%**	**193%**	**201%**	**188%**	**222%**

DIVIDENDS

The Company paid a dividend of $0.225 per common share in the first two quarters of 2008 and $0.245 per common share in the last two, for a total dividend of $0.94 per common share. Hence, the Company paid out $75.5 million in dividends to common shareholders in 2008.

Even though the Company has maintained a stable dividend throughout recent quarters, lower income in 2008 increased the dividend payout ratio beyond the 25% to 35% target range set in 2008. At year-end, the Company also announced that it planned to maintain its quarterly dividend at $0.245 per common share throughout 2009.

OUTSTANDING SHARES

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

The number of issued and outstanding common shares as at December 31, 2008 was 80,330,771, an increase of 489,408 compared to December 31, 2007. This increase is due to the issuance of 754,158 common shares in 2008 (including 175,250 following the exercise of options under the stock option plan, and 578,908 following the acquisition of Excellence). On the other hand, the Company bought back a total of 264,750 common shares during the year.

On December 31, 2008, the last trading day of the year, IAG stock closed at $23.31. The Company's market capitalization was $1.9 billion on that date. 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 had a compound annual growth rate of close to 15% between February 3, 2000 and December 31, 2008.

PREFERRED SHARES

The Company's capital contains 5,000,000 class A, series B preferred shares issued and outstanding, worth a total of $125.0 million, and 4,000,000 class A, series C preferred shares issued and outstanding, worth a total of $100 million. Series B preferred shares entitle the holders to a fixed non-cumulative quarterly dividend of $0.2875 per preferred share, while series C preferred shares include a fixed non-cumulative quarterly dividend of $0.3875 per preferred share. Series B and C preferred shares are redeemable in whole or in part at the option of the Company and subject to approval by the Autorité des marchés financiers, starting March 31, 2011 for series B shares, and starting December 31, 2013 for series C shares. Both series of 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 2008.

The class A, series C preferred shares were issued on November 25, 2008. These are five-year rate reset preferred shares, and they yield 6.20% per annum, for an initial period ending December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter, the dividend rate will reset to be equal to the then current five-year Government of Canada bond yield plus 3.38%. More information about the features of these preferred shares can be found in the prospectus.

DEBENTURES

The Company had four debentures in its balance sheet as at December 31, 2008, with a total value of $385.9 million:

› A $138.2 million series A debenture. This debenture bears interest of 5.714%, payable semi-annually. It is redeemable at the option of the Company as of December 2008 or repayable on maturity in 2053.

› A $9.3 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 $138.4 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.

› A $100.0 million subordinated debenture maturing on August, 1, 2023. This debenture is made up of a principal debenture of $88.0 million, bearing interest of 5.63% payable semi-annually until August 1, 2018, and a secondary debenture of $12.0 million, bearing interest of 7.00% payable quarterly until August 1, 2013, and interest of 5.63% payable semi-annually until August 1, 2018. After that date, the interest rate on the principal and secondary debentures will be equal to the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of the quarter, and payable semi-annually. These debentures are redeemable at par by the Company after August 1, 2018, in whole but not in part, subject to prior approval by the Autorité des marchés financiers.

  This debenture was underwritten by the Solidarity Fund QFL ("the Fund"). The Fund cannot require the reimbursement of the debenture before it matures, except in particular circumstances and subject to approval by the Autorité des marchés financiers, which allows the Company to qualify the debenture as Tier 2 capital.

The first three debentures described above, which totalled $285.9 million as at December 31, 2008, were classified as "held-for-trading" when the new accounting standards for financial instruments took effect on January 1, 2007, and are accounted for at the fair value. The last debenture for $100.0 million, however, was classified as "other financial liabilities," and is accounted for at the acquisition value.

The interest expense on the debentures was $19.6 million in 2008. The net financing expense was negative, however, in the amount of $4.1 million, due to the $23.7 million decrease in the fair value of the debentures classified as held-for-trading. This decrease was accounted for as income on the income statement.

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 2008 the Human Resources and Corporate Governance Committee issued 511,000 new stock options. These new options, which will expire in 2018, were granted at an average weighted exercise price of $37.38. The issue, net of the options exercised and cancelled during the year, brings the number of stock options outstanding to 3,621,500, or 4.5% of the number of issued and outstanding shares as at December 31, 2008.

CREDIT RATINGS

In 2008, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company. All ratings were renewed with a stable outlook. However, on February 12, 2009, due to the stock market downturn, A.M. Best returned the outlook that it assigned to the Company from positive to stable.

The three agencies also maintained the ratings assigned to the Company for the new public issue carried out in 2008, namely the preferred shares issued on November 25, 2008.

These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

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 18, 2009 to February 17, 2010, up to 3,900,000 common shares, representing approximately 4.86% of its 80,330,771 common shares issued and outstanding on February 11, 2009.

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 283,604 on the TSX over the last six completed calendar months (the ADTV). Accordingly, since the Company is entitled to purchase up to 25% of the ADTV on any trading day, it can purchase 70,901 common shares per day.

Credit Ratings

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)	Stable
	Issuer Credit Rating	a+	Stable
	Subordinated debentures	a-	Stable
	Industrial Alliance Trust Securities (IATS)	bbb+	Stable
	Preferred shares	bbb+	Stable

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.

Under normal circumstances, the Company uses 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 when business is acquired. However, the Company does not plan to buy back its shares to eliminate the dilutive effect caused by the issuance of common shares as part of the stock option plan until the financial situation in Canada becomes more stable.

Shareholders may obtain a free copy of the documents filed with the Exchange concerning this Bid by writing to the Corporate Secretary of Industrial Alliance.

BUY-BACK OF SHARES

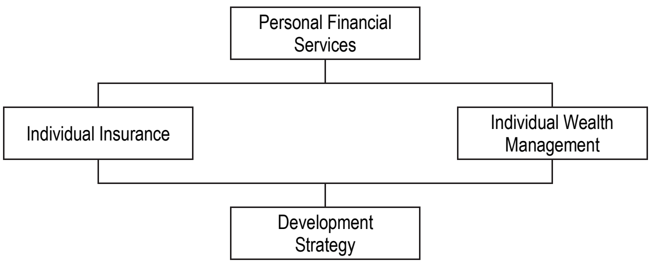
Under the current normal course issuer bid, which began on February 15, 2008 and will end on February 14, 2009, so far the Company has purchased 134,350 common shares at an average price of $35.96 per share, for a total amount of approximately $4.8 million. The common shares thus purchased were cancelled.

These purchases were made to eliminate the dilutive effect of the common shares issued in 2008 as part of the Company's stock option plan and the acquisition of Excellence Life Insurance Company (the acquisition of Excellence was completed on January 31, 2008).

The Company does not expect to make any further purchases in the days remaining before expiry of the current normal course issuer bid.

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, disability insurance and mortgage insurance products.

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products, including registered retirement savings plans (RRSPs), non-registered retirement savings plans, registered education savings plans (RESPs), registered retirement income funds (RRIFs), life annuities and fixed-term annuities. Clients can invest their money in a variety of investment vehicles, including guaranteed interest investments, segregated funds (investment funds with guaranteed capital), mutual funds and securities.

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

- the Career Agents network, which has some 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 16,000 mutual fund and securities brokers associated with independent or affiliated networks.

INDIVIDUAL INSURANCE

2008 HIGHLIGHTS

- Sales Growth
  - Sales up 7% in the family market, but down 41% in the high net-worth market due to the sharp drop in the stock markets
  - Fourth in Canada for individual insurance sales for the first nine months of 2008, but second for Universal Life sales
- Main Achievements
  - Conclusion of the acquisition of Excellence
  - Conclusion of the acquisition of United Family Life in the United States
  - Improvements to the product line (Universal Life, 10-year and 20-year term life, critical illness, guaranteed issue and simplified issue insurance)
  - New remuneration system for sales personnel

The year can be summed up in six points for Individual Insurance: increased sales in the family market; decreased sales in the high net-worth market due to the sharp drop in the stock markets; conclusion of the acquisition of Excellence, a life insurance company specializing in health and disability insurance; conclusion of the acquisition of United Family Life, a life insurance company in the United States; numerous improvements to the product line; and implementation of a new remuneration system for sales personnel.

BUSINESS GROWTH

Individual Insurance sales continued to grow in the family market, but were down in the high net-worth market, resulting in total sales of $146.9 million for the sector in 2008, an 8% decrease over the previous year.

Investors who use their Universal Life policy as a financial planning tool decided to reduce the amounts they invest in their insurance policy savings account (excess premiums) due to the instability of the markets.

On the other hand, clients continued to ensure that their basic insurance needs are covered, since minimum premiums (the "insurance" component of the premiums) increased by 7% in 2008. Also, the level of activity among agents remained high throughout the year, since the number of policies sold was up 4% in 2008. Minimum premiums and the number of policies sold are two of the most important factors used by the Company to measure the sector's profitability.

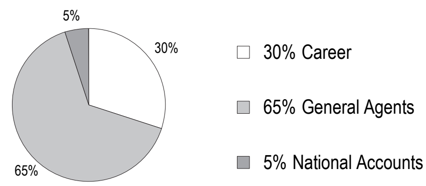
Individual Insurance Business Growth	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
Sales[1]					
Minimum premiums	118.6	111.0	119.5	111.2	107.1
Excess premiums	28.3	48.0	34.1	30.1	32.8
Total	**146.9**	**159.0**	**153.6**	**141.3**	**139.9**
Growth	(8%)	4%	9%	1%	9%
Premiums	920.7	897.3	838.6	768.7	763.1
Growth	3%	7%	9%	1%	12%

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

Industrial Alliance is still doing very well in individual insurance sales in Canada, ranking fourth for the first nine months of 2008, with a market share of 11.0% (the same ranking as in 2007), but ranking second for Universal Life sales, with a market share of 14.4%[1].

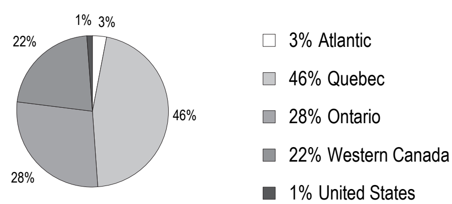
By distribution network, sales were stable in the Career network, down slightly (5%) in the General Agents network, and down considerably (49%) in the National Accounts network. The National Accounts network primarily distributes highly capitalized policies (policies with a high proportion of savings) in the high net-worth market. This market was the hardest hit by the stock market downturn.

Sales by Distribution Network
2008



By region, sales were up in Quebec (increase of 3%), but were down in all other regions (decrease of 15%). As the figure below shows, sales outside Quebec accounted for 54% of the sector's new business in 2008.

Sales by Region
2008



By product, sales were up for almost all products except Universal Life policies, and even there, most of the decrease came from yearly renewable term (YRT) contracts.

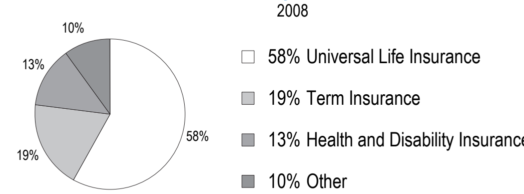
Sales of Universal Life policies were down 22% in 2008. The decrease, however, was much less pronounced for level cost insurance policies (2% decrease) than for YRT policies (42% decrease). Level cost insurance policies contain less savings than YRT policies, and are therefore less sensitive to stock market behaviour. Level cost policies accounted for just over two thirds of all Universal Life policy sales in 2008.

Universal Life policies continue to be the Company's most popular product. As a percentage, these policies accounted for 58% of the sector's total sales, compared with 52% for the industry (data for the first nine months of 2008). For the sale of new Universal Life policies, the Company ranked number two in Canada for the first nine months of 2008, with a market share of 14.4%.

For term products, sales climbed 10% in 2008, primarily due to the revised pricing at the beginning of the year. Aside from boosting sales, the revised pricing had no impact on profitability due to the renegotiation of the reinsurance agreement. Nevertheless, competition continues to be very strong in the term insurance market, which 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.

In terms of health and disability insurance products, sales jumped 72% in 2008. This is primarily due to the improvements made to our critical illness product, making us a leader in this booming market, and to the acquisition of Excellence Life Insurance Company, a company specializing in health and disability insurance.

Sales by Product
2008



Sales of new insurance policies and good persistency of in-force business increased premium income in the Individual Insurance sector by 3%, bringing it to $920.7 million in 2008.

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 dependent on 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.

ACQUISITION OF EXCELLENCE

One of the biggest achievements in the Individual Insurance sector was concluding the acquisition of Excellence Life Insurance Company and its affiliated distribution networks. This acquisition was announced in December 2007 and was completed on January 31, 2008.

Excellence primarily distributes its products in Quebec through independent brokers and authorized agents working with professional associations.

The acquisition of Excellence and its affiliated brokerage companies represents an investment of $67.3 million for Industrial Alliance if existing debt at the time of the acquisition is taken into account.

The acquisition of Excellence enabled the Company to enter a new market niche: the individual health and disability insurance market. Industrial Alliance plans to make Excellence its platform for developing its operations in this new market segment, both within and outside Quebec. Excellence was mandated to enter the market outside Quebec in 2009.

[1] Annual data was not available at press time.

ACQUISITION OF UNITED FAMILY LIFE AND U.S. DEVELOPMENT STRATEGY

The Company also completed the acquisition of United Family Life Insurance Company in the United States. The acquisition closed on May 1, 2008. United Family Life is a life and health insurance company that has been closed to new business for a few years now. It used to be a wholly-owned subsidiary of Assurant Inc., a company that offers life and health insurance products in specialized markets.

This acquisition allows Industrial Alliance to obtain licenses to operate from a U.S. subsidiary in 49 of the 50 states in the U.S. United Family Life has been rebranded IA American Life Insurance Company, which became a wholly-owned subsidiary of Industrial Alliance. On February 12, 2009, IA American was assigned an A- (Excellent) rating by A.M. Best for its financial strength, with a stable outlook.

The purchase price for the United Family Life licences totals US$3 million. An additional amount of US$30 million was paid for United Family Life's capital and surplus. United Family Life's in-force business is reinsured and administered by Union Security Insurance Company, a wholly-owned subsidiary of Assurant. United Family Life's provisions for future policy benefits totalled US$547 million as at December 31, 2008.

Industrial Alliance operates a U.S. branch from its Vancouver-based wholly-owned subsidiary, Industrial Alliance Pacific Insurance and Financial Services Inc. Industrial Alliance Pacific distributes individual life and annuity products in the Western United States, mainly in California, Texas and Arizona. Industrial Alliance Pacific's U.S. operations account for approximately 1% of Industrial Alliance's premiums and deposits.

After carefully reviewing its strategy, Industrial Alliance decided to grow its U.S. operations by establishing a solid U.S. local presence. In 2007, the Company opened an office in Phoenix, Arizona. The office has some 20 employees, following the relocation of high touch functions involving high agent interaction, such as underwriting and marketing. New products were also recently launched and new distribution partners were added.

2008 ACHIEVEMENTS: PRODUCTS AND SYSTEMS

On the product front, we continued to adapt our product line in order to meet the constantly changing needs of our clients and maintain our competitive position, while seeking to stand out through innovation. Following are the main initiatives introduced in 2008:

› *Universal Life insurance* – In addition to the improvements made to the level cost of insurance of our Universal Life policy, we added several features to the IRIS Strategy, a leveraged financing strategy that is becoming increasingly popular with high net-worth clients due to the tax benefits it entails. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive financial planning investment vehicle.

› *Term insurance* – To improve our positioning in the very competitive term product market, we lowered our rates for 10-year and 20-year term coverage, in addition to adding longer coverage periods (35 years and 40 years).

› *Critical Illness insurance* – We expanded the coverage for the illnesses and conditions covered under our critical illness product. This product now covers 25 critical illnesses and conditions, making it one of the most comprehensive products currently on the market. We also launched a new simplified issue critical illness insurance product. Enrolment in this new product provides easy access to coverage for the four most common critical illnesses.

› *Guaranteed Issue insurance* – We made some improvements to our guaranteed issue and simplified issue life insurance products. These improvements include an increase in the maximum sum insured and the addition of a new option to index the sum insured to take into account rising funeral costs. These products do not require a medical examination, and are intended for people who have difficulty getting insurance due to medical reasons.

Lastly, from an administrative standpoint, we carried out Phase 1 in the implementation of a new remuneration system for sales personnel. This new system, which is widely used in the insurance and financial industry, is very user-friendly. It will allow us to collect and process data much more easily than the old system, which is now out of date and lacking in flexibility.

INDIVIDUAL WEALTH MANAGEMENT

2008 HIGHLIGHTS

- Business Growth
  - Gross sales and assets under management down 22% and 18% respectively, primarily due to the sharp drop in the stock markets
  - Positive net investment fund sales, and improved relative positioning compared to the industry
- Main Achievements
  - Acquisition of Sarbit Asset Management (mutual fund management)
  - Acquisition of AEGON Dealer Services and its affiliated Money Concepts network (mutual fund brokerage)
  - Acquisition of DundeeWealth's Quebec-based distribution operations (mutual fund brokerage)
  - Enhancement of the Ecofl*extra* retirement income product launched at the end of 2007, and the registered education savings plan (RESP)
  - Launch of two new products: a tax-free savings account (TFSA) and a high interest savings account
  - Implementation of a new segregated funds administration system

The year can be summed up in five points for Individual Wealth Management: decrease in gross sales and assets under management due to the sharp drop in the stock markets; positive net investment fund sales for all quarters and improved relative positioning compared to the industry; conclusion of three new acquisitions in the wealth management industry; improvements to the product line and launch of two new products, including a TFSA; and implementation of a new computer system for the administration of segregated funds.

BUSINESS GROWTH

Sales of savings and investment products slowed considerably in 2008 due to the stock market downturn. Hence, after several years of strong growth, sales in the Individual Wealth Management sector were down 22% compared to the previous year, totalling $2.4 billion. This decrease is essentially due to the drop in the stock markets, which lost 35% of their value in 2008. Despite this decline, sales were still well ahead of what they were five years ago, when the Company made its debut in the mutual fund market.

Individual Wealth Management Sales[1]	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
General fund	345.5	334.4	289.2	242.4	237.5
Segregated funds	815.7	990.6	958.3	805.2	669.3
Mutual funds	1,261.2	1,796.9	1,227.6	412.6	--
Total	**2,422.4**	**3,121.9**	**2,475.1**	**1,460.2**	**906.8**
Growth	(22%)	26%	70%	61%	38%

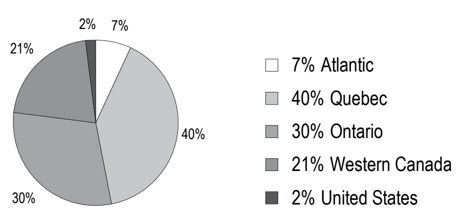
Net sales of segregated funds and mutual funds were positive every quarter, which is excellent under the circumstances. The Company improved its ranking in terms of net sales, both for segregated funds (third in 2008 compared to fifth in 2007) and mutual funds (ninth in 2008 compared to twelfth in 2007).

Net investment fund sales correspond to 29% of gross investment fund sales, outperforming the mutual fund industry, where net sales were negative in 2008.

Investment Funds Net Sales	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
Segregated funds	322.9	578.7	607.6	547.4	332.7
Mutual funds	289.5	799.2	267.0	148.7	--
Total	**612.4**	**1,377.9**	**874.6**	**696.1**	**332.7**
As a percentage of gross sales	29%	49%	40%	57%	50%

In 2008, 60% of gross sales were made outside Quebec. This can be explained by the acquisition of Clarington at the end of 2005, whose distribution network is Canada-wide.

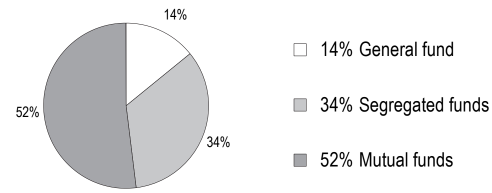
Gross Sales by Region
2008



By product, sales of mutual funds accounted for 52% of the year's sales in the Individual Wealth Management sector. The Clarington purchase at the end of 2005 has enabled us to increase this proportion rapidly, up from 28% in 2005.

[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.

Gross Sales by Product
2008



Funds under management totalled $12.5 billion as at December 31, 2008, down 18% from the end of the previous year. This decrease is essentially due to the sharp drop in the stock markets during the year. The Company was ranked fourth in Canada with respect to segregated fund assets as at December 31, 2008, with 8.8% of the market (8.9% as at December 31, 2007).

Individual Wealth Management Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31 2008	2007	2006	2005	2004
General fund	1,627.9	1,584.4	1,631.7	1,695.5	1,770.9
Segregated funds	5,562.1	6,695.9	6,046.8	4,851.2	3,871.6
Mutual funds	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5
Total	**12,454.0**	**15,115.0**	**13,959.7**	**12,206.5**	**6,661.0**
Growth	(18%)	8%	14%	83%	30%

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.

The Company is confident that its vast range of funds, their good relative performance, the new initiatives undertaken in 2008 and the size of its distribution networks will help get sales back on track once the markets are more favourable.

ACQUISITIONS

In spite of the gloomy economic environment, the Company continued to build for the future with the conclusion of three new acquisitions in 2008, bringing the number of acquisitions completed in the wealth management sector to fifteen since the early 2000s.

On July 1, 2008, the Company concluded the acquisition of National Financial Corporation ("NFC"). NFC is the parent company of AEGON Dealer Services Canada Inc. ("AEGON"), a mutual fund brokerage firm, Money Concepts (Canada) Limited ("Money Concepts"), a financial services firm, and National Financial Insurance Agency Inc. (NFIA), an insurance brokerage firm. When the transaction closed, NFC had some 400 advisors and was administering over $2.1 billion in assets. The cost of the acquisition was $13 million. The acquired mutual fund operations were merged with those of Investia Financial Services Inc. ("Investia"), one of Industrial Alliance's two mutual fund brokerage subsidiaries. This acquisition will increase the size, scope and efficiency of Investia's mutual fund distribution operations.

On October 31, 2008, the Company concluded the acquisition of all the issued and outstanding shares of Sarbit Asset Management Inc. ("Sarbit"). Sarbit is a mutual fund management firm founded in 2005 by Larry Sarbit, a portfolio manager with over 28 years of experience. When the transaction closed, Sarbit was managing about $100 million in assets. The cost of the acquisition was less than $1 million. Sarbit funds will be integrated with those of IA Clarington Investments Inc. ("IA Clarington"), Industrial Alliance's mutual fund management subsidiary. Larry Sarbit and his investment team will continue to provide investment advice for Sarbit's U.S. equity funds, and the remainder of Sarbit's funds will be managed by an affiliate of IA Clarington.

On December 31, 2008, the Company concluded the acquisition of the Quebec-based mutual fund and insurance distribution network of DundeeWealth Inc. ("DundeeWealth"). When the transaction closed, DundeeWealth had some 300 advisors and was administering over $2.4 billion in assets. The cost of the acquisition was $12 million. The acquired operations will be merged with those of Investia.

In terms of market 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 $10.7 billion in assets under management, and among the top 10 in the independent advisors channel.

With respect to mutual fund brokerage, through its two mutual fund brokerage subsidiaries, Investia and FundEX Investments Inc., Industrial Alliance now administers over $15 billion in assets, making it one of the top five non-bank mutual fund brokerage firms in Canada.

2008 ACHIEVEMENTS: PRODUCTS AND SYSTEMS

On the product front, a number of initiatives were introduced in 2008 in an effort to help boost sales of segregated funds and mutual funds once the markets are more favourable.

- *Ecofl*extra – A number of improvements were made to our Ecofl*extra* retirement product launched at the end of 2007, in order to improve its flexibility. In particular, we increased the guaranteed minimum withdrawal, enabled clients to receive a minimum guaranteed income for life after age 55 instead of age 65, and added twelve new funds to the existing range of segregated funds, many of which are from our IA Clarington mutual fund management subsidiary. In early 2009, we will also be launching some new marketing tools to help agents and their clients develop a better understanding of this complex but very useful product.
- *Tax-free savings account (TFSA)* – We designed a tax-free savings account, which was launched on January 1, 2009. In the 2008 budget, the federal government announced the creation of a TFSA that allows people to deposit up to $5,000 a year in an account that accumulates income tax free.
- *High interest savings account* – We designed a high interest savings account to meet the needs of clients looking for a savings product that generates a high fixed return. This product will be especially attractive as a TFSA.
- *Registered education savings plan (RESP)* – We made improvements to our RESP in response to proposed changes by the federal government. The duration of an RESP increased from 21 years to 35 years, and the maximum contribution period increased from 21 years to 31 years.

Lastly, from a systems standpoint, we continued to work on implementing a new administrative platform for managing segregated funds. The Ecofl*extra* product was integrated into the new system, and the necessary steps were taken to allow our segregated funds to be sold through the FundServ network. Implementation will continue in 2009.

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** – Continue to have low operating expenses.

In 2009, plunging stock markets and long-term interest rates will require the Company – all insurance companies, in fact – to focus more closely on product profitability.

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, to multiple distribution networks, and to all layers of the population.

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 (it decreased by 1% in 2008).

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 2008 with the acquisition of AEGON Dealer Services, Money Concepts and DundeeWealth's network of financial advisors operating in Quebec, and in the Individual Insurance sector.

Lastly, we want to reap the full benefits of the possible synergies between the parent company and IA Clarington. Following the successful integration of Clarington Corporation in 2006 from both a distribution and administration standpoint, mutual fund sales grew significantly, in spite of disappointing results in 2008. We plan to further develop our efforts to achieve synergies on the product front, particularly with regard to marketing the Ecofl*extra* retirement product through 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 net-worth 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 allowed 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 recovery, 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:

› Finalize the implementation of the new systems infrastructure that will allow us to optimize segregated fund management.

› Maximize the synergies among the various Industrial Alliance group entities.

2009 PRIORITIES

Following are the main priorities for 2009:

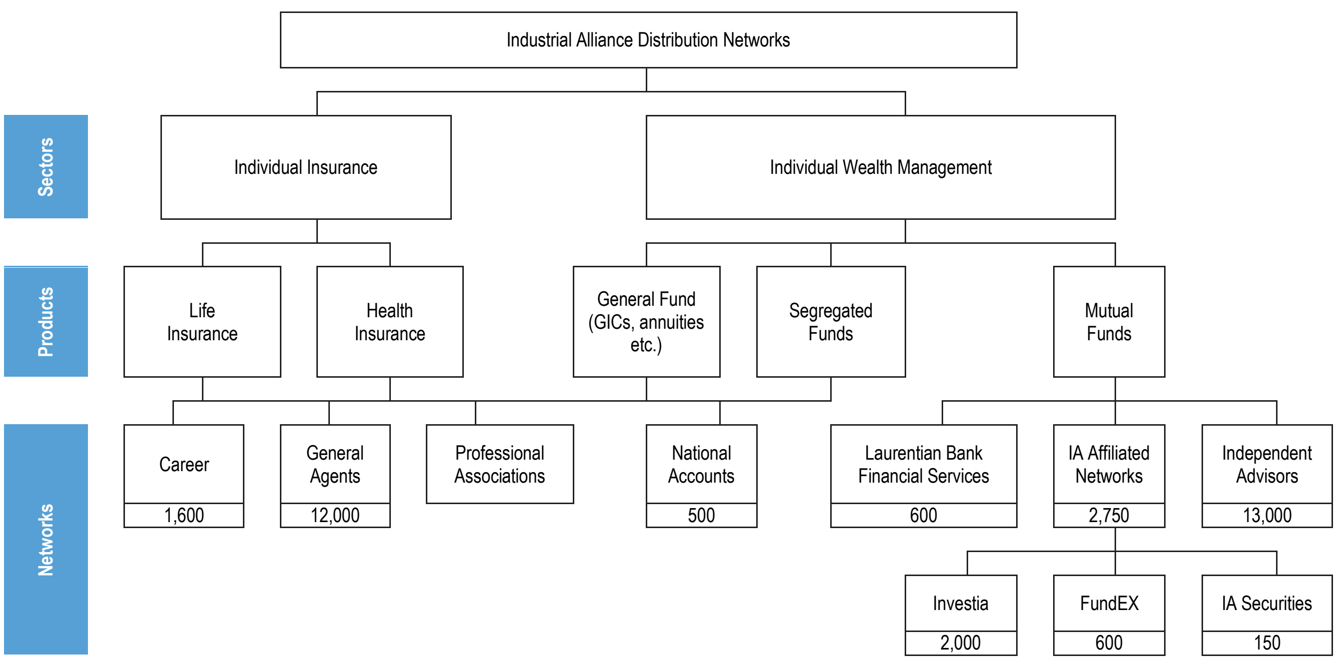
› Expand the operations of Excellence outside Quebec in the health and disability insurance market.

