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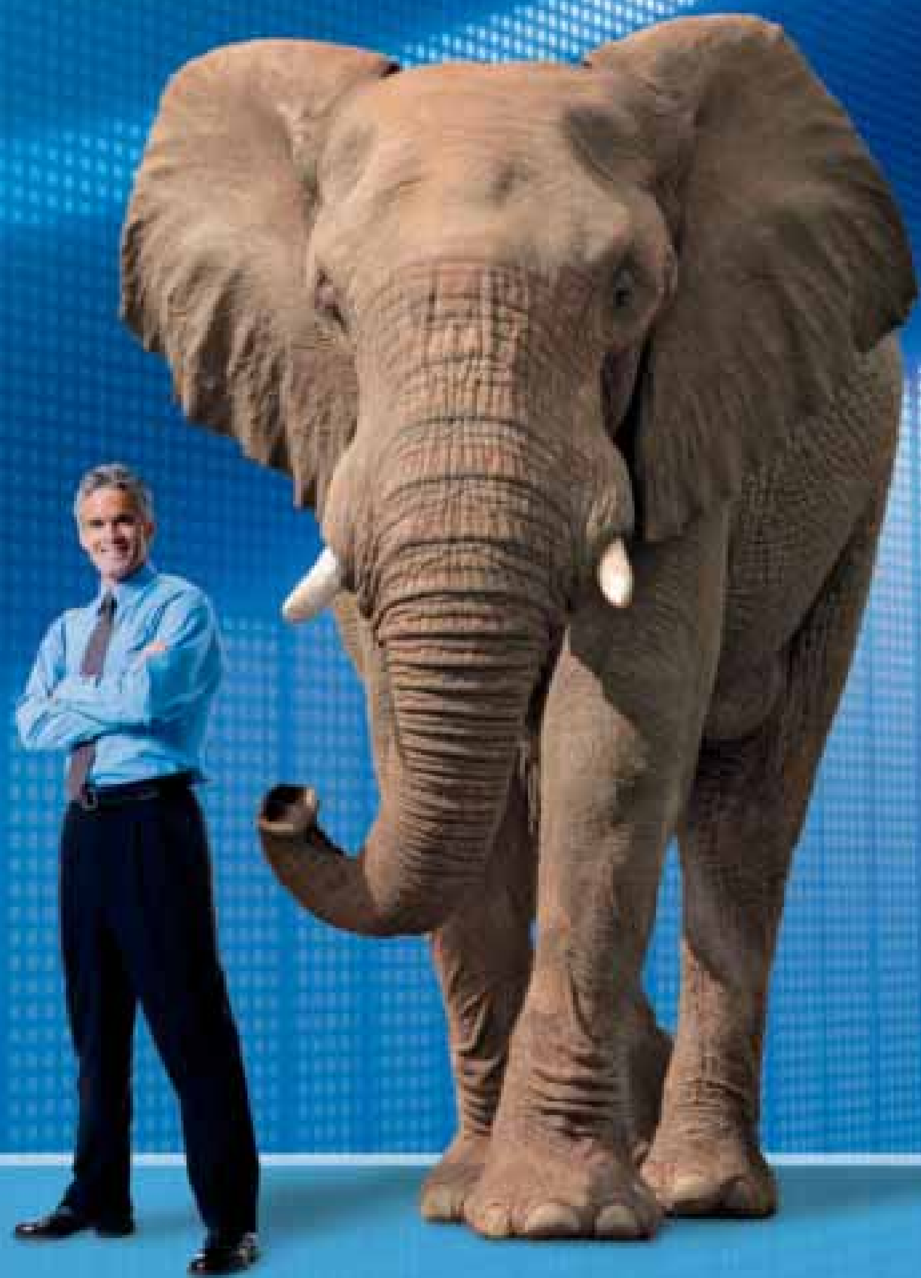
2009 ANNUAL REPORT

STRENGTH YOU CAN COUNT ON

FOR OVER 100 YEARS



A PARTNER YOU CAN TRUST.

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

WHO ARE WE?

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.

Thanks to its vitality, over the years Industrial Alliance has become a large national financial group – the Industrial Alliance group – with operations in all regions of Canada, as well as in the United States.

Renowned for its financial strength, Industrial Alliance has subsidiaries in a number of financial services sectors, including life and health insurance, auto and home insurance, mutual fund management, investment advisory services, trust services, as well as insurance, financial services, mutual fund and securities brokerage.

The fourth largest life and health insurance company in Canada, Industrial Alliance stands out through the size and diversity of its distribution networks. The Company contributes to the financial wellbeing of over three million Canadians, employs more than 3,400 people, has a network of over 16,000 agents, and manages and administers over $58 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. The Company's market capitalization as at December 31, 2009 totalled $2.6 billion, making Industrial Alliance one of the 100 largest public companies in Canada.

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2009 FINANCIAL HIGHLIGHTS (Consolidated Financial Data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	Variation
Profitability			
Net income to common shareholders	205.8	66.1	211%
Earnings per common share (diluted)	$2.55	$0.82	$1.73
Return on common shareholders' equity	11.9%	4.0%	790 bps
Business Growth			
Premiums and deposits by line of business			
Individual Insurance	938.4	920.7	2%
Individual Wealth Management	2,350.0	2,422.4	(3%)
Group Insurance	962.4	956.5	1%
Group Pensions	839.8	1,114.9	(25%)
General Insurance	140.6	128.4	10%
Total	5,231.2	5,542.9	(6%)
Sales by line of business			
Individual Insurance	147.1	146.9	0%
Individual Wealth Management			
General fund	404.3	345.5	17%
Segregated funds	866.2	815.7	6%
Mutual funds	1,079.5	1,261.2	(14%)
Total	2,350.0	2,422.4	(3%)
Group Insurance			
Employee Plans	75.0	92.9	(19%)
Creditor Insurance	152.4	194.2	(22%)
Special Markets Group (SMG)	113.2	112.9	0%
Group Pensions	839.8	1,114.9	(25%)
Financial Position			
Assets under management and under administration			
Assets under management			
General fund	17,626.5	15,415.2	14%
Segregated funds	11,450.3	8,924.2	28%
Mutual funds	6,615.7	5,277.7	25%
Other	563.3	596.7	(6%)
Total	36,255.8	30,213.8	20%
Assets under administration	22,150.8	19,258.4	15%
Total	58,406.6	49,472.2	18%
Capitalization	2,703.1	2,270.8	19%
Solvency ratio	208%	199%	---
Debt measures			
Debentures/capitalization	19.2%	17.0%	---
Debentures and preferred shares/capitalization	31.3%	26.8%	---
Quality of Investments			
Net impaired investments as a % of total investments	0.08%	0.06%	---
Bonds: BB and lower as a % of the portfolio	0.07%	0.23%	---
Mortgages: delinquency rate	0.36%	0.26%	---
Real estate: occupancy rate	94.4%	94.0%	---
Human Resources			
Number of employees	3,478	3,427	51

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

MAIN ACHIEVEMENTS IN 2009

2009 was a year of economic recovery. The Canadian economy began to emerge from the recession, equity markets recovered a portion of their losses from the year before (the S&P/TSX Composite Index gained 31% in 2009), interest rate spreads narrowed, and credit conditions improved.

Industrial Alliance profited greatly from the improved economic and financial environment in 2009. Net income has nearly returned to its pre-crisis level. The Company's financial position has been reinforced. The quality of investments continues to be very good. The dividend to common shareholders has been maintained. The Company's capacity to absorb potential stock market downturns has remained high. The Company has gained market share in the retail markets. Assets reached a new high. And the Company continued to build for the future by concluding two new acquisitions and by establishing a local management team in the United States.

Following are a few highlights of 2009.

Net income – Net income to common shareholders of $205.8 million, more than triple the previous year's result ($66.1 million).

Earnings per common share – Diluted earnings per common share of $2.55 ($0.82 in 2008), which is within the guidance of $2.50 to $3.00 given for 2009.

Return on equity – Return on common shareholders' equity of 11.9% (4.0% in 2008), or 12.2% for regular operations, which is within the Company's 12% to 14% target range.

Dividend and payout ratio – Quarterly dividend maintained at $0.2450 per common share. This represents a dividend payout ratio of 38%, above the Company's 25% to 35% target range.

Assets – $58.4 billion in assets under management and under administration, a new high, up 18% over 2008.

Premiums and deposits – $5.2 billion in premiums and deposits, down 6% from 2008.

Solvency ratio – Solvency ratio of 208% as at December 31, 2009, up from 199% as at December 31, 2008, and above the 175% to 200% target range. Subsequent to year end, the solvency ratio increased to 226% on a pro forma basis, following capital issuances of $200 million completed in February 2010 (see next point).

Capital issuances – Two capital issuances carried out in 2009: $100 million in subordinated debentures in March 2009, and $100 million in preferred shares in October 2009. Two new capital issuances were added in February 2010: $100 million in common shares, and $100 million in preferred shares. These issuances were completed on February 26, 2010.

Quality of investments – Very good quality of investments. Net impaired investments totalled $13.0 million as at December 31, 2009 ($8.8 million as at December 31, 2008), which represents just 0.08% of total investments. The bond portfolio had no defaulted bonds as at December 31, 2009, and the proportion of bonds rated BB or lower represented just 0.07% of the bond portfolio as at December 31, 2009 (0.23% as at December 31, 2008).

Risk management – The Company has significant ability to absorb a market downturn (refer to "Sensitivity Analysis" on the next page).

Development outside Quebec – For the fourth consecutive year, over half of the sales from all lines of business came from outside Quebec, consistent with the Company's goal of geographic diversification.

US development – The Company completed the first phase of its US development strategy by putting in place a local management team.

Acquisitions – The Company continued to build for the future by concluding two new acquisitions in 2009: the socially responsible investing mutual fund business of Inhance Investment Management Inc., a subsidiary of Vancouver City Savings Credit Union, with which the Company also signed a distribution agreement, and the individual life insurance portfolio of MD Life Insurance Company.

Embedded value – Embedded value rose to a new high of $3.0 billion, up 18% from December 31, 2008, after the payment of dividends to common shareholders (21% before the payment of dividends).

Ten years on the TSX – On February 3, 2010, Industrial Alliance celebrated its tenth anniversary as a stock company. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, under the ticker symbol IAG, effectively ending Industrial Alliance's conversion process from a mutual company to a stock company. In its first ten years as a stock company, Industrial Alliance stock grew 309%, compared to 31% for the S&P/TSX index.

MARKET GUIDANCE FOR 2010

Return on common shareholders' equity – Maintain the 12% to 14% target range. This target range takes into account the impact of the $200 million in capital issuances carried out in February 2010.

Earnings per common share – New target range of $2.75 to $3.25 (up from the $2.50 to $3.00 target range given as guidance for 2009). This target range takes into account the impact of the $200 million in capital issuances carried out in February 2010.

Solvency ratio – Maintain the 175% to 200% target range.

Dividend payout ratio – Maintain the 25% to 35% target range in the medium term. However, the Company expects the dividend payout ratio to be in the upper part of the target range in 2010.

Effective tax rate – Maintain an expected effective tax rate of about 26% to 27%.

SENSITIVITY ANALYSIS

Stocks matched to long-term liabilities – The Company does not expect that it will have to strengthen its provisions for future policy benefits for stocks matched to long-term liabilities as long as the S&P/TSX Index remains above approximately 9,050 points.

Solvency ratio – The Company expects the solvency ratio to remain above 175% as long as the S&P/TSX Index stays above approximately 6,900 points (7,700 points without taking into account the $200 million in capital issuances carried out in February 2010), and to remain above 150% as long as the Index stays above approximately 5,400 points (6,300 points without taking into account the impact of the $200 million in capital issuances carried out in February 2010).

Net income – The Company estimates that if the stock markets were to remain, on average, 10% below (or above) expectations for a full year (the Company generally expects to see annual growth of 7% in the S&P/TSX Index), net income to common shareholders would be approximately $18 million lower (or higher) than expected.

Ultimate reinvestment rate (URR) – The Company uses an ultimate reinvestment rate of 3.9% for calculating the provisions for future policy benefits as at December 31, 2009, which is lower than the maximum rate expected at the end of 2010. The Company believes that a 10 basis point decrease (or increase) in the URR would require the provisions for future policy benefits to be strengthened (or enable the provisions for future policy benefits to be released) by some $41 million after taxes.

Initial reinvestment rate (IRR) – The Company believes that a 10 basis point decrease (or increase) in the initial reinvestment rate would require the provisions for future policy benefits to be strengthened (or enable the provisions for future policy benefits to be released) by some $24 million after taxes.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

"I think we can safely say that Industrial Alliance has passed the ultimate challenge for any public company: increasing long-term shareholder value."

John LeBoutillier
Chairman of the Board

A company is judged in many ways: by its financial performance, its growth strategy, its financial strength, its risk management, and even its corporate governance. On every one of these fronts, Industrial Alliance can stand before its shareholders and policyholders with a firm sense of accomplishment.

Industrial Alliance successfully navigated through one of the worst economic and financial crises of our time without once having to alter its business model.

From a financial performance standpoint, the Company achieved all the goals it had set for itself in 2009. Its net income to common shareholders reached $205.8 million, more than triple the previous year's result and in line with the projections presented to the Board at the beginning of the year.

On the business growth front, the Company remained committed to its development strategy. Despite a difficult economic environment, it implemented a number of initiatives to stimulate organic growth, the very foundation of its success, and continued to invest both time and energy in examining acquisition opportunities within the financial parameters it had laid out. As a result, the Company was able to conclude two new acquisitions in 2009, one in the wealth management sector and the other in its core life insurance sector.

In terms of financial strength, the Company emerged from the crisis even stronger than before. In 2009 and at the beginning of 2010, Industrial Alliance went to the financial markets to raise $400 million in new capital, including $100 million in the form of common shares. With respect to this last issuance, the Board felt that, even though the Company was already very well capitalized, the current environment called for continued prudence in this regard.

On the risk management front, the Company was once again rewarded for its prudence in 2009. The good quality of its investments enabled it to keep credit losses to a minimum, and its provisions for future policy benefits were sufficient to cope with the uncertainty of the economic environment. Moreover, the Board noted that the Company has a good deal of capacity to absorb further stock market downturns or interest rate reductions. The Board supports the Company's forward-looking approach, which focuses on taking the appropriate measures now to protect itself against events that may occur in the future.