› Review the product line in order to ensure long-term profitability.

› Exercise stricter control over operating expenses by reviewing our working methods.

› Improve the coordination of the mutual fund and securities brokerage companies from a technology, compliance and business development standpoint.

› Continue to implement the new development strategy in the United States in order to create a strong domestic presence.



INFORMATION ON AUTO AND HOME INSURANCE OPERATIONS

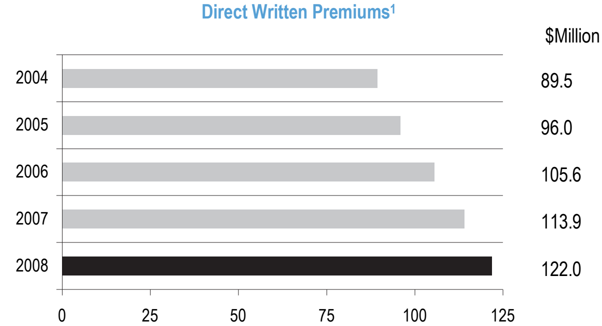
Industrial Alliance markets its auto and home insurance products through its Industrial Alliance Auto and Home Insurance Inc. ("IAAH") subsidiary. In the early 2000s, the parent company implemented an ambitious development plan designed to make its auto and home insurance subsidiary a leader in the direct distribution of retail insurance in Quebec. Since that time, IAAH has managed to quintuple its business volume in this market, 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.

With the implementation of the national Do Not Call List (DNCL) in September 2008 and the potential impact it could have on the solicitation efforts of the IAAH distribution networks, IAAH decided to leverage the "compulsory" nature of its products as a way to drive up growth for the Industrial Alliance group.

IAAH had another strong year of growth in 2008. Direct written premium growth reached 7%, while industry growth was between 2% and 3%. The company's business volume now amounts to $122.0 million for retail insurance.

Direct Written Premiums[1]

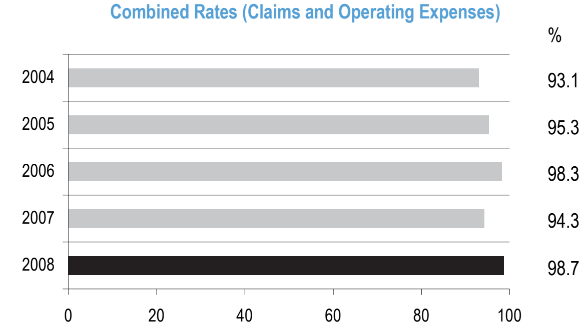


The year was a little more difficult from a profitability standpoint. With Quebec's record snowfalls in the winter of 2008, claims experience was high in the home insurance market. In auto insurance, however, claims experience was relatively low despite the pricing decreases over the last few years. This was due in part to high gas prices and new road safety rules that altered consumers' driving habits.

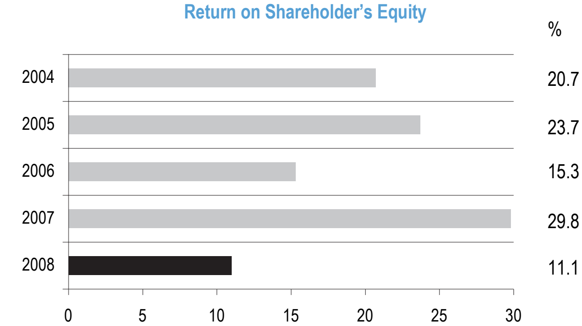
Although IAAH had to make some technology decisions that were more costly than expected in 2008, its operating expenses remained among the best in the industry. The company's combined rate (claims and operating expenses) was below 100% for the sixth year in a row.

The crisis that shook the financial markets in 2008 also had an impact on IAAH results, but to a much smaller degree than we might have thought, mostly because the company's portfolio is made up primarily of bonds. At year-end, IAAH recorded net income of $2.4 million, excluding accumulated other comprehensive income. This income represents a return on shareholders' equity of 11.1%, a few points below the group's target range.

Combined Rates (Claims and Operating Expenses)



Return on Shareholder's Equity



The main challenge that IAAH will have to face in the coming years is the shortage of qualified damage insurance agents. Now, with the introduction of the national DNCL, there is the additional challenge of attracting new clients to the Industrial Alliance group. In order to meet these challenges, IAAH will continue to follow its 5-year plan adopted in 2005 that aims to significantly improve its internal efficiency. In light of the results achieved to date, in terms of both efficiency gains and client satisfaction, this continues to be a very promising approach. In addition, IAAH will be making significant investments in 2009 in order to attract more clients directly to the company, with the goal of then referring them to the group's distributors for the sale of life insurance products and financial services.

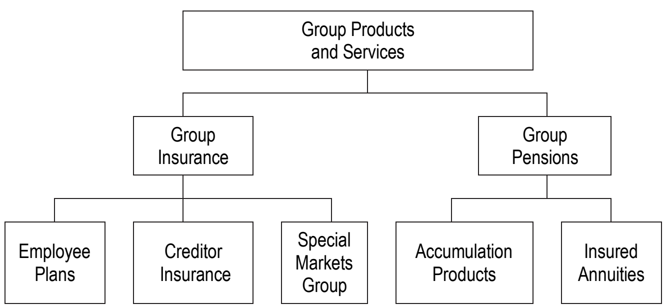
[1] Excluding the business written for Industrial-Alliance Pacific General Insurance Corporation.

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 2008, the sector wrote $1.1 billion in premiums and premium equivalents. Of this amount, 74% came from employee plans, 15% 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, 2008, the sector had $6.1 billion in assets under management. Of this amount, 56% came from accumulation products and 44% from insured annuities.



GROUP INSURANCE
EMPLOYEE PLANS

2008 HIGHLIGHTS

- Business Growth
  - Record sales of $92.9 million, up 29%
  - New high for premiums and premium equivalents, up 14% to reach $786.0 million
  - Sales outside Quebec higher than sales within Quebec for the fourth consecutive year
  - Fourth in Canada for the first nine months of 2008 for sales in our target market of groups with 50 to 999 employees, with a 12.0% market share
- Main Target Markets
  - Canada-wide development
  - Medium-sized businesses (50 to 999 employees)
- New Strategic Element
  - New approach to developing groups with fewer than 50 employees
- Sector's Vision
  - To be recognized as the insurer of choice, one that is focused on the needs of its clients

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@dmin 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.

BUSINESS GROWTH

The year's business growth can be summed up in three points: record sales of new groups owing to strong growth in Western Canada; new high for premiums and premium equivalents due to accelerated growth outside Quebec (fourth consecutive year where sales came mostly from outside Quebec); and market share gains in the Canadian market as a whole and in our target market of medium-sized groups.

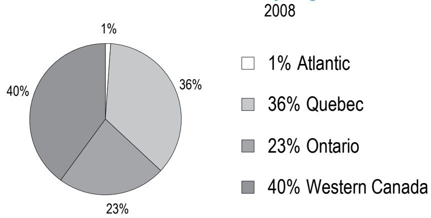
Group Insurance Employee Plan sales totalled $92.9 million in 2008, a 29% increase over the previous year.

Group Insurance (Employee Plans) Business Growth	(In millions of dollars, unless otherwise indicated)				
	2008	**2007**	**2006**	**2005**	**2004**
Sales[1]	92.9	72.0	70.8	52.3	55.7
Growth	29%	2%	35%	(6%)	5%
Premiums	684.1	594.8	509.2	475.4	448.4
Premium equivalents[2]	101.9	94.7	124.1	102.9	96.1
Total	**786.0**	**689.5**	**633.3**	**578.3**	**544.5**
Growth	14%	9%	10%	6%	4%

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 revenues from administrative services only (ASO) contracts.

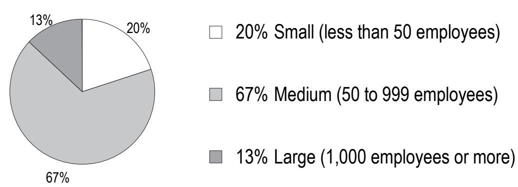
By region, sales experienced strong growth in Western Canada, thanks to the close ties developed with new distributors in recent years; they remained stable in Ontario and the Atlantic provinces, and decreased slightly in Quebec.

Sales by Region
2008



By group size, sales were especially strong in our target market of groups with 50 to 999 employees, with growth of 60%. Sales in this segment accounted for two thirds of our sales for the year. Sales in the small groups market remained stable, but were down in the large groups market.

Sales by Group Size
2008



According to 2008 data for the first nine months of 2008[1], industry sales were down 20% from 2007, primarily due to a strong drop in the very large groups market (over 5,000 employees). Excluding the large groups market, industry sales were up 11% in 2008. In terms of market share, we ended the first nine months of the year in sixth position, with 7.0% of the market (sixth for all of 2007, with 4.1% of the market).

For our target market of companies with 50 to 999 employees, our sales were up significantly from 2007, compared to industry growth of 7%. We ended the first nine months of the year in fourth position, with 12.0% of the market (fifth for all of 2007, with 8.1% of market sales).

Thanks to good sales, business persistency above expectations, and the contribution of Excellence, premiums and premium equivalents experienced their strongest growth in the last five years. Revenue peaked at $786.0 million in 2008, which represents growth of 14% compared to the previous year.

Growth in premiums and premium equivalents is important because this is the key long-term profitability driver for Group Insurance Employee Plans. Growth in premiums and premium equivalents is 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 and the size of the Company's 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).

2008 ACHIEVEMENTS

We continued our positioning efforts to make Industrial Alliance stand out 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:

› After setting up a client survey process for brokers, consultants, plan administrators and claimants, we held our first meetings with advisory committees made up of brokers and consultants. These meetings gave us a better idea of the critical success factors, how well we are achieving them, and areas for improvement.

› We launched the Go Green campaign, under which members can be reimbursed for medical and dental expenses without any documents being printed. This is done by depositing reimbursements directly into their bank account, and by sending an e-mail telling them to access the secure website for information regarding their claim. We are already seeing an increase in the use of these tools, which not only save trees but also improve our cost structure.

› We launched a health risk assessment (HRA) tool, which is used to establish a diagnosis regarding the health of employees and provides information about behaviours that have an impact on their health. It also informs employees of the benefits of modifying their lifestyle in order to improve their health. Employees can answer an online questionnaire and receive confidential reports, and employers can access an overall report that summarizes the comparative financial risks the company is exposed to and indicates priority actions for employees. The HRA allows employers to offer value-added service to their employees.

In addition, we are continually adding new functions to Web@dmin, our transactional website for clients (intermediaries, plan administrators and members). Our client surveys reveal that our clients are extremely pleased with our Internet solutions. Web@dmin's Flex enrolment software is gaining in popularity. This software allows members who are part of a modular[2] plan to select their coverage directly on the site.

[1] Annual data was not available at press time.

[2] 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.

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 2009 focuses on the following elements:

- **Canada-wide development** – In terms of business growth, we want to continue to grow our market share outside Quebec, while remaining very active in Quebec as well.

- **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 three years. A new agreement signed with a national distributor will help increase our presence in this market even further. In Quebec, the small groups and multi-employer groups market will be developed by Excellence, which has been doing well in these markets for several years. Excellence is a life insurance company that we acquired at the beginning of 2008 (refer to the Individual Insurance section for more details about this acquisition).

- **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.

- **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, profitable relationships, with the goal of clearly identifying their changing needs and responding to them more effectively. We will continue to hold meetings with intermediary advisory committees in 2009.

- **Continued development of Web@dmin** – Additional resources will be working on designing new functions in order to maintain our competitive position. The focus will be on developing additional management reports for plan administrators and intermediaries.

- **Enhancement of the service offer** – We are continuing our initiatives to enhance the processes and the service provided for disability claims management, among other things. We also plan to improve training and the tools used by the staff in our customer service centres.

- **Launch of a long-term care product** – This type of product provides insureds with a monthly benefit if they are unable to carry out the activities of daily living due to chronic illness, injury, disability or the aging process. This type of product was developed in response to specific client requests.

Finally, improved profitability will be a priority in 2009. We will continue to focus on our key success factors: control of operating expenses, improvement of the business processes, and pricing adequacy for each benefit and each market segment. Particular attention will be given to the long-term disability benefit, which generated disappointing results in 2008, and for which pricing adjustments were made in 2008. Since the anticipated economic slowdown will have a negative impact on our claims experience, constant monitoring of loss ratios and the implementation of corrective measures will be key priorities.

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.

- **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

2008 HIGHLIGHTS

- Business Growth
  - $194.2 million in sales, up 1%, outperforming the light vehicle sales market
- Competitive Advantages
  - Leader in the motor vehicle dealers market, with over 25% 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

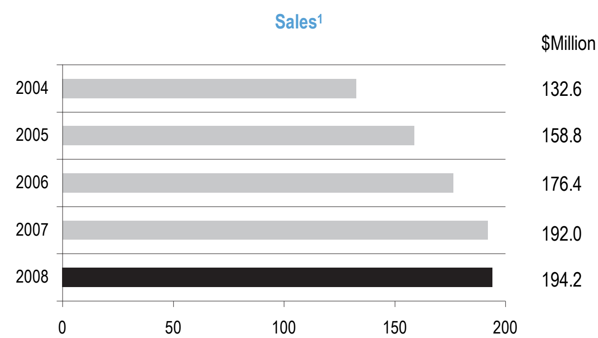
In addition to employee benefit and special market plans, the Group Insurance sector also distributes creditor insurance products (life, disability and critical illness) to automobile and other motor vehicle dealers. These products are offered through an exclusive Canada-wide direct distribution network through a division of Industrial Alliance Pacific, a subsidiary of Industrial Alliance. The products are distributed from seven sales offices: Halifax, Quebec City, Montreal, Toronto, Winnipeg, Edmonton and Vancouver.

The parent company, Industrial Alliance, also offers some other types of creditor insurance through financial institutions.

2008 ACHIEVEMENTS

The Group Creditor Insurance sector had a good year in 2008, outperforming the light vehicle sales market, which was down 1%. Creditor insurance sales reached $194.2 million, up 1% over 2007 and 8% on average over the past five years.

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 2008 was its continued outperformance of the light vehicle sales market. This growth was primarily attributable to the following factors:

- Good 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.

Group Creditor Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2008	2007	2006	2005	2004
Sales	194.2	192.0	176.4	158.8	132.6
Reinsurance	34.7	30.7	28.6	26.7	22.8
Premiums	**159.5**	**161.3**	**147.8**	**132.1**	**109.8**
Growth	(1%)	9%	12%	20%	4%

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 25%.
- 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 expect sales to grow accordingly.
- **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. 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 property and casualty 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, which 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)

2008 HIGHLIGHTS

- Business Growth
  - $112.9 million in sales, up 8%
- Competitive Advantages
  - Considerable expertise in accidental death and dismemberment (AD&D) insurance and other products in the special risks market
  - Excellent reputation for customized service and business solutions
  - Local presence
- Development Strategy
  - Improve penetration rate of recently-expanded product lines, including Creditor and Medical Access insurance
  - Develop relationships with new distributors of AD&D and Critical Illness insurance as well as 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, each with its own dedicated sales staff. The four offices are located in Vancouver, Calgary, Toronto and Montreal.

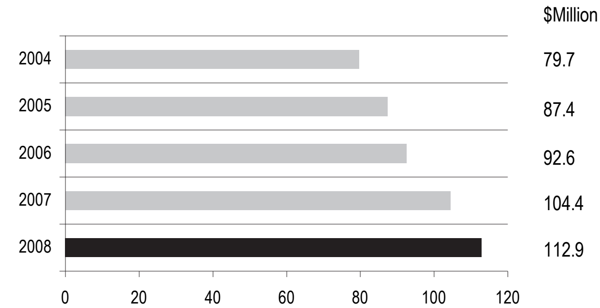
2008 ACHIEVEMENTS

SMG obtained good growth in 2008, with sales increasing 8% over 2007 to $112.9 million.

All main segments of SMG business achieved good growth in 2008. Critical Illness insurance, though a relatively small segment, is up 44% over 2007. Student health insurance is up 20%, followed by Travel insurance, which is up 8%. AD&D continues to grow, up 8% over 2007, which is very good considering the maturity of the overall AD&D market.

SMG Business Growth	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
Gross premiums	117.3	109.4	100.2	97.8	97.1
Reinsurance	4.4	5.0	7.6	10.4	17.4
Sales (premiums)	**112.9**	**104.4**	**92.6**	**87.4**	**79.7**
Growth	8%	13%	6%	10%	11%

Sales[1]



DEVELOPMENT STRATEGY AND MARKET OPPORTUNITIES

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

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

The strategy of the SMG division encompasses the following components:

- Improve the penetration rate of the recently-expanded product lines 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 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.

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

GROUP PENSIONS

2008 HIGHLIGHTS

- Business Growth
  - New high of $1.1 billion in sales, up 35% due to record sales of accumulation products and an exceptional year for insured annuities
  - Sales of new accumulation plans outside Quebec higher than plan sales in Quebec for the fourth consecutive year
- Development Strategy
  - Focus on accumulation products
  - Canada-wide development
  - 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).

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.

BUSINESS GROWTH

Group Pensions is continuing its momentum of the last few years. In 2008, business growth surpassed the objectives set for the year in both the accumulation products and insured annuities markets.

Premiums for 2008 reached a historical high of $1.1 billion, an increase of 35%. This is the first time this sector has surpassed the billion dollar mark in premiums. Growth was strong in both the accumulation products market (up 45%, with $864.0 million in premiums) and in the insured annuities market (up 8%, with $250.9 million in premiums).

Group Pensions Premiums	(In millions of dollars, unless otherwise indicated) 2008	2007	2006	2005	2004
Accumulation Products					
Recurring premiums	337.8	289.6	250.7	231.4	192.1
Transfers	526.2	306.3	374.2	179.1	169.2
Subtotal	864.0	595.9	624.9	410.5	361.3
Insured Annuities	250.9	232.4	195.2	154.3	99.8
Total	**1,114.9**	**828.3**	**820.1**	**564.8**	**461.1**
Growth	35%	1%	45%	22%	(17%)

Over the last four years, the sector recorded average annual growth of 25%. 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.

Accumulation Products

Two factors contributed to the $864.0 million in new premiums for accumulation products:

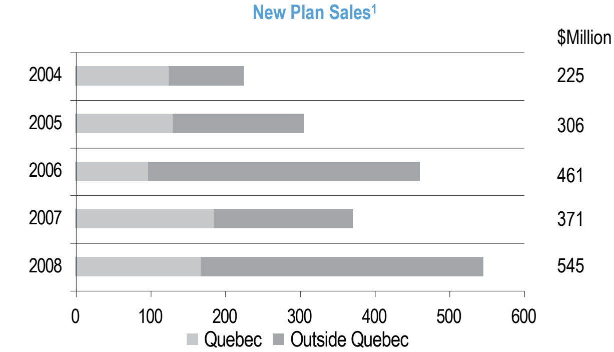
- Recurring premiums totalling $337.8 million, a new high in this regard and a 17% increase over 2007. Recurring premiums are the most important element of our strategy, since they represent the core of our business, our sustainable development. They correspond to regular member contributions, which are collected from in-force group clients.

- New group transfers representing $526.2 million, which is also a new high, up 72% over 2007.

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 $545 million in annualized premiums in 2008, which represents our best year ever.

One of the sector's strategic objectives is to increase business volume outside Quebec. In keeping with this goal, 69% of sales were made outside Quebec in 2008. This is the fourth consecutive year where sales outside Quebec have been higher than within Quebec.

Accumulation Products
New Plan Sales[1]



As we can see in the following table, in spite of fairly high disbursements, net fund entries in 2008 were much higher than the previous year.

Accumulation Products Net Fund Entries	(In millions of dollars) 2008	2007	2006	2005	2004
Entries	864.0	595.9	624.9	410.5	361.3
Disbursements	447.0	289.1	270.5	185.3	186.3
Net entries	**417.0**	**306.8**	**354.4**	**225.2**	**175.0**

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

Insured Annuities

The insured annuities sector had an excellent year with $250.9 million in premiums, an 8% increase over 2007. This achievement was primarily due to the activity in the insured annuities market, which was very intense once again in 2008. Our market share was 19% for the first three quarters of the year, which ranks us third in Canada[1]. 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 2008, more or less the same as in 2007. This is satisfactory in the current market environment of plunging stock markets and extremely volatile interest rates.

Group Pensions Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31				
	2008	**2007**	**2006**	**2005**	**2004**
Accumulation Products	3,443.0	3,560.6	3,220.3	2,588.0	2,119.9
Insured Annuities	2,697.2	2,556.6	2,150.9	2,026.2	1,936.4
Total	**6,140.2**	**6,117.2**	**5,371.2**	**4,614.2**	**4,056.3**
Growth	0%	14%	16%	14%	10%

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.

2008 ACHIEVEMENTS

Group Pensions had a good year of achievements in 2008.

- We underwrote two large accumulation contracts for retirement plans. These two contracts represent over $200 million in combined total assets.
- Under an outsourcing agreement signed with the Promutuel Group in 2007, on January 1, 2008 we began maintaining the records for guaranteed investment certificates (GIC) investors, whose assets total $200 million.
- We improved our fund offer by adding foreign fund managers. A wider selection of funds is now available, which allows for greater diversification.
- We designed a group tax-free savings account (TFSA). This new product was launched on January 1, 2009.
- Our service standard is now in place and will be uniformly applied in all of our sales offices nation-wide.
- Plan members received their first copy of the *Your Retirement Tracker* statement, an additional statement that tells plan members what their sources of income will be at retirement and helps them plan how much they need to save in order to reach their income goals. Plan sponsors also receive a series of useful statistics to help them carry out their role of plan trustee.
- We finalized the setup of our communication team. The purpose of this team is to encourage plan members to think about financial planning, to act promptly to keep assets in existing plans, and to provide plain-language explanations of new services offered to plan members.

DEVELOPMENT STRATEGY

Our development strategy consists of the following components:

- **Focus on accumulation products** – Though we will not neglect the insured annuities market, we will continue to focus on developing accumulation products in 2009.
  - 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.
  - 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 four years. Our operations are continuing to expand in all parts of the country.
- **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 and communication tools.

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.

[1] Annual data was not available at press time.

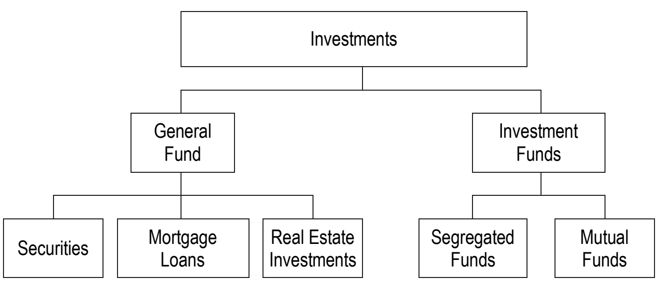
INVESTMENTS

2008 HIGHLIGHTS

- Good quality of investments despite the financial crisis and the devaluation of certain securities
- Net impaired investments very low: 0.06% of investments
- Bond portfolio
  - No defaults
  - Bonds rated BB and lower: just 0.23%
- Mortgage loan portfolio
  - Higher proportion of insured loans: 71.3%
  - Delinquency rate: 0.26%
  - No investments in U.S. subprime mortgages
- Real estate portfolio
  - Very high occupancy rate: 94.0%
  - Market value/book value ratio: 129.4%
- Very strict matching: difference in duration of 0.01 year

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 investment teams, however, are based in four main cities: Quebec City, Montreal, Toronto and Vancouver. This structure makes optimal use of resources, allows all companies in the Industrial Alliance group to benefit from one another's knowledge and expertise and, for mortgage loans and real estate investments, provides a better understanding of the markets in which the Company might invest.

Turbulent financial markets in 2008 prompted the Company to monitor the investment risks even more closely. With this in mind, it created an Investment Risk Monitoring department. This department reports to the Executive Vice-President of Investments, and its mission is to develop a global understanding of the control and monitoring of investment risks.

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

Assets under management and under administration totalled $49.5 billion as at December 31, 2008, a 2% decrease compared to the end of 2007. Assets under management primarily include amounts in the general fund, segregated funds and mutual funds, while assets under administration primarily include assets from the mutual fund and securities brokerage subsidiaries.

Assets under management were down 8% in 2008 to reach $30.2 billion at the end of the year. This decrease is primarily due to the stock market downturn, which led to a decrease in the value of the segregated fund and mutual fund portfolios. The decrease in assets under management was slowed, however, by good premium growth in most sectors, as well as by positive net investment fund sales.

Note that the general fund's assets under management were up slightly despite an unfavourable environment that caused the value of the stock portfolio to decrease. As of January 1, 2007, securities held in the Company's general fund investment portfolio are mostly measured at their market value. As a result, the value of the assets is subject to greater fluctuation than in past years.

Despite the stock market downturn, assets under administration continued to grow, amounting to $19.3 billion as at December 31, 2008, a 9% increase since December 31, 2007. This increase is primarily explained by two acquisitions in the mutual fund brokerage market: AEGON Dealer Services Canada Inc. and the Quebec-based distribution operations of DundeeWealth. These two acquisitions added more than $4.5 billion to the Company's assets under administration.

Assets Under Management and Under Administration	(In millions of dollars) As at December 31				
	2008	**2007**	**2007**	**2006**	**2005**
Assets under management			**(January 1)**		
General fund	15,415.2	15,104.3	14,406.9	13,090.7	11,972.9
Segregated funds	8,924.2	10,210.9	9,201.8	9,204.1	7,348.8
Mutual funds	5,277.7	6,846.9	6,295.4	6,295.4	5,672.7
Other	596.7	630.6	501.3	501.3	785.9
Subtotal	30,213.8	32,792.7	30,405.4	29,091.5	25,780.3
Assets under administration[1]	19,258.4	17,618.9	--	17,812.6	12,390.9
Total	**49,472.2**	**50,411.6**	**--**	**46,914.1**	**38,171.2**

[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.).

GENERAL FUND

COMPOSITION OF GENERAL FUND INVESTMENTS

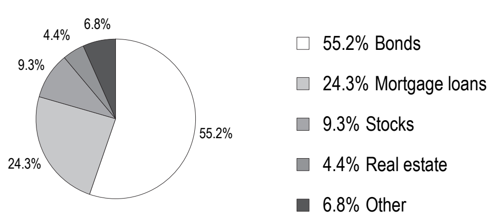
In accordance with sound asset management principles, the Company's investments are well diversified among issuers and operating sectors, as well as geographically. The investments related to the Company's insurance and annuity operations are mostly concentrated in fixed-income securities (particularly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

The new accounting standards for financial instruments that took effect on January 1, 2007, led to changes in how the book value of investments is defined, particularly for bonds, mortgage loans and stocks.

General Fund Investments	(In millions of dollars) As at December 31				
	2008	2007	2007	2006	2005
			(January 1)		
Bonds	7,942.2	8,127.2	8,358.3	7,189.4	6,619.6
Mortgage loans	3,508.1	2,920.2	2,460.0	2,457.2	2,420.8
Stocks	1,340.2	1,764.2	1,600.9	1,453.5	1,162.4
Real estate	629.5	481.6	451.8	451.8	446.3
Other invested assets	976.3	921.1	705.3	704.3	577.8
Total	**14,396.3**	**14,214.3**	**13,576.3**	**12,256.2**	**11,226.9**

At the end of 2008, 55.2% of the Company's investments were invested in bonds and 24.3% in mortgage loans, for a total of 79.5% 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, 2008



OVERALL QUALITY OF INVESTMENTS

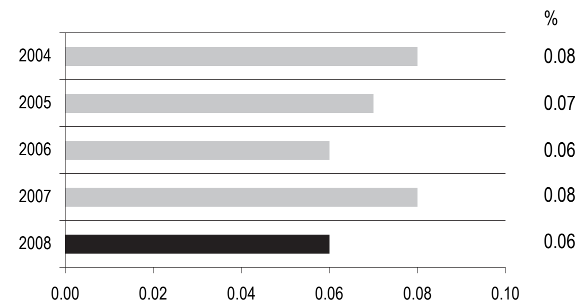
Despite the credit crisis and the volatility of the markets, the quality of investments remained good in 2008. Given the environment, however, the Company reduced the value of certain securities that were weakened by the current context by $19.9 million before taxes ($14.4 million after taxes), and decided to devalue the $104.1 million in non-bank asset-backed commercial paper (ABCP) it is exposed to by 14%, bringing the total devaluation of these securities to 29%. The devaluation of the non-bank ABCP totalled $15.0 million before taxes ($10.6 million after taxes) in 2008. (For more details, refer to the "Note Regarding Non-Bank ABCP" section below).

Nevertheless, the investment quality indices remained good in 2008. Net impaired investments totalled $8.8 million as at December 31, 2008 ($11.7 million as at December 31, 2007), which represents just 0.06% of total investments (0.08% as at December 31, 2007). The decrease in net impaired investments in 2008 is attributable to the sale of repossessed properties and the decrease in defaulted bonds.

Net Impaired Investments (Excluding Insured Loans)	(In millions of dollars) As at December 31				
	2008	2007	2006	2005	2004
Bonds	0.5	1.2	1.2	1.2	1.2
Mortgage loans	7.8	2.8	0.2	0.5	1.4
Repossessed properties	0.6	7.7	6.5	5.9	5.9
Total	**8.8**	**11.7**	**7.9**	**7.6**	**8.5**

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 good quality of its investments has put the Company in a good position to deal with the financial crisis given its low exposure to risky sectors. In addition to selling its interest in American International Group Inc. ("AIG"), the Company does not hold any investments in the U.S. subprime mortgage loans market or in monolines, and the value of its investments in securities guaranteed by mortgage loan companies and in asset-backed securities in the U.S. is practically nil.

NOTE REGARDING NON-BANK ABCP

In 2007, the Company announced that it was exposed to non-bank asset-backed commercial paper (ABCP) in the amount of $104.1 million, $90.1 million of which is directly held in the Company's general fund, and $14.0 million of which comes from its 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." It is classified as "held-for-trading" and is used to match the policy liabilities in the Individual Insurance sector.

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% to take into account market conditions, including the temporary absence of liquidity, a possible deterioration in the quality of the underlying assets, and the costs associated with setting up a restructuring plan for the non-bank ABCP.

On January 21, 2009, the ABCP restructuring took effect, and the old ABCP was exchanged for new floating rate interest-bearing notes having the same maturities as the underlying assets, in order to eliminate any refinancing risk. Three categories of notes were issued, according to the type of underlying assets: i) traditional assets, ii) synthetic assets and iii) ineligible assets.

A portion of the interest payable on these notes between August 13, 2007 and August 31, 2008 was paid at the time of restructuring, and additional interest payments are planned. At the time this report was written, it was not known how much interest would be paid, but it was known that investors would not receive the full amount of interest they would normally have been entitled to since the amounts accumulated in the various ABCP since August 13, 2007 will be used to cover the restructuring costs and to set up reserves for the issuance of the new notes.

The Company re-examined the value of the non-bank ABCP that it held at the end of 2008, and decided to post an additional 14% devaluation, which is the equivalent of $15.0 million ($10.6 million after taxes), bringing the total devaluation of its investment in ABCP to 29%.

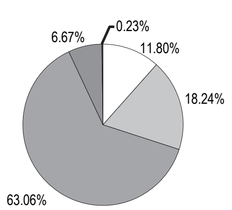
Estimating the value of the investment in non-bank ABCP is a complex process that involves the use of models and assumptions. Although the Company believes that its valuation technique is appropriate, there is still a great deal of uncertainty as to the fair value of the non-bank ABCP it is exposed to. It is possible that the definitive fair value will differ, maybe even considerably, from the current estimate. Depending on the size of the variation, it could have an impact on the Company's financial results.

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 quality of the bond portfolio, which totalled $7.9 billion as at December 31, 2008, continues to be very good. As at December 31, 2008, the portfolio had only one defaulted bond, representing less than 0.01% of the total portfolio (0.02% as at December 31, 2007). The proportion of bonds rated A or higher represented 93.10% of the portfolio at the end of 2008, compared to 94.03% at the end of 2007. As at December 31, 2008, bonds rated BB and lower represented just $18.1 million (0.23% of the portfolio), compared to $8.7 million as at December 31, 2007 (0.11% of the portfolio). This increase is primarily due to the BCE bond, which was downgraded in the wake of the purchase offer surrounding this company for several months.

Bonds by Credit Rating
As at December 31, 2008



In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company like Industrial Alliance. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market.

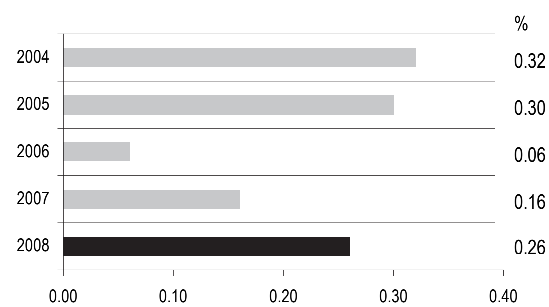
Bond Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2008	2007	2006	2005	2004
Book value of the portfolio ($Million)	7,942.2	8,127.2	7,189.4	6,619.6	6,074.5
Distribution by category of issuer					
Governments[1]	61.1	59.7	56.9	60.4	64.5
Municipalities	1.4	1.8	1.7	1.6	1.7
Corporations - Public issues	21.6	23.4	26.1	25.1	22.4
Corporations - Private issues	15.9	15.1	15.3	12.9	11.4
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.01	0.02	0.02	0.02	0.02

In 2008, the Company recorded a $19.9 million ($14.4 million after taxes) decrease in the value of certain securities that were weakened by the current economic context. The Company does not expect to incur any further devaluations for these investments. One of them, a $15.8 million bond in AIG (devalued by 40% in the third quarter of 2008) was sold in the fourth quarter.

MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio remained excellent in 2008 even though the delinquency rate increased slightly, from 0.16% as at December 31, 2007 to 0.26% as at December 31, 2008. This increase is primarily due to three mortgage loans that defaulted in U.S., totalling $7.2 million (US$5.8 million). The Company does not expect to sustain any significant losses on these loans. The loans pertain to multi-unit residential buildings, and are not related to the current subprime mortgage loan crisis in the U.S. In total, delinquent mortgage loans represent just $9.2 million of a $3.5 billion portfolio. The Company does not have any investments in the U.S. subprime mortgage loans market.

Mortgage Loan Delinquency Rate
As at December 31



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

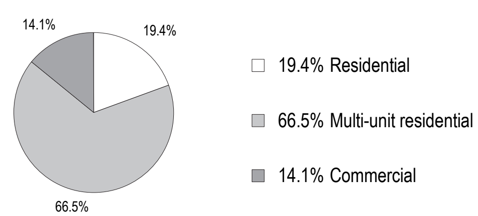
The delinquency rate figure includes both insured and uninsured loans. The statistics in the following table show that the proportion of delinquent loans that are insured was 20.7% as at December 31, 2008. This number is down from previous years.

Mortgage Loan Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2008	2007	2006	2005	2004
Book value of the portfolio ($Million)	3,508.1	2,920.2	2,457.2	2,420.8	2,491.8
Distribution by type of loan					
Insured loans	71.3	65.0	60.2	55.6	52.8
Conventional loans	28.7	35.0	39.8	44.4	47.2
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.08	0.10	0.09	0.50	0.50
Conventional loans	0.72	0.27	0.02	0.05	0.13
Total	0.26	0.16	0.06	0.30	0.32
Proportion of delinquent loans that are insured	20.7	41.0	88.0	93.0	81.0

Virtually all mortgage loans are secured by first mortgages. In addition, given the current economic environment, it is interesting to note that the proportion of insured loans has been increasing in the last few years, going from 52.8% in 2004 to 65.0% in 2007 and 71.3% in 2008.

As at December 31, 2008, the proportion of loans secured by single-family or multi-unit residential properties was 85.9% compared to 81.8% as at December 31, 2007.

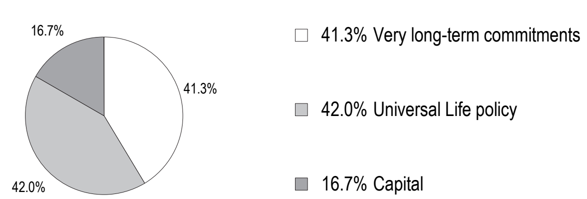
Mortgage Loans by Type of Property
As at December 31, 2008



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.

Distribution of Stock Portfolio by Type of Matching
As at December 31, 2008



The management strategy for the stock portfolio aims to optimize the 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, 2008, investments in equity securities amounted to $1.3 billion, or 9.3% of the Company's total investments, compared to $1.8 billion or 12.4% a year earlier. This decrease can largely be explained by the stock market downturn in 2008. As of January 1, 2007, most of the equity securities held by the Company are accounted for at their market value, which was not the case in previous years.

Note that the proportion of "Common shares" in the equity securities portfolio increased during the year, while the proportion of "Investment fund units and other" decreased (refer to table below). This shift is explained by the fact that investments matched to the savings portion of Universal Life policies were transferred from investment fund units to common shares. This shift had no impact on the Company's risk profile.

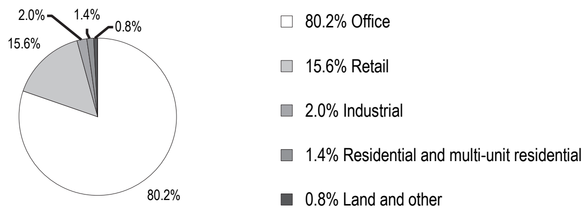
Stock Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2008	2007	2006	2005	2004
Book value of the portfolio ($Million)	1,340.2	1,764.2	1,453.5	1,162.4	1,081.1
Distribution by category of stock					
Common shares	18.8	5.7	5.0	4.9	4.1
Preferred shares	10.3	8.1	10.9	12.8	21.6
Market indices	26.0	25.6	23.6	18.2	12.0
Investment fund units and other	44.9	60.6	60.5	64.1	62.3
Total	100.0	100.0	100.0	100.0	100.0

REAL ESTATE PORTFOLIO

As at December 31, 2008, the book value of the real estate portfolio totalled $629.5 million (including repossessed properties), which represents an increase of 31% compared to the end of 2007. This increase can primarily be explained by the purchase of a few properties during the year. Real estate investments represented 4.4% of total investments as at December 31, 2008; according to Company policy, the target real estate portfolio should represent approximately 5% of the Company's total investments. The accounting method for real estate investments was not affected by the introduction of the new accounting standards at the beginning of 2007, but will be affected when the future international accounting standards are adopted.

The occupancy rate of the Company's real estate portfolio decreased slightly during the year following the acquisition of a new property that is currently in the process of being leased. At 94.0% (compared to 95.5% as at December 31, 2007), the Company's occupancy rate as at December 31, 2008 remains high and 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, 2008



The market value/book value ratio of the real estate portfolio remained stable in 2008 (129.4% as at December 31, 2008 compared to 129.5% as at December 31, 2007), after increasing consistently over the last few years. The Company reappraises its buildings every three years. In 2008, this exercise did not lead to any significant changes in the estimated market values.

Real Estate Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2008	2007	2006	2005	2004
Book value of the portfolio ($Million)	629.5	481.6	451.8	446.3	444.5
Market value/book value of the portfolio	129.4	129.5	117.4	114.2	108.6
Occupancy rate	94.0	95.5	95.5	96.8	95.2

OTHER INVESTED ASSETS

The "Other invested assets" category (6.8% 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, 2008, 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.

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, 2008, the spread between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.01 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 optimizing the return of a high-quality investment portfolio.

Liabilities According to Type of Matching	As at December 31, 2008	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,365	52%
Universal Life policy accounts	1,058	9%
Subtotal	7,423	61%
Non-immunized liabilities	4,827	39%
Total	**12,250**	**100%**

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 177% as at December 31, 2008. 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.

Given the current liquidity challenges prevailing in the financial markets, the Company carried out additional simulations to take into account a lower level of liquidity for certain asset categories that are normally considered to be very liquid. Under this even more challenging scenario, the liquidity ratio was 130% as at December 31, 2008, still well above the 100% minimum.

Given the quality of its investment portfolio, and in spite of the current volatility of the financial markets, the Company does not expect its level of liquidity to become an area of concern in the near future. Due to the very nature of its operations and its asset/liability matching policy, the Company is regularly in a positive cash flow position. This means that fund entries are regularly higher than disbursements.

DERIVATIVE FINANCIAL INSTRUMENTS (SWAPS)

The Company holds swap contracts that are calculated according to a notional amount of $741.1million as at December 31, 2008 ($663.2 million as at December 31, 2007). 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 current credit risk, which corresponds to the amounts payable to the Company by the various counterparties, was $16.6 million as at December 31, 2008 ($14.4 million as at December 31, 2007). 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 $28.7 million as at December 31, 2008 ($30.8 million as at December 31, 2007).

LINES OF CREDIT

As at December 31, 2008, the Company had operating lines of credit totalling $100.2 million. As at December 31, 2008, an amount of $4.9 million was used from these lines of credit. 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)

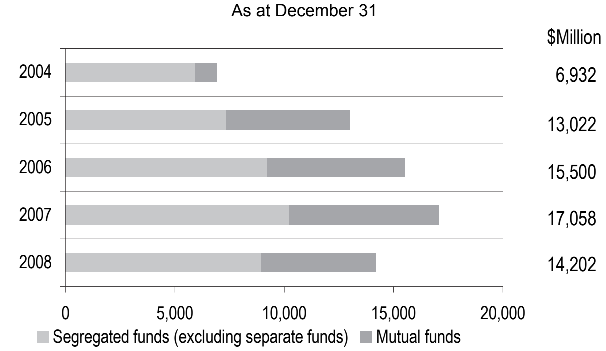
INVESTMENT FUND ASSETS

As was the case industry-wide, the Industrial Alliance group's investment fund assets were impacted by the sharp drop in the stock markets in 2008, particularly during the last quarter of the year. Hence, assets under management for the Industrial Alliance group totalled $14.2 billion as at December 31, 2008 ($8.9 billion in segregated funds and $5.3 billion in mutual funds), compared to $17.1 billion at the end of 2007. This represents a decrease of 17%.

In spite of this decrease, Industrial Alliance continued to hold an enviable position in the investment fund industry, ranking among the top twenty investment fund managers (mutual funds and segregated funds combined) in the retail market in Canada in 2008.

The Company's wide range of funds, their good relative performance in the last year and the size of the distribution networks should help get growth back on track in Industrial Alliance's Wealth Management sector as soon as the markets are more stable.

Segregated Fund and Mutual Fund Assets
As at December 31



RANGE OF FUNDS

Industrial Alliance offers a wide variety of segregated funds designed for its individual and group clients. As at December 31, 2008, the main family of funds offered by Individual Wealth Management had 49 funds available for sale, while the main family offered by Group Pensions had 59. 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. Very few changes were made to our Group Pensions family of funds in 2008, with the exception of a few manager changes for the existing funds. A number of changes were made at the beginning of 2009, however, with 7 new funds being launched, including a few that are managed by very reputable management firms in the group pension plan market.

In the Individual Wealth Management sector, however, a number of changes were introduced in 2008, with 10 new funds being launched and a few improvements being made to the existing offer. In addition to offering more options for clients, the improvements enabled the Company to better harmonize the segregated fund offer with IA Clarington's mutual fund offer, creating useful synergies for the entire group.

The consolidation process undertaken over the past few years continued in 2008, particularly in the Individual Wealth Management sector, where two segregated funds that were no longer offered for sale were closed, and their assets transferred to other funds.

In terms of mutual funds, IA Clarington launched 8 new funds in 2008, bringing its fund offering up to 57, and made two manager changes. Of the 8 new funds that were launched, 7 are designed to augment the offer in the "corporate class funds" category. Funds in this category differ from the traditional trust-structured funds by giving investors the option to rebalance their portfolio within the family of funds that is part of the same structure without having to record taxable disposition gains.

Taking into account all Industrial Alliance group investment funds (segregated funds and mutual funds combined), including those that are still active but are no longer being sold, the group's team of in-house managers was responsible for managing 81 funds as at December 31, 2008, representing 72% of funds under management. Note that two international equity specialists joined the in-house management team in 2008, thereby expanding the team's field of expertise to include mandates other than those related to Canadian and U.S. equities.

The external managers associated with the Industrial Alliance group were responsible for managing a total of 88 funds, representing 28% of investment fund assets under management at the end of 2008. The Industrial Alliance group has strategic alliances with over 40 external managers.

Investment Funds Offered by the Industrial Alliance Group As at December 31, 2008	Number of funds	Assets[1] ($Million)	Distribution of assets	Proportion of assets managed in-house
Segregated funds	112	8,555.4	57.3%	75.8%
Mutual funds	57	6,376.6	42.7%	66.7%
Total	**169**	**14,932.0**	**100.0%**	**71.9%**

INVESTMENT FUND PERFORMANCE

Although the particularly challenging financial markets in 2008 contributed to producing negative nominal rates of return for a large part of our funds, the table below shows that, on a relative basis, all of our investment funds performed well in 2008 and even better than in 2007. Hence, 64% of our fund assets generated above-median returns over a one-year period compared to 42% the year before. This good performance can also be seen over longer periods, since the percentage of assets above the median is higher everywhere compared to the year before. For example, the percentage of assets above the median over a three-year, five-year and ten-year period, as at December 31, 2008, was 74%, 61% and 85% respectively.

Funds managed by external firms and in-house managers also offered a good balance of returns in 2008, with 63% and 66% of their assets respectively being above the median over a one-year period.

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

Gross Relative Performance of Investment Funds – Segregated Funds and Mutual Funds	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	29	46	34	37
2nd quartile	35	28	27	48
Above the median - As at December 31, 2008	**64**	**74**	**61**	**85**
Above the median - As at December 31, 2007	42	45	50	84

In the segregated funds category, the following table indicates that the relative performance of our funds improved significantly in 2008 compared to the previous year. Over a one-year period, 69% of fund assets were above the median, which contributed to improved performance over the longer periods (over three-year, five-year and ten-year periods, 77%, 80% and 97% of fund assets respectively were above the median).

Note that the relative performance of many of our in-house managed funds was above the median in 2008, when the defensive investment strategies adopted somewhat prematurely in 2007 ended up being beneficial during the stock market turmoil in 2008.

Gross Relative Performance of Segregated Funds	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	29	39	47	37
2nd quartile	40	38	33	60
Above the median - As at December 31, 2008	**69**	**77**	**80**	**97**
Above the median - As at December 31, 2007	35	68	74	94

The relative performance of mutual funds was good over one-year and three-year periods (57% and 69% of assets respectively were above the median for these periods). With respect to the longer periods, it is important to keep in mind that our in-house team only began managing mutual funds relatively recently (since 2004 for the mutual funds acquired from BLC-Edmond de Rothschild, and since 2006 for the ones from IA Clarington). A number of external managers were replaced by our in-house managers in the last few years, which should lead to a gradual improvement in relative performance over periods of longer than three years.

Gross Relative Performance of Mutual Funds	(In percent)			
	1 year	3 years	5 years	10 years
1st quartile	29	56	16	37
2nd quartile	28	13	17	25
Above the median - As at December 31, 2008	**57**	**69**	**33**	**62**
Above the median - As at December 31, 2007	50	16	21	68

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

RISK MANAGEMENT

The Risk Management section of the Management's Discussion and Analysis contains certain information required under chapter 3862 "Financial Instruments – Disclosure" of the *Canadian Institute of Chartered Accountants (CICA) Handbook* regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2008, given that the chapter permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis.

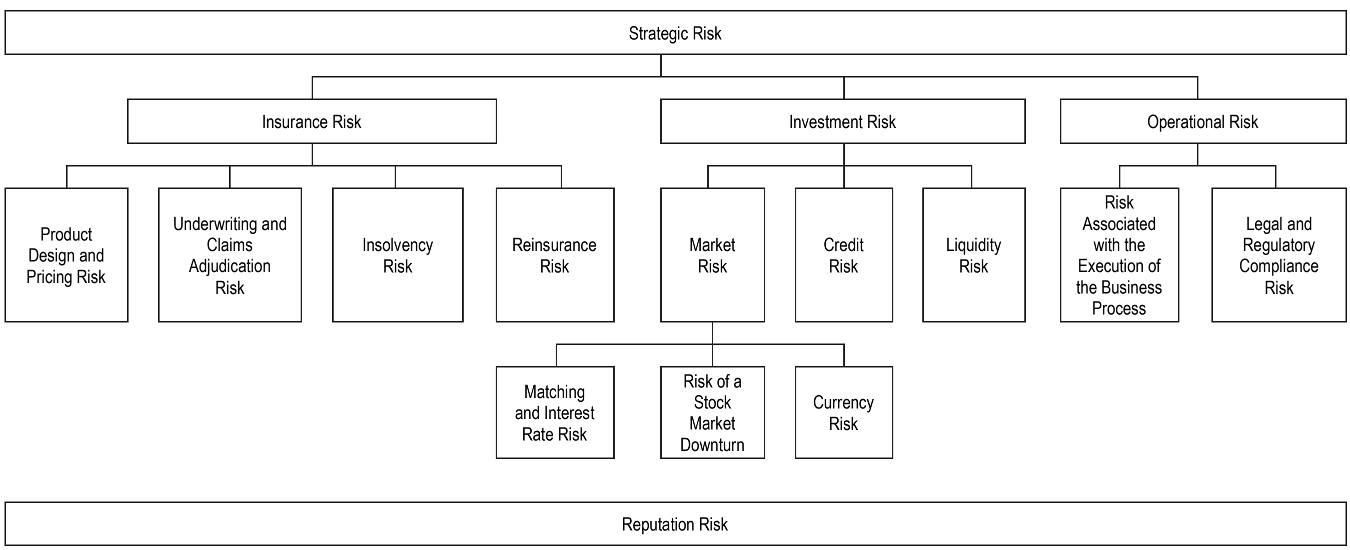
In the course of its operations, Industrial Alliance assumes a variety of risks that it needs to manage as effectively as possible in order to support long-term profitability and shareholder value growth, while continuing to meet the needs of policyholders and comply with regulatory requirements. The Company demonstrates prudence in implementing its strategies and business decisions in order to preserve its reputation and the Company's value.

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

Risk management is comprised of a set of goals, policies and procedures that are approved by the Board of Directors based on recommendations submitted by the Investment Committee and the Audit Committee, and that are followed and enforced by the managers in charge of the various business lines. Effective risk management rests on establishing, 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.

An ongoing risk monitoring and control process is designed to provide the Board with reasonable assurance that the appropriate resources and procedures are in place to monitor and control the risks, and that all actions taken by managers comply with in-house policies and with the standards of sound business and financial practices adopted by the Company. This monitoring process is carried out through annual reviews of the main risk management policies and practices, an evaluation of the effectiveness of the disclosure controls and procedures, and reports written by the Internal Audit department and 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.

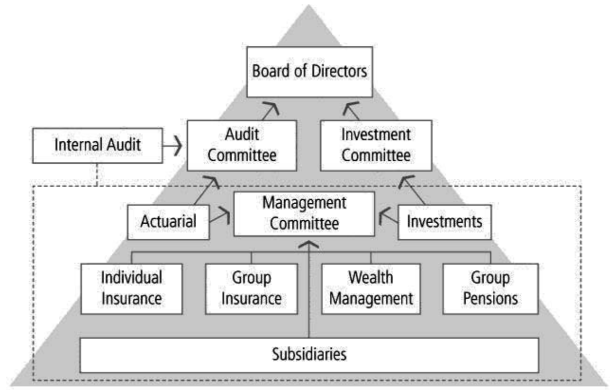
The Audit Committee oversees the capital management and internal control policies, as well as the product design and pricing policy, the underwriting policy, and the commitment policy. The Investment Committee oversees the interest rate policy, the credit risk management policy, the real estate appraisal policy, the foreign currency risk policy and the liquidity risk policy. These committees are responsible to the Board of Directors for monitoring these policies. They recommend their approval by the Board of Directors, and confirm that all actions taken are in line with these policies. To do this, both committees regularly review the different activities they oversee and report on the results of their review to the Board of Directors.

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 Management Committee, which is made up of the President and Chief Executive Officer and the managers of the various business lines and of the Actuarial and Investment sectors, plays a key role in ensuring good communication among the various managers and in promoting a general culture of sound risk management in all the Company's activities.

This Committee is responsible for the application of the policies and procedures. 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.

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 an $88 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 $35 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 $35 million, up to a maximum of $140 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 provide information to the regulatory authorities on a regular basis 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 help management assess 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 determine 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 2007 to 2012 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.

If the Company should deem it necessary to strengthen its solvency ratio, it could consider increasing its capital by issuing shares or debt instruments, or decreasing the required capital by reinsuring certain risks.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance agreements 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 agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers.

To reduce the credit risk related to reinsurance, the reinsurance agreements are with well established, well rated reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance agreements 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.

The Company's Sensitivity to Certain Insurance 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 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	88
Lapse rate[1]	96
Units costs	24

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 three main categories: market risk, credit risk and liquidity risk.

Market Risk

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

Matching and Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits. 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.

[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.

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, 2008 In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,365	52%
Universal Life policy accounts	1,058	9%
Subtotal	7,423	61%
Non-immunized liabilities	4,827	39%
Total	**12,250**	**100%**

1 › Liabilities Immunized on a Cash Flow Basis

This category represents 52% 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 9% 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 account, 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 the stock markets applied to the assets would be negligible, since an equivalent change would be applied to the corresponding liabilities.

3 › Non-Immunized Liabilities

This category corresponds to 39% of the Company's policy liabilities and primarily encompasses individual insurance products whose liabilities 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 optimize the long-term 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 an optimal 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 liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the increase in policy liabilities this kind of decrease could generate. The impact on policy liabilities of an interest rate decrease is determined as follows:

› Firstly, the cash flows reinvested during the current year would generate lower investment income for the total duration of the investments. As a result, the initial reinvestment rate (IRR) used to calculate the policy liabilities might have to be reduced to take into account the existing rates of return on the valuation date, considering the target asset mix. As at December 31, 2008, the Company estimates that a 10 basis point decrease in the IRR would lead to an increase in policy liabilities of approximately $24 million after taxes.

› Secondly, for this liability category (whose commitments extend over very long periods), the Company uses an ultimate reinvestment rate (URR) assumption for cash flows maturing in more than twenty years. Under Canadian actuarial standards, the URR applicable to these cash flows must not exceed the lesser of 5% or an interest rate based on a moving average of Government of Canada long-term bond rates over the last ten years. In the event of a widespread decrease in interest rates, the URR could drop and the Company might have to recalculate the policy liabilities assuming this loss, which would result in an increase in liabilities. As at December 31, 2008, the Company estimates that a 10 basis point decrease in the URR would lead to a strengthening of the policy liabilities of approximately $35 million after taxes.

These estimates do not take into account any compensatory measures to alleviate the impact of an interest rate decrease. 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.

The Company estimates that a 10 basis point increase in the IRR and the URR would have a similar impact to a 10 basis point decrease, but in the opposite direction.

Moreover, a 10 basis point increase in the interest rates would lead to a $1.5 million decrease in the comprehensive income.

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 Company's results. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which are calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; and 3) the income on capital generated by the assets backing the Company's capital.

A stock market downturn can also impact the Company's net income if a strengthening of the provisions for future policy benefits is necessary with regard to: 1) the charge resulting from the capital guarantee offered on segregated funds; and 2) the return on assets matched to the long-term liabilities in the Company's general fund.

As at December 31, 2008, the Company estimates that if the stock markets drop 10% at the very beginning of 2009, to subsequently recover a portion of this loss during the year, net income to common shareholders for 2009 would be about $17 million lower than expected for its regular operations.

The Company also estimates that a 10% drop in the stock markets compared to December 31, 2008 would not produce a charge with respect to the capital guarantee offered on segregated funds, and that it should not have an impact on net income for stocks matched to the Company's long-term liabilities.

This kind of decrease would lead to a $5 million decrease in comprehensive income.

On the other hand, a sudden 10% increase in the stock markets at the beginning of 2009, followed by market growth in line with expectations, would have a similar impact to a 10% decrease, but in the opposite direction.

In addition to the impact on the Company's income, a stock market downturn may also have an effect on the Company's solvency ratio. As at December 31, 2008, the Company's solvency ratio was 199%, and the S&P/TSX index of the Toronto Stock Exchange was at 8,988 points. The Company estimates that if the S&P/TSX index had been at 7,400 points as at December 31, 2008, the solvency ratio would have been around 175%, and if it had been at 5,700 points, it would have been around 150%.

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 equity securities. The target asset composition in the form of equity securities is designed to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

The Company's investment policy also stipulates that derivative financial instruments may be used in hedge accounting to minimize the adverse impact that stock market fluctuations could have on its results.