Lastly, on the corporate governance front, the Company continued to be proactive. In 2009, the Board adopted a resolution to give shareholders a non-binding, advisory vote on the executive compensation policy. Even though the Company already follows best practices in terms of compensation, respecting the three principles of simplicity, moderation and effectiveness, the Board of Directors is pleased to give shareholders the option to voice their opinion on all aspects of the compensation provided to Company executives. The decision was announced at the last annual meeting. The first vote will be held at the 2010 annual meeting.

BOARD ACTIVITIES

The Board of Directors met eleven times in 2009, and the Board's various committees held a total of 16 meetings. The participation rate in Board meetings was 97%, and 98% in Board committee meetings, which is very good considering the number of special meetings called on very short notice.

There were no changes to the makeup of the Board in 2009.

TEN YEARS ON THE TORONTO STOCK EXCHANGE

On February 3, 2010, Industrial Alliance celebrated its tenth anniversary as a stock company. Over the last ten years, the Company has shown remarkable adaptability, adjusting to a new legal framework, new disclosure requirements, an extremely competitive environment, and constant pressure from the markets.

The Company has also made a great deal of progress over the last ten years. While continuing to develop its core life and health insurance and annuity sectors, it also made inroads into the wealth management market, expanded operations outside Quebec, and penetrated new markets including, most recently, the US. The Company has ventured into these new territories gradually, prudently and without flourish.

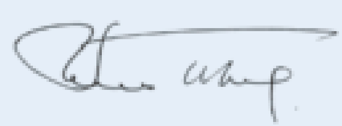
The Board has always supported management in its various initiatives, and shareholders have always shown great confidence in the Company. Over the last ten years, Industrial Alliance stock grew 309%, compared to 31% for the S&P/TSX Index. I think we can safely say that Industrial Alliance has passed the ultimate challenge for any public company: increasing long-term shareholder value.

I invite you to read the President and Chief Executive Officer's Report to learn more about the many breakthroughs achieved by the Company since its debut on the Toronto Stock Exchange.

CONCLUSION

Industrial Alliance has once again had a very satisfying year. On behalf of the members of the Board of Directors, I would like to thank all members of management and all employees for their hard work, dedication and steadfast commitment to taking the Company to the next level.

Thank you as well to all of the policyholders and shareholders for their continuing confidence and support.



PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

"We owe our excellent results to four factors in particular: strict risk management, close monitoring of investments, strong capitalization, and a focused, balanced and realistic strategy for growth."

Yvon Charest
President and Chief Executive Officer

Industrial Alliance performed very well in 2009. Despite a sometimes hostile economic and financial environment, particularly at the beginning of the year when the world economies were experiencing the worst of the recession, we managed to do what few others could: we reinforced our financial strength. Probably our biggest achievement of the year was emerging from the crisis with our business model intact.

On the financial front, net income has almost returned to its pre-crisis level. The quality of investments continues to be very good. The dividend to common shareholders has been maintained. Our capacity to absorb potential stock market downturns has remained high. We've gained market share in the retail markets. Assets reached a new high. And we continued to build for the future by concluding two new acquisitions and completing the first phase of our US development plan.

We owe our excellent results to four factors in particular: strict risk management, close monitoring of investments, strong capitalization, and a focused, balanced and realistic strategy for growth.

However, none of this would be possible without a team of managers and employees who are committed to consistently upholding the Company values of team work, a high-performance environment, continuous improvement, respect for co-workers, distributors and clients, and a service-oriented mindset.

PROFITABILITY

On the profitability front, we successfully achieved all of our objectives in 2009.

We ended the year with net income to common shareholders of $205.8 million, which is more than triple the previous year's result. This translates into diluted earnings per common share of $2.55, which is within the $2.50 to $3.00 target range that we had given as guidance to the markets, and a return on common shareholders' equity of 11.9%, or 12.2% for our regular operations, which is within our 12% to 14% target range.

The increase in income can essentially be explained by the stock market rebound and the general improvement in Canada's economic conditions. The very good quality of our investment portfolio enabled us to keep credit losses to a minimum and, as expected, the annual year-end review of valuation assumptions did not have a significant impact on our results, which testifies to our prudence in evaluating our provisions for future policy benefits.

If the economy continues to recover and the equity markets regain regular growth, we believe that our results will quickly return to their pre-crisis consistency. In 2010, we believe we will be able to achieve a return on common shareholders' equity of between 12% and 14%, the same as our guidance for 2009, and earnings per common share of between $2.75 and $3.25, which is higher than the $2.50 to $3.00 range we were targeting in 2009.

DIVIDEND

Our financial strength enabled us to maintain the dividend in 2009. Hence, we paid a dividend of $0.2450 per common share in each of the four quarters of 2009, for a total dividend of $0.98 per common share, higher than the dividend of $0.94 per common share paid in 2008. The 2009 dividend translates into a payout ratio of 38% of net income to common shareholders, which is slightly above our 25% to 35% target range.

At the beginning of 2010, we announced that we were keeping our target range of 25% to 35% for the medium term, but that we expected the dividend payout ratio to be in the upper part of the target range in 2010.

BUSINESS GROWTH

In terms of business growth, the year can be summed up in seven points:

- We experienced steady growth in the traditional family life, health and disability insurance market, enabling us to end the year with a market share of 10.7% in Individual Insurance sector sales, up from 10.4% in 2008.
- We gained market share in the segregated funds market, ranking fourth in Canada in net sales in 2009, with a market share of 10.1%, up from 5.7% in 2008.
- We continued to gain market share in the mutual funds market, ranking seventh in net sales in 2009, compared to seventeenth in terms of assets.
- We completed the first phase of our US market development strategy by finalizing the implementation of a local management team in the United States. We now have over thirty people working at the head office of our new IA American subsidiary in Phoenix, Arizona.
- For the fourth year in a row, our sales outside Quebec were greater than our sales within Quebec in all lines of business.
- We reached a new high of $58.4 billion in assets under management and under administration as at December 31, 2009, which represents an increase of 18% for 2009. This increase can primarily be explained by the stock market rebound and positive net sales in all lines of business.
- The only disappointment was that the very strong business growth at year-end was not enough to make up for the shortfall at the beginning of the year. As a result, we ended 2009 with $5.2 billion in premiums and deposits, down 6% from the previous year. The decrease comes almost entirely from the Group Pensions sector, which had posted record sales in 2008.

ACQUISITIONS

From a strategic standpoint, the economic environment did not prevent us from continuing to build for the future. We did so by concluding two new acquisitions in 2009:

- We made our debut in the socially responsible investing market with the acquisition of the socially responsible investing mutual fund business of Inhance Investment Management Inc., a subsidiary of Vancouver City Savings Credit Union ("Vancity"), one of Canada's largest credit unions. This acquisition enabled us to broaden our distribution networks in Western Canada through a distribution agreement with Vancity to sell IA Clarington mutual funds.
- We completed the acquisition of the individual life insurance portfolio of MD Life Insurance Company ("MD Life"), a life and health insurance company that offers life insurance and annuity products to Canadian physicians. We had already owned—and continue to own—45% of MD Life shares.

Like many of the other acquisitions we've made over the years, these acquisitions can be described as small, strategic and accretive.

FINANCIAL STRENGTH

We also emerged from the crisis in an even stronger financial position.

We ended the year with a solvency ratio of 208%, or 226% if we include the capital issuances at the beginning of 2010. This ratio exceeds our target range of 175% to 200%.

Our solvency ratio is also very resilient. If the capital issuances at the beginning of 2010 are taken into account, we believe we can absorb a 41% decline in the Toronto Stock Exchange (measured by the S&P/TSX Index) compared to its level as at December 31, 2009, before our solvency ratio drops to 175%, which is the lower end of our target range, and a 54% decline before it drops to 150%, which is the regulatory authorities' early warning threshold. This should be reassuring to our policyholders and shareholders.

The financial markets also showed their confidence in us by injecting $400 million in fresh capital into the Company in 2009 and at the beginning of 2010. We issued $100 million in subordinated debentures in March 2009, $100 million in preferred shares in October 2009, $100 million in common shares in February 2010, and another $100 million in preferred shares in February 2010. We are grateful to everyone who supported us by purchasing these issues.

I'd like to take this opportunity to say a few words about the common and preferred share issuances in February 2010. Given our financial strength, many people were surprised by these issuances.

Even though the economic and financial situation improved considerably in the second half of the year, and even though our ability to absorb market downturns is one of the best in the industry, we feel that the current environment still calls for a greater degree of prudence. These issuances are intended to protect the Company against all eventualities, from another drop in the equity markets through to stricter new capital requirements imposed by the regulatory authorities, or to build up a reserve to finance potential acquisitions. These issuances are in keeping with our Company's philosophy of prudence, and are carried out with long-term management in mind.

QUALITY OF INVESTMENTS

The quality of our asset portfolio continues to be very good.

Our net impaired investments totalled $13.0 million as at December 31, 2009, compared to $8.8 million as at December 31, 2008, representing just 0.08% of our $16.5 billion investment portfolio.

All of our portfolios were positioned so as to minimize risk. For example, nearly 64% 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. We had no defaulted bonds at the end of 2009. Nearly 72% of our mortgage loan portfolio is made up of insured loans. The occupancy rate of our real estate holdings continues to be high, at 94.4% as at December 31, 2009, and the market value of the real estate portfolio is still much higher than the book value.

In addition, we set up provisions for all the securities that were weakened by the current economic environment, we have very limited exposure to the US market, and we don't hold any investments in the US subprime mortgage loans market.

DEVELOPMENT STRATEGY

As I indicated at the beginning of this report, the success that we have achieved over the last few years rests on a focused, balanced and realistic strategy. This strategy revolves around seven areas of development:

- Expanding the wealth management sector
- Growing the distribution networks
- Accelerating geographic diversification in Canada
- Creating a strong, viable and dynamic business in the US
- Penetrating new market niches
- Exercising strict control over operating expenses and unit costs
- Optimizing the synergies within the Industrial Alliance group of companies

These are the areas of development that will continue to guide us in the future.

TEN YEARS ON THE TORONTO STOCK EXCHANGE

Even though Industrial Alliance has been around for over one hundred years, it only made its debut on the Toronto Stock Exchange ten years ago. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, effectively ending Industrial Alliance's conversion process from a mutual company to a stock company.

In the last ten years, Industrial Alliance has made some major breakthroughs:

- Entry into the wealth management market, primarily the mutual funds and securities markets, through sixteen acquisitions.
- Growth outside Quebec, thanks to the opening of offices and the strengthening of sales networks across the country.
- Entry into new markets, including personal health and disability insurance, socially responsible investing mutual funds and the US market, through various acquisitions.

From a life and health insurance company operating mainly in Quebec, Industrial Alliance has become a large national financial services group.

Between February 3, 2000 and February 2, 2010, Industrial Alliance stock grew 309%, compared to 31% for the S&P/TSX Index. As the Chairman of the Board indicated in his message, Industrial Alliance has thus passed the ultimate challenge for any public company: increasing long-term shareholder value.

To commemorate our tenth anniversary of being listed on the Toronto Stock Exchange, and as a way of sharing our success, we have decided to create a fund for young people called the Industrial Alliance Fund for Learning a Second Language. Young people are our future. This million dollar fund will allow them to improve their second language skills. It will also help them in their careers and will foster exchange and dialogue between young people in all parts of the country. We believe this fund will be a good source of learning and confidence-building for young people.

CONCLUSION

2009 was a very gratifying year for Industrial Alliance, as we reaped the rewards of our strict risk management culture. Strict risk management doesn't mean avoiding risk; rather, it means effectively identifying and measuring this risk so we can make the right decisions to protect the Company against potential economic downturns. Nor is risk management the responsibility of one individual. It's the responsibility of each and every one of us, in each and every thing that we do.

But Industrial Alliance is more than the sum of its financial accomplishments. It's a group of dedicated men and women who share the same values, the same goals, and the same determination and commitment to achieving these goals.

Thank you to everyone who has supported our organization, contributed to its success, and continued to put their trust in us over the years.

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.

President

IA American

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

Executive Vice-President

Investments

Industrial Alliance

100 YEARS IN BUSINESS › 10 YEARS ON THE TSX › STRENGTH YESTERDAY, TODAY AND TOMORROW

On February 3, 2000, Industrial Alliance entered a new era. It made its official debut on the Toronto Stock Exchange, under the ticker symbol IAG. And it's been ten years already!

Over the past ten years, Industrial Alliance made steady progress and achieved major breakthroughs. From an insurance company operating mainly in Quebec, Industrial Alliance has become a large, nation-wide financial institution.

We're pleased to present this brief portrait of the Company's major accomplishments over the last ten years as a stock company.

TEN YEARS OF SUCCESS

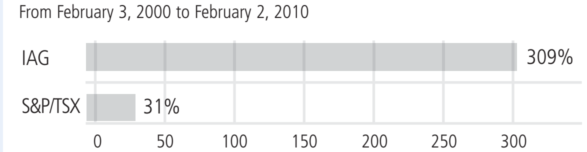
1 From a Mutual Company to a Stock Company

At the turn of the century, Industrial Alliance went from a mutual company (belonging to its policyholders) to a stock company (belonging to its shareholders). This demutualization process was finalized on February 3, 2000 when Industrial Alliance shares began to be traded on the Toronto Stock Exchange, under the ticker symbol IAG.

Over the past ten years as a stock company, Industrial Alliance's share increased by 309%, compared to 31% for the S&P/TSX Index. Industrial Alliance thus passed the ultimate test for a public company: **increasing long-term shareholder value**.

Industrial Alliance's Share Price
Compared to the S&P/TSX Composite Index

From February 3, 2000 to February 2, 2010



2 From an Insurance Company to a Financial Institution

Since its founding in 1892 up until about 2000, Industrial Alliance was mainly known as a life and health insurance company. Thanks to sustained organic growth and strategic acquisitions, particularly in the wealth management sector, Industrial Alliance has become a major financial institution with subsidiaries in a number of financial service sectors.