The use of derivative financial instruments, however, must comply with the risk tolerance limits and the prudential requirements set out in the investment policy, including a minimum credit rating for the counterparty financial institution.

The Company used hedge accounting in 2008. For more information, refer to note 10 of the Company's consolidated financial statements as at December 31, 2008.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company assumes from losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to currency risk. To this end, liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. As at December 31, 2008, the Company was not exposed to any material foreign currency risk.

The Company's Sensitivity to Certain Market Risks

The following table provides an overview of the impact on the net income to common shareholders of certain investment risks.

Decrease in Net Income to Common Shareholders Resulting from Unfavourable Deviations from the Assumptions Risk	In millions of dollars
Investment risk	
10 basis point decrease in the initial reinvestment rate (IRR)	24
10 basis point decrease in the ultimate reinvestment rate (URR)	35
Sudden 10% drop in the stock markets[1]	17

Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments to the Company. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgage loans and private placements, and exposure to different investment portfolios, derivative transactions and reinsurance activities.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk. More information about concentration risk is presented in note 10 of the consolidated financial statements as at December 31, 2008.

[1] Assuming a sudden 10% drop in the stock markets at the beginning of 2009, to subsequently recover a portion of this loss during the year.

The Company's investment policies aim to mitigate the concentration risk by promoting the sound diversification of investments, 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.

The Company also has a specific credit policy for private placements and mortgage loans that stipulates the assignment of internal credit ratings for investments that do not have a credit rating assigned by a recognized rating agency. The policy and procedures in place establish certain selection criteria and define the credit authorization limits based on the scope and degree of risk. In order to manage the credit risk associated with these investments, the Company may require collateral, particularly for real estate, residential or commercial mortgages.

The Company uses derivative products under its investment policy, primarily swaps and futures contracts. 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.

Credit risk associated with derivative financial instruments is managed according to the same credit approval standards, risk tolerance limits and monitoring requirements as those that apply to other types of investments. As at December 31, 2008, the Company's credit risk regarding derivative financial instruments was linked to financial institutions whose lowest credit rating was AA low.

In terms of reinsurance activities, the credit risk associated with the choice of reinsurers and the approach used to reduce this risk were described earlier in the Reinsurance Risk section.

Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

This risk is managed through strict matching of assets with financial liabilities, 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 securities. One of the tools used to monitor the liquidity risk is a report sent by the Investment department's managers once a month to the Investment Committee, which indicates the liquidity adequacy according to different adverse scenarios.

The Company maintains a high level of liquidity. As at December 31, 2008, the value of the marketable securities included in the Company's investment portfolio represented 177% of the amount that would be required under an extreme adverse scenario where the Company would have to redeem all of its redeemable contracts.

Under the same extreme scenario, but this time limiting the source of liquidity to short-term securities and public bonds, the Company's liquidity ratio was 130% at the end of 2008. These ratios are well above the 100% minimum stipulated in the investment policy for these scenarios.

Despite the especially difficult financial market environment at the end of 2008, the Company does not expect its level of liquidity to be inadequate in the near future.

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 adversely affect its operations into four main categories: risk associated with the non-availability of essential components (this risk is controlled by the implementation of technology solutions to ensure the availability of the components and by the development 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 the use of proven data management solutions); 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.

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.

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 addition, the results of a company-wide survey conducted in 2007 led to the adoption of additional measures in 2008 to further improve the quality of life of its 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 close 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 business line 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 business line are examined by Internal Audit, and a final report is tabled each year to the regulatory authorities in the prescribed format.

The Company also maintains an ongoing control evaluation program which allows it to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). Under this program, the managers of each business line of the parent company and its subsidiaries are asked to evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A consolidated report is then prepared and submitted to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

ACCOUNTING MATTERS AND ADDITIONAL INFORMATION

FOURTH QUARTER 2008

In the fourth quarter of 2008, Industrial Alliance recorded a net loss to common shareholders of $110.2 million ($1.37 per diluted common share) compared to net income to common shareholders of $63.1 million in the fourth quarter of 2007 ($0.78 per diluted common share).

The loss recorded in the fourth quarter of 2008 results primarily from the following factors:

- The sharp drop in the stock markets, which reduced the Company's expected profit by about $25.5 million after taxes ($0.32 per common share). The S&P/TSX index of the Toronto Stock Exchange dropped 24% in the last quarter of 2008 and 35% for the year overall. The stock market downturn reduced the fees collected on the segregated funds and mutual funds managed by the Company, decreased the discounted future revenues on Universal Life policy funds and reduced the income on capital.

- The credit crisis, which reduced the Company's profit by $12.8 million after taxes ($0.16 per common share). The Company devalued the non-bank sponsored asset-backed commercial paper (ABCP) to which it is exposed by an additional 14% (impact on profit of $10.6 million after taxes). This devaluation brings the Company's total devaluation of these securities to 29% (refer to the "Note Regarding Non-Bank ABCP" in the *Investments* section). The Company also reduced the value of a few securities that were weakened by the current economic context (impact on income of $2.2 million after taxes).

- A strengthening of the provisions for future policy benefits by $138.2 million after taxes ($1.71 per common share) (refer to the *Profitability* section of this report for more details).

- Experience losses of $9.6 million after taxes ($0.12 per common share), resulting primarily from unfavourable mortality and disability experience in the Group Insurance and Group Pensions sectors.

The Company recorded gains of $7.8 million after taxes resulting from a favourable change in the spread between the market value of debt instruments and the underlying assets ($0.10 per common share).

The fourth quarter loss enabled the Company to recover tax expenses posted in previous quarters, reducing the tax expense for 2008 to $16.8 million ($63.4 million in 2007). This represents an effective tax rate of 17.8%. This rate is lower than the one usually applicable to the Company (around 28%), since the proportion of income and expenses that qualify as non-taxable items was higher in 2008 than in 2007. The Company indicated that it anticipates a 1 to 2 percentage point drop in the effective tax rate, which should be around 26% to 27% in 2009. This decrease is primarily due to the reduction in corporate tax rates announced by the governments in the last few years.

The board of directors announced the payment of a quarterly dividend of $0.245 per common share. The dividend is payable in cash on March 16, 2009, to the common shareholders of record as at February 24, 2009. The Company also announced that it expects to maintain the quarterly dividend to common shareholders at its current level for 2009, namely $0.245 per common share.

After several years of strong business growth, the gloomy economic environment slowed consumer and investor enthusiasm in the retail markets (primarily due to the stock market downturn), but did not have a significant impact in the group markets, where some sectors even had a record year. Nevertheless, strong premium growth in the group sectors was not enough to erase the decline in the retail sectors, such that premiums and deposits totalled $1,221.1 million in the fourth quarter, down 7% compared to the same period in 2007.

Highlights	(In millions of dollars, unless otherwise indicated)			
	Fourth quarter		Year	
	2008	2007	2008	2007
Net income to common shareholders	(110.2)	63.1	66.1	242.2
Earnings per common share (diluted)	($1.37)	$0.78	$0.82	$2.99
Return on common shareholders' equity	(25.8%)	15.2%	4.0%	15.1%
Premiums and deposits	1,221.1	1,317.6	5,542.9	5,826.2
	December 31, 2008	December 31, 2007	December 31, 2006	
Assets under management and under administration	49,472.2	50,411.6	46,904.1	

QUARTERLY RESULTS

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

Premiums (which include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds) 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.

In 2008, however, premiums were more consistent from one quarter to another, and were generally higher than in 2007. This is due to the excellent sales results in the Group Insurance and Group Pensions sectors, particularly in the last two quarters of 2008. The contribution of these two sectors more than offset the lower premiums in the Individual Wealth Management sector, which was impacted by the stock market downturn. 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 2008 compared to 2007 also reflects normal business growth resulting from good persistency of in-force contracts.

Since the new accounting standards concerning financial instruments took effect at the beginning of 2007, the market value adjustments of assets matched to policy liabilities have had 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.

Net investment income was negative in the last two quarters of 2008 ($393.7 million in the third quarter and $43.9 million in the fourth quarter), compared to positive net investment income in the third and fourth quarters of 2007 ($170.9 million and $317.5 million respectively). This is essentially due to the decrease in the market value of assets held-for-trading during the last two quarters of 2008. These assets dropped in value by $495.0 million in the third quarter and by $120.5 million in the fourth quarter. These decreases are primarily explained by the stock market downturn, which led to a decrease in the value of the stock portfolio, and by the widening of interest rate spreads, which led to a decrease in the market value of the bonds. These decreases in value were largely offset by corresponding variations in the provisions for future policy benefits.

It should be noted that the variation in the fair value of the assets held-for-trading in the fourth quarter of 2008 includes a $15.0 million (14%) permanent devaluation of the fair value of the non-bank ABCP posted in the last quarter of 2008. This devaluation had a negative impact on the Company's profit, and is in addition to the 15% devaluation recorded in the third quarter of 2007, bringing the total devaluation of these securities to 29%. For more details, refer to the "Note Regarding Non-Bank ABCP" in the *Investments* section.

It should also be noted that net investment income includes a permanent decrease in value of $2.2 million after taxes in the fourth quarter and $8.6 million after taxes in the third quarter, as well as provisions for credit losses of $3.6 million after taxes in the second quarter, which were posted for a bond. These items also had a negative impact on the Company's profit.

Fees and other revenues represent fees earned from the management of the segregated funds and mutual funds, administrative services only (ASO) income, and fee income from the brokerage firms. The funds managed by the Company decreased in value in 2008, particularly in the last quarter of 2008, as the Toronto Stock Exchange index was down 24%, having a downward impact on fees collected on the funds. For all of 2008, fees and other revenues were still up 2% over 2007 due to increased income from ASO contracts in the Group Insurance Employee Plans sector, and the contribution of the newly acquired companies, namely the brokerage firms affiliated with Excellence.

Quarterly Results	2008				2007			
(In millions of dollars, unless otherwise indicated)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenues								
Premiums	1,006.6	1,114.1	1,142.4	1,018.6	920.5	900.7	1,030.7	1,177.4
Net investment income	(43.9)	(393.7)	72.5	177.1	317.5	170.9	(79.9)	170.3
Fees and other revenues	81.2	97.7	99.0	93.5	94.6	90.8	91.7	86.4
Total	1,043.9	818.1	1,313.9	1,289.2	1,332.6	1,162.4	1,042.5	1,434.1
Income before income taxes	(156.7)	74.1	90.7	83.5	50.2	87.4	90.6	84.4
Income taxes	48.0	(20.5)	(25.0)	(19.3)	12.7	(25.6)	(26.1)	(24.4)
Net profit	(108.7)	53.6	65.7	64.2	62.9	61.8	64.5	60.0
Less: net income (loss) to participating policyholders	0.0	1.0	0.8	1.1	(1.7)	1.3	0.9	0.7
Net income to shareholders	(108.7)	52.6	64.9	63.1	64.6	60.5	63.6	59.3
Less: dividends to preferred shareholders	1.5	1.4	1.5	1.4	1.5	1.4	1.5	1.4
Net income to common shareholders	**(110.2)**	**51.2**	**63.4**	**61.7**	**63.1**	**59.1**	**62.1**	**57.9**
Earnings per common share								
Basic	($1.37)	$0.64	$0.79	$0.77	$0.79	$0.74	$0.78	$0.72
Diluted	($1.37)	$0.63	$0.78	$0.76	$0.78	$0.73	$0.77	$0.72
Premiums invested in segregated funds	315.1	440.2	490.0	416.3	318.1	282.2	408.3	557.0
Change in provisions for future policy benefits	229.3	(351.2)	56.0	119.1	303.8	166.4	(87.7)	123.9
Total general fund assets	15,415.2	15,269.5	15,467.9	15,331.6	15,104.3	14,778.8	14,565.8	14,623.0
Segregated fund net assets	8,924.2	9,830.0	10,651.8	10,153.8	10,210.9	10,170.1	10,051.6	9,708.9

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.

The cash flows related to the operating activities did not vary much from 2007 (increase of $1.5 million). The main differences are from items that did not have an impact on cash or cash equivalents, and these differences had a mutual offsetting effect. Thus, the expense related to the increase in the provisions for future policy benefits was down from 2007, but this decrease was largely offset by the change in realized and unrealized gains and losses.

The investment activities were $268.1 million higher than in 2007, which reflects the normal course of operations during the year.

The cash flows related to financing activities in 2008 primarily reflect the August refinancing of a $12 million debenture (this debenture was increased to $100 million) and the issuance of $100 million in preferred shares in November. Also of note with respect to the financing operations carried out in 2008 is the payment of $75.5 million in dividends to common shareholders ($60.9 million in 2007), the buy-back of $10.4 million in common shares ($16.7 million in 2007) and the payment of $5.8 million to preferred shareholders ($5.8 million in 2007).

Cash Flows	(In millions of dollars) 2008	2007	2006
Cash flows related to the following activities:			
Operating	676.3	674.8	641.1
Investment	(877.2)	(609.1)	(526.6)
Financing	93.0	(71.0)	(48.4)
Gains (losses) resulting from the currency translation of cash and cash equivalents	4.6	(4.7)	--
Increase (decrease) in cash and cash equivalents	(103.3)	(10.0)	66.1
Cash and cash equivalents at the beginning of the year	361.8	371.8	305.7
Cash and cash equivalents at the end of the year	**258.5**	**361.8**	**371.8**

RELATED PARTY TRANSACTIONS

Current Company policy does not allow for loans to be granted to the Company's managers, except for mortgage loans in the normal course of business. However, the Company did grant loans to managers when the Company demutualized in 2000. As at December 31, 2008, the balance of these loans totalled $0.8 million ($1.2 million as at December 31, 2007).

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 28 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 specific characteristics associated with each type of entity 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 environment. Actual results could differ from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgments about events 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. 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 claims experience, 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 2008, reinsurance ceded reduced the policy liabilities by $293.4 million ($217.9 million in 2007). Overall, the Company's mortality experience in 2008 was favourable in comparison with its assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the *Risk Management* section of this report.

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 2008 was not favourable in comparison with its 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, 2008 results were not favourable in comparison with the Company's assumptions**.** The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the *Risk Management* section of this report.

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, 2008 results were in line with the Company's assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the *Risk Management* section of this report.

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 2008, the losses on mortgages and defaults on bonds were higher than those projected in the Company's assumptions.

A decrease in interest rates or a stock market downturn can have a negative impact on the Company's net income. The sensitivity of the Company's net income to an unfavourable variance in interest rates or the stock markets compared to the assumptions is described in the *Risk Management* section of this report.

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.

ACCOUNTING STANDARDS AND POLICIES

Changes to Accounting Policies in 2008

On January 1, 2008, the Company adopted three new accounting standards: Section 1535, *Capital Disclosure*, Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation.*

Capital Disclosure – Section 1535 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 or not the Company has complied with the capital requirements and the consequences of non-compliance with such capital requirements.

Financial Instruments – Disclosure* and *Financial Instruments – Presentation – Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing the disclosure requirements. Sections 3862 and 3863 increase the emphasis on disclosure, enabling users of the financial statements to evaluate the nature and extent of the risks arising from the financial instruments to which the Company is exposed and how the Company manages those risks.

Reclassification of Financial Instruments – In October 2008, the Canadian Institute of Chartered Accountants (CICA) amended the following sections: 3855, *Financial Instruments – Recognition and Measurement* and 3862, *Financial Instruments – Disclosure.* Under certain circumstances, these amendments authorize the reclassification of financial assets from the "held-for-trading" category to the "available-for-sale" or "loans and receivables" category. Financial assets that were classified as "held-for-trading," using the fair value option, cannot be reclassified.

Future Changes

Goodwill and Intangible Assets – In January 2008, the CICA Handbook published Section 3064, *Goodwill and Intangible Assets,* which specifies that costs can only be reported when they are associated with an item that corresponds to the definition of an asset. As a result, start-up costs must be expensed as they are incurred. The application of this section will take effect on January 1, 2009 for the Company, and should not have a material impact on the Company's results.

Conversion to International Financial Reporting Standards – The CICA Accounting Standards Board confirmed its intention to replace Canadian generally accepted accounting principles (GAAP) with International Financial Reporting Standards (IFRS). The CICA has published an exposure draft proposing the adoption of IFRS for the accounting and presentation of financial information of publicly accountable enterprises. These new standards will take effect for years beginning on or after January 1, 2011.

The purpose of this change is to move towards a single set of accounting standards that will be used worldwide, in order to facilitate and improve the global movement of capital and to improve the quality and transparency of financial reporting.

As of January 1, 2011, the Company will have to prepare its financial statements in accordance with IFRS. In view of the transition to these new accounting standards, the Company has set up a steering committee that is responsible for the project. A conversion plan has been developed, which involves the entire organization and includes three phases: 1) identification of the risks; 2) implementation of the new standards, and 3) conversion.

These phases are designed to: identify the major differences between Canadian standards and IFRS; determine the most significant implementation and rollout risks; develop a plan of operation during the transition period; document the accounting policies that will be adopted; modify the information systems; define how and in what format the financial and other information required by the shareholders and financial analysts will be disclosed and presented; train staff members; and, in 2010, reconcile the financial statements prepared using Canadian GAAP with those prepared using IFRS.

Even though Canadian GAAP is somewhat similar to IFRS, there are some differences that could significantly impact the Company's processes and financial results.

In 2008, efforts focused primarily on identifying the major differences between the Canadian standards and IFRS in order to determine which of the new standards will have the greatest impact on the Company's financial statements and which will be more complicated to apply.

After this first phase, work began on the day-to-day application of the new standards and determining the changes required to the information systems. The impact of the new standards on the accounting and database systems, and on certain administrative systems like the insurance policy management systems, is considerable.

Work is also under way to inventory all the repercussions that the new standards will have on the Company's financial statements, and potentially, its operations.

Over the next few periods, the Company will continue to assess the impact of the conversion to IFRS, estimate the financial repercussions, make the necessary changes and reconcile the opening balances.

The Company also set up a major training program for its staff, who have taken a number of training courses both in-house and outside the Company. Several staff members are also taking part in the different committees sponsored by joint action organizations and regulatory bodies in the insurance sector.

The IFRS conversion is a major initiative for Industrial Alliance, and as a result, all the necessary resources are being allocated to ensure the project's smooth implementation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is compiled and reported in a timely fashion to senior management, in particular the President and Chief Executive Officer and the Senior Vice-President and Chief Actuary (acting as Chief Financial Officer), in order that appropriate decisions may be made with respect to disclosure. In addition, these controls and procedures are designed to ensure that the information is gathered, recorded, processed, condensed and presented within the periods prescribed by the Canadian Securities Act.

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, 2008, 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 that the financial information is reliable and that the financial statements have been prepared for reporting purposes in accordance with Canadian generally accepted accounting principles (GAAP).

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over the Company's financial reporting as defined in Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings). As at December 31, 2008, they evaluated the effectiveness of the internal control over financial reporting according to the framework and criteria established in the *Internal Control – Integrated Framework* report published by the Treadway Commission's *Committee of Sponsoring Organizations.* Following this evaluation, they concluded that the internal control over financial reporting was effective. During the year, no changes materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting.

Exclusion

The operations of the following companies acquired in 2008 were excluded from the scope of developing reporting controls and procedures and from internal control over financial reporting: National Financial Corporation and its subsidiaries (AEGON Dealer Services Canada Inc., Money Concepts (Canada) Limited and National Financial Insurance Agency Inc.). The operations resulting from the acquisition of the Quebec-based distribution network of DundeeWealth (including Dundee Financial Services Ltd.) are also excluded. A summary of the financial reporting for these companies is presented in the *Personal Financial Services – Individual Wealth Management* section, under Acquisitions.

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) 2008	2007	2006
Debentures	385.9	309.8	310.1
Preferred shares	223.7	125.0	125.0
Total	**609.6**	**434.8**	**435.1**

ACQUISITIONS IN 2008

On December 31, 2008, through its Investia Financial Services Inc. subsidiary, Industrial Alliance acquired the financial planning, mutual fund dealer and life insurance sales operations of DundeeWealth Inc. in the province of Quebec. This acquisition enabled the Company to add some 300 mutual fund advisors to its distribution network and to acquire over $2.4 billion in assets under administration.

On October 31, 2008, through its IA Clarington Investments Inc. subsidiary, the Company acquired all of the common shares of Sarbit Asset Management Inc., a mutual fund management company with approximately $100 million in assets under management.

On July 1, 2008, through its Investia Financial Services Inc. subsidiary, the Company acquired all of the shares of National Financial Corporation (a fund management company) and of its subsidiaries AEGON Dealer Services Canada Inc. (a mutual fund brokerage firm), Money Concepts (Canada) Limited (a financial services company) and National Financial Insurance Agency (an insurance brokerage firm). This acquisition enabled the Company to add some 400 advisors and over $2.1 billion in assets under administration.

On May 1, 2008, the Company acquired all of the shares of United Family Life Insurance Company in the United States. This acquisition has allowed the Company to obtain the necessary licenses to operate from a U.S. subsidiary in 49 of the 50 U.S. states. In June 2008, United Family Life was rebranded IA American Life Insurance Company.

On January 31, 2008, the Company acquired 100% of the shares in the management and brokerage companies that control 98% of Excellence Life Insurance Company. This company specializes in individual health and disability insurance.

For more information about these acquisitions, refer to note 5 of Industrial Alliance's consolidated financial statements.

DISPOSITIONS DURING THE PERIOD

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

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, 2008, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period	(In millions of dollars) Total (As at 12-31-08)	Less than 1 year	1 year to 3 years	4 years to 5 years	More than 5 years
Debentures[1]	385.9	--	--	--	385.9
Capital lease	--	--	--	--	--
Operating lease	52.7	18.0	24.4	9.6	0.7
Purchasing commitments	18.0	7.6	10.3	0.1	0.0
Other long-term commitments	151.0	104.5	11.1	34.1	1.3
Total of contractual obligations	**607.6**	**130.1**	**45.8**	**43.8**	**387.9**

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2008, these investment commitments totalled $132.1 million ($304.1 million in 2007), including $91.0 million that will be maturing in the next year ($233.6 million in 2007), and $41.1 million that will be maturing in more than one year ($70.5 million in 2007).

OUTSTANDING SHARES

As at February 12, 2009, Industrial Alliance had 80,330,771 issued and outstanding common shares.

[1] The debentures can be redeemed at the Company's option on various dates. Interest is payable semi-annually. Refer to note 18 of Industrial Alliance's consolidated financial statements for more information on debentures.

EMBEDDED VALUE

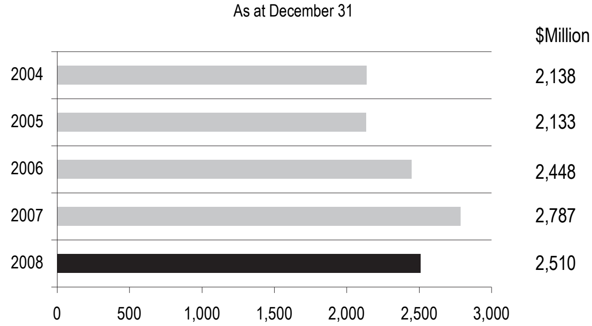
HIGHLIGHTS

- Embedded value of $2.5 billion as at December 31, 2008 ($31.26 per common share), down 9.9% compared to December 31, 2007 after the payment of dividends (down 7.2% before the payment of dividends)
- Embedded value/book value ratio: 1.54x as at December 31, 2008
- Addition of new business to embedded value in 2008: $1.53 per common share, 1.5% higher than in 2007
- Contribution of recurring items to growth in embedded value: 11.2% in 2008

Embedded value is one of the tools life insurance companies use to measure their economic worth. 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 this way, embedded value differs from book value and market value. It should be noted that embedded value is not a measurement defined under generally accepted accounting principles (GAAP).

As at December 31, 2008, Industrial Alliance's embedded value reached $2.5 billion, or $31.26 per common share. This is down 7.2% from the value calculated as at December 31, 2007, before the payment of dividends to common shareholders, and 9.9% after the payment of these dividends.

Embedded Value
As at December 31

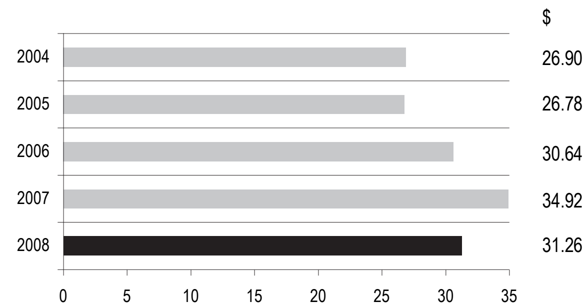


Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 11.2% in 2008 (11.7% in 2007). The recurring items are composed of the value added by new business and anticipated normal growth. Since the Company began calculating its embedded value, recurring items have always grown embedded value by low double digits.

Certain non-recurring items also affect the growth of embedded value. These items had a significant impact on the Company's embedded value in 2008, causing it to drop by $532 million (-19.1%).

Embedded Value per Common Share
As at December 31



The most significant non-recurring item in 2008 was the stock market downturn, which reduced shareholders' equity and the Company's future profits, primarily due to the decrease in management fees collected on segregated funds, mutual funds and Universal Life policy funds. This led to a $427 million decrease in embedded value (-15.3%).

Other experience gains and losses decreased the embedded value by $37 million (-1.4%).

The year-end changes in assumptions regarding the provisions for future policy benefits, combined with a reduction in the discount rate and the return on shareholders' equity used to calculate embedded value, led to a $56 million decrease in embedded value (-2.0%).

Changes to the capital adequacy requirements by the regulatory authorities, primarily the removal of the interest margin pricing risk in calculating the solvency ratio, increased embedded value by $66 million (2.4%).

The Company's acquisitions led to a reduction of $67 million in embedded value in 2008 (-2.4%). The acquisition of Excellence Life Insurance Company, which was completed on January 31, 2008, decreased the embedded value by $36 million. The four other acquisitions in 2008 (United Family Life Insurance Company, AEGON Dealer Services Canada, Sarbit Asset Management and the DundeeWealth Quebec-based distribution network) reduced embedded value by $31 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 companies' future sales.

The Company's decision to reduce the value of its non-bank sponsored asset-backed commercial paper (ABCP) by an additional 14% in 2008 led to an $11 million decrease in embedded value (-0.4%).

Changes to the capital structure in 2008 included common shares issued following the exercise of stock options and the acquisition of Excellence, as well as common share buy-backs and changes to the contributed surplus. In total, these changes led to a $19 million increase in embedded value (0.7%) in 2008.

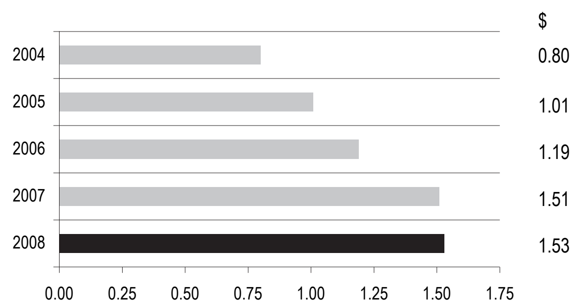
In 2008, the Company also paid $75 million in dividends to its shareholders, which represented a 2.7% decrease in embedded value.

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 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 2008, the contribution of new sales to the increase in Industrial Alliance's embedded value was $122.8 million, or $1.53 per common share. This is 1.5% (or $1.8 million) higher than in 2007. The value of new business was up in all sectors except Individual Wealth Management. In total, the improved profit margins increased the value of new business by $12.5 million, while lower sales reduced it by $10.7 million.

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 2008, the embedded value represented 1.54x the Company's book value.

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 and capital assumptions used to calculate the embedded value over the last two years are presented in the table below.

Economic and Capital Assumptions	As at December 31	
	2008	**2007**
Discount rate	6.50%	7.25%
Risk premium	3.00%	3.00%
Return on shareholders' equity	3.50%	4.25%
Inflation rate	1.50%	1.50%
Solvency ratio	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.

SENSITIVITY ANALYSIS

The following table shows the sensitivity of embedded value to different changes in assumptions. Given the current financial environment and the importance that risk premium has gained in the economy, the Company used an additional test this year to measure the impact of a 3% increase in the risk premium. This test shows that a 3% increase in the risk premium would lead to a 29% or $735 million decrease in embedded value ($9.15 per common share). Embedded value would then amount to $1,775 million, or $22.11 per share.

Sensitivity Analysis	**Impact on Embedded Value** As at December 31, 2008
1% increase in risk premium	(11%)
3% increase in risk premium	(29%)
Increase in the solvency ratio from 150% to 175%	(3%)
1% decrease in the tax rate	1%
No improvement in mortality	(9%)
1% increase in economic assumptions (no change to risk premium)	8%
10% drop in the stock markets	(5%)

Embedded Value	**Embedded value**	**Contribution to embedded value**	**Embedded Value per common share**
	($Million)	**(%)**	**($)**
Embedded value as at December 31, 2007	2,787	--	34.92
Recurring items			
Expected growth of embedded value	188	6.8	2.36
New sales	123	4.4	1.53
Subtotal	311	11.2	3.89
Non-recurring items			
Experience gains (losses) – related to the equity markets	(427)	(15.3)	(5.35)
Experience gains (losses) – other	(37)	(1.4)	(0.47)
Changes in assumptions (including the discount rate and return on shareholders' equity)	(56)	(2.0)	(0.70)
Changes to the solvency requirements	66	2.4	0.83
Acquisitions	(67)	(2.4)	(0.84)
Decrease in value of non-bank ABCP	(11)	(0.4)	(0.13)
Subtotal	(532)	(19.1)	(6.66)
Changes in capital structure	19	0.7	0.05
Embedded value as at December 31, 2008, before dividends	2,585	(7.2)	32.20
Dividends paid to common shareholders	(75)	(2.7)	(0.94)
Embedded value as at December 31, 2008	**2,510**	**(9.9)**	**31.26**

NINE-YEAR HISTORY

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
PROFITABILITY									
Net income									
Net income	**74.8**	249.2	231.3	134.6	159.2	140.3	103.5	106.6	100.8
Less: net income attributed to participating policyholders	**2.9**	1.2	3.4	2.4	4.1	3.4	6.1	2.7	2.7
Net income attributed to shareholders	**71.9**	248.0	227.9	132.2	155.1	136.9	97.4	103.9	98.1
Less: preferred shareholders dividends	**5.8**	5.8	4.9	---	0.1	0.3	0.7	0.7	0.7
Net income available to common shareholders	**66.1**	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
Earnings per common share[3]									
Basic	**$0.82**	$3.02	$2.77	$1.66	$1.96	$1.76	$1.29	$1.38	$1.30
Diluted	**$0.82**	$2.99	$2.74	$1.65	$1.95	$1.74	$1.29	$1.38	$1.30
Return on common shareholders' equity	**4.0%**	15.1%	15.7%	10.3%	13.6%	13.9%	11.8%	14.0%	15.0%
Net income (loss) available to common shareholders by line of business									
Individual Insurance	**(26.9)**	106.3	85.8	80.4	73.4	72.8	50.2	55.3	54.7
Individual Wealth Management	**57.3**	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9	24.9
Group Insurance	**42.6**	45.3	46.8	35.1	33.6	19.8	18.3	11.8	2.9
Group Pensions	**(6.9)**	18.5	17.5	18.1	14.7	14.0	10.1	15.2	14.9
Total	**66.1**	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
SPECIFIED ITEMS									
Impact on net income to common shareholders									
Impact of credit									
Decrease in value of the non-bank-sponsored ABCP[4]	**(10.6)**	(7.3)	---	---	---	---	---	---	---
Permanent loss in value on investments	**(10.8)**	---	---	---	---	---	---	---	---
Provision on investments	**(3.6)**	---	---	---	---	---	---	---	---
Provision for the Norshield funds[5]	**---**	---	---	(52.1)	---	---	---	---	---
Provision for an investment in Teleglobe[6]	**---**	---	---	---	---	---	(19.4)	---	---
Impact of stock market downturn									
Lower than expected management fees[7]	**(23.9)**	---	---	---	---	---	---	---	---
Decrease in income on UL policies	**(9.8)**	---	---	---	---	---	---	---	---
Lower than expected income on capital[7]	**(4.6)**	---	---	---	---	---	---	---	---
Other									
Net variation in the fair value of the debentures and the underlying assets	**7.6**	0.6	---	---	---	---	---	---	---
Changes in assumptions	**(138.2)**	(0.7)	0.4	(1.5)	(2.6)	2.5	1.4	0.6	2.0
Restructuring charges[8]	**---**	---	(3.0)	(4.1)	(6.1)	---	---	---	---
Impact of the tax reduction on the future income tax liability	**---**	---	11.5	---	---	(3.1)	---	---	6.0
Change of reinsurer	**---**	---	---	4.2	---	---	---	---	---
Goodwill expense[9]	**---**	---	---	---	---	---	---	(3.4)	(2.9)
Total	**(193.9)**	(7.4)	8.9	(53.5)	(8.7)	(0.6)	(18.0)	(2.8)	5.1

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
SPECIFIED ITEMS (continued)									
Impact by line of business and on income on capital									
Individual Insurance	**(142.6)**	(8.5)	3.9	(2.0)	(5.2)	0.3	(14.5)	---	14.7
Individual Wealth Management	**(24.3)**	(0.6)	1.9	(51.5)	(2.3)	(0.3)	(0.2)	(0.9)	(4.2)
Group Insurance	**(1.5)**	1.1	3.5	(1.4)	(1.2)	0.1	(0.7)	(1.4)	(4.6)
Group Pensions	**(17.4)**	---	(0.4)	1.4	---	(0.7)	(2.6)	(0.5)	(0.8)
Income on capital	**(8.1)**	0.6	---	---	---	---	---	---	---
Total	**(193.9)**	(7.4)	8.9	(53.5)	(8.7)	(0.6)	(18.0)	(2.8)	5.1
Impact on earnings per common share									
Impact of credit									
Decrease in value of the non-bank-sponsored ABCP[4]	**($0.13)**	($0.09)	---	---	---	---	---	---	---
Permanent loss in value on investments	**($0.14)**	---	---	---	---	---	---	---	---
Provision on investments	**($0.04)**	---	---	---	---	---	---	---	---
Provision for the Norshield funds[5]	**---**	---	---	($0.65)	---	---	---	---	---
Provision for an investment in Teleglobe[6]	**---**	---	---	---	---	---	($0.26)	---	---
Impact of stock market downturn									
Lower than expected management fees[7]	**($0.30)**	---	---	---	---	---	---	---	---
Decrease in income on UL policies	**($0.12)**	---	---	---	---	---	---	---	---
Lower than expected income on capital[7]	**($0.05)**	---	---	---	---	---	---	---	---
Other									
Net variation in the fair value of the debentures and the underlying assets	**$0.09**	$0.01	---	---	---	---	---	---	---
Changes in assumptions	**($1.71)**	($0.01)	$0.01	($0.02)	($0.03)	$0.03	$0.02	$0.01	$0.03
Restructuring charges[8]	**---**	---	($0.04)	($0.05)	($0.08)	---	---	---	---
Impact of the tax reduction on the future income tax liability	**---**	---	$0.14	---	---	($0.04)	---	---	$0.08
Change of reinsurer	**---**	---	---	$0.05	---	---	---	---	---
Goodwill expense[9]	**---**	---	---	---	---	---	---	($0.05)	($0.04)
Total	**($2.40)**	($0.09)	$0.11	($0.67)	($0.11)	($0.01)	($0.24)	($0.04)	$0.07
BUSINESS GROWTH									
Revenues									
Premiums	**4,281.7**	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	**393.3**	433.4	643.3	610.6	596.0	574.5	557.4	561.1	573.2
Amortization of realized and unrealized gains (losses)	**16.3**	10.4	214.7	156.6	100.1	102.9	(78.3)	(16.6)	28.2
Realized gains (losses) on assets available-for-sale	**3.6**	8.9	---	---	---	---	---	---	---
Variations in the market value of assets held-for-trading	**(596.0)**	125.9	---	---	---	---	---	---	---
Change in provision for losses	**(5.2)**	0.2	2.0	(76.3)	0.8	(0.1)	(28.9)	(2.2)	(2.2)
Total	**(188.0)**	578.8	860.0	690.9	696.9	677.3	450.2	542.3	599.2
Fees and other income	**371.4**	363.5	314.9	167.4	128.9	99.5	90.8	92.0	87.4
Total revenues	**4,465.1**	4,971.6	4,937.9	4,029.4	3,678.2	3,343.5	2,878.2	2,711.3	2,925.6
Premiums and deposits by line of business									
Individual Insurance	**920.7**	897.3	838.6	768.7	763.1	683.4	663.9	658.8	607.8
Individual Wealth Management	**2,422.4**	3,121.9	2,475.1	1,460.2	906.8	658.7	590.7	529.1	613.8
Group Insurance	**956.5**	860.5	749.6	694.9	637.9	603.0	543.0	449.8	388.9
Group Pensions	**1,114.9**	828.3	820.1	564.8	461.1	556.4	491.4	407.0	616.5
General Insurance	**128.4**	118.2	107.2	95.1	83.5	65.2	48.2	32.3	12.0
Total	**5,542.9**	5,826.2	4,990.6	3,583.7	2,852.4	2,566.7	2,337.2	2,077.0	2,239.0

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
BUSINESS GROWTH (continued)									
Individual Insurance									
Sales[10]	**146.9**	159.0	153.6	141.3	139.9	128.7	133.3	145.0[11]	134.1[11]
Premiums	**920.7**	897.3	838.6	768.7	763.1	683.4	663.9	658.8	607.8
Individual Wealth Management									
Sales[10]									
General fund	**345.5**	334.4	289.2	242.4	237.5	227.9	198.7	147.4	163.9
Segregated funds	**815.7**	990.6	958.3	805.2	669.3	430.8	392.0	381.7	449.9
Mutual funds	**1,261.2**	1,796.9	1,227.6	412.6	---	---	---	---	---
Total	**2,422.4**	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	**322.9**	578.7	607.6	547.4	332.7	117.5	152.1	199.0	264.6
Mutual funds	**289.5**	799.2	267.0	148.7	---	---	---	---	---
Total	**612.4**	1,377.9	874.6	696.1	332.7	117.5	152.1	199.0	264.6
Funds under management									
General fund	**1,627.9**	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	**5,562.1**	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	**5,264.0**	6,834.7	6,281.2	5,659.8	1,018.5	94.1	---	---	---
Total	**12,454.0**	15,115.0	13,959.7	12,206.5	6,661.0	5,130.9	4,532.7	4,649.8	4,645.8
Group Insurance									
Sales[10]									
Employee Plans	**92.9**	72.0	70.8	52.3	55.7	53.3	92.4	59.1	37.4
Creditor Insurance	**194.2**	192.0	176.4	158.8	132.6	130.1	124.5	108.0	100.3
Special Markets Group (SMG)	**112.9**	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Premiums and premium equivalents									
Employee Plans	**684.1**	594.8	509.2	475.4	448.4	426.0	378.6	331.6	276.5
Creditor Insurance	**159.5**	161.3	147.8	132.1	109.8	105.5	98.7	85.9	84.6
Special Markets Group (SMG)	**112.9**	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Total premiums	**956.5**	860.5	749.6	694.9	637.9	603.0	543.0	449.8	388.9
Premium equivalents	**101.9**	94.7	124.1	102.9	96.1	99.2	43.9	33.5	29.0
Total	**1,058.4**	955.2	873.7	797.8	734.0	702.2	586.9	483.3	417.9
Group Pensions									
Sales[10]									
Accumulation contracts									
General fund	**18.1**	20.9	29.2	25.8	49.1	35.3	40.7	82.0	309.8
Segregated funds	**845.9**	575.0	595.7	384.7	312.2	411.2	364.7	191.1	243.6
Total	**864.0**	595.9	624.9	410.5	361.3	446.5	405.4	273.1	553.4
Insured annuities (general fund)	**250.9**	232.4	195.2	154.3	99.8	109.9	86.0	133.9	63.1
Total	**1,114.9**	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	**144.8**	147.0	142.4	150.4	158.8	162.5	153.7	147.5	203.2
Segregated funds	**3,261.3**	3,379.5	3,041.5	2,402.9	1,927.8	1,599.6	1,143.8	923.9	2,412.5
Other	**36.9**	34.1	36.4	34.7	33.3	36.8	35.1	5.3	0.2
Total	**3,443.0**	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)	**2,697.2**	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	**6,140.2**	6,117.2	5,371.2	4,614.2	4,056.3	3,704.0	2,984.9	2,716.4	4,178.1

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
BUSINESS GROWTH (continued)									
Assets under management/administration									
Assets under management									
General fund	**15,415.2**	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	**8,924.2**	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	**5,277.7**	6,846.9	6,295.4	5,672.7	1,018.5	94.1	---	---	---
Other	**596.7**	630.6	501.3	785.9	872.0	---	---	---	---
Total	**30,213.8**	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	**19,258.4**	17,618.9	17,812.6	12,390.9	9,641.1	4,129.6	3,298.2	2,192.7	90.6
Total	**49,472.2**	50,411.6	46,904.1	38,171.2	28,476.0	19,573.5	16,760.9	15,128.6	14,095.2
INVESTED ASSETS									
Value and distribution of investments									
Book value of investment portfolio	**14,396.3**	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	**55.2%**	57.2%	58.6%	58.9%	57.4%	55.7%	52.5%	48.9%	46.9%
Mortgages	**24.3%**	20.5%	20.1%	21.6%	23.5%	25.1%	28.3%	31.0%	33.0%
Stocks	**9.3%**	12.4%	11.9%	10.4%	10.2%	9.4%	8.1%	8.2%	8.6%
Real estate	**4.4%**	3.4%	3.7%	4.0%	4.2%	4.3%	4.9%	5.0%	4.8%
Other	**6.8%**	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%	100.0%
Distribution of investments by region									
Atlantic provinces	**3.9%**	4.1%	3.9%	4.8%	5.1%	4.6%	5.3%	4.4%	4.0%
Quebec	**48.6%**	48.1%	48.0%	49.5%	49.6%	50.1%	50.5%	49.3%	49.8%
Ontario	**20.5%**	20.6%	20.6%	20.3%	20.7%	20.5%	20.3%	20.5%	20.1%
Western provinces	**17.5%**	16.8%	16.6%	16.9%	17.3%	17.9%	18.1%	18.5%	20.2%
Outside Canada	**9.5%**	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%	100.0%
Impaired investments and provisions									
Gross impaired investments (excluding insured loans)	**14.0**	20.7	95.2	96.8	47.6	60.5	60.4	39.8	35.7
Provisions for losses	**(5.2)**	(9.0)	(87.3)	(89.2)	(39.1)	(40.7)	(41.1)	(15.7)	(14.3)
Net impaired investments (excluding insured loans)	**8.8**	11.7	7.9	7.6	8.5	19.8	19.3	24.1	21.4
Net impaired investments as a % of total investments	**0.06%**	0.08%	0.06%	0.07%	0.08%	0.20%	0.22%	0.28%	0.26%
Provisions as a % of gross impaired investments	**37.5%**	43.6%	91.7%	92.1%	82.0%	67.3%	68.0%	39.1%	39.9%
Bonds									
Book value of the bond portfolio	**7,942.2**	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	**11.80%**	13.70%	17.40%	12.28%	9.81%	11.30%	12.20%	12.43%	10.92%
Rating – AA	**18.24%**	19.80%	17.93%	16.31%	17.09%	15.67%	14.98%	13.07%	14.78%
Rating – A	**63.06%**	60.53%	58.25%	63.77%	65.64%	66.64%	65.04%	65.85%	66.86%
Rating – BBB	**6.67%**	5.86%	6.11%	7.28%	7.22%	6.25%	7.67%	8.62%	7.21%
Rating – BB and lower	**0.23%**	0.11%	0.31%	0.36%	0.24%	0.14%	0.11%	0.03%	0.23%
Total	**100.00%**	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
INVESTED ASSETS (continued)									
Bonds (continued)									
Distribution by category of issuer									
Governments	**61.1%**	59.7%	56.9%	60.4%	64.5%	59.2%	55.1%	52.4%	51.9%
Municipalities	**1.4%**	1.8%	1.7%	1.6%	1.7%	1.8%	2.5%	1.2%	1.7%
Corporates – Public issues	**21.6%**	23.4%	26.1%	25.1%	22.4%	26.0%	28.2%	32.9%	34.1%
Corporates – Private issues	**15.9%**	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%	100.0%
Other quality measures									
Delinquency rate	**0.01%**	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%	0.00%
Mortgages									
Book value of the mortgage portfolio	**3,508.1**	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	**19.4%**	21.6%	20.4%	16.3%	16.4%	17.1%	18.4%	18.7%	19.0%
Multi-residential	**66.5%**	60.2%	59.5%	58.9%	59.5%	55.6%	52.5%	51.3%	49.7%
Non-residential	**14.1%**	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%	100.0%
Distribution by type of loan									
Insured	**71.3%**	65.0%	60.2%	55.6%	52.8%	48.6%	45.3%	40.9%	39.3%
Conventional	**28.7%**	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%	100.0%
Other quality measures									
Delinquency rate									
Insured loans	**0.08%**	0.10%	0.09%	0.50%	0.50%	0.75%	0.80%	0.27%	0.48%
Conventional loans	**0.72%**	0.27%	0.02%	0.05%	0.13%	0.97%	0.69%	0.62%	0.08%
Total	**0.26%**	0.16%	0.06%	0.30%	0.32%	0.86%	0.74%	0.48%	0.23%
Proportion of delinquent loans that are insured	**20.7%**	41.0%	88.0%	93.0%	81.0%	42.2%	49.0%	23.3%	80.4%
Stocks									
Book value of the stock portfolio	**1,340.2**	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	**18.8%**[12]	5.7%	5.0%	4.9%	4.1%	4.1%	6.1%	7.4%	4.6%
Preferred	**10.3%**	8.1%	10.9%	12.8%	21.6%	24.8%	32.4%	29.8%	31.6%
Market indices	**26.0%**	25.6%	23.6%	18.2%	12.0%	11.1%	15.3%	19.3%	13.6%
Investment fund units and other	**44.9%**[12]	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%	100.0%
Real estate									
Book value of the real estate portfolio	**629.5**	481.6	451.8	446.3	444.5	425.7	436.0	424.9	392.3
Market value of the real estate portfolio	**814.6**	623.7	530.5	509.9	482.9	446.4	455.6	451.8	416.1
Market value/book value	**129.4%**	129.5%	117.4%	114.2%	108.6%	104.9%	104.5%	106.3%	106.1%
Occupancy rate	**94.0%**	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	**83.4**	78.3	73.1	77.7	97.5	---	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
CAPITALIZATION AND SOLVENCY									
Capital structure									
Subordinated debentures[13]	**385.9**	309.8	310.1	373.0	150.0	135.0	185.0	185.0	185.0
Other debt (IATS[14])[13]	**---**	---	---	---	150.0	150.0	---	---	---
Participating policyholders' account	**27.0**	24.1	23.1	19.7	17.3	13.2	59.5	53.4	50.7
Equity									
Common shares	**541.0**	513.1	507.7	510.6	458.1	438.3	382.0	382.0	379.2
Preferred shares	**223.7**	125.0	125.0	---	---	18.7	75.0	75.0	75.0
Contributed surplus	**19.8**	17.1	14.6	12.3	9.5	6.5	3.3	---	---
Retained earnings	**1,127.7**	1,148.3	971.3	845.4	751.7	627.5	470.2	397.6	316.9
Accumulated other comprehensive income	**(54.3)**	(3.8)	---	---	---	---	---	---	---
Currency translation account	**---**	---	(6.8)	(7.1)	(5.8)	(2.5)	7.5	10.2	7.4
Total	**1,857.9**	1,799.7	1,611.8	1,361.2	1,213.5	1,088.5	938.0	864.8	778.5
Total capital structure	**2,270.8**	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)	**1,726.0**	1,685.6	1,498.9	1,187.5	1,246.2	996.1	695.0	681.0	614.0
Tier 2 (net)	**195.4**	120.6	128.6	134.9	136.1	295.8	342.4	317.8	329.5
Total	**1,921.4**	1,806.2	1,627.5	1,322.4	1,382.3	1,291.9	1,037.4	998.8	943.5
Required capital	**967.1**	934.6	809.9	704.5	624.0	583.7	556.5	534.3	503.4
Solvency ratio[15]	**199%**	193%	201%	188%	222%	221%	186%	187%	187%
Debt measures									
Debt[16]/capital structure	**17.0%**	14.5%	15.9%	21.3%	19.6%	20.6%	15.6%	16.8%	18.2%
Debt[16] and preferred shares/capital structure	**26.8%**	20.4%	22.4%	21.3%	19.6%	21.9%	22.0%	23.6%	25.6%
Coverage ratio (in number of times)[17]	**3.9**	12.2	12.1	11.0	13.4	9.6	8.7	---	---
MISCELLANEOUS INFORMATION									
Market data[3]									
Common shares									
Number of common shares outstanding (in millions)	**80.3**	79.8	79.9	81.4	79.5	78.6	75.4	75.4	75.2
Share price at end of period	**$23.31**	$42.58	$36.14	$29.07	$27.50	$21.90	$19.75	$23.33	$20.33
Average share price	**$32.11**	$38.28	$32.42	$28.49	$23.44	$18.69	$20.18	$21.16	$17.72
Weighted average number of common shares (in millions)									
Basic	**80.2**	80.1	80.5	79.6	79.2	77.6	75.1	74.9	75.1
Diluted	**81.0**	81.1	81.3	80.2	79.7	79.6	75.1	75.0	75.1
Dividends									
Dividends paid per common share	**$0.94**	$0.76	$0.60	$0.50	$0.41	$0.35	$0.32	$0.30	$0.08
Dividend payout ratio	**115%**	25%	22%	30%	21%	20%	25%	22%	6%
Company's worth									
Market capitalization	**1,872.5**	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	**$20.35**	$20.98	$18.61	$16.72	$15.27	$13.61	$11.46	$10.49	$9.36
Embedded value per common share	**$31.26**	$34.92	$30.64	$26.78	$26.90	$24.17	$21.89	$20.56	$18.54
General expenses	**358.4**	333.5	314.0	273.1	257.8	237.4	229.9	212.0	205.4

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007	2006	2005	2004	2003 (restated[1])	2002 (restated[2])	2001	2000
MISCELLANEOUS INFORMATION (continued)									
Human resources									
Number of employees									
Life insurance companies	**2,644**	2,318	2,192	2,115	2,159	2,138	2,110	2,035	1,948
General insurance company	**379**	367	386	367	346	329	305	237	178
Other	**340**	262	241	264	121	36	19	9	8
Total	**3,363**	2,947	2,819	2,746	2,626	2,503	2,434	2,281	2,134
Number of Career representatives	**1,597**	1,608	1,550	1,445	1,379	1,309	1,310	1,270	1,218

For comparison purposes, certain previous data have been reclassified.

Notes

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 For comparison purposes, the earnings per common share and 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.

4 ABCP: Asset-backed commercial paper.

5 In the third quarter of 2005, the Company decided to take a full provision on its entire investment in Norshield. This reduced the 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 earnings by $27.9 million, with a tax offset of $8.5 million, for a net reduction of $19.4 million.

7 Estimated impact of stock market downturn as compared to the net earnings that the Company would have earned under normal market conditions.

8 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.

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

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 The variation is explained by the fact that some investments matching the savings portion of the UL policies have been transferred from the investment fund units to the common stock. The company's risk profile is unchanged.

13 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.

14 IATS: Industrial Alliance Trust Securities.

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

16 Debt includes subordinated debentures and other debts.

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

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

CONSOLIDATED FINANCIAL STATEMENTS

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 provide for communication of professional conduct rules and principles, using a professional code of ethics prepared by the Company for all organizational members. 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.

The Autorité des marchés financiers has the power to perform checks to be sure that the Company respects *An Act respecting insurance*, preserves the interests of the policyholders and pursues sound capitalization and good solvency.

On behalf of Management,

Yvon Charest
President and Chief Executive Officer
Quebec, February 9, 2009

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, 2008 and 2007 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 9, 2009

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, 2008 and 2007 and the consolidated statements of income, of the participating policyholders' account, of the contributed surplus, of the shareholders' retained earnings and accumulated other comprehensive income, of the comprehensive income, of the 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, 2008 and 2007 and the results of its operations, its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche s.e.n.c.r.l.[1]

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Quebec, February 9, 2009

[1] Chartered Accountant Auditor licence no. 11848

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2008**	2007
	$	$
Revenues		
Premiums (note 26)	**4,282**	4,029
Net investment income (note 7)	**(188)**	579
Fees and other revenues	**371**	363
	4,465	4,971
Policy benefits and expenses		
Payments to policyholders and beneficiaries	**1,950**	1,738
Net transfer to segregated funds	**1,347**	1,457
Dividends, experience rating refunds and interest on amounts on deposit	**62**	44
Change in provisions for future policy benefits	**53**	506
	3,412	3,745
Commissions	**545**	519
Premium and other taxes	**62**	58
General expenses (notes 8 and 14)	**358**	334
Financing expenses (note 18)	**(4)**	3
	4,373	4,659
Income before income taxes	**92**	312
Less: income taxes (note 9)	**17**	63
Net income	**75**	249
Less: net income attributed to participating policyholders	**3**	1
Net income attributed to shareholders	**72**	248
Less: preferred share dividends	**6**	6
Net income available to common shareholders	**66**	242
Earnings per common share (in dollars) (note 21)		
basic	**0.82**	3.02
diluted	**0.82**	2.99

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

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of dollars)	**2008**	2007
	$	$
Assets		
Invested assets (note 11)		
Bonds	**7,942**	8,127
Mortgages	**3,508**	2,920
Stocks	**1,340**	1,764
Real estate	**630**	482
Policy loans	**320**	267
Cash and cash equivalents	**259**	362
Other invested assets	**397**	292
	14,396	14,214
Other assets (note 14)	**572**	524
Intangible assets (note 13)	**332**	298
Goodwill (note 12)	**115**	68
Total general fund assets	**15,415**	15,104
Segregated funds net assets	**8,924**	10,211
Liabilities		
Policy liabilities (note 15)		
Provisions for future policy benefits	**11,853**	11,705
Provisions for dividends to policyholders and experience rating refunds	**56**	41
Benefits payable and provision for unreported claims	**156**	160
Policyholders' amounts on deposit	**185**	182
	12,250	12,088
Other liabilities (note 16)	**648**	579
Future income taxes (note 9)	**236**	294
Deferred net realized gains (note 17)	**10**	10
Debentures (note 18)	**386**	310
Participating policyholders' account	**27**	24
	13,557	13,305
Equity		
Share capital (note 20)	**765**	638
Contributed surplus	**19**	17
Retained earnings and accumulated other comprehensive income	**1,074**	1,144
	1,858	1,799
Total general fund liabilities and equity	**15,415**	15,104
Segregated funds liabilities	**8,924**	10,211

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)	**2008**	2007
	$	$
Balance at beginning	**24**	23
Net income for the year	**6**	5
Dividends	**(3)**	(4)
Net income attributed to participating policyholders	**3**	1
Balance at end	**27**	24

CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 31 (in millions of dollars)	**2008**	2007
	$	$
Balance at beginning	**17**	15
Current year contribution for the stock option plan (note 22)	**4**	4
Stock options exercised	**(2)**	(2)
Balance at end	**19**	17

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

Years ended December 31 (in millions of dollars)	**2008**	2007
	$	$
Consolidated shareholders' retained earnings		
Balance at beginning	**1,148**	971
Impact of adopting new accounting standards	**---**	10
Net income attributed to shareholders	**72**	248
Common share dividends	**(75)**	(61)
Preferred share dividends	**(6)**	(6)
Issue cost of preferred shares, net of taxes	**(2)**	---
Purchase and cancellation of common shares	**(9)**	(14)
Balance at end	**1,128**	1,148
Consolidated accumulated other comprehensive income, net of income taxes		
Balance at beginning	**(4)**	---
Reclassification of currency translation account	**---**	(7)
Impact of adopting new accounting standards	**---**	28
Total other comprehensive income	**(50)**	(25)
Balance at end	**(54)**	(4)
Total	**1,074**	1,144
Balance at end of accumulated other comprehensive income, net of income taxes:		
Unrealized losses on bonds classified available-for-sale	**(37)**	(6)
Unrealized gains (losses) on stocks classified available-for-sale	**(16)**	15
Comprehensive income from an entity subject to significant influence	**(1)**	---
Currency translation gains (losses) on self-sustaining foreign operations	**---**	(13)
Total consolidated accumulated other comprehensive income, net of income taxes	**(54)**	(4)

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	**2008**	2007
	$	$
Net income	**75**	249
Other comprehensive income		
Unrealized gains (losses) arising during the year on available-for-sale financial assets:		
Bonds (net of income tax of $14 ($4 in 2007))	**(33)**	(10)
Stocks (net of income tax of $10 ($1 in 2007))	**(26)**	(3)
Comprehensive income from an entity subject to significant influence	**(1)**	---
Reclassification of (gains) losses on available-for-sale financial assets included in the net income:		
Bonds (net of income tax of $1 ($1 in 2007))	**2**	(2)
Stocks (net of income tax of $2 ($2 in 2007))	**(5)**	(4)
Change in unrealized gains (losses) on available-for-sale financial assets	**(63)**	(19)
Change in unrealized currency translation gains (losses) on self-sustaining foreign operations	**15**	(6)
Hedges on self-sustaining foreign operations	**(2)**	---
Total other comprehensive income	**(50)**	(25)
Comprehensive income	**25**	224
Comprehensive income attributed to shareholders	**22**	223
Comprehensive income attributed to participating policyholders	**3**	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)	2008	2007
	$	$
Cash flows from operating activities		
Net income	75	249
Items not affecting cash and cash equivalents:		
Change in provisions for future policy benefits	53	506
Share of results of entity subject to significant influence	7	(2)
Amortization of realized and unrealized gains	(16)	(10)
Amortization of premiums and discounts	1	---
Variation of realized and unrealized (gains) losses	584	(142)
Realized gains on available-for-sale financial assets	(4)	(9)
Future income taxes	(28)	(1)
Stock option plan	4	4
Amortization of deferred sales commissions and depreciation of fixed assets	51	41
Provision for loss	5	---
Other	(7)	37
	725	673
Changes in other assets and liabilities	(49)	2
Cash flows from operating activities	676	675
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	2,673	1,812
Mortgages	374	341
Stocks	495	329
Real estate	21	5
Policy loans	97	82
Other invested assets	3	3
	3,663	2,572
Purchases of the following items:		
Bonds	(2,586)	(1,550)
Mortgages	(908)	(841)
Stocks	(499)	(421)
Real estate	(148)	(24)
Policy loans	(143)	(129)
Other invested assets	(262)	(216)
Acquisition of cash and cash equivalents (note 5)	6	---
	(4,540)	(3,181)
Cash flows from investing activities	(877)	(609)
Cash flows from financing activities		
Issue of common shares	4	6
Redemption of common shares	(11)	(17)
Issue of preferred shares (less cost of issuance of $4 in 2008)	96	---
Increase in debenture	88	---
Preferred shareholders dividends	(6)	(6)
Common shareholders dividends	(75)	(61)
Increase (decrease) in mortgage debt	(1)	7
Decrease in long-term debt	(2)	---
Cash flows from financing activities	93	(71)
Foreign currency gain (loss) on cash and cash equivalents	5	(5)
Decrease in cash and cash equivalents	(103)	(10)
Cash and cash equivalents at beginning	362	372
Cash and cash equivalents at end	259	362
Supplementary information:		
Cash	(4)	9
Cash equivalents	263	353
Total cash and cash equivalents	259	362
Interest paid	23	19
Income taxes paid, net of refunds	69	53

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)	**2008**	2007
	$	$
Assets		
Bonds	**2,745**	2,800
Mortgages and mortgage-backed securities	**---**	7
Stocks	**2,297**	2,750
Fund units	**3,209**	4,224
Cash, short-term investments and other invested assets	**655**	411
Other assets	**50**	55
	8,956	10,247
Liabilities		
Accounts payable and accrued expenses	**32**	36
Net assets	**8,924**	10,211

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	**2008**	2007
	$	$
Balance at beginning	**10,211**	9,204
Impact of adopting new accounting standards	**---**	(2)
Additions:		
Amounts received from policyholders	**1,792**	1,816
Interest and dividends	**369**	280
Net realized gains (losses)	**(108)**	444
Net decrease in fair value	**(2,062)**	(386)
	10,202	11,356
Deductions:		
Amounts withdrawn by policyholders	**1,097**	959
Operating expenses	**181**	186
	1,278	1,145
Balance at end	**8,924**	10,211

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (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, the fair values of invested assets and the goodwill and intangible assets depreciation test.