Since 2000: 16 acquisitions in wealth management and 5 acquisitions in life and health insurance

		2000	2001	2002
Mutual Fund Management	IA Clarington Investments			
Mutual Fund Brokerage	IA Investia Financial Services Inc.		Concorde	
	FundEX Investments Inc.			FundEX
Securities Brokerage	IA Industrial Alliance Securities Inc.			ISL-Lafferty BNP (Canada) Leduc
Life and Health Insurance	IA Industrial Alliance Insurance and Financial Services Inc.	Mécagroupe	Aegis/Sascar	

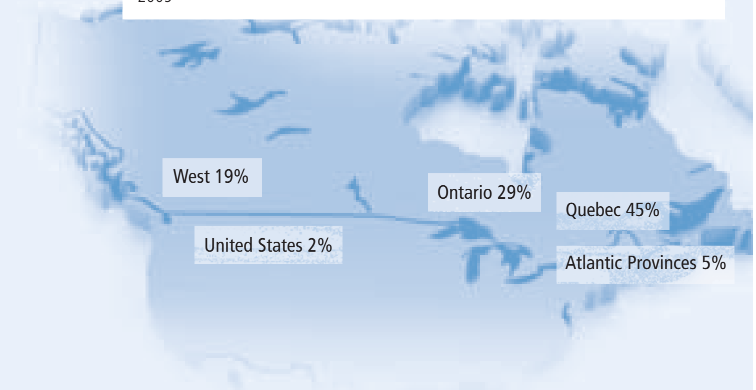
Full names of acquired companies: Mécagroupe Inc. (credit insurance through car dealers in the Quebec market); Concorde Financial Group; Aegis Insurance Corporation and Sascar Management Ltd. (credit insurance through car dealers in the western provinces); FundEX Investments Inc. (25% ownership share in 2002, gradually increased to 100% in 2007); ISL-Lafferty Securities Inc.; BNP (Canada) Securities Inc. (purchase of assets); Leduc & Associates Securities (Canada) Ltd. (purchase of assets); Co-operators Mutual Funds Ltd.; Global Allocation Financial Group Inc.; BLC-Edmond de Rothschild Asset Management Inc.; Lynch Investments Inc.; Clarington Corporation; KingsGate Securities Limited (purchase of assets);

3 From a Quebec Company to a Canada-wide Company

At the beginning of the 80s, Industrial Alliance conducted its business almost entirely in Quebec. Over the years, the company's presence outside the province steadily increased. Today, Industrial Alliance is a nation-wide company with operations in all regions of Canada.

Premiums and Deposits

2009



TEN YEARS OF EXPANSION

Over the past ten years, Industrial Alliance achieved three major market breakthroughs:

1 Entry into Wealth Management
- Entry into mutual fund and securities markets
- 16 acquisitions

2 Development Outside Quebec
- Opening of new offices from the Atlantic to the Pacific
- Strengthening of Canada-wide sales network for all business sectors

3 Entry into New Markets
- Personal health and disability insurance
- Socially Responsible Investing Funds
- United States

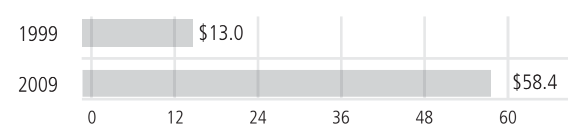
TEN YEARS OF GROWTH

Over the past ten years, Industrial Alliance experienced steady growth in all business sectors.

Assets Under Management and Administration

+348%

(In billions of dollars) December 31



2003	2004	2005	2006	2007	2008	2009
Co-operators	BLCER	Clarington			Sarbit	Inhance/Vancity
Global					AEGON/Money Concepts/NFIA Dundee	
			FundTrade			
	Lynch	KingsGate				
					Excellence IA American	MD Life

FundTrade Financial Corp.; Sarbit Asset Management Inc.; AEGON Dealer Services Canada Inc., Money Concepts (Canada) Limited and National Financial Insurance Agency Ltd.; DundeeWealth Inc. (purchase of Quebec distribution network); The Excellence Life Insurance Company; IA American Life Insurance Company (purchase of United Family Life Insurance Company; the name was changed to IA American); Inhance Investment Management Inc., a subsidiary of Vancouver City Savings Credit Union; MD Life Insurance Company Ltd. (purchase of life insurance portfolio; Industrial Alliance owns 45% of MD Life).

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

Wealth Management

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

Financial Services Brokerage

100%	100%	100%
MRa MICHEL RHÉAUME associés	NATIONAL FINANCIAL INSURANCE AGENCY INC.	Solicour FINANCIAL SERVICES

General Insurance

100%
INDUSTRIAL ALLIANCE™ AUTO AND HOME INSURANCE INC.

™ 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.

2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2009

2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

NOTICE

GENERAL INFORMATION

The Company's legal name is "Industrial Alliance Insurance and Financial Services Inc." To simplify the reading of this report, the Company's name is often presented in its abbreviated form ("Industrial Alliance"), a generic form ("the Company"), or occasionally, a collective form ("Industrial Alliance group").

Note that Industrial Alliance acts as both the operating company and as the parent company of a group of subsidiaries. Industrial Alliance and its subsidiaries are not controlled by a holding company. Please refer to the "Description of Industrial Alliance" and "Industrial Alliance Organization Chart" sections for a description of the Company and its subsidiaries.

Please note that regardless of how Industrial Alliance is referred to in this report (legal name, abbreviated name, generic name or collective name), unless otherwise indicated, all results and operations of Industrial Alliance presented in this report refer to the consolidated results and operations, i.e. those of Industrial Alliance, as an operating company, and its subsidiaries.

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2009 or for the period ended on that date.

Unless otherwise indicated, 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, 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 12, 2010.

NON-GAAP FINANCIAL MEASURES

Industrial Alliance Insurance and Financial Services Inc. reports its financial results in accordance with generally accepted accounting principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures – adjusted data or data on regular operations – 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 or data on regular operations, 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 Management's Discussion and Analysis, whether foreseeable or not, 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.

Thanks to its vitality, over the years Industrial Alliance has become a large national financial group – the Industrial Alliance group – with operations in all regions of Canada, as well as in the 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. The Company contributes to the financial well-being of over three million Canadians, employs more than 3,400 people, has a network of over 16,000 agents, and manages and administers over $58 billion in assets.

Renowned for its financial strength, Industrial Alliance is at the head of a network of subsidiaries with operations in a number of financial services sectors, including: life and health insurance (Industrial Alliance Pacific Insurance and Financial Services Inc., The Excellence Life Insurance Company and IA American 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.), trust services (Industrial Alliance Trust Inc.), investment management (Industrial Alliance Investment Management Inc.), general insurance (Industrial Alliance Auto and Home Insurance Inc.) and financial services brokerage (Michel Rhéaume et associés ltée, National Financial Insurance Agency Inc. and Solicour Inc.). Refer to the "Industrial Alliance Organization Chart" section for a description of Industrial Alliance's subsidiaries.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG, and closed 2009 at $32.20, an increase of 38% for the year. The Company has over 71,000 shareholders, with 80.5 million common shares issued and outstanding as at December 31, 2009. With a market capitalization of $2.6 billion (as at December 31, 2009), 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, and is regulated by the Autorité des marchés financiers. Industrial Alliance and its subsidiaries 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, the Act respecting Industrial-Alliance Life Insurance Company. The law was enacted by the Quebec National Assembly on November 26, 1999, and stipulates that no shareholder can acquire, 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. Two of these sectors offer traditional insurance products (Individual Insurance and Group Insurance), and two of them offer savings, investment and retirement products (Individual Wealth Management and Group Pensions).

Activity Sectors		
	Retail Clients	Businesses and Group Clients
Insurance	Individual Insurance	Group Insurance
Savings, investment and retirement	Individual Wealth Management	Group Pensions

In terms of profitability, Industrial Alliance ended 2009 with net income to common shareholders of $205.8 million, but with an operating profit of $228.8 million on regular operations[1], if we exclude the impact of the changes in assumptions. Of this amount, 55% came from Individual Insurance, 22% from Individual Wealth Management, 16% from Group Insurance and 7% from Group Pensions. These percentages provide an overview of the relative contribution of each line of business to the Company's earnings from regular operations.

In terms of business growth, 18% of the Company's premiums and deposits in 2009 came from Individual Insurance, 45% from Individual Wealth Management, 18% from Group Insurance, 16% from Group Pensions and 3% from general insurance operations.

By region, 5% of premiums and deposits in 2009 came from the Atlantic provinces, 45% from Quebec, 29% from Ontario, 19% from the Western provinces and 2% 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 Inc., are presented as part of the parent company's income on capital and subsequently allocated among the four business lines as its operations do not constitute a separate sector for the purpose of presenting the financial results.

[1] Operating profit on regular operations is defined as the profit before income on capital, income taxes and the impact of gains or losses resulting from the asymmetric evolution of the fair value of debt instruments and the underlying assets (refer to the "Profitability" section for more details on operating profit).

INDUSTRIAL ALLIANCE ORGANIZATION CHART

Operating Company and Parent Company

Industrial Alliance Insurance and Financial Services Inc.

Sector			
Life and Health Insurance and Financial Services	99.9% Industrial Alliance Pacific Insurance and Financial Services Inc.	98.0% The Excellence Life Insurance Company	100% IA American Life Insurance Company
Wealth Management	100% IA Clarington Investments Inc. – 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 advisor
General Insurance	100% Industrial Alliance Auto and Home Insurance Inc.		
Financial Services Brokerage	100% Michel Rhéaume et associés ltée	100% National Financial Insurance Agency Inc.	100% Solicour Inc.

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

Assets under management and under administration:
$58.4 billion (consolidated data)

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance", "the Company" or "Industrial Alliance group") 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 United States. Its head office is located in Quebec City, Quebec. Refer to the "Description of Industrial Alliance" section for a detailed description of the Company.

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES INC.

Assets under management: $4.7 billion

Industrial Alliance Pacific Insurance and Financial Services Inc. ("IA Pacific") is a life and health insurance company that offers a wide range of insurance products and financial services. Created in 1951, IA Pacific previously operated under the name The North West Life Assurance Company of Canada, which was acquired by Industrial Alliance in 1982. In 1999, IA Pacific was merged with Seaboard Life Insurance Company, another Vancouver-based life and health insurance company that was acquired by Industrial Alliance. IA Pacific conducts its activities mainly in the Western provinces and Ontario. In the Individual Insurance and Individual Wealth Management sectors, the operations of IA Pacific are largely integrated with those of Industrial Alliance, its parent company. IA Pacific is also responsible for the Industrial Alliance group's operations in the Group Creditor Insurance sector with auto dealers and the Group Insurance Special Markets Group ("SMG"). Its head office is located in Vancouver, British Columbia.

THE EXCELLENCE LIFE INSURANCE COMPANY

Direct written premiums: $93.3 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, companies (primarily small businesses) and professional associations. It offers a broad range of disability insurance, medical care and hospitalization benefits insurance, and life and accident insurance products. Excellence distributes its products in Quebec, and in 2009 obtained the licenses required to operate Canada-wide. Excellence and the brokerage company with which it is associated, Michel Rhéaume et associés ltée ("MRA"), were acquired by Industrial Alliance in 2008. The Excellence head office is located in Montreal, Quebec.

IA AMERICAN LIFE INSURANCE COMPANY

Equity: US$29.9 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 is used as Industrial Alliance's platform to market its products in the family market in the US. The company distributes its products through independent brokers in the Western US and the Midwest. Its head office is located in Phoenix, Arizona.

IA CLARINGTON INVESTMENTS INC.

Assets under management: $7.7 billion

IA Clarington Investments Inc. ("IA Clarington") is a fund management firm that markets a wide range of investment products, including mutual funds and segregated funds. 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, and in 2009, it acquired the socially responsible investing mutual fund business of Inhance Investment Management Inc., a wholly-owned subsidiary of Vancouver City Savings Credit Union. IA Clarington distributes its products throughout Canada. Its main office is located in Toronto, Ontario.

INVESTIA FINANCIAL SERVICES INC.

Assets under administration: $9.2 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 relies on a distribution network of over 2,000 advisors and distributes its products throughout Canada. Its head office is located in Quebec City, Quebec.

FUNDEX INVESTMENTS INC.

Assets under administration: $9.4 billion

FundEX Investments Inc. ("FundEX") is a mutual fund broker. Created in 1995, FundEX offers the funds of most large Canadian investment fund companies, and relies on a network of some 600 advisors. 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: $2.2 billion

Industrial Alliance Securities Inc. ("IA Securities") is a full-service brokerage firm. It offers advisory and brokerage services in stocks, bonds and mutual funds to individuals and institutions. It also operates a capital markets division, performing corporate financing, research and negotiation of securities. Created in 2002, IA Securities resulted from the merger of five securities brokerage firms. It has some 50 employees, over 18,000 clients and distributes its products in Canada through over 170 representatives. Its head office is located in Quebec City, Quebec.

INDUSTRIAL ALLIANCE TRUST INC.

Assets under administration: $3.7 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 and under administration: $18.4 billion

Industrial Alliance Investment Management Inc. ("IA Investment Management") is an investment advisor. Created in 2004, IA Investment Management oversees the management of Industrial Alliance's segregated fund and mutual fund portfolios. It relies on a team of over forty 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: $135.6 million

Industrial Alliance Auto and Home Insurance Inc. ("IA Auto and Home Insurance") 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. IA Auto and Home Insurance is a direct distributor. Its head office is located in Quebec City, Quebec.

MICHEL RHÉAUME ET ASSOCIÉS LTÉE

Premiums: $43.6 million

Michel Rhéaume et associés ltée ("MRA") is a life and health insurance company. Created in 1974, MRA specializes in the distribution of products designed exclusively for members of corporations and professional associations. Its head office is located in Montreal, Quebec.

NATIONAL FINANCIAL INSURANCE AGENCY INC.

Commissions: $12.8 million

National Financial Insurance Agency Inc. ("NFIA") is a financial services firm. NFIA distributes a wide range of life and health insurance and annuity products across Canada, through over 700 independent financial advisors. It has agreements with most of the large insurance companies in Canada. NFIA was created in 1984, and acquired by Industrial Alliance in 2008. It is a subsidiary of Investia, and its head office is located in Quebec City, Quebec.

SOLICOUR INC.

Commissions: $4.7 million

Solicour Inc. ("Solicour") 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.