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 designated 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. Considering that no fair value is accounted for the assets presented at amortized cost using the effective interest rate method, the regular-way contract has no impact.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › **Accounting Policies** (continued)

Transaction Costs on Financial Instruments
Transaction costs related to financial assets classified as available-for-sale and those related to financial assets and financial liabilities designated 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.

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
Designated held-for-trading:
Bonds classified as designated 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. Interest is calculated according to the effective interest rate method and is accounted in the income statement. 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. The Company considers as objective evidence of the depreciation of bonds the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. 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. The interest calculated according to this method is accounted in the income statement. When there is evidence of impairment, and the decline in value is considered other than temporary, the loss is immediately accounted in the income statement. The realized gains or losses on the sale of these investments are accounted in the income statement.

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. Interest calculated according to this method is accounted in the income statement. Restructured mortgage loans are adjusted for unamortized discounts representing interest concessions.

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.

The Company considers as objective evidence of the depreciation of mortgages the issuer's financial difficulty, a bankruptcy or a default of payment of interest or principal. When there is evidence of depreciation and a reduction in value is considered as permanent, it is recognized immediately in the results. Realized gains and losses on the sale of mortgages are recorded in income.

Stocks
Designated held-for-trading:
Stocks classified as designated 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Stocks (continued)
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 changes in fair value recorded in other comprehensive income.

The Company considers as objective evidence of the depreciation of stocks a significant or extended decrease in the fair value of the stock below its cost or changes in the technological, economic or legal environment that have a negative effect on the issuer and which indicate that the book value may not be recovered.

Dividends are accounted in the income statement from the moment that the Company has the right to receive payment.

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. When the fair value of a property is less than the book value of underlying loans at the foreclosure date, losses are immediately accounted in the income statement. 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, operating lines of credit used, bank acceptances and Treasury bills, bank asset-backed commercial paper. Cash and cash equivalents are highly liquid investments held for the purpose of meeting short-term cash commitments. Cash and cash equivalents are classified as held-for-trading and accounted at the fair value.

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 and accounted at the amortized cost using the effective interest rate. Cash in trust and non-bank sponsored asset-backed commercial paper are classified as held-for-trading and accounted at fair value.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Derivative Financial Instruments (continued)
The Company has designated a derivative as a net investment hedge on a self-sustaining foreign operation for accounting purposes. Hedge accounting is used with respect to certain derivatives to reduce the volatility of its results. The derivative financial instrument designated as a hedge for accounting purposes is documented when it is implemented and its efficiency is evaluated each quarter. All derivatives, including the one used as a hedge for accounting purposes, are posted in the balance sheet at their fair value.

A futures contract is designated as a hedge for accounting purposes of a net investment in a self-sustaining foreign operation. The variation in the fair value of the derivative and the valuation change of the net investment in a self-sustaining foreign operation is accounted in the *Change in unrealized currency translation gains (losses)* in the consolidated comprehensive income statements. All amounts reported in the consolidated comprehensive income statements are net of taxes. Any ineffectiveness is accounted in the *Net investment income* in the income statements. Gains or losses on the hedge item constituting the efficient portion of the hedge that was accounted in the accumulated other comprehensive income is accounted in the net result for the period during which the net investment in the self-sustaining foreign operation is reduced by an operation on the equity, a dilution or the sale of the foreign operation in whole or in part.

Futures contracts are designated as a currency risk hedge item. Variations in the fair value of the derivative are reported in the *Net investment income* in the consolidated income statements. Hedge accounting is used to account in the consolidated income statements variations in the fair value of the currency derivative considered as a hedge item against hedge item valuation changes. Variations in the fair value related to variations in the market price of covered items and variations in the exchange rate of this fair value continue to be reported in the comprehensive income. Any ineffectiveness is accounted in the *Net investment income* in the consolidated income statements.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Intangible Assets
Indefinite-life intangible assets are assessed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of 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. Impairment losses cannot be reversed even if the fair value increases in the future. Indefinite-life intangible assets are management contracts and distribution networks.

Capital Assets
Capital 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 amortization. They are principally depreciated under the straight-line method over their estimated useful lives, which range from 3 to 10 years, or declining balance method between 20% and 30%, 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. Impairment losses cannot be reversed even if the fair value increases in the future.

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 for a cash flow unit 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. These revenues are accounted in *fees and other revenues* in the income statement.

Other Assets
The other assets are classified as loans and receivables. 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 the provisions for future policy benefits.

Deferred acquisition costs related to property and casualty insurance include commissions, premium taxes and expenses directly related to the acquisition of premiums. They are deferred, if they can be recovered from unearned premiums after consideration of claims, related expenses and interest and dividend income related to these premiums. They are amortized according to the accounting of the premiums in the results.

Provisions for Future Policy Benefits
Provisions for future policy benefits represent the amount which, after consideration of future premiums and investment income, provide for all commitments under policy contracts. These provisions are established using the Canadian Asset Liability Method (CALM), which is generally accepted actuarial practice established by the Canadian Institute of Actuaries (CIA). Total policy liabilities are presented net of ceded reinsurance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Income Taxes
The Company uses the liability method of tax allocation to record income taxes. According to this method, the income tax expense includes the current taxes and the future taxes. The current income tax expense represents the taxes to be paid on the taxable profit for the year. 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 other liabilities are classified as other financial liabilities. The fair value of the other 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 certain debentures as held-for-trading and another as other financial liabilities. The debentures held-for-trading are measured at fair value with gains and losses presented as a financing expense. The debenture classified as other financial liabilities is measured at amortized cost using the effective interest rate.

The interest paid is recognized in the income statement and presented as financing expenses.

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. The gains and losses on foreign currency transactions for self-sustaining foreign activities as well as the hedge results of some of these investments net of income taxes are accounted in the other comprehensive 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

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, according 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies

Impact of the Change in Accounting Policies
On January 1, 2008, the Company adopted three new accounting standards: Section 1535, Capital Disclosure, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation.

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
Sections 3862 and 3863 replace section 3861 Financial instrument-disclosure and presentation, revising and enhancing its disclosure requirements. Sections 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.

Reclassification of Financial Instruments
In October 2008, the Canadian Institute of Chartered Accountants (CICA) amended the following Section: 3855, Financial Instruments, Recognition and Measurement and Section 3862, Financial Instruments – Disclosure. Under certain circumstances, these amendments authorize the reclassification of financial assets from the "held-for-trading" category to the "available-for-sale" or "loans and receivables" category. Financial assets that were classified as "held-for-trading," using the fair value option, cannot be reclassified.

Future Changes in Accounting
Goodwill and Intangible Assets
In January 2008, the CICA Handbook published Section 3064, *Goodwill and Intangible Assets*, which specifies that costs can only be reported when they are associated with an item that corresponds to the definition of an asset. As a result, start-up costs must be expensed as they are incurred. The application of this section will take effect on January 1, 2009 for the Company, and should not have a material impact on the Company's results.

International Financial Reporting Standards (IFRS)
The Accounting Standards Board has published an exposure draft proposing the adoption of IFRS for the accounting and presentation of financial information of publicly accountable enterprises. These standards would replace current GAAP and would take effect for years beginning on or after January 1, 2011. The Company is currently evaluating the future impact of these new standards on its commercial operations, financial information systems and financial statements.

4 › Asset-Backed Commercial Paper

The non-bank sponsored asset-backed commercial paper (ABCP) restructuring plan for 20 conduits, submitted by the Canadian investors committee, was completed on January 21, 2009. The restructuring will lead to the conversion of old notes into three categories of new notes that differ by type of underlying asset:

› ABCP backed by traditional assets will be exchanged for floating rate notes whose maturity date and return will follow that of the underlying assets.

› ABCP backed by synthetic assets will be pooled. Floating rate notes will be issued in exchange for existing ABCP, with maturities based on those of the pooled underlying assets. The maturity of the new notes should be about 8 years. The plan provides for the creation of two new limited partnerships: Master Asset Vehicles 1 and 2 (MAV 1 and MAV 2) which will issue the pooled notes. Under the restructuring plan, the Company chose MAV 2, which means that it will not finance margin calls. In return, the Company and other investors who chose MAV 2 will receive a reduced coupon.

› ABCP backed by "ineligible" assets (those that are not part of the previous two categories) will be restructured separately. It will be exchanged for floating rate notes whose maturity date and return will follow those of the underlying assets.

On January 21, 2009, the Company received a first interest payment representing a portion of the accrued interest on the old notes from August 13, 2007 to August 31, 2008. According to the information obtained by the Company, other payments are anticipated in order to cover the period from September 1, 2008 to January 21, 2009. The total amounts that will be paid is still not known, but investors will not receive the amount of interest to which they would normally be entitled, since the amounts accumulated in the different ABCP since August 13, 2007 will be used to cover the restructuring charges and constitute reserves for the newly issued notes. Given the available information, as at December 31, 2008, the Company recorded an estimated amount of accrued interest receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

4 › Asset-Backed Commercial Paper (continued)

Considering that the ABCP could not be traded as at December 31, 2008, management has estimated the fair market value of these investments according to a valuation model that it believes is appropriate under the circumstances. The valuation of conduits is modelled on an individual basis using the pooling of the underlying assets, as proposed in the restructuring plan. The conduits composed exclusively of traditional assets or ineligible assets are valuated on the J.P. Morgan valuation basis. The other conduits are valuated according to a model based on the discounting of expected future cash flows, using as a discount rate the fluctuations of a reference index with a risk profile similar to that of the ABCP and a term corresponding to the maximum maturity provided in the floating rate notes to be received in exchange for the ABCP. As a precautionary measure, the Company completely devalued the synthetic assets of Category C, whereas a value equal to 5% of the nominal value was attributed to the ineligible assets. The sensitivity of the model is analyzed on a regular basis to release minimum, maximum and average models, which are compared to the current devaluation.

A 100 basis point variation in the reference index, which is the critical assumption in its valuation model, would lead to an additional devaluation of almost 3.5% in the fair value of the ABCP.

Since the ABCP is fully matched to the individual life insurance liabilities, variations in the fair value, other than those related to credit risk, are directly reflected in the variations of policy liabilities, which avoids a disparity of the treatment in the results. Only variations in the fair value related to risk would have an effect on the Company's net results.

Although the Company considers its valuation technique appropriate, despite the fact that the restructuring took place on January 21, 2009, there is still a great deal of uncertainty surrounding the fair value of ABCP. It is possible that the definitive fair value of the investments will differ from the current estimates, perhaps even considerably, based on management's assessment of the conditions in effect as at December 31, 2008. Several factors can influence the ABCP evaluation, including changes in the value of the underlying assets, the evolution of the liquidity of the market for the new notes issued following the restructuring and the evolution of the prevailing financial crisis.

The Company's total exposure to non-bank ABCP is $104, of which $90 is held directly in the Company's general fund. Other than the ABCP held directly, the Company has a $14 exposure through its 45% share in an entity subject to significant influence.

With respect to the ABCP held directly by the Company, this evaluation led to an additional reduction in the estimated fair value of these investments, which decreased from $77 to $65 ($90 to $77 in 2007); these investments are presented in the Company's consolidated balance sheet under "Other invested assets." ABCP is designated as held-for-trading and matches the individual life insurance liabilities. This variation in the fair value of the ABCP did not result in any variation in the insurance policy liabilities in 2008 (decrease of $5 in 2007).

Moreover, the value of the Company's investment in an entity subject to significant influence (included under "Other invested assets") suffered a $2 decrease in value ($1 in 2007) leading to a corresponding decrease in the investment income drawn from this company.

The total impact of the decrease in value of non-bank sponsored ABCP on the Company's results as at December 31, 2008, is $15 ($10 in 2007), $11 after taxes ($7 in 2007).

ABCP investments are detailed as follows:

	Industrial Alliance	Entity subject to significant influence
	$	$
Traditional assets	41	1
Synthetic assets		
Category A-1	29	6
Category A-2	11	3
Category B	2	1
Category C	2	---
Ineligible assets	5	3
Total	90	14

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

5 › Acquisitions and Disposition of Businesses

Acquisitions

Individual Wealth Management
During the year, Investia Financial Services Inc., one of the Company's subsidiaries, made two acquisitions. On July 1, 2008, it acquired all the common shares of National Financial Corporation and its subsidiaries AEGON Dealer Services Canada Inc., Money Concepts (Canada) Limited and National Financial Insurance Agency Inc., respectively a holding company, a mutual funds broker, a financial services company and an insurance brokerage company, for a cash consideration of $13. Preliminary goodwill related to this transaction is $11. On December 31, 2008, the company acquired the financial planning, mutual fund dealer and life insurance sales operations of DundeeWealth Inc. in the province of Québec, for a cash consideration of $12. Preliminary goodwill related to this transaction is $14.

On October 31, 2008, IA Clarington Investments Inc., one of the Company's subsidiaries, which specializes in mutual funds management, acquired all the common shares of Sarbit Asset Management Inc., for a cash consideration of less than $1. Preliminary goodwill related to this transaction is $4.

Goodwill is not deductible for tax purposes. The allocation of the acquisition price for the three acquired companies is being evaluated. Once the analysis is finalized, which will be completed in the 12 months following the acquisition date, the allocation of the purchase price and its distribution by activity sector may be adjusted.

The results of the acquired companies were recognized in the Company's consolidated results starting on the acquisition date.

Individual life insurance
On January 31, 2008, the Company acquired 100% of the shares of the holding and brokerage companies controlling 98% of L'Excellence Life Insurance Company ("Excellence"), which specializes in individual disability and health insurance. The consideration totalling $48 is detailed as follows: a $15 cash payment, the assumption of $7 in debt, the issuance of 578,908 common shares of the Company for $25 and a $1 of transaction fees. The process of the purchase price allocation was completed during the year 2008. Goodwill on this transaction is $15 and intangible assets relating to this transaction are $34 and are not deductible for tax purposes.

On May 1, 2008, the Company purchased 100% of the common shares of United Family Life Insurance Company, a United States insurance company, for a cash consideration of US$33, which represents the capital and surplus for approximately US$30 and US$3 for the licences in different states. Preliminary goodwill related to this transaction is US$3. United Family Life Insurance Company changed its name to IA American Life Insurance Company. Goodwill is not deductible for tax purposes. The allocation of the acquisition price is being evaluated. Once the analysis is finalized, which will be completed during the following 12 months, the allocation of the purchase price and its distribution by activity sector may be adjusted.

The results of the acquired companies were recognized in the Company's consolidated results starting on the acquisition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

5 › Acquisitions and Disposition of Businesses (continued)

The assets acquired and liabilities assumed are summarized as follows:

	2008	
	Individual Wealth Management $	**Individual life Insurance** $
Assets acquired		
Cash and cash equivalents	4	2
Bonds	---	73
Stocks	---	28
Real Estate	---	3
	4	106
Other assets	8	20
	12	126
Liabilities assumed		
Policy liabilities		
Provisions for future policy benefits	---	51
Payments to policyholders and provisions for unreported claims	---	4
	---	55
Other liabilities (including restructuring charges)	16	30
Debentures	---	12
	16	97
Net assets acquired	(4)	29
Preliminary goodwill	29	3
Intangible assets	---	34
Goodwill	---	15
	25	81
Transaction amount	24	80
Transaction fees	1	1
Purchase price	25	81

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 was not reflected in the financial statements of the Company in 2007. The transaction was completed on January 18, 2008.

The assets sold and liabilities assumed are estimated as follows:

	2008
	$
Assets sold	
Invested assets	42
Other assets	6
	48
Liabilities assumed by purchaser	
Actuarial reserve	45
Net assets sold	3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

6 › Restructuring Costs

On acquisitions of entities, the Company established plans to restructure and consolidate business operations, locations and back-office systems. These costs, amounting to $6 and $22 for prior years, were accounted for as part of the purchase prices.

			Accrued on acquisition			
	Expected costs $	Cumulative amounts incurred as at December 31, 2007 $	**Anticipated acquisition costs of 2008 $**	**Amounts incurred in 2008 $**	**Cumulative amounts incurred to date $**	**Balance as at December 31, 2008 $**
Termination of contracts	10	8	**2**	**1**	**9**	**3**
Conversion of systems, integration and other	12	7	**4**	**7**	**14**	**2**
Cost of restructuring operations	22	15	**6**	**8**	**23**	**5**

The balance as at December 31, 2008 of restructuring costs is presented as creditor in the *Other Liabilities* (note 16).

These restructuring costs come from the following acquisitions:

The Company acquired BLC-Edmond de Rothschild Asset Management Inc. (BLCER) on December 31, 2004 and Clarington Corporation 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 July 1, 2008, through its Investia Financial Services Inc. subsidiary, the Company acquired all the common shares of National Financial Corporation and its subsidiaries AEGON Dealer Services Canada Inc., Money Concepts (Canada) Limited and National Financial Insurance Agency Inc., respectively a holding company, a mutual funds broker, a financial services company and an insurance brokerage company.

On October 31, 2008, through its IA Clarington Investments Inc. subsidiary, the Company acquired all the common shares of Sarbit Asset Management Inc. a mutual fund management firm.

On December 31, 2008, through its Investia Financial Services Inc. subsidiary, the Company acquired the financial planning, mutual fund dealer and life insurance sales operations of DundeeWealth Inc. in the province of Quebec.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

7 › Net Investment Income

Net investment income (loss) was derived from the following sources:

	2008					
	Held-for-trading $	Designated Held-for-trading $	Available-for-sale $	Loans and receivables $	Other $	Total $
Bonds						
Interest	---	132	49	52	---	233
Change in fair value	---	(155)	---	---	---	(155)
Change in provisions for loss	---	---	---	(5)	---	(5)
Gains (losses) realized	---	---	(3)	1	---	(2)
Mortgages						
Interest	---	---	---	176	---	176
Gains realized	---	---	---	3	---	3
Stocks						
Dividends	---	18	6	---	---	24
Change in fair value	---	(441)	---	---	---	(441)
Gains realized	---	---	7	---	---	7
Real estate						
Rental income (net of $58 of operating expenses)	---	---	---	---	34	34
Amortization of realized gains	---	---	---	---	1	1
Amortization of unrealized gains	---	---	---	---	15	15
Cash and cash equivalents						
Interest	16	---	---	---	---	16
Derivative income	(93)	---	---	---	---	(93)
Entity subject to significant influence	---	---	---	---	(7)	(7)
Other	(12)	---	---	33	---	21
	(89)	(446)	59	260	43	(173)
Investment expenses	---	---	---	---	(15)	(15)
Total	(89)	(446)	59	260	28	(188)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

7 › Net Investment Income (continued)

	2007				
	Held-for-trading $	Available-for-sale $	Loans and receivables $	Other $	Total $
Bonds					
Interest	140	41	49	---	230
Change in fair value	67	---	---	---	67
Gains realized	---	3	1	---	4
Mortgages					
Interest	---	---	150	---	150
Gains realized	---	---	2	---	2
Stocks					
Dividends	9	8	---	---	17
Change in fair value	74	---	---	---	74
Gains realized	---	6	---	---	6
Real estate					
Rental income (net of $54 of operating expenses)	---	---	---	31	31
Amortization of realized gains	---	---	---	6	6
Amortization of unrealized gains	---	---	---	4	4
Cash and cash equivalents					
Interest	22	---	---	---	22
Derivative income	(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

8 › 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.

The Company accounted for government assistance, in reduction of general expenses for $11 ($8 after tax) in 2008 ($10 in 2007 ($7 after tax)). These amounts were accounted for based upon receipt of formal confirmation in 2008 and 2007 from the Quebec government. The program calls for annual eligibility certification by the Quebec government on a prospective basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

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:

	2008		2007	
	$	**%**	$	%
Income before income taxes	**92**	---	312	---
Provision for income tax at statutory rates	**31**	**34**	113	36
Non-taxable income	**(15)**	**(17)**	(23)	(7)
Change in tax rate	**1**	**1**	(27)	(9)
Income taxes and effective income tax rates	**17**	**18**	63	20

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

	2008	2007
	$	$
Current income taxes	**45**	64
Future income taxes	**(28)**	(1)
Total	**17**	63

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

	2008	2007
	$	$
Future income tax liabilities		
Policy liabilities	**288**	171
Real estate	**51**	26
Other	**(103)**	97
Total	**236**	294

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

10 › Management of Risks Associated with Financial Instruments

a) 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. Risk management is composed of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding risk management principles and responsibilities is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on pages 49 and 50.

The most considerable risks that the Company must manage concerning financial instruments are presented below:

- Market risk: corresponds to the risk that the value of a financial instrument fluctuates and leads to a loss due to variations in market factors such as interest rates, rate spreads, exchange rates and stock prices.
- Credit risk: corresponds to the risk of loss if counterparties or debtors do not respect their obligations to the Company.
- Liquidity risk: corresponds to the risk that the necessary funds are not available in a timely and profitable manner to honour all Company commitments as they fall due.

Market Risk

Matching and interest rate risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits. 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. To manage the risk of fluctuation of returns credited to policy liabilities versus the returns realized on assets, the Company maintains a system to match its assets to its liabilities. 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. One of the strategies used in matching is immunization, which consists in using fixed-income securities to immunize a liability against interest rate variations.

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 Company's results. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which are calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; and 3) the income on capital generated by the assets backing the Company's capital.

Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for 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, derivative financial instruments are used. As at December 31, 2008, the Company was not exposed to any material foreign currency risk.

The Company also uses hedge accounting in order to avoid currency risk. A futures contract maturing in less than one year with a nominal value of US$30 and a fair value of $(2) has been designated as hedge for a net investment in a self-sustaining foreign operation and futures contracts maturing in less than one year with a nominal value of US$8 and a fair value lower than $1 have been designated currency risk hedge. The counterparts involved in the transaction have an AA credit rating. For the year ended December 31, 2008, the Company has not observed any inefficiency of the hedge. The fair value of the US$30 futures contract is accounted in the other comprehensive income as is the currency translation of the net investment in a self-sustaining foreign operation, whereas the valuation change of assets available-for-sale covered by the futures contracts and the fair value of these contracts are accounted in net investment income.

More information about our primary risk management measures and practices related to market risk is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on pages 49 to 53.

Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments to the Company. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgage loans and private placements, and exposure to different investment portfolios, derivative transactions and reinsurance activities.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk. More information about our primary risk management measures and practices related to credit risk is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on pages 53 and 54.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

10 › Management of Risks Associated with Financial Instruments (continued)

Credit Risk (continued)
In the normal course of business, the Company uses reinsurance agreements 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 agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured. More information about our primary risk management measures and practices related to reinsurance is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on page 51.

Provision for Losses
The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages, and real estate held for resale. 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 or in foreclosure process is assumed to be impaired. 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. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. Furthermore, interest on impaired assets is no longer accrued and recognized in the income, and previous interest accruals are reversed.

On the other hand, 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.

Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

More information about our primary risk management measures and practices related to liquidity risk is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on page 54.

b) Other Information on Risk Management Principles

Sensitivity analysis
A sensitivity analysis concerning increases or decreases in the stock markets or interest rates and their impact is presented in the Risk Management section of Management's Discussion and Analysis on pages 52 and 53.

Permanent impairment
At each period end, the Company must determine if there is any objective proof of depreciation of any financial asset not classified as held-for-trading or designated held-for-trading. Objective proof of depreciation corresponds to any observable data that the Company learns of concerning any of the following situations: significant financial difficulties of the issuer, a breach of contract, the granting of favourable conditions that would not otherwise be foreseeable, the growing possibility of the issuer's bankruptcy or financial restructuring and the disappearance from an active market due to financial difficulties.

Given that these permanent devaluations are on available-for-sale securities, they have been reclassified from the Accumulated other comprehensive income to the Net investment income.