HIGHLIGHTS OF 2009 MARKET GUIDANCE FOR 2010 AND SENSITIVITY ANALYSIS

2009 HIGHLIGHTS

- Profitability
  - Net income to common shareholders of $205.8 million, more than triple the previous year's result
  - Diluted earnings per common share of $2.55, within the $2.50 to $3.00 target range for 2009
  - Return of 11.9% according to GAAP, but 12.2% for regular operations, within the 12% to 14% target range
- Dividend
  - Quarterly dividend maintained at $0.2450 per common share in 2009
  - Payout ratio of 38%, above the 25% to 35% target range
- Business Growth
  - $58.4 billion in assets, a high, up 18%
  - $5.2 billion in premiums and deposits, down 6%
- Financial Strength
  - Solvency ratio of 208%, above the 175% to 200% target range
- Quality of Investments
  - Very good quality of investments
  - Net impaired investments very low: 0.08% of investments
- Risk Management
  - Ability to absorb a significant market downturn
- Embedded Value
  - Embedded value of $3.0 billion, up 18.3% after the payment of dividends (21.4% before the payment of dividends)
- Ten Years on the Toronto Stock Exchange
  - Tenth anniversary as a stock company on February 3, 2010
  - 309% growth in IAG stock after ten years (31% for the S&P/TSX index)

2009 can be described as a year of economic recovery. The Canadian economy began to emerge from the recession, equity markets recovered a portion of their losses from the year before (the S&P/TSX index gained 35% in 2009), interest rate spreads narrowed, and credit conditions started to improve.

As a result, the situation at the end of 2009 was very different from the end of the previous year, when the world economy was hit by one of the worst economic and financial crises in decades. Stock markets even reached a worrisome low at the beginning of 2009. Governments did not hesitate to intervene in order to correct the situation. With the help of aggressive interest rate cuts, massive injections of liquidity and the introduction of job creation programs, the situation has improved. Although it is still precarious—experts are predicting a slow recovery marked by modest growth—the economy is doing much better than a year ago, and the outlook is more encouraging.

Industrial Alliance profited greatly from the improved economic and financial environment in 2009. Income has nearly returned to its pre-crisis level. The Company's financial position has been reinforced. The quality of investments continues to be very good. The dividend to common shareholders has been maintained. The leeway available to the Company to absorb potential stock market downturns has remained high. The Company has gained market share in the retail markets. Assets reached a new high. And the Company continued to build for the future by concluding two new acquisitions and by creating a local management team in the United States.

The Company owes its achievement of these results to four factors in particular: strict risk management, close monitoring of investments, strong capitalization, and a focused, balanced and realistic strategy for growth.

Following are the highlights of the Company's results for 2009.

PROFITABILITY

The stock market rebound and a general improvement in economic conditions carried net income to common shareholders to $205.8 million in 2009, over three times higher than in 2008. This translates into diluted earnings per common share of $2.55 ($0.82 in 2008) and a return on common shareholders' equity of 11.9% (4.0% in 2008). The 2008 results were affected by the deterioration in economic conditions in Canada, which had prompted the Company to strengthen its provisions for future policy benefits to take into account the sharp drop in interest rates and the equity markets.

Profitability	(In millions of dollars, unless otherwise indicated)	
	2009	2008
Net income to common shareholders	205.8	66.1
Earnings per common share (diluted)	$2.55	$0.82
Return on common shareholders' equity	11.9%	4.0%

The good results in 2009 are primarily explained by the rebound of the stock markets in 2009, which increased profit by $13.3 million after taxes ($0.17 per common share) more than expected. Profit was affected, however, by credit losses of $2.7 million after taxes ($0.04 per common share). The year-end review of valuation assumptions did not have a significant impact on the year's results, as it resulted in the provisions for future policy benefits being strengthened by $0.8 million after taxes ($0.01 per common share).

On the other hand, the Company's results were affected by an unusual, temporary loss of $5.4 million after taxes ($0.07 per common share), resulting from the unfavourable evolution of the difference between the fair value of the debt instruments and the underlying assets. This loss, which does not affect the Company's earning power, results from the unfavourable evolution in risk premiums during the year. Any difference between the fair value of debt instruments and the fair value of the corresponding assets will be reversed as the debt instruments approach maturity, namely over the next five years.

Excluding this loss, the Company ended 2009 with net income to common shareholders of $211.2 million. This income translates into diluted earnings per common share of $2.62, which is within the $2.50 to $3.00 target range given as guidance to the financial markets at the beginning of 2009, and a return on common shareholders' equity of 12.2%, which is within the Company's 12% to 14% target range.

DIVIDEND

The Company's financial solidity enabled it to maintain the quarterly dividend at $0.2450 per common share in 2009. Hence, the Company paid a dividend of $0.98 per common share in 2009 ($0.94 per common share in 2008). This translates into a dividend payout ratio of 38%, which is slightly above the Company's 25% to 35% target range for the medium term.

MARKET GUIDANCE FOR 2010

Following is the Company's main market guidance for 2010:

Return on common shareholders' equity – Maintain the 12% to 14% target range.

Earnings per common share – New target range of $2.75 to $3.25 (up from the $2.50 to $3.00 target given as guidance for 2009).

Solvency ratio – Maintain the 175% to 200% target range.

Dividend payout ratio – Maintain the 25% to 35% target range in the medium term. However, the Company expects the ratio to be in the upper part of the target range in 2010.

Effective tax rate – Maintain an expected effective tax rate of about 26% to 27%.

SENSITIVITY ANALYSIS

The Company took advantage of the publication of its 2009 results to update its sensitivity analyses. The results of these analyses show that the leeway available to the Company to absorb potential stock market downturns remains very high.

Stocks matched to long-term liabilities – The Company does not expect that it will have to strengthen its provisions for future policy benefits for stocks matched to long-term liabilities as long as the S&P/TSX index remains above approximately 9,050 points.

Solvency ratio – The Company expects the solvency ratio to remain above 175% as long as the S&P/TSX index stays above approximately 7,700 points, and to remain above 150% as long as the index stays above approximately 6,300 points.

BUSINESS GROWTH

Following are the business growth highlights.

Premiums and deposits – Strong business growth at the end of the year was not enough to make up for the shortfall at the beginning of the year, such that premiums and deposits totalled $5.2 billion at the end of 2009, 6% lower than the previous year. The decrease comes almost entirely from the Group Pensions sector, which had posted record sales in 2008.

Premiums and Deposits[1]	(In millions of dollars, unless otherwise indicated)		
	2009	2008	Variation
Individual Insurance	938.4	920.7	2%
Individual Wealth Management	2,350.0	2,422.4	(3%)
Group Insurance	962.4	956.5	1%
Group Pensions	839.8	1,114.9	(25%)
General Insurance	140.6	128.4	10%
Total	5,231.2	5,542.9	(6%)

Assets under management and under administration – The rebound in the equity markets and positive net fund entries in all lines of business carried assets under management and under administration to a new high of $58.4 billion as at December 31, 2009, an increase of 18% for 2009. All the main asset components increased this year, particularly segregated funds and mutual funds.

Assets Under Management and Under Administration	(In millions of dollars, unless otherwise indicated) As at December 31		
	2009	2008	Variation
Assets under management	36,255.8	30,213.8	20%
Assets under administration	22,150.8	19,258.4	15%
Total	58,406.6	49,472.2	18%

Value of new business – Despite a strong rebound in sales at year-end, the value of new business was down 1% in 2009 to total $121.4 million ($1.51 per common share). The value of new business evolves according to three components: the level of sales, profit margins and changes in the discount rate. Hence, the "sales" component reduced the value of new business by $8.5 million in 2009, primarily due to weak sales in the Group Pensions sector. This decrease was largely offset by the reduction in the discount rate, net of the impact of the drop in interest rates and market returns, which increased the value of new business by $7.1 million. Profit margins had no impact on the value of new business in 2009.

Value of New Business By Component	(In millions of dollars) 2009
Value of new business in 2008	122.8
Sales	(8.5)
Profit margins	0.0
Discount rate (decrease)	7.1
Value of new business in 2009	121.4

Sales and achievements by line of business – Following are the main sales results and the primary achievements for each line of business.

Individual Insurance – It was a profitable year in the Individual Insurance sector.

- Sales were up 7% in the traditional family market for insurance coverage, but down 27% in the Universal Life policy savings market. In total, the year ended with sales of $147.1 million, just slightly above the previous year's result.
- The level of activity among agents remained high throughout the year, with a 5% increase in the number of policies sold. The Company sold 112,335 individual insurance contracts in 2009, which ranks it third in Canada in this respect after nine months.
- The Company was ranked first in Canada for Universal Life policy sales, with a market share of 17.9% after nine months in 2009.
- The Company completed the acquisition of the individual life insurance portfolio of MD Life, a life and health insurance company that offers life insurance and annuity products to Canadian physicians.
- The Company completed the first phase of its US market development strategy by finalizing the creation of a local management team in the United States.

[1] Premiums and deposits include all premiums 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.

Individual Wealth Management – The Individual Wealth Management sector had a very satisfying year thanks to strong sales growth at the end of the year.

- Assets under management grew 24% to reach $15.5 billion. This increase can be explained by the stock market rebound and very positive net sales.
- Gross sales totalled $2.4 billion, a decrease of 3%. This decrease can be explained by weak sales at the beginning of the year, when the equity markets reached a low.
- The Company continued to gain market share in 2009. At the end of the year, the Company ranked 4th in terms of net segregated fund sales in Canada, with a 10.1% market share (5.7% in 2008), and 7th in terms of net mutual fund sales, compared to 17th in terms of assets.
- The Company made its debut in the socially responsible investing mutual fund market with the acquisition of Inhance, a subsidiary of Vancity, and broadened its distribution networks in Western Canada through a distribution agreement with Vancity to sell IA Clarington mutual funds.

Group Insurance Employee Plans – The Group Insurance Employee Plans sector was affected by the general weakness of the job market in Canada.

- After a record year in 2008, sales were down 19% in 2009 to total $75.0 million. This decrease was due to the fact that very few agreements were signed in the large groups market.
- Premiums and premium equivalents reached a new high, up 7% to reach $843.6 million.
- Sales outside Quebec were higher than sales within Quebec for the fifth consecutive year, which is in line with the Company's goal to expand in all regions of the country.

Group Insurance: Creditor Insurance – The Creditor Insurance sector suffered from lower vehicle sales and the tightening of credit conditions. Sales totalled $152.4 million, down 22%. The Company has been a leader in Canada in the creditor insurance market among car dealers for several years.

Group Insurance: Special Markets Group ("SMG") – The results of the SMG sector are very resilient to the economic environment. Sales totalled $113.2 million, slightly higher than in 2008. This can be explained by the good diversification of SMG business, both by product type and source of business. This sector specializes in certain insurance markets that are not well served by traditional insurance carriers.

Group Pensions – Sales in the Group Pensions sector are in line with expectations in all market segments.

- After a record year in 2008, sales were down 25% in 2009 to total $839.8 million. Group Pensions had sold two large pension plans in 2008, which pushed premiums to a high of over $1.1 billion.
- Assets under management grew 17% to reach $7.2 billion. This increase is attributable to positive net fund entries, strong sales of new plans and a good stock market performance.
- Sales of new accumulation plans outside Quebec were higher than sales within Quebec for the fifth consecutive year, which is in line with the Company's goal to expand in all regions of the country.

Sales by Line of Business[1]	(In millions of dollars, unless otherwise indicated) 2009	2008	Variation
Individual Insurance			
Minimum premiums	126.4	118.6	7%
Excess premiums	20.7	28.3	(27%)
Total	147.1	146.9	0%
Individual Wealth Management			
General fund	404.3	345.5	17%
Segregated funds	866.2	815.7	6%
Mutual funds	1,079.5	1,261.2	(14%)
Total	2,350.0	2,422.4	(3%)
Group Insurance			
Employee Plans	75.0	92.9	(19%)
Creditor Insurance	152.4	194.2	(22%)
Special Markets Group (SMG)	113.2	112.9	0%
Group Pensions	839.8	1,114.9	(25%)

FINANCIAL STRENGTH

The Company's financial strength continued to be reinforced in 2009.

- The Company successfully carried out two capital issuances in 2009: the issuance of $100 million in debentures in March, and the issuance of $100 million in preferred shares in October.
- These issuances helped increase the solvency ratio to 208% as at December 31, 2009, which is higher than the 199% ratio recorded as at December 31, 2008, and above the Company’s 175% to 200% target range. The capital issuances added 20 percentage points to the solvency ratio.
- These issuances also helped push the Company's capital to $2.7 billion as at December 31, 2009, an increase of 19%. Net income for the year, net of dividends paid to common shareholders, also contributed to this increase.
- After a slight dip in 2008 as a result of the financial crisis, the book value per common share started to increase once again, ending the year at a high of $22.77, which represents growth of 12%. This growth comes from the increase in common shareholders' equity.
- The issuance of subordinated debentures and preferred shares increased the Company's debt ratios from 17.0% as at December 31, 2008 to 19.2% as at December 31, 2009, if the debentures alone are included in the debt instruments, and from 26.8% as at December 31, 2008 to 31.3% as at December 31, 2009, if the preferred shares are added. These ratios are still below the maximum levels accepted by the rating agencies, based on the credit ratings assigned to the Company.

Solvency and Capitalization (In millions of dollars, unless otherwise indicated)	As at December 31 2009	2008
Solvency ratio	208%	199%
Capitalization[2]	2,703.1	2,270.8
Book value per common share	$22.77	$20.35
Debt ratio		
Debentures/capital	19.2%	17.0%
Debentures and preferred shares/capital	31.3%	26.8%

1 Refer to the sections on the Company's different business lines for a definition of sales.
2 Capitalization includes equity, debt securities and the participating policyholders' account.

QUALITY OF INVESTMENTS

The quality of investments continued to be very good in 2009.

- The bond portfolio had no defaulted bonds at the end of 2009.
- The Company posted provisions totalling $3.6 million in 2009. The Company also recorded a net loss of $0.2 million on the sale of previously devalued securities. In total, credit-related events resulted in a net loss of $3.8 million ($2.7 million after taxes).
- Net impaired investments totalled $13.0 million as at December 31, 2009, compared to $8.8 million as at December 31, 2008. This increase essentially results from the posting of a bond as an impaired investment for which a provision was taken. The proportion of net impaired investments represented just 0.08% of total investments as at December 31, 2009.
- The proportion of bonds rated BB or lower decreased during the year, from 0.23% as at December 31, 2008 to 0.07% as at December 31, 2009. This decrease results primarily from the sale of a few bonds rated BB and lower, and an increase in the credit ratings of certain bond issues by the rating agencies.
- A number of initiatives were introduced to enhance the quality of the investment portfolio, increase returns and improve matching. For example, the Company invested in new high-quality bonds (offering very good returns), set up an inter-segment note program, and transferred assets between certain lines of business.
- No additional provisions were taken for the non-bank sponsored asset-backed commercial paper ("ABCP"). The Company's total exposure to ABCP amounted to $91.0 million as at December 31, 2009. This exposure takes into account the ABCP that the Company held directly, the ABCP that the Company held indirectly through its 45% ownership in MD Life and, since December 31, 2009, the ABCP acquired following the purchase of MD Life's individual life insurance portfolio. The overall devaluation taken for the ABCP due to credit risk amounted to $35.6 million, which is equal to 39.1% of its nominal value. The Company believes that this devaluation is adequate under the circumstances.
- Despite the severity of the financial crisis that shook the economy, the Company has very little exposure to securities that made the headlines over the past two years. The Company has no investments in the US subprime mortgage loan market, no investments in US automobile manufacturers, no investments in monolines, and a $25 million investment in the securities of UK financial institutions, including $3 million in capital notes.

Investment Quality Indices (In millions of dollars, unless otherwise indicated)	As at December 31 2009	2008
Net impaired investments	13.0	8.8
Net impaired investments as a % of total investments	0.08%	0.06%
Bonds – Proportion rated BB and lower	0.07%	0.23%
Mortgage loans – Delinquency rate	0.36%	0.26%
Real estate – Market/book value	126.9%	129.4%

ACQUISITIONS

Industrial Alliance completed the two acquisitions that it had announced in 2009: the acquisition of the socially responsible investing mutual funds of Inhance Investment Management Inc., a subsidiary of Vancouver City Savings Credit Union, one of the largest credit unions in Canada (this acquisition was completed on December 7, 2009); and the acquisition of the individual life insurance portfolio of MD Life Insurance Company, a life and health insurance company that offers life insurance and annuity products to Canadian physicians (this acquisition was effective December 31, 2009).

EMBEDDED VALUE

The rebound in the equity markets helped raise embedded value to $3.0 billion as at December 31, 2009, which represents $36.89 per common share, a high for the Company. This is up 21.4% from the value calculated as at December 31, 2008, before the payment of dividends to common shareholders, and up 18.3% after the payment of these dividends. The embedded value/book value ratio increased slightly, from 1.54x as at December 31, 2008 to 1.62x as at December 31, 2009.

The increase in the embedded value is primarily explained by: the stock market upswing, which added 8.6% to the embedded value ($2.68 per common share); normal growth of the in-force business block, which added 6.1% to embedded value ($1.92 per common share); and the value of new business, which added 4.9% to the embedded value ($1.51 per common share).

In total, recurring items of embedded value, which are those over which the Company has a certain amount of control (expected growth of embedded value and new business) added 11.0% to the embedded value in 2009 ($3.43 per common share). Since the Company began calculating its embedded value, it has always achieved low double-digit growth of the embedded value through the recurring items, which is in line with the Company's expectations in a normal environment.

TEN YEARS ON THE TORONTO STOCK EXCHANGE

On February 3, 2010, Industrial Alliance celebrated its tenth anniversary as a stock company. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, effectively ending Industrial Alliance's conversion process from a mutual company to a stock company. The Company has made steady progress and major breakthroughs in the last ten years: entry into the wealth management market, primarily the mutual funds and securities markets, through sixteen acquisitions; growth outside Quebec, thanks to the opening of offices and the strengthening of Canada-wide sales networks; and entry into new markets, including personal health and disability insurance, socially responsible investment funds and the US market, through various acquisitions. From a life and health insurance company operating mainly in Quebec, Industrial Alliance has become a large national financial group. Between February 3, 2000 and February 2, 2010, Industrial Alliance stock grew 309%, compared to 31% for the S&P/TSX index. Industrial Alliance has thus passed the ultimate challenge for any public company: increasing long-term shareholder value.

PROFITABILITY

2009 HIGHLIGHTS

- Net income to common shareholders of $205.8 million, more than triple the previous year's result
- Diluted earnings per common share of $2.55, within the $2.50 to $3.00 target range
- Return on common shareholders' equity of 11.9% according to GAAP, but 12.2% for regular operations, within the 12% to 14% target range
- Main factors that affected profit:
  - Stock market rebound
  - Prudent management of investment portfolio
  - Past prudence in terms of evaluating the provisions for future policy benefits

The stock market rebound and a general improvement in economic conditions carried net income to common shareholders to $205.8 million in 2009, over three times higher than in 2008. This translates into diluted earnings per common share of $2.55 ($0.82 in 2008) and a return on common shareholders' equity of 11.9% (4.0% in 2008). Results in 2008 had been affected by the deterioration in economic conditions in Canada, which had prompted the Company to strengthen its provisions for future policy benefits to take into account the sharp drop in interest rates and the equity markets.

Profitability	(In millions of dollars, unless otherwise indicated)				
	2009	2008	2007	2006	2005
Net income to shareholders	219.6	71.9	248.0	227.9	132.2
Less: dividends to preferred shareholders	13.8	5.8	5.8	4.9	--
Net income to common shareholders	205.8	66.1	242.2	223.0	132.2
Earnings per common share					
Basic	$2.56	$0.82	$3.02	$2.77	$1.66
Diluted	$2.55	$0.82	$2.99	$2.74	$1.65
Return on common shareholders' equity	11.9%	4.0%	15.1%	15.7%	10.3%

The good results in 2009 are primarily explained by the rebound of the stock markets, which increased the profit by $13.3 million after taxes more than expected. Profit was affected, however, by credit losses of $2.7 million and by a $5.4 million loss after taxes resulting from the unfavourable evolution of the difference between the fair value of debt instruments and the underlying assets. The Group Insurance sector had experience losses in 2009, primarily due to the difficult economic environment. This negative experience was partially offset by positive experience in the Individual Insurance sector. The year-end review of valuation assumptions did not have a significant impact on the results for the year, as it resulted in the provisions for future policy benefits being strengthened by $0.8 million after taxes.

Following is an explanation of the main factors that influenced the results for 2009:

- *Stock markets* – The stock market rebound improved the Company's profit by $13.3 million in 2009 ($0.17 per common share) compared to the expected result. The S&P/TSX index of the Toronto Stock Exchange was up 31% in 2009, which led to better than expected results in the fees collected on the segregated funds and mutual funds managed by the Company, discounted future revenues on Universal Life policy funds, and income on capital.

- *Credit* – Thanks to the good quality of investments, credit losses were limited to $2.7 million after taxes ($0.04 per common share), an excellent achievement in the current environment. In 2008, the Company had posted $25.0 million in credit losses ($0.31 per common share). Although the credit crisis continued to affect the markets in 2009, very few securities had to be devalued during the year.

- *Fair value of debt instruments* – The Company recorded an unusual, temporary loss of $5.4 million after taxes ($0.07 per common share) in 2009, resulting from the unfavourable evolution of the difference between the fair value of the debt instruments and the underlying assets. This loss, which does not affect the Company's earning power, results from the unfavourable evolution in risk premiums during the year.

  The debt instruments that were part of the Company's balance sheet when the new accounting standards on financial instruments took effect on January 1, 2007 were classified as "held for trading." For these debt instruments, any difference between the fair value of the debt instruments and the corresponding assets must be recognized immediately on the income statement. The gaps thus created will be reversed as the debt instruments approach maturity, which is in the next five years. In total, since the new accounting standards took effect, the asymmetric evolution of the market value of the debt instruments and the underlying assets resulted in a $0.6 million loss after taxes.

  Excluding this loss, the Company ended 2009 with net income to common shareholders of $211.2 million. This income translates into diluted earnings per common share of $2.62, which is within the $2.50 to $3.00 target range given as guidance to the financial markets at the beginning of the year, and a return on common shareholders' equity of 12.2%, which is within the Company's 12% to 14% target range.

Profitability on Regular Operations	(In millions of dollars, unless otherwise indicated)	
	2009	2008
Net income to common shareholders	205.8	66.1
Less: gain (loss) resulting from the difference in the fair value of the debt instruments and the underlying assets (after taxes)	(5.4)	7.6
Net income to common shareholders on regular operations	211.2	58.5
Earnings per common share (diluted) on regular operations	$2.62	$0.72
Return on common shareholders' equity on regular operations	12.2%	3.6%

- *Changes in assumptions* – Thanks to the Company's past prudence in terms of evaluating the provisions for future policy benefits, the year-end review of valuation assumptions did not have a significant impact on the results for 2009, as the provisions for future policy benefits were strengthened by $1.1 million before taxes ($0.8 million after taxes, or $0.01 per common share).

Even though the review of the valuation assumptions did not have a significant impact on results, substantial transfers of provisions for future policy benefits were made from one business block to another to take into account the evolution of the economic and financial environment and the Company's experience. Provisions were released to take into account improved mortality in the Individual Insurance sector and the improved return on investments, resulting from the stock market upswing and optimization of the Company's asset-liability matching. These releases were offset, however, by the strengthening of provisions for future policy benefits to primarily take into account the increased longevity of annuitants in the annuity sectors (Group Pensions and Individual Wealth Management), the decrease in individual insurance policy lapse rates, the 10 basis point decrease in the ultimate reinvestment rate and, to a lesser degree, increased unit costs in the Individual Insurance sector.

Four additional points to consider about the changes in assumptions:

› The Company's recent mortality studies show a significant improvement in mortality. These results are in line with the trends observed in the most recent work done by the industry, including work by the Canadian Institute of Actuaries. The improvement in mortality has major, but diverging effects on the Company's activity sectors, benefiting the Individual Insurance sector, but adversely affecting the annuity sectors (Group Pensions and Individual Wealth Management). In total, since the Company's insurance operations are much larger than its annuity operations, the Company benefits from the improved mortality. The Company also retains a higher proportion of mortality risk than the industry, which adds to the income that the Company draws from improved life expectancy.

› The strengthening of provisions for future policy benefits to take into account the increased longevity of annuitants comes from the fact that, among other things, the Company adopted one year early the recommendation that it expects the Canadian Institute of Actuaries to make about improved future mortality of annuitants.

› The Company did not modify its valuation assumption for the initial reinvestment rate. Despite fairly significant variations during the year, this rate closed 2009 at essentially the same level as at the end of 2008.

› Even though it was not obligated to, the Company decided to reduce the ultimate reinvestment rate by 10 basis points in order to recognize the downward trend in long-term interest rates. The Company thus reduced the ultimate reinvestment rate from 4.0% at the end of 2008 to 3.9% at the end of 2009. The maximum rate that the Company could use at the end of 2009 for the ultimate reinvestment rate was 4.1%, according to the formula prescribed by the Canadian Institute of Actuaries. If the long-term interest rates used to calculate the ultimate reinvestment rate remain at the current level, the maximum rate that the Company could use at the end of 2010 would be 4.0%. This rate would gradually decrease to reach 3.9% at the end of 2011, 3.8% at the end of 2012, 3.7% at the end of 2013 and 2014 and 3.6% starting in 2015, the level at which it will stabilize. This means that, in these circumstances, the Company would not be obligated to strengthen its provisions for future policy benefits for the ultimate reinvestment rate before 2012, in three years. The Company was using an ultimate reinvestment rate of 5.0% at the end of 2006. Therefore, most of the decrease in the ultimate reinvestment rate has already been recognized in the provisions for future policy benefits.

ANALYSIS OF INCOME BY SOURCES OF EARNINGS

Analyzing income by sources of earnings helps to determine the sources of variance between the Company's 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 main data concerning the sources of earnings for 2008 and 2009 are presented in the table 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, expense and equity market 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 2009, the expected profit on in-force totalled $320.5 million, an 18% decrease compared to 2008. This decrease mainly affected the Individual Wealth Management sector, and can primarily be explained by the stock market downturn in the second half of 2008. Even though the S&P/TSX index was up 31% in 2009, it averaged 10,165 points in 2009, compared to 12,486 points in 2008, a decrease of 19%. In addition to reducing the management fee income from segregated funds and mutual funds, the lower stock market values compared to 2008 also brought down fees for Universal

Sources of Earnings	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions		Total	
(In millions of dollars)	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Expected profit on in-force	197.4	200.4	59.2	117.9	48.1	53.4	15.8	19.7	320.5	391.4
Experience gains (losses)	17.4	(34.2)	(4.4)	(32.1)	(10.4)	(8.3)	1.3	(17.8)	3.9	(92.4)
Gain (strain) on sales	(89.0)	(81.6)	(5.5)	(3.7)	0.0	0.0	(1.1)	(2.7)	(95.6)	(88.0)
Changes in assumptions	68.6	(175.6)	(16.9)	(1.9)	(0.9)	(1.0)	(51.9)	(16.7)	(1.1)	(195.2)
Operating profit	194.4	(91.0)	32.4	80.2	36.8	44.1	(35.9)	(17.5)	227.7	15.8
Income on capital	51.3	41.5	8.4	5.9	12.6	9.0	7.4	6.0	79.7	62.4
Income taxes	(68.1)	17.8	(11.7)	(23.6)	(13.6)	(11.9)	11.0	3.8	(82.4)	(13.9)
Net income to shareholders on regular operations	177.6	(31.7)	29.1	62.5	35.8	41.2	(17.5)	(7.7)	225.0	64.3
Less: dividends on preferred shares	8.0	0.0	5.8	5.8	0.0	0.0	0.0	0.0	13.8	5.8
Net income to common shareholders on regular operations	169.6	(31.7)	23.3	56.7	35.8	41.2	(17.5)	(7.7)	211.2	58.5
Other items	(3.4)	4.8	(0.4)	0.6	(1.0)	1.4	(0.6)	0.8	(5.4)	7.6
Net income to common shareholders	166.2	(26.9)	22.9	57.3	34.8	42.6	(18.1)	(6.9)	205.8	66.1

Life policies and group pension plan accumulation funds. Note that the decrease in the expected profit on in-force in 2009 is in line with the guidance that the Company gave to the financial markets when it published its fourth quarter 2008 results.

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

The Company ended the year with experience gains of $3.9 million. These gains can primarily be explained by the stock market rebound, which produced a gain of $18.0 million more than expected, before taxes, and by good experience results in the Individual Insurance sector. This gain was reduced, however, by the impact of the economic environment, which resulted in experience losses, primarily in the Group Insurance sector, which saw a reduction in creditor insurance sales and an increase in claims for employee plans. Credit losses on a few investments also produced an experience loss.