	2008 Available for sale $
Bonds	7
Stocks	1
	8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets

a) Carrying Value and Fair Value

	2008					
	Held-for-trading	Designated Held-for-trading	Available-for-sale	Loans and receivables	Other	Total
	$	$	$	$	$	$
Bonds						
Governments	---	4,311	498	41	---	4,850
Municipalities	---	95	17	3	---	115
Corporate and other	---	1,520	657	800	---	2,977
	---	5,926	1,172	844	---	7,942
Mortgages						
Insured						
Residential	---	---	---	596	---	596
Multi-residential	---	---	---	1,867	---	1,867
Non-residential	---	---	---	39	---	39
	---	---	---	2,502	---	2,502
Conventional						
Residential	---	---	---	84	---	84
Multi-residential	---	---	---	468	---	468
Non-residential	---	---	---	454	---	454
	---	---	---	1,006	---	1,006
	---	---	---	3,508	---	3,508
Stocks						
Common stocks	---	176	77	---	---	253
Preferred stocks	---	5	132	---	---	137
Stock indexes	---	336	13	---	---	349
Investment fund units	---	566	35	---	---	601
	---	1,083	257	---	---	1,340
Real estate						
Held for investment	---	---	---	---	628	628
Held for resale	---	---	---	---	2	2
	---	---	---	---	630	630
Policy loans	---	---	---	320	---	320
Cash and cash equivalents	259	---	---	---	---	259
Other invested assets	130	---	---	249	18	397
Total	389	7,009	1,429	4,921	648	14,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

	2007				
	Held-for-trading $	Available-for-sale $	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					
Residential	---	---	513	---	513
Multi-residential	---	---	1,331	---	1,331
Non-residential	---	---	50	---	50
	---	---	1,894	---	1,894
Conventional					
Residential	---	---	117	---	117
Multi-residential	---	---	426	---	426
Non-residential	---	---	483	---	483
	---	---	1,026	---	1,026
	---	---	2,920	---	2,920
Stocks					
Common stocks	7	94	---	---	101
Preferred stocks	11	133	---	---	144
Stock indexes	433	18	---	---	451
Investment fund units	1,038	30	---	---	1,068
	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

Other Invested Assets

	2008	2007
	$	$
Entity subject to significant influence	**18**	17
Cash in trust	**65**	38
Notes receivable	**249**	160
Non-bank sponsored asset-backed commercial paper (note 4)	**65**	77
Total	**397**	292

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. 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.

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 using the valuations made by chartered appraisers.

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

		2008			2007	
	Book value $	Fair value $	Variations $	Book value $	Fair value $	Variations $
Assets						
Invested assets						
Bonds	**7,942**	**7,942**	**---**	8,127	8,127	---
Mortgage loans	**3,508**	**3,584**	**76**	2,920	2,973	53
Stocks	**1,340**	**1,340**	**---**	1,764	1,764	---
Real estate	**630**	**815**	**185**	482	624	142
Policy loans	**320**	**320**	**---**	267	267	---
Cash and cash equivalents	**259**	**259**	**---**	362	362	---
Other investments	**397**	**397**	**---**	292	292	---
	14,396	**14,657**	**261**	14,214	14,409	195

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

b) Concentration Risk and Credit Risk

Concentration Risk
Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity.

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 following tables provide information about credit risk and concentration risk.

Bonds by sectors of activity

	2008			
	Designated Held-for-trading $	Available-for-sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	630	389	194	1,213
Asset backed securities	300	162	26	488
Utilities and energy	253	44	281	578
Industrial products	196	21	136	353
Consumer cyclical and non-cyclical	61	31	72	164
Health	16	---	81	97
Other	64	10	10	84
	1,520	657	800	2,977

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

b) Concentration Risk and Credit Risk (continued)

	2007			
	Designated Held-for-trading $	Available-for-sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	739	366	170	1,275
Asset backed securities	408	226	28	662
Utilities and energy	259	12	217	488
Industrial products	226	16	142	384
Consumer cyclical and non-cyclical	74	15	57	146
Health	12	---	75	87
Other	60	9	15	84
	1,778	644	704	3,126

Bonds by investment grade

	2008	2007
	Carrying value	
	$	$
AAA	**937**	1,114
AA	**1,448**	1,609
A	**5,009**	4,920
BBB	**530**	476
BB and lower	**18**	8
Total	**7,942**	8,127

The investment grades of bonds take into account the characteristics of issuers of derivative financial instruments (credit contracts – note 11 d)) matching certain securities held, thus reducing the credit risk.

If the evaluation is not available from a credit rating agency, the Company prepares an internal evaluation of the quality of the investment. The bonds that have been internally evaluated represent an amount of $750 ($686 in 2007).

The value of the Company's investments in securities guaranteed by monoline financial guarantors is $0 for 2008 and less than $1 for 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Mortgages by region and type

	2008					
	Atlantic provinces $	**Quebec $**	**Ontario $**	**Western provinces $**	**Outside Canada $**	**Total $**
Residential	**---**	**637**	**40**	**3**	**---**	**680**
Multi-residential	**47**	**1,019**	**374**	**646**	**249**	**2,335**
Non-residential	**34**	**119**	**119**	**193**	**28**	**493**
Total	**81**	**1,775**	**533**	**842**	**277**	**3,508**

	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

Real estate by type of property

	2008	2007
	Carrying value	
	$	$
Residential and multi-residential	**11**	9
Office	**504**	360
Retail	**97**	94
Industrial	**12**	12
Land and other	**6**	7
Total	**630**	482

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Unimpaired Past Due Loans
A loan is considered to be in arrears when the counterparty did not make a payment on the due date under the contract terms.

	2008			
	30 – 59 days in arrears $	**60 – 89 days in arrears $**	**90 days in arrears and more or in process of foreclosure $**	**Total $**
Insured mortgage loans	**4**	**7**	**2**	**13**
Conventional mortgage loans	**6**	**---**	**7**	**13**
Total	**10**	**7**	**9**	**26**

	2007			
	30 – 59 days in arrears $	60 – 89 days in arrears $	90 days in arrears and more or in process of foreclosure $	Total $
Insured mortgage loans	22	7	2	31
Conventional mortgage loans	7	---	3	10
Total	29	7	5	41

Allowances for losses

	2008				
	Bonds $	**Mortgages $**	**Real estate held-for-sale $**	**Other $**	**Total $**
Balance at beginning	**5**	**---**	**4**	**---**	**9**
Increase of allowances for losses	**5**	**---**	**---**	**---**	**5**
Decrease of allowances for losses	**(3)**	**---**	**(4)**	**---**	**(7)**
Transfer from allowances for losses to investments	**(2)**	**---**	**---**	**---**	**(2)**
Balance at end	**5**	**---**	**---**	**---**	**5**

	2007				
	Bonds $	Mortgages $	Real estate held-for-sale $	Other $	Total $
Balance at beginning	5	---	4	78	87
Impact of the change in accounting policies	---	---	---	(78)	(78)
Balance at end	5	---	4	---	9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Impaired Investments

	2008		
	Gross	**Provisions**	**Total**
	$	**$**	**$**
Bonds	**5**	**5**	**---**
Mortgage loans	**8**	**---**	**8**
Real estate held for resale	**1**	**---**	**1**
Balance at end	**14**	**5**	**9**

	2007		
	Gross	Provisions	Total
	$	$	$
Bonds	7	5	2
Mortgage loans	3	---	3
Real estate held for resale	11	4	7
Balance at end	21	9	12

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.

	2008		2007	
	Bonds	**Mortgages**	Bonds	Mortgages
	Carrying value		Carrying value	
	$	**$**	$	$
Due in 1 year or less	**738**	**296**	644	328
Due after 1 year through 5 years	**1,391**	**1,471**	1,260	1,343
Due after 5 years through 10 years	**1,418**	**772**	1,480	519
Due after 10 years	**4,395**	**969**	4,743	730
Total	**7,942**	**3,508**	8,127	2,920

The effective yield is between 0.15% and 18.49% (1.08% and 12.22% in 2007) for bonds, between 2.55% and 15.00% (3.82% and 12.75% in 2007) for mortgages and between 4.65% and 10.00% (5.00% and 10.00% in 2007) for policy loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

c) Interest Rate Risk (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 15, the Company takes into account the level of matching achieved between assets and liabilities.

d) 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.

	2008					
		Swaps			Futures contracts	
	Equity contracts $	Currency contracts $	Interest rate contracts $	Credit contracts $	Currency contracts $	Total $
Notional amount by term to maturity						
Less than 1 year	272	4	69	21	93	459
1 to 5 years	66	49	98	18	---	231
Over 5 years	7	30	14	---	---	51
Total	345	83	181	39	93	741
Fair value	4	(7)	(6)	1	(2)	(10)
Credit exposure risk						
Maximum credit risk	10	3	2	1	---	16
Potential future credit risk	22	5	1	---	1	29
Credit equivalent amount	32	8	3	1	1	45

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

11 › Invested Assets (continued)

d) Derivative Financial Instruments (continued)

	2007				
		Swaps			
	Equity contracts $	Currency contracts $	Interest rate contracts $	Credit contracts $	Total $
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

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing all derivative contracts which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from future movement in underlying market rates. The Company's exposure at each balance sheet date is limited to the risk that a counterparty does not honour the terms of a derivative contract, and the Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2008 and 2007, all counterparties have a credit rating of AA low and higher.

e) 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, 2008, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $352 ($319 in 2007).

12 › Goodwill

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

	Preliminary goodwill		Goodwill		Total	
	2008	2007	**2008**	2007	**2008**	2007
	$	$	**$**	$	**$**	$
Balance at beginning	**---**	9	**68**	59	**68**	68
Acquisition of businesses	**81**	(9)	**---**	9	**81**	---
Reclassification after allocation of the acquisition price	**(15)**	---	**15**	---	**---**	---
Reclassification to intangible assets	**(34)**	---	**---**	---	**(34)**	---
Balance at end	**32**	---	**83**	68	**115**	68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

13 › Intangible Assets

Intangible assets include:

	Balance at beginning		Acquisition		Total	
	2008	2007	**2008**	2007	**2008**	2007
	$	$	**$**	$	**$**	$
Unamortized intangible assets with indefinite life	**298**	298	**33**	---	**331**	298
Amortized intangible assets with definite life	**---**	---	**1**	---	**1**	---
Balance at end	**298**	298	**34**	---	**332**	298

Unamortized indefinite life intangible assets are management contracts and distribution networks.

Amortized intangible assets with definite life are depreciated under the straight-line method over 5 years. The amortization expense is less than $1.

14 › Other Assets

Other assets consist of the following:

	2008	2007
	$	$
Systems hardware and software, furniture, and equipment, at cost	**132**	114
Less: accumulated depreciation	**89**	74
	43	40
Leasehold improvements, at cost	**84**	69
Less: accumulated depreciation	**44**	37
	40	32
Investment income due and accrued	**68**	65
Derivative instruments	**---**	11
Outstanding premiums	**55**	50
Due from reinsurers	**52**	23
Due from agents	**32**	28
Accounts receivable	**174**	168
Deferred sales commissions	**87**	82
Prepaid expenses	**6**	6
Miscellaneous	**15**	19
Total	**572**	524

The depreciation and amortization of fixed assets included in the general expenses and the deferred sales commissions included in commissions are respectively $19 ($15 in 2007) and $32 ($26 in 2007).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities

Policy liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends, taxes (other than incomes taxes) and expenses on policies in force. Policy liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits. 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:

	2008				
	Individual		Group		
	Life & Health $	Wealth Management $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	6,424	1,295	1,207	2,842	11,768
United States	142	326	6	---	474
Other countries	8	---	---	---	8
Total	6,574	1,621	1,213	2,842	12,250
Assets backing policy liabilities					
Bonds and other fixed interest securities	4,084	470	736	1,419	6,709
Mortgages	843	914	443	1,209	3,409
Stocks	1,075	8	---	36	1,119
Real estate	247	16	---	161	424
Policy loans	276	41	2	---	319
Other invested assets	49	172	32	17	270
Total	6,574	1,621	1,213	2,842	12,250

	2007				
	Individual		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

The fair value of assets backing policy liabilities as at December 31, 2008 was estimated at $12,426 ($12,231 in 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities (continued)

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 (stock markets, interest rates and defaults of payment), 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
Mortality represents the occurrence of death in a given population. 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.

The Company estimates that a 5% permanent deterioration in mortality rates would result in an $88 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.

Morbidity
Morbidity represents the occurrence of accident or illness among insured risks. The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect emerging Company experience.

Investment Return and Interest Rate Risk
The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the policy liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations.

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 reinvestment strategies are founded on investment policies for each sector and the reinvestment returns are drawn from current and expected market rates for fixed interest investments and forecasts for variable interest assets. 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. Investment return assumptions take into account losses expected on fixed income investments. For fixed income securities, the total valuation margin, established before taxes, for asset credit risk included in the policy liabilities as at December 31, 2008 is $83 ($78 in 2007).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities (continued)

Investment Return and Interest Rate Risk (continued)
The interest rate risk is the risk of loss due to changing interest rates. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages the interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For unmatched liabilities, primarily individual insurance products that have very long term commitments, the Company favours an investment strategy that tends to optimize 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.

As at December 31, 2008, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to an increase in the policy liabilities of approximately $24 after taxes. A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the policy liabilities of about $35 after taxes.

The Company estimates that a 0.1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets drop 10% at the beginning of the period, to subsequently recover a portion of this loss during the year, net income to common shareholders would be about $17 lower than expected for its regular operations.

The Company estimates that a sudden 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact to a 10% decrease, but in the opposite direction.

Currency Risk
Currency risk results from a difference between currency of liabilities and that of the assets they are backing. 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.

The Company prices its products to cover expected costs.

Lapses
Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. 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.

The Company reduces its exposure as much as possible through the way it develops its products. The Company has established a monthly method to follow-up on lapses and surrenders.

Margins for Adverse Deviations
The assumptions that rely on best estimates are used to calculate the policy liabilities. The Appointed Actuary must adjust these assumptions to include margins for adverse deviation to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities (continued)

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 2008, ceded reinsurance reduced the policy liabilities by $293 ($218 in 2007).

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.

	2008	2007
	$	$
Balance at beginning	**12,088**	9,807
Impact of adopting new accounting standards	**---**	1,799
Disposition of the Caribbean block of business	**(45)**	---
Acquisition of Excellence	**55**	---
Reinsurance assumed	**---**	10
Retention on financial agreement	**---**	4
Changes in assumptions – provision for future policy benefits	**197**	1
Normal changes – provision for future policy benefits	**(144)**	505
Changes in other items of policy liabilities	**14**	23
Foreign currency translation	**85**	(61)
Balance at end	**12,250**	12,088

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.

16 › Other Liabilities

Other liabilities consist of the following:

	2008	2007
	$	$
Unearned premiums	**124**	90
Other contractual liabilities	**30**	25
Mortgage debts	**31**	32
Derivative instruments	**10**	1
Income tax payable	**20**	24
Amounts on deposit on products other than insurance	**120**	90
Accounts payable	**252**	253
Employee future benefits	**34**	39
Due to reinsurers	**27**	25
Total	**648**	579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

16 › Other Liabilities (continued)

Fair value
The fair value of the mortgage debts is $32 ($33 in 2007) taking into consideration the interest rates attached to the mortgage debt and the current interest rates. The book value of other assets corresponds approximately to their fair value.

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 $148 ($144 in 2007).

The reimbursement of the mortgage debts over the next 4 years will be:

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

The interest expense on the mortgage debts is $2 ($2 in 2007).

17 › Deferred Net Realized Gains

Deferred net realized gains related to real estate are realized gains and losses which have not yet been recognized in income and which will be amortized at 3% per quarter on a declining balance basis into future net investment income.

	2008	2007
	$	$
Related to policy liabilities		
Real estate	**3**	4
Related to equity		
Real estate	**7**	6
Total	**10**	10

18 › Debentures

Debentures are detailed as follows:

	2008	2007
	$	$
Debentures designated held-for-trading	**286**	310
Debenture classified as other liabilities	**100**	---
Total	**386**	310

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

18 › **Debentures** (continued)

	2008	2007
	$	$
Debentures designated held-for-trading		
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.	**138**	151
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.	**9**	10
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 (AMF) 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 AMF.	**139**	149
Total	**286**	310

Following the acquisition of the holding and brokerage companies controlling 98% of Excellence, the Company held an unsecured debenture of $12. This debenture was renegotiated on August 1, 2008 and is included in the debenture below.

	2008	2007
	$	$
Debenture classified as other financial liabilities		
Subordinated debenture with a maturity on August 1, 2023. The principal debenture of $88 bears interest of 5.63% payable semi-annually until August 1, 2018. The secondary debenture of $12 bears 7% interest payable quarterly until August 2013 and bears interest of 5.63% payable semi-annually until 2018. After that date, the interest on the principal and secondary debenture will be the 90-day bankers' acceptance rate plus 1%, adjusted on the last day of each quarter and payable semi-annually. These subordinated debentures are redeemable by the Company after August 1, 2018, in whole, but not in part, at par, with the prior approval of the AMF.	**100**	---
Total	**100**	---

Financing expense

The financing expense on the debentures is $(4) ($3 in 2007). This amount is composed of a $24 ($14 in 2007) decrease of fair value and $17 ($17 in 2007) of interest on debenture designated held-for-trading and $3 ($0 in 2007) of interest for the debenture classified as other financial liabilities.

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

Debentures designated held-for-trading

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, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

18 › **Debentures** (continued)

The following table presents the variation in the fair value of the financial liabilities designated held-for-trading. Due to insufficient trading volume or a lack of recent trades in market, the fair values are determined using valuation models that require the use of assumptions. The Company looks to external readily observable market inputs in determining those assumptions. The calculation of the variation in the market value attributable to the Company's credit is made by determining the difference between the discount of the future cash flows using an interest rate that reflects the credit spread of the Company's debenture and another reduced rate with this same spread.

	2008	2007
	$	$
Book value	**286**	310
Contractual maturity amount	**310**	310
Difference between book value and contractual maturity amount	**(24)**	---

	2008	2007
	$	$
Change in fair value attributable to Company's credit risk	**(52)**	(16)

Debenture classified as other financial liabilities

The fair value of the debenture classified as other financial liabilities is estimated using a valuation model that takes into account instruments on the market that have the same conditions. This fair value can fluctuate due to the interest rates of the credit risks associated with these instruments.

	2008	2007
	$	$
Book value	**100**	---
Fair value	**89**	---

19 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization (the AMF) that regulates its operations, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has adopted standards of sound capital management business and financial practices that aim to support its strategic orientations and financial targets and maintain an adequate level of capital. These practices include the establishment and strict follow up of a business plan and the drafting of a report on the Company's dynamic capital adequacy testing, which constitute a basis for decision-making. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

19 › Capital Management (continued)

Regulatory Requirements and Solvency Ratio
The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF. According to this guideline, regulatory capital contains two categories:

- "Tier 1" capital, which contains more permanent equity items and which is primarily composed of equity attributable to common shareholders, preferred shares and the eligible amount of innovative capital instruments. Goodwill and other intangible assets are deducted from the capital of this category.
- "Tier 2" capital, which is primarily composed of subordinated debentures.

The available capital represents the total "Tier 1" and "Tier 2" capital, less the deductions prescribed by the AMF.

Required capital is determined according to adjusted assets based on certain risks, the primary ones being asset default risk, market risk, insurance risk and change of interest rates risk.

The capital adequacy ratio is calculated by dividing available capital by required capital (solvency ratio).

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements, which specifies that the available capital be equal to or greater than the required capital. The guideline also stipulates that most of the capital must be "Tier 1", which absorbs the losses related to current operations.

In the management of its capital, the Company has set a target range of 175% to 200% for its solvency ratio. The Company also makes sure that the most of its capital is "Tier 1". As at December 31, 2008 and 2007, the Company maintained ratios that satisfy both the regulatory requirements and the target level it has set for itself.

The Company's regulatory capital situation is detailed as follows:

Regulatory Capital

	2008	2007
	$	$
Available capital		
Total tier 1 capital (net)	**1,726**	1,686
Total tier 2 capital (net)	**195**	120
Total	**1,921**	1,806
Required capital	**967**	935
Solvency ratio	**199%**	193%

Various items will cause the solvency ratio to increase or decrease. The issuance of an $88 debenture and the renegotiation of the one for $12 resulting from the Excellence acquisition transaction for a total amount of $100, the issuance of preferred shares for $100 and the changes made to the solvency standards by the regulatory authorities led to an increase in the solvency ratio. These changes eliminated the interest margin pricing risk, the unrealized gains and losses on available-for-sale debt securities and reduced the segregated funds guarantee requirement. However, the five acquisitions concluded in 2008, the normal increase in the required capital related to business growth and the recognition over two years of the impact of the new accounting standards that took effect at the beginning of 2007 reduced the solvency ratio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

20 › 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 AMF, 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 AMF, 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 AMF, 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 AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series C preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.3875 dollars per share, redeemable in full or in part at the option of the Company after December 31, 2013, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders into class A – Series D preferred shares commencing on December 31, 2013.

An unlimited number of class A – Series D preferred shares, without par value, without voting rights, with non-cumulative and variable quarterly dividend equal to the sum of the Treasury Bill rate plus 3.38% in cash per share, redeemable in full or in part at the option of the Company after December 31, 2018, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders into class A – Series C preferred shares commencing on December 31, 2018.

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 AMF. 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 AMF. 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, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

20 › Share Capital (continued)

	2008		2007	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	**79,841**	**513**	79,919	508
Shares issued on exercise of stock options	**175**	**5**	313	8
Shares issued on acquisition of business	**579**	**25**	---	---
Cancellation following the repurchase of common shares	**(265)**	**(2)**	---	---
Common shares repurchased and in the process of being cancelled	**---**	**---**	(391)	(3)
Balance at end	**80,330**	**541**	79,841	513
Shares held in treasury	**(22)**	**---**	(22)	---
	80,308	**541**	79,819	513
Preferred shares, class A – Series A				
Balance at beginning and at end	**4**	**---**	4	---
Shares held in treasury	**(4)**	**---**	(4)	---
	---	**---**	---	---
Preferred shares, class A – Series B				
Balance at beginning and at end	**5,000**	**125**	5,000	125
Preferred shares, class A – Series C				
Balance at beginning	**---**	**---**	---	---
Shares issued	**4,000**	**100**	---	---
Shares held in treasury	**(51)**	**(1)**	---	---
Balance at end	**3,949**	**99**	---	---
Total share capital		**765**		638

On November 25, 2008 the Company issued 4,000,000 class A – Series C preferred shares for an amount of $100.

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 15, 2008 to February 14, 2009, 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, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

21 › Earnings Per Common Share

	2008	2007
	$	$
Net income available to common shareholders	**66**	242
Weighted daily average number of shares outstanding	**80,226,465**	80,119,806
Add: diluted effect of stock options granted and outstanding	**748,093**	994,540
Weighted average number of shares outstanding on a diluted basis	**80,974,558**	81,114,346
Earnings per common share (in dollars)		
basic	**0.82**	3.02
diluted	**0.82**	2.99

The Company uses the treasury stock method to determine the dilutive effect of stock options. This method considers the number of incremental shares using the difference between number of shares presumed issued (by assuming the outstanding stock option awards are exercised) and number of shares presumed purchased (the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of the Company's common shares for the period).

22 › 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 7,850,000 common shares 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:

	2008		2007	
	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	**3,300**	**25.98**	3,116	23.89
Options granted	**511**	**37.38**	505	35.65
Options exercised	**(175)**	**22.49**	(313)	20.64
Options forfeited	**(14)**	**32.68**	(8)	33.20
At end	**3,622**	**27.73**	3,300	25.98
Exercisable at end	**2,369**	**24.11**	2,055	22.64

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 2008 is $6.76 ($8.39 in 2007). The pricing model assumes the following information:

	2008	2007
Risk free interest rate	**3.59%**	4.10%
Expected volatility	**20%**	20%
Expected life	**7 years**	7 years
Expected dividends	**2.61%**	2.29%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

22 › 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.

	Options outstanding		
Exercise prices (in dollars)	Number of options outstanding (in thousands)	Average remaining life (in years)	Number of exercisable options (in thousands)
19.06	430	2.12	430
22.81	527	3.09	527
18.63	274	4.06	274
19.00	10	4.82	10
23.44	383	4.97	383
28.72	496	5.97	369
30.22	500	6.94	253
35.64	485	8.10	121
36.03	10	8.33	2
37.37	503	9.10	---
38.25	4	9.32	---
Total	3,622	5.71	2,369

The charge related to the stock-based compensation during the year is $4 ($4 in 2007).

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 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to an amount of 1,000 dollars per year. 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 be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 212,471 (162,128 in 2007) units and the remuneration expense for the plan is $(4) ($1 in 2007).

23 › 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)
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, 2007 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2006 and the next required valuation will be as at December 31, 2009.

	2008		2007	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning	**389**	**---**	386	---
Actual return on assets	**(68)**	**---**	11	---
Company contributions	**17**	**---**	7	---
Employee contributions	**7**	**---**	6	---
Benefits paid	**(23)**	**---**	(21)	---
Acquisitions	**1**	**---**	---	---
Fair value at end	**323**	**---**	389	---
Accrued benefit plan obligations				
Balance at beginning	**393**	**25**	448	33
Current service cost	**14**	**1**	19	1
Interest cost	**23**	**2**	21	2
Employee contributions	**7**	**---**	6	---
Benefits paid	**(23)**	**(1)**	(21)	(2)
Actuarial gains	**(67)**	**(5)**	(80)	(9)
Acquisitions	**1**	**---**	---	---
Balance at end	**348**	**22**	393	25
Accrued plan obligations are composed of:				
Funded plans	**306**	**---**	345	---
Unfunded plans	**42**	**22**	48	25
	348	**22**	393	25
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	**323**	**---**	389	---
Accrued benefit plan obligations	**348**	**22**	393	25
Funded status of plans deficit	**(25)**	**(22)**	(4)	(25)
Unamortized net actuarial (gains) losses	**16**	**(5)**	(11)	---
Unamortized past service costs	**4**	**1**	4	1
Unamortized transitional obligation	**(3)**	**---**	(4)	---
Accrued benefit liability, net of valuation allowance	**(8)**	**(26)**	(15)	(24)
The amounts in the balance sheet are:				
Other liabilities (note 16)	**8**	**26**	15	24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

Funded plans with accrued benefit obligations in excess of plan assets:
Included in the above accrued 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.

	2008		2007	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Funded status – plan deficit				
Accrued benefit plan obligations	**325**	**---**	11	---
Fair value of plan assets	**304**	**---**	10	---
Funded status – plan deficit	**(21)**	**---**	(1)	---
Benefit plan expenses				
Current service cost	**14**	**1**	19	1
Interest cost	**23**	**1**	21	2
Actual return on plan assets	**68**	**---**	(11)	---
Actuarial gain on plan	**(67)**	**(5)**	(80)	(9)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**38**	**(3)**	(51)	(6)
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	**(95)**	**---**	(16)	---
Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit plan obligations for the year	**68**	**5**	82	10
Difference between amortization of past service costs for the year and actual plan amendments for the year	**1**	**---**	1	---
Amortization of the transitional obligation	**(1)**	**---**	(1)	---
Defined benefit costs recognized	**11**	**2**	15	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

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

	2008	2007
	%	%
Asset categories		
Bonds	**36**	41
Stocks	**58**	56
Other	**6**	3
Total	**100**	100

The pension plan assets did not contain any common shares of the Company in 2008 and 2007.

Significant Assumptions

	2008		2007	
Accrued benefit plan obligations	**Pension plans**	**Other plans**	Pension plans	Other plans
Discount rate	**7.40%**	**7.40%**	5.80%	5.80%
Rate of compensation increase	**3.50%**	**---**	3.50%	---
Benefit plan expenses				
Discount rate	**5.80%**	**5.80%**	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%	---

	2008 Other plans			
Assumed health care cost trend rates	**Drugs**	**Medical**	**Dental**	**Other**
Initial health care cost trend rates	**10.25%**	**12.20%**	**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	**10**	**10**	**---**	**---**

	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	---	---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

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 2008.

	Increase	Decrease
	$	$
Total of service and interest cost	---	---
Accrued benefit obligations	3	(2)

The total of service and interest cost for 2008 and 2007 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 2007). The liability related to this plan is presented in other liabilities (note 16 included in Accounts payable) for an amount of $2 ($2 in 2007).

24 › 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 2008 and 2007, this transfer to shareholders is less than $1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

25 › 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.

The accounting policies used by segment are the same as the one described in note 2, Accounting Policies.

Segmented Income Statements

	2008					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Revenues						
Premiums	921	1,161	957	1,115	128	4,282
Net investment income	(434)	84	62	103	(3)	(188)
Fees and other revenues	2	319	9	28	13	371
	489	1,564	1,028	1,246	138	4,465
Operating expenses						
Cost of commitments to policyholders	187	225	699	859	95	2,065
Net transfer to segregated funds	---	978	---	369	---	1,347
Commissions, general and other expenses	347	274	272	29	39	961
	534	1,477	971	1,257	134	4,373
Income before income taxes	(45)	87	57	(11)	4	92
Less: income taxes	(18)	24	14	(4)	1	17
Net income before allocation of other activities	(27)	63	43	(7)	3	75
Allocation of other activities	3	---	---	---	(3)	---
Net income	(24)	63	43	(7)	---	75
Attributed to shareholders	(27)	63	43	(7)	---	72
Attributed to participating policyholders	3	---	---	---	---	3

	2007					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
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

* Includes other segments and intercompany eliminations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

25 › Segmented Information (continued)

Segmented General Fund Assets

	2008					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	**7,915**	**1,776**	**1,488**	**2,981**	**236**	**14,396**
Other assets	**166**	**161**	**85**	**48**	**112**	**572**
Intangible assets	**34**	**298**	**---**	**---**	**---**	**332**
Goodwill	**49**	**46**	**20**	**---**	**---**	**115**
Total	**8,164**	**2,281**	**1,593**	**3,029**	**348**	**15,415**

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

* Includes other segments and intercompany eliminations.