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 $95.6 million in 2009, which is 9% higher than the previous year. This strain comes primarily from Individual Insurance, due to the long-term commitments in this sector.

The strain in the Individual Insurance sector alone, expressed as a percentage of sales (measured in terms of first-year annualized premiums) reached 61% in 2009 compared to 56% in 2008. This increase can be explained by the decrease in sales for the savings component of Universal Life policies (which are less strain intensive).

Even though the strain is slightly above the Company's 50% to 55% target range, the Company estimates that the current pricing structure, combined with recent changes made to certain product features and a return to normal market conditions, should allow new business strain to remain 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.

The Company's income was relatively unaffected by the assumption changes in 2009. The review of the valuation assumptions led to an increase of $1.1 million before taxes ($0.8 million after taxes) in the provisions for future policy benefits. The impact of the year-end assumption changes was explained in detail earlier.

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 $79.7 million in 2009, up $17.3 million, or 28%, over 2008. Three factors contributed to this increase during the year: the good performance of the auto and home insurance subsidiary, the stock market gains and the sale of financial securities matched to equity. Note that income on capital had been abnormally weak in 2008 due to the poor economic conditions.

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 $82.4 million in 2009, which translates into an effective tax rate of 26.8%. This rate is within the Company's 26% to 27% range expected for 2009. Note that for 2010, the Company once again expects that its effective tax rate should be around 26% to 27%.

Other items – Only one item was classified under Other items in 2009, 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. As explained earlier, this difference generated a loss of $5.4 million after taxes for 2009.

ANALYSIS OF OPERATING PROFIT BY LINE OF BUSINESS

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

Individual Insurance – The Individual Insurance sector ended the year with an operating profit of $194.4 million. The business line benefited from the rebound in the equity markets, which increased discounted future revenues on Universal Life policy funds, and from favourable experience results, but mainly, from the release of $68.6 million in provisions for future policy benefits to take into account improved mortality and a higher return on investments. This is in contrast to the previous year, when the provisions were strengthened to take into account the strong drop in interest rates and the equity markets.

Individual Wealth Management – The Individual Wealth Management sector recorded an operating profit of $32.4 million in 2009, compared to $80.2 million in 2008. This decline is due to the decrease in assets under management that occurred at the end of 2008 and the beginning of 2009 following the drop in market values, as explained earlier. The sector was also affected by the strengthening of the provisions for future policy benefits to take into account the increased longevity of annuitants.

Group Insurance – The Group Insurance sector ended the year with an operating profit of $36.8 million, a 17% decrease compared to 2008. This sector was affected by the economic slowdown, which led to an increase in claims for employee plans, primarily in the first two quarters, as well as a decrease in creditor insurance sales through car dealers, which had an impact on the Creditor Insurance division. Note, however, that the experience results for employee plans were very favourable in the last quarter due to improved economic conditions and good claims management.

Group Pensions – The Group Pensions sector recorded an operating loss of $35.9 million in 2009. The sector was mainly affected by a strengthening of the provisions for future policy benefits to take into account the increased longevity of annuitants for insured annuities.

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)		
	2009	2008	2007
Revenues	5,814.3	4,465.1	4,971.6
Policy benefits and expenses	5,532.0	4,373.5	4,659.0
Income before income taxes	282.3	91.6	312.6
Income taxes	(64.0)	(16.8)	(63.4)
Net income	218.3	74.8	249.2
Less: net income to participating policyholders	(1.3)	2.9	1.2
Net income to shareholders	219.6	71.9	248.0
Less: dividends to preferred shareholders	13.8	5.8	5.8
Net income to common shareholders	205.8	66.1	242.2
Earnings per common share			
Basic	$2.56	$0.82	$3.02
Diluted	$2.55	$0.82	$2.99

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 2009 totalled $5.8 billion, which represents a 30% increase over 2008. This was primarily due to the increase in net investment income, as explained below.

Revenues	(In millions of dollars)		
	2009	2008	2007
Premiums	4,151.7	4,281.7	4,029.3
Net investment income	1,302.3	(188.0)	578.8
Fees and other revenues	360.3	371.4	363.5
Total	5,814.3	4,465.1	4,971.6

Premiums totalled $4.2 billion in 2009, which represents a 3% decrease compared to 2008. This decrease primarily reflects the decrease in sales observed in the Group Pensions sector, which had a record year in 2008 thanks to the signing of a few large contracts.

If mutual fund deposits are added to the premiums, premiums and deposits totalled $5.2 billion in 2009, a 6% decrease from 2008. This decrease can be explained by a decline in sales in the Group Pensions sector, as explained earlier, and by the decline in mutual fund deposits in 2009. Even though mutual fund deposits were up sharply in the fourth quarter, it was not enough to erase the shortfall accumulated in the first half of the year as a result of strong volatility in the equity markets at the beginning of 2009.

Premiums and Deposits	(In millions of dollars)		
	2009	2008	2007
Premiums			
General fund	2,599.7	2,620.1	2,463.7
Segregated funds	1,552.0	1,661.6	1,565.6
Subtotal	4,151.7	4,281.7	4,029.3
Deposits – Mutual funds	1,079.5	1,261.2	1,796.9
Total	5,231.2	5,542.9	5,826.2

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.

Since the adoption of the new accounting standards concerning financial instruments at the beginning of 2007, assets held for trading (other than real estate) have been accounted for at their market value. This accounting approach 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 influence 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 amounted to $1.3 billion in 2009, compared to a negative amount of $188.0 million in 2008. The difference between these two amounts (a $1.5 billion increase) is primarily attributable to the appreciation of the stock portfolio, which benefited from the growth of the equity markets, and the increase in the bond portfolio, a result of narrower interest rate spreads during the year.

Note as well that, unlike in 2008, the Company's profit was not affected by a devaluation in the fair value of non-bank ABCP in 2009. However, net investment income was affected by credit losses of $3.8 million for a few securities that were weakened by the economic environment, which 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) 2009	2008	2007
Investment income	587.6	393.3	433.4
Amortization of realized and unrealized gains (losses) on real estate	19.6	16.3	10.4
Gains realized on the disposition of assets available for sale	6.4	3.6	8.9
Variation in the fair value of assets held for trading	691.8	(596.0)	125.9
Change in provisions for losses	(3.1)	(5.2)	0.2
Total	1,302.3	(188.0)	578.8

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. Fees and other revenues amounted to $360.3 million in 2009, down 3% from 2008. This decline is due to the decrease in assets under management that occurred at the end of 2008 and the beginning of 2009 following the drop in market values, as explained earlier.

Policy Benefits and Expenses

Policy benefits and expenses totalled $5.5 billion in 2009, which represents a $1.2 billion increase over 2008. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses	(In millions of dollars) 2009	2008	2007
Change in provisions for future policy benefits	1,194.5	53.2	506.4
Payments to policyholders and beneficiaries	1,928.5	1 950.1	1,737.7
Net transfer to segregated funds	1,298.9	1,346.9	1,456.9
Commissions	527.8	545.1	519.2
General expenses	399.9	358.4	333.5
Other	182.4	119.8	105.3
Total	5,532.0	4,373.5	4,659.0

The change in provisions for future policy benefits constitutes an expense on the income statement, and this expense totalled $1.2 billion in 2009, compared to $53.2 million in 2008. The change in provisions for future policy benefits depends on 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 change in provisions for future policy benefits had very little impact on net income, given that a corresponding increase in net investment income is recorded on the income statement.

The changes in assumptions made in 2008 led to a $195.2 million strengthening of the provisions for future policy benefits; however, the variation in the fair value of assets held for trading had a significant downward impact on the provisions for future policy benefits.

Payments to policyholders and beneficiaries in 2009 were slightly lower (by $21.6 million) than in 2008, which mainly reflects the good persistency of existing groups in the Group Pensions sector. 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 2009, which represents a decrease of $48.0 million from 2008. Even though segregated fund sales were up in the last quarter or 2009, they were down in the first half of the year as clients chose to keep their savings in general fund products to shelter them from the volatility of the equity markets.

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 from 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 decreased by $17.3 million in 2009 compared to the previous year. Commissions were down primarily due to the decrease in sales in the Individual Wealth Management sector in the first two quarters of 2009 (a result of the stock market downturn) and the decrease in creditor insurance sales in the Group Creditor Insurance sector (a result of lower vehicle sales in Canada).

General expenses were up $41.5 million in 2009 compared to the previous year. This increase is primarily explained by the following items: expenses related to the various acquisitions completed in 2008 (which are added to the general expenses in 2009); a reduction in general expenses for 2008 following the recovery of sales tax; the auto and home insurance subsidiary's advertising campaign; the increase in the number of employees (resulting mainly from acquisitions); and the normal increase in salaries and employee benefits.

Income taxes

Income taxes amounted to $64.0 million in 2009, compared to $16.8 million in 2008. This difference can be explained by the Company's higher income in 2009, and by the fact that in 2008, a relatively high proportion of its income and expenses were classified as non-taxable items.

CAPITALIZATION AND SOLVENCY

2009 HIGHLIGHTS

- Solid financial position
  - Solvency ratio of 208% as at December 31, 2009, up from 2008 and above the Company's 175% to 200% target range
  - High credit ratings reaffirmed during the financial crisis
- Prudent capital management
  - Quarterly dividend of $0.2450 per common share maintained in 2009
  - Issuance of $100 million in subordinated debentures
  - Issuance of $100 million in preferred shares
  - $2.7 billion in capital, a 19% increase
  - 19.2% debt ratio, below the maximum levels accepted by the rating agencies
- Stock market return
  - Stock price and market capitalization up 38% in 2009

The challenging economic environment and the recent volatility of the financial markets revealed 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 absorb the impact of the unfavourable environment over the last two years, but to actually improve its solvency and maintain its credit ratings throughout the year. This achievement is no doubt reassuring for clients, who rely on Industrial Alliance to ensure their financial security, and for shareholders, who want to invest in a solid company.

CAPITALIZATION

Industrial Alliance's capital structure can be divided into three main categories of capital: equity, debentures and the participating policyholders' account. At the end of 2009, equity accounted for 80% of the Company's capital.

As at December 31, 2009, the Company's capital totalled $2.7 billion, a 19% increase compared to December 31, 2008. The main items that caused the capital to increase in 2009 were: the issuance of $100 million in subordinated debentures, the issuance of $100 million in preferred shares, the increase in retained earnings (resulting from the net profits realized during the year, net of dividends paid to common shareholders), the appreciation in the market value of the debentures (resulting from the narrowing of interest rate spreads) and the accumulation of latent gains under other comprehensive income.

Capital Structure	(In millions of dollars) As at December 31				
	2009	2008	2007	2006	2005
Equity					
Common shares	545.7	541.0	513.1	507.7	510.6
Preferred shares	325.0	223.7	125.0	125.0	--
Retained earnings	1,254.8	1,127.7	1,148.3	971.3	845.4
Contributed surplus	21.6	19.8	17.1	14.6	12.3
Currency translation account	--	--	--	(6.8)	(7.1)
AOCI[1]	10.5	(54.3)	(3.8)	--	--
Subtotal	2,157.6	1,857.9	1,799.7	1,611.8	1,361.2
Debentures[2]	519.8	385.9	309.8	310.1	373.0
Participating policyholders' account	25.7	27.0	24.1	23.1	19.7
Total	2,703.1	2,270.8	2,133.6	1,945.0	1,753.9

These gains are attributable to the securities available for sale, whose market value increased due to the narrowing of interest rate spreads and the stock market rebound.

FINANCIAL LEVERAGE AND COVERAGE RATIO

The issuance of subordinated debentures and preferred shares in 2009 increased the Company's debt ratios. Hence, the debt ratio, as measured by debentures compared to the capital structure, went from 17.0% as at December 31, 2008, to 19.2% as at December 31, 2009. If the preferred shares are added to the debentures, the ratio went from 26.8% as at December 31, 2008 to 31.3% as at December 31, 2009. These ratios are still below the maximum levels accepted by the rating agencies, based on the credit ratings assigned to the Company.

The coverage ratio, i.e. the ratio of the pre-tax income and financing expenses to the financing expenses, climbed from 3.9x in 2008 to 6.3x in 2009. This improvement is primarily due to the growth in income in 2009, which quickly returned to its pre-crisis level. The coverage ratio had decreased somewhat in 2008, primarily due to the decrease in income, a result of the financial crisis that shook the economy, and the capital issuances made by the Company, which increased financing expenses. The coverage ratio is in line with rating agency requirements.

Debt Ratios and Coverage Ratio	As at December 31				
	2009	2008	2007	2006	2005
Debt ratios					
Debentures/Capital structure	19.2%	17.0%	14.5%	15.9%	21.3%
Debentures and preferred shares/capital structure	31.3%	26.8%	20.4%	22.4%	21.3%
Coverage ratio (number of times)	6.3	3.9	12.2	12.1	11.0

SOLVENCY

The Company emerged from the financial crisis in a solid position, even stronger than the previous year. As at December 31, 2009, the solvency ratio was 208%, which is higher than the 199% ratio recorded as at December 31, 2008, and above the Company's 175% to 200% target range.

Several factors put upward or downward pressure on the solvency ratio in 2009. Following are some of the main factors that caused the solvency ratio to increase:

- The issuance of $100 million in subordinated debentures in March 2009 (addition of 10 percentage points to the solvency ratio).
- The issuance of $100 million in preferred shares in October 2009 (addition of 10 percentage points).
- The usual contribution of net income to the available capital, net of the normal increase in required capital related to business growth.

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

- The higher capital requirements related to the increase in market value of stocks and bonds (a result of the stock market rebound, the reduction in long-term interest rates and the purchase of new securities).

[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 IATS as well as a Trust financing debenture were reclassified as debentures.

› The acquisitions concluded in 2009. These acquisitions resulted in an increase in required capital and goodwill, and consequently, a decrease in available capital.

Solvency	(In millions of dollars, unless otherwise indicated) As at December 31				
	2009	2008	2007	2006	2005
Available capital					
Net tier 1	1,961.9	1,726.0	1,685.6	1,498.9	1,187.5
Net tier 2	343.1	195.4	120.6	128.6	134.9
Total	2,305.0	1,921.4	1,806.2	1,627.5	1,322.4
Required capital	1,107.2	967.1	934.6	809.9	704.5
Solvency ratio	208%	199%	193%	201%	188%

DIVIDENDS

The Company's financial solidity enabled it to maintain its dividend in 2009. The Company paid a dividend of $0.2450 per common share in each of the four quarters of 2009, for a total dividend of $0.98 per common share, higher than the dividend of $0.94 per common share paid in 2008. In total, the Company paid out $78.7 million in dividends to common shareholders in 2009. This translates into a dividend payout ratio of 38% of the net income available to common shareholders for 2009, which is slightly above the Company's 25% to 35% target range for the medium term.

At the beginning of 2010, the Company announced that it was keeping its medium term target range of 25% to 35% for the dividend payout ratio, but that it was expecting the ratio to be in the upper part of the target range in 2010.

Dividends	2009	2008	2007	2006	2005
Dividends paid per common share	$0.98	$0.94	$0.76	$0.60	$0.50
Payout ratio	38%	115%	25%	22%	30%

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 acquire, 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, 2009 was 80,511,771, an increase of 181,000 compared to December 31, 2008. This increase is entirely due to the issuance of common shares subsequent to the exercising of options under the Company's stock option plan.

The Company did not buy back any of its common shares in 2009. At the beginning of the year, the Company had indicated that it would not buy back its common shares until the financial situation in Canada becomes more stable. The Company's policy stipulates that it buys back common shares that it issues following the exercise of stock options under the stock option plan in order to eliminate the dilutive effect (refer as well to the "Normal Course Issuer Bid" and "Buy-Back of Shares" subsections below).

Common Shares	(In millions) As at December 31				
	2009	2008	2007	2006	2005
Number of common shares outstanding	80.5	80.3	79.8	79.9	81.4

STOCK PRICE AND MARKET CAPITALIZATION

On December 31, 2009, the last trading day of the year, Industrial Alliance stock closed at $32.20, an increase of 38% over the end of 2008. The Company's market capitalization amounted to $2.6 billion on that date, also up 38% from the previous year. Note that with this kind of market capitalization, the Company was one of the 100 largest public companies on the Toronto Stock Exchange.

Stock Price and Market Capitalization	(In millions of dollars, unless otherwise indicated) End of period				
	2009	2008	2007	2006	2005
Stock Price	$32.20	$23.31	$42.58	$36.14	$29.07
Market Capitalization	2,592.5	1,872.5	3,399.6	2,887.6	2,366.3

Industrial Alliance became a stock company in February 2000, ten years ago from the time this report was written. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of $7.88, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005. This means that the Company's stock price had a growth rate of 309% between February 3, 2000 and February 2, 2010, compared to 31% for the S&P/TSX benchmark index of the Toronto Stock Exchange.

BOOK VALUE PER COMMON SHARE

After a slight dip in 2008 as a result of the financial crisis, the book value per common share started to increase once again, ending the year at a high of $22.77, which represents growth of 12% during the year. This growth comes from the increase in the Company's common shareholders' equity, as explained previously (refer to the "Capitalization" subsection above).

Carrying Value Per Common Share	As at December 31				
	2009	2008	2007	2006	2005
Carrying value per common share	$22.77	$20.35	$20.98	$18.61	$16.72

PREFERRED SHARES

The Company's capital contains 5,000,000 class A, series B preferred shares issued and outstanding, for a nominal value of $125.0 million, 4,000,000 class A, series C preferred shares issued and outstanding, for a nominal value of $100 million, and 4,000,000 class A, series E preferred shares issued and outstanding, for a nominal value of $100 million. These preferred shares are accounted for at their acquisition value.

The preferred shares in each of these series (B, C and E) entitle the holders to a fixed non-cumulative quarterly dividend of $0.2875 per preferred share for series B, $0.3875 per preferred share for series C, and $0.3750 per preferred share for series E. Note that the Company paid $13.8 million in dividends to preferred shareholders in 2009.

Series B, C and E 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 ("AMF"), starting March 31, 2011 for series B shares, starting December 31, 2013 for series C shares and starting December 31, 2014 for series E shares. The preferred shares in series B, C and E have no voting rights and cannot be converted into common shares.

The class A, series E preferred shares were issued on October 15, 2009. They are perpetual preferred shares that yield 6.00% per annum, payable quarterly, as and when declared by the Board of Directors of the Company. The series E preferred shares are not redeemable by the Company prior to December 31, 2014. Subject to regulatory approval, on or after December 31, 2014, Industrial Alliance may, on no less than 30 and no more than 60 days' notice, redeem the series E preferred shares in whole or in part, at the Company's option, by paying the amount of $26.00 per series E preferred share if redeemed prior to December 31, 2015, $25.75 per series E preferred share if redeemed on or after December 31, 2015 but prior to December 31, 2016, $25.50 per series E preferred share if redeemed on or after December 31, 2016 but prior to December 31, 2017, $25.25 per series E preferred share if redeemed on or after December 31, 2017 but prior to December 31, 2018 and $25.00 per series E preferred share if redeemed on or after December 31, 2018, in each case together with all declared and unpaid dividends up to but excluding the date fixed for redemption. More information about the features of these preferred shares can be found in the prospectus.

DEBENTURES

The Company had five series of debentures in its balance sheet as at December 31, 2009, with a total value of $519.8 million:

- $157.0 million in series A debentures (nominal value of $150.0 million). These debentures bear interest of 5.714%, payable semi-annually. They are redeemable at the option of the Company as of December 2008 or repayable on maturity in 2053.
- A $10.6 million series A funding debenture (nominal value of $10.1 million). 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.
- $153.2 million in subordinated debentures (nominal value of $150.0 million). These debentures mature on June 30, 2019. They bear 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. These debentures are redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the 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 the debentures in whole, but not in part, on each payment date of quarterly interest, at the nominal value, subject to approval by the AMF.
- $99.9 million in subordinated debentures (nominal value of $100.0 million). These debentures mature on August 1, 2023. They are 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 the nominal value by the Company on or after August 1, 2018, in whole but not in part, subject to approval by the AMF.

  These debentures were underwritten by the Solidarity Fund QFL ("the Fund"). The Fund cannot require the reimbursement of the debentures before they mature, except in particular circumstances and subject to approval by the AMF, which allows the Company to qualify the debentures as Tier 2 capital.
- $99.1 million in subordinated debentures (nominal value of $100.0 million). These debentures mature on March 27, 2019. They were issued on March 27, 2009 and bear interest of 8.25% payable semi-annually until March 27, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 7.55%, payable quarterly. These debentures are redeemable by the Company before March 27, 2014, in whole or in part, subject to approval by the AMF, at a redemption price that is equal to the higher of the Canada yield price and par. After March 27, 2014, the Company may redeem the debentures in whole or in part, on each payment date of quarterly interest, at the nominal value, subject to approval by the AMF.

The first three series of debentures described above, which totalled $320.8 million as at December 31, 2009, were classified as "held for trading" when the new accounting standards for financial instruments took effect on January 1, 2007, and are therefore accounted for at the fair value. However, the other two series of debentures, having a nominal value of $100.0 million each, were classified as "other financial liabilities," and are accounted for at their amortized acquisition value based on their effective interest rate.

The total financing expense, which is made up of the interest expense and the variation in the fair value of debentures held for trading, increased from a negative amount of $4.1 million in 2008 to a positive amount of $63.7 million in 2009. The interest expense went from $19.6 million in 2008 to $29.0 million in 2009, while the variation in the fair value of debentures increased from a negative amount of $23.7 million in 2008 to a positive amount of $34.7 million in 2009. The increase in the fair value of debentures in 2009 is caused by the narrowing of interest rate spreads compared to government bonds. Note that the impact of this increase on the financing expense was offset in part by an increase in investment 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 2009 the Human Resources and Corporate Governance Committee issued 499,000 new stock options. These new options, which will expire in 2019, were granted at an average weighted exercise price of $19.23. The issue, net of the options exercised and cancelled during the year, brings the number of stock options outstanding to 3,896,500, or 4.8% of the number of issued and outstanding shares as at December 31, 2009.

CREDIT RATINGS

In 2009, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company by maintaining them at the same level as the previous year.

However, the strong downturn in the stock markets in the first few months of 2009 prompted two of the three agencies to reconsider their outlook with regard to Industrial Alliance. Hence, on March 20, 2009, Standard & Poor's revised the outlook that it assigns to the Company from stable to negative, and on February 12, 2009, A.M. Best revised its outlook from positive to stable.

Note that the two capital issuances made by Industrial Alliance in 2009 – the $100 million in subordinated debentures in March 2009 and the $100 million in series E preferred shares in October 2009 – were assigned the same ratings by the three rating agencies as those assigned to similar securities that had been previously issued by the Company (these ratings appear in the table below).

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

Credit Ratings

Agency	Type of Evaluation	Rating	Outlook
Standard & Poor's	Financial Strength	A+ (Strong)	Negative
	Issuer Credit Rating	A+ (Strong)	Negative
	Subordinated debentures	A	--
	Industrial Alliance Trust Securities (IATS)		
	Canadian scale	P-1 (Low)	--
	Global scale	A-	--
	Preferred shares		
	Canadian scale	P-1 (Low)	--
	Global scale	A-	--
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

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, 2010 to February 17, 2011, up to 2,415,353 common shares, representing approximately 3% of its 80,511,771 common shares issued and outstanding on February 10, 2010.

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 189,797 on the Toronto Stock Exchange 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 47,449 common shares per day.

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 completely 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.

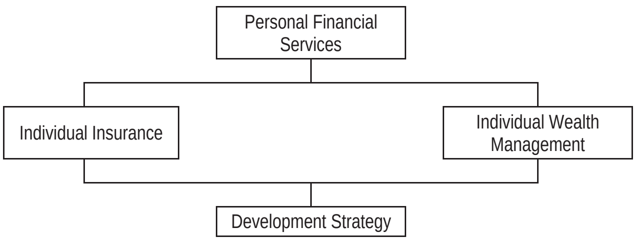
BUY-BACK OF SHARES

Under the current normal course issuer bid, which began on February 18, 2009 and will end on February 17, 2010, so far the Company has not purchased any common shares. The Company does not expect to make any purchases in the days remaining before expiry of the current normal course issuer bid.

As explained in the "Outstanding Shares" subsection above, the Company had indicated that it would not buy back its common shares until the financial situation in Canada becomes more stable. The Company's policy stipulates that it buys back common shares that it issues following the exercise of stock options under the stock option plan in order to eliminate the dilutive effect.

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"), tax-free savings accounts ("TFSAs"), 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 at death or at maturity and the guaranteed minimum income product), 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 those related to 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.

In Canada, the Individual Insurance and Individual Wealth Management sectors have more than 900 employees and administer over 1.2 million insurance contracts and over 1.3 million annuity, segregated fund and mutual fund contracts.

The Company also offers individual life insurance and annuity products in the United States, primarily in the Western states. The US business accounts for approximately 2% of premiums and deposits in the Individual Insurance and Individual Wealth Management sectors.

INDIVIDUAL INSURANCE

2009 HIGHLIGHTS

- Sales Growth
  - Sales up slightly thanks to a strong traditional family insurance market
  - Fourth in Canada for individual insurance sales for the first nine months of 2009, but first for Universal Life sales
- Main Achievements
  - Acquisition of the individual life insurance portfolio of MD Life
  - Improvements to the product line (Universal Life, children's insurance, loan insurance and 10-year and 20-year term insurance)
  - 6% increase in the number of Career network agents

Despite a difficult economic environment, it was a profitable year in the Individual Insurance sector. Sales continued to climb in the traditional family life, health and disability insurance market. The Company's market share improved, the number of Career network agents continued to grow rapidly, and the Company completed a new acquisition.

BUSINESS GROWTH

One of the great successes of the year in Individual Insurance was that despite a challenging economic environment, sales continued to grow for the second straight year in the family market. Sales, measured in terms of "minimum premiums", grew by 7% in 2009 to reach a high of $126.4 million. This means that consumers continued to cover their basic insurance needs despite the economic crisis.

In the high net-worth market, sales, measured in terms of "excess premiums", amounted to $20.7 million in 2009, a decrease of 27%. This decrease was essentially due to the economic instability. "Excess premiums" are premiums deposited by clients in their Universal Life policies to take advantage of the tax benefits associated with this type of policy. These amounts are often invested in accounts linked to the equity markets.

In total, the year ended with sales of $147.1 million, just slightly above last year's result.

Individual Insurance Business Growth	(In millions of dollars, unless otherwise indicated) 2009	2008	2007	2006	2005
Sales[1]					
Minimum premiums	126.4	118.6	111.0	119.5	111.2
Excess premiums	20.7	28.3	48.0	34.1	30.1
Total	147.1	146.9	159.0	153.6	141.3
Growth	0%	(8%)	4%	9%	1%
Premiums	938.4	920.7	897.3	838.6	768.7
Growth	2%	3%	7%	9%	1%
Number of policies	112,335	107,030	98,369	102,773	97,168
Growth	5%	9%	(4%)	6%	1%

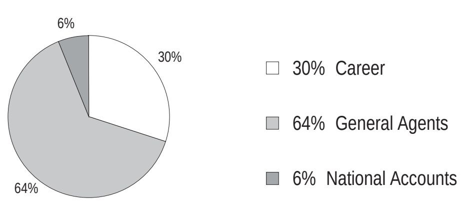
Agents maintained a high level of activity throughout the year, as demonstrated by the fact that the number of policies sold increased each quarter compared to the same quarter the year before, to finally end the year 5% higher than in 2008. Note that the Company sold 112,335 individual insurance contracts in 2009. The Company was ranked third in Canada in this regard after nine months. This success is primarily due to the size and diversity of the Company's distribution networks, which rely on over 14,000 agents to distribute its products.

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.

In terms of relative performance, Industrial Alliance gained market share in 2009 for Individual Insurance sales in Canada, ranking fourth for the first nine months of the year, with a market share of 11.8%[2] (fourth in 2008 with a market share of 11.0%), but ranking first for Universal Life sales, with a market share of 17.9% (third in 2008 with a market share of 14.1%).