26 › Premiums

	2008					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	**921**	**345**	**957**	**269**	**128**	**2,620**
Invested in segregated funds	**---**	**816**	**---**	**846**	**---**	**1,662**
Total	**921**	**1,161**	**957**	**1,115**	**128**	**4,282**

	2007					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

27 › 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 6 years and thereafter are as follows:

2009	2010	2011	2012	2013	2014 and thereafter
$	$	$	$	$	$
26	20	14	7	3	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, 2008 is $1 ($1 as at December 31, 2007).

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.

		Expires in	
	30 days $	31 to 366 days $	2010 and thereafter $
	26	65	41

Legal Proceedings
In connection with its operations, from time to time, the Company is named as defendant or of collective appeals in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss or expense in connection with such actions.

Letters of Credit
In the normal course of its operations, the Company establishes bank letters of credit. The balance of these letters is $1 ($2 in 2007).

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 represent a maximum amount of $0 ($2 in 2007).

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.

On August 18, 2006, the Company completed the acquisition of 100% of the common shares of FundTrade Financial Corporation Inc. 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.

Lines of Credit
As at December 31, 2008, the Company had operating lines of credit totalling $100 ($90 as at December 31, 2007). As at December 31, 2008 the lines of credit were used for an amount of $5 and none as at December 31, 2007. 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, 2008 and 2007 (in millions of dollars, unless otherwise indicated)

28 › 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, 2008, the balance of loans granted to them was $1 ($1 in 2007).

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:

	2008	2007
	$	$
Fees and other revenues	**8**	9

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

	2008	2007
	$	$
Assets		
Accounts receivable	**2**	2
Other invested assets	**4**	---
Liabilities		
Accounts payable	**---**	5
Provisions for future policy benefits	**17**	22

In December 2008, the Company acquired a debenture of $4 of the entity subject to significant influence.

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.

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

	2008	2007
	$	$
Financing expenses	**9**	9

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

	2008	2007
	$	$
Assets		
Notes receivable	**10**	10
Liabilities		
Debenture – series A	**138**	151
Funding debenture – series A	**9**	10

Debenture, Series A with a par value of $150, 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.

Funding debenture, Series A with a par value of $10, bearing interest of 5.714%, payable semi-annually, redeemable at the option of the Company at any time or repayable on maturity in 2053.

29 › Comparative Figures

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

SOCIAL RESPONSIBILITY REPORT

The following section describes the main achievements of Industrial Alliance and its subsidiaries in 2008 with respect to human resources management, community commitment and protection of the environment.

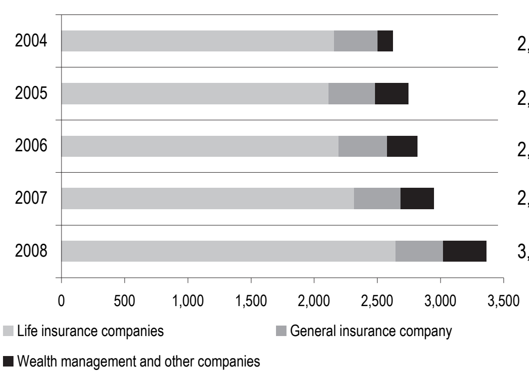
Before detailing the achievements of Industrial Alliance and its subsidiaries in terms of social responsibility in 2008, we would like to mention that in October 2008, *The Globe and Mail* ranked Industrial Alliance 21st among 180 public companies as part of a corporate governance classification.

In addition, Yvon Charest, President and Chief Executive Officer, was named Quebec Financial Personality of the Year in 2008 by *Finance et Investissement* magazine. He is the only corporate executive to have earned this title on two occasions since the listing was created in 2000.

OUR EMPLOYEES

At the end of 2008, Industrial Alliance and its subsidiaries had 3,363 employees, which is 416 more than in 2007. This 14% increase is due to the normal growth of business and the acquisition of new companies in the insurance and wealth management sectors. Since 2004, the number of employees working for the Industrial Alliance group has grown by 737, an increase of 28%.

Number of Employees



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 and programs to promote advancement within the company have been implemented.

Remuneration

Under the Company's compensation policy, most of the Industrial Alliance group's employees are eligible to receive a bonus. However, due to the difficult economic situation, no bonus was paid to employees—nor to any member of management—in 2008. Until the end of 2008, the bonus was calculated based on the Company's consolidated earnings (which accounted for 40% of the bonus), general expenses (20% of the bonus), and business growth by line of business (40% of the bonus). The bonus could reach a maximum of 5% of the employee's regular earnings. For 2009, the criteria remain the same, but the maximum bonus has been increased so that the bonus can attain 6% of the employee's regular earnings, with each of the three components now accounting for one third of the result.

Share Purchase Plan

To foster a sense of belonging, a Share Purchase Plan is offered to most Industrial Alliance group employees. This program was enhanced in 2008. Employees can now purchase up to 5% of their annual salary in Industrial Alliance shares, to a maximum of $3,000 per year. This maximum was doubled in 2008; it was previously $1,500. Moreover, employees participating in this plan benefit from an employer contribution equivalent to 50% of the invested amount, to a maximum of $1,000 per year. As at December 31, 2008, 1,209 employees were enrolled in the plan, a participation rate of 46%.

Five Corporate Values

In 2008, Industrial Alliance continued to promote the five corporate values that it adopted in 2007: team work, high-performance environment, continuous improvement, respect for individuals and distributors, and being service-oriented. Employees are encouraged to share these values and promote them in their day-to-day work.

Improving the Work Environment

Following the results of a survey conducted on various aspects of the work environment in 2007, Industrial Alliance implemented measures to improve the level of employee engagement.

Modernization of technical equipment was undertaken, with the installation of wireless mice, new headsets, new photocopiers and printers and new laptops and desk computers, according to the respective needs of Industrial Alliance and Industrial Alliance Pacific.

Improvements were also made to work schedules. The flex-time schedule, which already existed for Industrial Alliance employees in Montreal and Toronto, was extended to Head Office. In addition, employees no longer have to make up time for lunch hour courses of more than an hour long.

In the communications domain, two employee shows were held in Quebec City and Montreal and an employee week was held in Toronto to make employees aware of the various advantages offered to them by the Company (products, employee benefits, etc.). The Company newsletter was also revamped to better meet employee concerns and interests. Also in response to employee interest, Industrial Alliance organized new lunch hour conferences on various subjects. Finally, with the goal of greater transparency, salary scales are now posted with the job offers for positions publicized internally.

Industrial Alliance also improved a large number of major programs already in existence. Besides the share purchase plan mentioned above, employees now enjoy modular group insurance plans and a new vacation and paid leave program.

In addition, Industrial Alliance decided to award $500 to more than 600 randomly-selected employees so that they could become preferred shareholders of one of two new companies created by the Industrial Alliance group. These two companies were created to adapt the group’s organizational structure to the new accounting environment in effect since January 1, 2007.

Other initiatives are planned for 2009, including a renewed employee recognition program, a new, personalized annual statement of overall compensation and a new information brochure about the employee pension plan. Industrial Alliance also plans to pursue the analysis of new flex-time work possibilities. It also hopes to revise and change its new employee integration program in all lines of business.

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, learning a second language, mastering the use of business software, and so on.

In 2008, 213 Company employees successfully completed courses under the LOMA (Life Office Management Association, Inc.) program. Many of them completed more than one course in this program during the year.

In 2008, Industrial Alliance also successfully pursued its manager training programs. Following excellent results with the *Management Learning Path*, a second *Path* lasting 14 months was implemented for coordinators in Quebec City, Montreal and Toronto. The goal of the program is to instil a common vision among coordinators of what employee supervision means, and to give managers the tools to deal with daily supervisory problems of their work teams. In addition to traditional training sessions, there are co-development activities, instruction by colleagues, management coaching and online training.

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 2008, Industrial Alliance continued its recruiting efforts throughout Canada. A special recruiting mission was also organized in Belgium in November, which resulted in the hiring of additional information systems employees.

To facilitate employee recruiting, the Company continued to internally promote the referral program it set up in 2007. 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 a 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.

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.

DISTINCTIONS

- Diamond certificate, which is the highest honour granted by the United Way to a company (distinction received for a fourth consecutive year)
- Among the four finalists for the Fidéides Business and Social Commitment Award, created by the United Way and the Quebec City Chamber of Commerce (the award had not been granted at press time)
- 21st among 180 Canadian public companies with respect to corporate governance (*The Globe and Mail*)
- Yvon Charest, President and Chief Executive Officer, named 2008 Financial Personality of the Year in Quebec by *Finance et Investissement* magazine

Canada-Wide Contributions

Across Canada, Industrial Alliance group employees collected over $560,000 for the 2008 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 fourth consecutive year. This is the highest honour granted by the United Way to a company that supports it. It is awarded to a company that has received a Platinum certificate for at least five consecutive years. To obtain a Platinum certificate, a company must have an average donation per employee of more than $75 and a participation rate of over 45%.

Each year, in addition to the financial support provided through individual and institutional donations, an Industrial Alliance employee is released from his or her duties for several months to organize the annual United Way campaign in the Quebec City area. If an employee is not available, Industrial Alliance hires and remunerates an external representative to assume the role with the United Way.

Industrial Alliance and its Industrial Alliance Auto and Home Insurance subsidiary are also among the four finalists of the Fidéides Business and Social Commitment Award, created by the United Way and the Quebec City Chamber of Commerce. The award had not been granted at press time. Industrial Alliance and its subsidiary earned this award in 2002.

Still on a Canadian scale, several dozen Industrial Alliance group employees participated in *Light the Night*, a series of walks in major Canadian cities to raise funds for the Leukemia and Lymphoma Society. Industrial Alliance group employees participated in the event in six Canadian cities in the fall of 2008.

Contributions by Region

In Western Canada, Industrial Alliance Pacific provided financial support to the Vancouver General Hospital. It also supported the Arts Umbrella education program and continued its partnerships in the cultural community through its support of the Arts Club Theatre Company, the Calgary Opera and the Vancouver Symphony Orchestra.

In Ontario, Industrial Alliance offered its support to the Toronto Rehab Foundation, the Sick Kids Foundation, and several hospital foundations or health centres, such as the Toronto General and Western Hospital Foundation. It also supported teaching establishments, including the University of Ottawa, and cultural organizations such as the Art Gallery of Ontario and The National Ballet of Canada.

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, the Quebec Symphony Orchestra and the Domaine Forget International Festival received financial assistance from the Company. In education, in addition to its major commitment to Laval University, which will continue until 2015, Industrial Alliance has helped several postsecondary teaching institutions. Industrial Alliance also provided financial support for the implementation of a 211 service in two regions of Quebec. The 211 service is an information and referral centre that directs people free of charge to the social and community organizations that can best meet their needs.

Lastly, to celebrate the 400th anniversary of the founding of Quebec City, Industrial Alliance financed the popular Industrial Alliance shuttle, which served the main sites of the festivities. Industrial Alliance's contribution reduced the cost to use the shuttle to $2 per user for the entire day.

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 Industrial Alliance Pacific in 2008, following the creation of a similar committee at Head Office in 2007.

So far, the Industrial Alliance Pacific green committee has encouraged people to start carpooling and to only use their car if they have at least one other passenger.

The green committee at the Industrial Alliance head office outlined its environmental policy and introduced various awareness initiatives. One of them, conducted jointly with the DéfiQuébec pro-environmental campaign, enabled 166 employees to reduce their overall greenhouse gas emissions by more than 500 tonnes, which is the equivalent of taking 125 cars off the road per year.

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.). A paper recycling program in three buildings that the Company owns in Quebec City saved more than 3,000 trees in 2008, which is essentially the same number as 2007. At Industrial Alliance Pacific, in Vancouver, a similar program resulted in the equivalent of 343 trees being saved in 2008.

Industrial Alliance's ICI ON RECYCLE! Certification was renewed in 2008. The Company currently meets the level 2 criteria "Implementation." By 2010, the Company is expected to maintain this level or reach the next level, “Performance,” which is the highest.

Lastly, in 2008, kitchen scraps from the head office cafeteria continued to be converted to compost. This pilot project helps reduce waste, as 150,000 meals are served every year in the cafeteria.

Consume Recycled Materials

Industrial Alliance and its subsidiaries encourage the use and purchase of products made from recycled materials, including hand towels, bathroom tissue, ink cartridges, certain types of envelopes and certain types of printing paper.

For the last three 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 seeks 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 buildings are gradually being equipped with more energy efficient heat recovery systems and lighting.

Through its Real Estate Investments Department, Industrial Alliance has mandated an outside firm to evaluate the CO_2 equivalent—a universal conversion measure that reduces the evaluation of various forms of greenhouse gas emissions to a single measure—emitted by the Company's head office. This evaluation aims to better control and reduce the Company's emissions. It fulfils certain requirements of the Carbon Disclosure Project, which asks companies to draw up a report of their greenhouse gas emissions.

Lastly, Industrial Alliance is seeking to reduce, whenever possible, the quantity of documents it prints by encouraging their consultation on screen. As with the annual report, whose printed quantities have been considerably reduced in the last few years, in 2008 Industrial Alliance reduced the print run of numerous internal documents, including its corporate newsletter.

INDUSTRIAL ALLIANCE BOARD OF DIRECTORS

■ ◆ ▼

John LeBoutillier
C.M., LL.L., M.B.A.

Chairman of the Board
since 2005
Board member since 1997

Lawyer
Chairman of the Board of Industrial Alliance Insurance and Financial Services Inc.

Anne Bélec
B. Comm., M.B.A.

Board member since 2006

Executive

● ◆

Pierre Brodeur

Board member since 1999

Corporate Director

■

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

Board member since 1999

Actuary
President and Chief Executive Officer of Industrial Alliance Insurance and Financial Services Inc.

▲

Robert Coallier
B.A. with Major in Economics, M.B.A.

Board member since 2008

Senior Vice-President and Chief Financial Officer of Dollarama Group L.P., a discount store operator

▲

L.G. Serge Gadbois
FCA, M.B.A.

Board member since 2006

Chartered Accountant
Corporate Director

▲

Michel Gervais
O.C., O.Q., Ph.D.

Board member since 1997

Corporate Director

● ◆

Lise Lachapelle
B.B.A.

Board member since 1995

Economist
Corporate Strategy Consultant

■ ▲

Robert Lacroix
Ph.D., C.M., O.Q., FSRC

Board member since 2004

Economist
Emeritus Professor at the Université de Montréal and a Fellow at CIRANO, an interuniversity research centre in organizational analysis

▼

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

● ◆

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

▼

Hon. David R. Peterson
P.C., Q.C., C. St. J., L. d'H., D.U., LL.D.

Board member since 1991

Lawyer
Chairman and Senior Partner at Cassels Brock and Blackwell LLP, a law firm

▲

Mary C. Ritchie
FCA

Board member since 2003

Chartered Accountant
President of Richford Holdings Ltd., an investment consultation services company

■ ●

Guy Savard
C.M., FCA

Board member since 1995

Chartered Accountant
Chairman of the Board of Merrill Lynch Canada Inc., an investment bank

Secretary of the Board
Douglas A. Carrothers
LL.B., M.B.A.

Assistant Secretary
Jennifer Dibblee
B.Sc., B.C.L., LL.B.

- ■ Executive Committee
- ● Investment Committee
- ▲ Audit Committee
- ▼ Ethics Committee
- ◆ Human Resources and Corporate Governance Committee

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, Public Relations and
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

Scott Heard – B.A., CEBS
Vice-President, Sales and Marketing
Group Insurance

Renée Laflamme – CA, CFA
Vice-President, Mortgage Loans

François Lalande – CFA
Vice-President, Investments
Portfolio Management

Richard Legault – CA, CFA
Vice-President, Investments
General Fund

Denis Majeau – B.Adm., CA
Vice-President
Accounting and Taxation

David Q. Potter – CLU, Ch.F.C.
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

Alnoor R. Jiwani – F.L.M.I.
Senior Vice-President
SAL Group

Gordon A. Robinson – M.A.
Vice-President, Treasurer and Controller

Leanne Sersun – B.Com, M.B.A.
Vice-President, Human Resources

David L. Stewart
Vice-President, Sales, SAL

Paul A. Tatay
Vice-President, Special Markets Group
(SMG)

IA American Life Insurance Company

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

Karen Davies – F.S.A., F.C.I.A.
Vice-President, U.S. Operations

Mary Dinkel – CLU
Vice-President, U.S. Sales Development

The Excellence Life Insurance Company

Antoine Ponce – F.S.A., F.C.I.A., CFA
President and General Manager

Dominique Laberge – Lawyer
Vice-President, Administrative Services

Mario Champagne – ASA
Vice-President, Marketing and Quebec
Development

Charles Parent – F.S.A., F.C.I.A.
Vice-President, Marketing and
Development Outside Quebec

Éric Duval – ASA
Vice-President, Actuarial and Specialized
Products

Michel Giguère
Vice-President, Sales

François Girard – ASA
Vice-President, Group Insurance

Alain Jordan
Vice-President, Information Systems

Julie Sigouin – CA
Controllor

Michel Rhéaume et associés ltée

Daniel Riopel – LL.B.
President and General Manager

Marc Desilets – C.M.A.
Vice-President, Finance and Administration

Luc Daoust
Vice-President, Sales and Development

Ginette Crépeau
Vice-President, Administration and Client
Service

IA Clarington Investments Inc.

David Scandiffio – CFA
President

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

Matthew Campbell – B.A., LL.B.
Vice-President and Chief Legal Counsel
Legal and Compliance

Nancy Cappadocia – CA
Vice-President and Chief Financial Officer
Finance

Kim Jativa
Vice-President, Operations

Investia Financial Services Inc.

Louis H. DeConinck
President

Pierre Massicotte – CFA, CA, FCSI, Fin. Pl.
General Manager
Chief Financial Officer

France Beaudry – Notary, LL.B.
Chief Compliance Officer

FundEX Investments Inc.

Michael S. Greer
President

Christopher Enright
Executive Vice-President

Robert Corbett
Vice-President, Sales

David Hawkins
Vice-President, Business Development

Jack Mastromattei
Vice-President, Operations

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 Boiteau
Chief Compliance Officer

Industrial Alliance Auto and Home Insurance Inc.

Michel Laurin – F.C.I.A., F.C.A.S.
President and Chief Operating Officer

Jocelyne Guay
Executive Vice-President

Christian Alain – CGA
Vice-President, Administration

Sophie Duval – M.B.A., F.C.I.A., F.C.A.S.
Vice-President, Risk Management

Christine Hébert – CHRP
Vice-President, Human Development

Jean Lapointe – CA
Vice-President, Claims and Assistance

Jean-François L'Heureux
Vice-President, Business Development

Marcel Lortie
Vice-President, Technology

Suzanne Michaud – M.A.Sc.
Vice-President, Client Experience

Sylvie Racine – FPAA
Vice-President, Sales and Services

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

OFFICES OF INDUSTRIAL ALLIANCE AND ITS SUBSIDIARIES

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.
Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5000
1 800 463-6236
www.inalco.com

Individual Insurance and Individual Wealth Management
Toronto Service and Sales Centre
522 University Avenue
Toronto, ON M5G 1Y7
Administration: 416 598-2122
Sales and Marketing:
416 487-0242

Halifax
Corporate Campus, Suite 320
238 Brownlow Avenue
Dartmouth, NS B3B 1Y2
902 423-8258
1 800 464-1498

Moncton
200 Champlain Street
Suite 260
Dieppe, NB E1A 1P1
506 855-5310
1 800 577-4747

Winnipeg
201 Portage Avenue
Suite 1505
Winnipeg, MB R3B 3K6
204 956-2802
1 800 268-4886

Calgary
1414 8th Street S.W.
Suite 320
Calgary, AB T2R 1J6
403 241-9817
1 877 656-9817

Group Insurance Employee Plans
Halifax
Corporate Campus, Suite 320
238 Brownlow Avenue
Dartmouth, NS B3B 1Y2
902 422-6479
1 800 255-2116

Quebec City
925 Grande Allée West
Suite 420
Quebec City, QC G1S 1C1
418 684-5205
1 800 463-7274

Montreal
680 Sherbrooke Street West
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-3800

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
416 585-8055

Calgary
777 8th Avenue S.W.
Suite 2050
Calgary, AB T2P 3R5
403 532-1500

Vancouver
1055 West Hastings Street
Suite 1130
Vancouver, BC V6E 2E9
604 689-0388

Mortgage Loans
Quebec City
925 Grande Allée West
Suite 200
Quebec City, QC G1S 1C1
418 686-7738
1 888 368-7738

Montreal
2000 McGill College Avenue
Suite 1550
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-6680
1 800 361-2173

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
416 585-8832
1 877 585-8832

Group Pensions
Halifax
Corporate Campus, Suite 320
238 Brownlow Avenue
Dartmouth, NS B3B 1Y2
902 422-6479
1 800 255-2116

Quebec City
925 Grande Allée West
Suite 420
Quebec City, QC G1S 1C1
418 684-5576
1 800 549-4097

Montreal
680 Sherbrooke Street West
20th Floor
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-6600
1 800 697-9767

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
416 585-8917
1 877 902-4920

Calgary
777 8th Avenue S.W.
Suite 2050
Calgary, AB T2P 3R5
403 218-3248
1 888 532-1505, ext. 248

Vancouver
1055 West Hastings Street
Suite 1130
Vancouver, BC V6E 2E9
604 689-0388, ext. 223
1 800 557-2515

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES INC.
Head Office – Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
604 734-1667
1 800 665-4458
www.iapacific.com

US Operations
17550 North Perimeter Drive
Suite 210
Scottsdale, AZ 85255
USA
480 473-5540

Group Insurance Special Markets Group (SMG)
Montreal
680 Sherbrooke Street West
9th Floor
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-3748
1 866 499-3748

Toronto
515 Consumers Road, Suite 400
Toronto, ON M2J 4Z2
416 498-8319
1 800 611-6667

Calgary
777 8th Avenue S.W., Suite 2050
Calgary, AB T2P 3R5
403 266-7582
1 800 661-1699

Vancouver
1188 West Georgia Street
Suite 1910
Vancouver, BC V6E 4A2
604 688-9641
1 888 725-2886

Group Insurance Group Creditor Insurance (SAL)
Halifax
238A Brownlow Avenue
Suite 302
Dartmouth, NS B3B 2B4
902 468-8698

Quebec City
1170 Lebourgneuf Boulevard
Suite 408
Quebec City, QC G2K 2E3
418 622-1915

Montreal
4255 Lapinière Boulevard
Suite 120
Brossard, QC J4Z 0C7
450 465-0630

Toronto
1155 North Service Road West
Unit 6
Oakville, ON L6M 3E3
905 847-7900

Winnipeg
865 Waverley Street, Suite 102
Winnipeg, MB R3T 5P4
204 942-8907

Edmonton
Terrace Plaza, Suite 840
4445 Calgary Trail Southbound
Edmonton, AB T6H 5R7
780 435-1833

Vancouver
9440 202nd Street, Suite 305
Langley, BC V1M 4A4
604 882-8220

IA AMERICAN LIFE INSURANCE COMPANY
Head Office – Scottsdale, Arizona
17550 North Perimeter Drive
Suite 210
Scottsdale, AZ 85255
USA
480 473-5540

THE EXCELLENCE LIFE INSURANCE COMPANY
Head Office – Montreal
5055 Metropolitain Boulevard East
Suite 202
Montreal, QC H1R 1Z7
514 327-0020
1 800 465-5818
www.excellence.qc.ca

MICHEL RHÉAUME ET ASSOCIÉS LTÉE
Head Office – Montreal
5055 Metropolitain Boulevard East
Suite 200
Montreal, QC H1R 1Z7
514 329-3333
1 800 363-5956
info@rheaume.qc.ca

IA CLARINGTON INVESTMENTS INC.

Head Office – Quebec City
1080 Grand Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5565
www.iaclarington.com

Montreal
2200 McGill College Avenue
Suite 300
Montreal, QC H3A 3P8
514 499-3871
1 866 425-5861

2000 McGill College Avenue
Suite 260
Montreal, QC H3A 3H3
514 788-3555
1 877 856-6845

Toronto
522 University Avenue, Suite 700
Toronto, ON M5G 1Y7
416 860-9880
1 888 860-9888

Calgary
1414 8th Street S.W., Suite 320
Calgary, AB T2R 1J6
403 806-1078
1 888 806-1078

Vancouver
885 Georgia Street West
Suite 2240
Vancouver, BC V6C 3E8
604 408-2818
1 877 341-1144

INVESTIA FINANCIAL SERVICES INC.

Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5548
1 888 684-5548
www.investia.ca

Halifax
Corporate Campus, Suite 320
238 Brownlow Avenue
Dartmouth, NS B3B 1Y2
902 425-6383

Toronto
522 University Avenue, 5th Floor
Toronto, ON M5G 1Y7
416 487-0242
1 800 268-8882

Winnipeg
1 Evergreen Place, Suite 100
Winnipeg, MB R3L 0E9
204 942-7052

Calgary
1414 8th Street S.W., Suite 320
Calgary, AB T2R 1J6
403 229-0765
1 888 229-0765

Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
604 737-3896
1 888 795-6677

FUNDEX INVESTMENTS INC.

Head Office – Markham
25 Centurian Drive, Suite 208
Markham, ON L3R 5N8
905 305-1651
1 800 324-6048
www.fundex.com

INDUSTRIAL ALLIANCE SECURITIES INC.

Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5171
1 866 684-5171
www.iagto.ca

Halifax
5670 Spring Garden Road
Suite 900
Halifax, NS B3J 1H6
902 420-1544
1 877 275-1544

Quebec City
1040 Belvédère Street, Suite 101
Quebec City, QC G1S 3G3
418 681-2442
1 800 207-2445

Sherbrooke
2665 King Street West, Suite 650
Sherbrooke, QC J1L 2G5
819 569-2772
1 877 569-2772

Montreal
2200 McGill College Avenue
Suite 350
Montreal, QC H3A 3P8
514 499-1066
1 800 361-7465

740 Saint-Maurice Street
Suite 308
Montreal, QC H3C 1L5
514 876-8885
1 888 867-8885

2075 University Street, Suite 810
Montreal, QC H3A 2L1
514 499-1380

Toronto
522 University Avenue, Suite 901
Toronto, ON M5G 1W7
416 586-5454

350 Burnhamthorpe Road West
Suite 601
Mississauga, ON L5B 3J1
905 272-8004

INDUSTRIAL ALLIANCE AUTO AND HOME INSURANCE INC.

Head Office – Quebec City
925 Grande Allée West
Suite 230
Quebec City, QC G1S 1C1
418 650-4600
1 800 463-4382
www.inalco.com

INDUSTRIAL ALLIANCE TRUST INC.

Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5000
www.iatrust.ca

Montreal – Immigrant Investor Program
2200 McGill College Avenue
Suite 320
Montreal, QC H3A 3P8
514 499-1170

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.
  Telephone: 418 684-5000, extension 5862
  Toll-free: 1 800 463-6236, extension 5862
  Fax: 418 684-5192
  Email: investors@inalco.com
  Website: www.inalco.com

This annual report was jointly produced by the Industrial Alliance Accounting, Communications, Investor Relations and Public Relations departments. For more information or to obtain additional copies of this report, please contact the Investor Relations Department, whose contact information is provided above.

Legal deposit: March 2009
ISSN 1711-8913
Bibliothèque nationale du Québec
National Library of Canada

Ce rapport annuel est également disponible en français.

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.

Industrial Alliance contributes to respecting and protecting the environment.

This document was printed on paper made of 100% post-consumer recycled fibres.

Industrial Alliance offers its shareholders and those who request it an electronic version of this annual report at *www.inalco.com* in order to reduce the quantity of reports printed.

The paper used for this annual report is alkaline based or neutral and is treated without elemental chlorine. It is produced using biogas and has the EcoLogo certification.

100%

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.