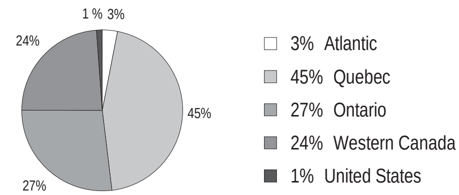
By distribution network, 64% of sales in 2009 came from the General Agents network, which is made up of brokers throughout all regions of Canada, 30% came from the Career network, which is made up of dedicated Industrial Alliance agents, primarily in Quebec, and 6% came from the National Accounts network, which is made up primarily of mutual fund and securities representatives. Note that the number of Career network agents grew by 6% in 2009, double the goal set by the Company. Thanks to the size and diversity of the Company's networks, Industrial Alliance is able to distribute its products in all regions of the country and to all layers of the population.

Sales by Distribution Network
2009



By region, as has been the case for several years, over half of all sales came from outside Quebec. Quebec accounted for 45% of sales in 2009, compared to 27% for Ontario, 24% in the Western provinces and 3% in the Atlantic provinces.

Sales by Region
2009



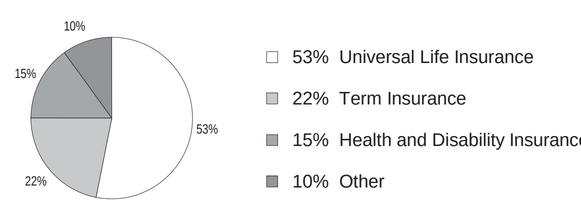
By product, sales were up for all products except Universal Life policies, which were down 9% in 2009 due to yearly renewable term ("YRT") contracts. Chastened by the stock market downturn at the end of 2008 and the beginning of 2009, consumers considerably reduced the amounts they would normally invest in their policies to take advantage of the inherent tax benefits. Level cost policies, which accounted for over two thirds of Universal Life policy sales in 2009, remained stable compared to 2008.

Universal Life policies continue to be the Company's most popular product. These policies accounted for 53% of the sector's total sales for 2009, compared with 36% for the industry (industry data for the first nine months of the year). As indicated earlier, the Company ranked number one in Canada for the sale of new Universal Life policies for the first nine months of 2009, with a market share of 17.9%.

In place of Universal Life policies, consumers turned to term products, where sales climbed 13% in 2009. This increase is primarily explained by the economic environment, which prompted consumers to transfer their purchases to term products, which are less expensive and perfectly suitable for covering their basic life insurance needs.

In terms of health and disability insurance products, sales grew by 17% in 2009. This increase is primarily explained by the strong growth in sales by the The Excellence Life Insurance Company subsidiary, a company specializing in health and disability insurance, and by the popularity of the critical illness insurance product.

Sales by Product
2009



[1] In the Individual Insurance sector, sales are defined as first-year annualized premiums.
[2] Annual data was not available at press time.

Carried by sales of new policies and good persistency of in-force business, premium income in the Individual Insurance sector increased by 2% in 2009 to reach $938.4 million.

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 in both the "insurance" and "savings" components. Sales in turn are 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 THE INDIVIDUAL LIFE INSURANCE PORTFOLIO OF MD LIFE

One of the achievements in the Individual Insurance sector was acquiring the individual life insurance portfolio of MD Life Insurance Company ("MD Life"). This acquisition was effective December 31, 2009, for an acquisition price of $9 million.

MD Life is a life and health insurance company that offers life insurance and annuity products to Canadian physicians. It is 55% owned by MD Physician Services Inc., which is a Canadian Medical Association company, and 45% by Industrial Alliance.

The acquired life insurance portfolio contains over 8,800 policies and riders, which generated $72 million in premium income in 2009. The acquired policies were already being administered by Industrial Alliance.

MD Life will continue to manufacture the Group Annuity policy MD Stable Income Fund ("MDSIF"). MDSIF will continue to be distributed by MD Insurance Agency Limited, a subsidiary of MD Physician Services Inc., and be managed by Industrial Alliance.

The transaction is accompanied by a distribution agreement stipulating that MD Insurance Agency Limited will offer Industrial Alliance insurance products to Canadian physicians.

2009 ACHIEVEMENTS

On the product front, the Company continued to adapt its product line in order to meet the constantly changing needs of its clients and maintain an enviable competitive position, while seeking to stand out through innovation. Following are the main initiatives introduced in 2009:

› *Universal Life insurance* – The Company added some new options to the IRIS Strategy, a leveraged financing strategy associated with the Genesis Universal Life policy that is very popular with wealthier clients due to its tax benefits. The new options include the ability to obtain a higher investment loan amount. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive financial planning investment vehicle.

› *Children's insurance* – The Company launched a new product unlike any other on the market: Child Life and Health Duo. This product offers a combination of whole life coverage and term critical illness coverage for children aged 15 days to 20 years. This hybrid coverage gives parents access to half of the life insurance face amount if their child is stricken with a critical illness, while the life insurance coverage remains in place.

› *Loan insurance* – The Company introduced a new approach that allows all consumer loans for a given client to be combined and covered under one life and disability insurance contract, whether they be mortgage loans or lines of credit, personal or car loans, or any other temporary need for loan insurance.

› *Term insurance* – To improve its positioning in the very competitive term product market, the Company lowered its rates, like most insurers, for 10-year and 20-year term coverage.

INDIVIDUAL WEALTH MANAGEMENT

2009 HIGHLIGHTS

› Business Growth
  › $15.5 billion in funds under management, an increase of 24%
  › $2.4 billion in sales, a decrease of 3%
  › Net investment fund sales very positive
  › Improved market position compared to the industry
› Main Achievements
  › Acquisition of Inhance's socially responsible investing mutual fund business
  › Rapid integration of mutual fund brokerage operations acquired in 2008
  › Improvement of Ecofl*extra* retirement income product
  › Launch of a new RRSP loan
  › Implementation of a new segregated funds administration system

Despite the financial crisis, whose impact continued to be felt in 2009, the Individual Wealth Management sector had a very satisfying year. Assets under management grew considerably, assisted by the stock market rebound and very positive net sales, and the Company improved its market position in the investment fund industry.

The Company also continued to build for the future by completing an acquisition that enabled it to make its debut in the socially responsible investing mutual fund market and broaden its distribution networks in Western Canada.

BUSINESS GROWTH

Strong sales growth at the end of the year was not quite enough to erase the shortfall at the beginning of the year, such that sales totalled $2.4 billion at the end of 2009, down 3% compared to 2008.

Individual Wealth Management Sales[1]	(In millions of dollars, unless otherwise indicated) 2009	2008	2007	2006	2005
General fund	404.3	345.5	334.4	289.2	242.4
Segregated funds	866.2	815.7	990.6	958.3	805.2
Mutual funds	1,079.5	1,261.2	1,796.9	1,227.6	412.6
Total	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2
Growth	(3%)	(22%)	26%	70%	61%

As was the case since the beginning of the financial crisis, sales were up sharply for guaranteed return products (essentially guaranteed interest products and insured annuities), which are found in the Company's general fund (+17%). In periods of financial instability, clients often prefer to invest their money in a safe place, a factor that has bolstered the sale of these products.

Segregated fund sales were also up in 2009 (+6%). Although the performance of these funds is linked to the financial markets, they also have a capital guarantee at maturity and at death, which was popular with investors who like to protect a portion of their savings from market instability.

Despite very strong year-end growth, mutual fund sales ended the year lower than the year before (-14%). The stock market downturn, which began at the end of 2008 and continued into the beginning of 2009, brought down mutual fund sales in the first half of 2009. But things changed completely at the end of the year, with mutual fund sales growing 66% in the fourth quarter compared to the same period in 2008, a sign that investors were gradually regaining confidence in the economy.

One of the greatest successes of the year was that net sales were very solid all year long, which enabled the Company to gain market share.

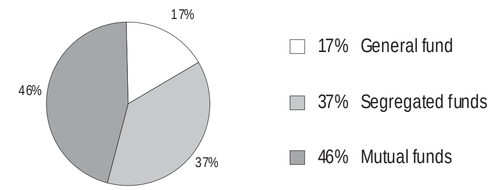
Net segregated fund sales jumped 48% compared to 2008 to reach $476.4 million in 2009. This good performance allowed the Company to rank fourth in net segregated fund sales at the end of the year, with a market share of 10.1%, almost double that of the previous year (5.7% in 2008).

Net mutual fund sales totalled $281.4 million for 2009, which is comparable to the previous year. The Company also continued to do better than its size would suggest, ending the year ranked seventh in terms of net sales, compared to seventeenth in terms of assets.

Investment Funds Net Sales	(In millions of dollars, unless otherwise indicated) 2009	2008	2007	2006	2005
Segregated funds	476.4	322.9	578.7	607.6	547.4
Mutual funds	281.4	289.5	799.2	267.0	148.7
Total	757.8	612.4	1,377.9	874.6	696.1
As a percentage of sales	39%	29%	49%	40%	57%

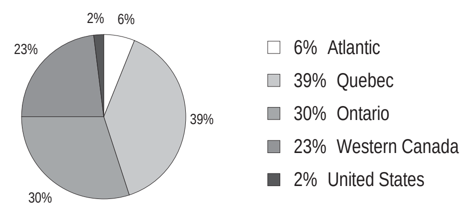
By product, although they were the most affected by stock market behaviour during the financial crisis, mutual fund sales still accounted for 46% of the year's sales in the Individual Wealth Management sector. Sales of segregated funds and guaranteed return general fund products accounted for 37% and 17%, respectively, of the sector's sales for the year.

Sales by Product
2009



In 2009, 61% of sales were made outside Quebec, which is in line with the Company's goal to distribute its products in all parts of the country. This achievement is a result of the Company's strategy over the past few years to extend its distribution network Canada-wide.

Sales by Region
2009



Funds under management totalled $15.5 billion as at December 31, 2009, up 24% from the end of the previous year. This increase is explained by the stock market rebound and positive net sales. The Company was ranked fourth in Canada with respect to segregated fund assets as at December 31, 2009, with 9.1% of the market (8.8% as at December 31, 2008), and seventeenth for mutual fund assets (nineteenth in 2008).

Individual Wealth Management Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31 2009	2008	2007	2006	2005
General fund	1,672.8	1,627.9	1,584.4	1,631.7	1,695.5
Segregated funds	7,204.5	5,562.1	6,695.9	6,046.8	4,851.2
Mutual funds	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8
Total	15,479.2	12,454.0	15,115.0	13,959.7	12,206.5
Growth	24%	(18%)	8%	14%	83%

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.

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

ACQUISITION OF INHANCE'S SOCIALLY RESPONSIBLE INVESTING MUTUAL FUND BUSINESS

One of the biggest achievements of 2009 in the Individual Wealth Management sector was the Company's entry into a new market niche, the socially responsible investing market, and the expansion of the Company's distribution networks in Western Canada.

On December 7, 2009, IA Clarington Investments Inc. ("IA Clarington"), a wholly-owned subsidiary of Industrial Alliance, announced the conclusion of an agreement to acquire certain assets related to the socially responsible investing mutual fund business of Inhance Investment Management Inc. ("Inhance"), a wholly-owned subsidiary of Vancouver City Savings Credit Union ("Vancity").

Inhance is a mutual fund management firm recognized as an industry leader in the socially responsible investing ("SRI") arena. The acquired SRI funds represent about $92 million in assets under management. Vancity is one of Canada's largest credit unions, with over $14 billion in assets, more than 400,000 members, and 60 retail branches in British Columbia.

Most of the Inhance funds were merged with new IA Clarington SRI funds, which will be offered nationwide through the IA Clarington network and Vancity branches. The IA Clarington SRI funds will continue to be managed by Inhance's investment management team.

The agreement also provides for the establishment of a long-term strategic relationship for the distribution of IA Clarington mutual funds through Vancity branches.

From a strategic standpoint, this agreement has numerous advantages for Industrial Alliance. It gives the Company access to the socially responsible investing market, which is becoming increasingly popular; it allows the Company to enter this market with a renowned line of funds and seasoned managers; and it gives the Company access to a new distribution network in Western Canada, composed of experienced advisors.

This acquisition brings the number of acquisitions concluded in the wealth management market up to sixteen since the early 2000s.

INTEGRATION OF MUTUAL FUND BROKERAGE BUSINESS

On the mutual fund brokerage front, one of the major achievements of 2009 was the rapid integration of the mutual fund brokerage business acquired the year before. In 2008, the Company acquired the Quebec-based distribution network of DundeeWealth Inc. and National Financial Corporation, the parent company of AEGON Dealer Services Canada Inc., a mutual fund brokerage firm, and Money Concepts (Canada) Limited, a financial services firm. All the operations of these organizations were integrated with those of Investia Financial Services Inc. ("Investia"), one of Industrial Alliance's two subsidiaries that specialize in mutual fund brokerage.

These acquisitions, which totalled over $4 billion in assets, brought assets under administration for Investia and FundEX Investment Inc., Industrial Alliance's other mutual fund brokerage subsidiary, to over $18 billion at the end of 2009, making the Company one of the top five non-bank mutual fund brokerage firms in Canada.

2009 ACHIEVEMENTS

On the product front, the following initiatives were introduced in 2009 in order to capitalize on the stock market recovery and to help boost sales of segregated funds and mutual funds.

- *Ecofl*extra – The Company added six new funds to the range of segregated funds already offered under its Ecofl*extra* retirement product. Most of the new funds come from the IA Clarington mutual fund subsidiary. One of these funds will enable Company clients to invest in a socially responsible investment fund as a result of the recent acquisition of the Inhance funds. As well, in order to help people understand this complex product, the Company launched a series of video capsules for clients and agents. The purpose of these capsules, which can be found on a website completely dedicated to the Ecofl*extra* product, is to explain the features of the product and its advantages for clients in a simple, easy-to-understand format. An advertising campaign was also launched to increase familiarity with the product.

- *RRSP loan* – A new RRSP loan was introduced to replace the RRSP line of credit offered previously, a change that will make administering this type of product easier. The Company also took the opportunity to make some improvements to simplify the product and bring its interest rates more in line with the market.

On the promotional front, Marketing personnel provided training sessions to sales staff on the best strategies for helping clients maximize their savings, whether for retirement (through RRSPs), for specific needs (through TFSAs) or for their children's education (through RESPs).

On the operations front, IA Clarington successfully integrated the funds of Sarbit Asset Management Inc. ("Sarbit"), a mutual fund management firm acquired in 2008. Sarbit was managing approximately $100 million in assets at the time the transaction closed.

Lastly, from a systems standpoint, the Company continued to work on implementing a new administrative platform for managing segregated funds. Over 60% of in-force contracts were transferred to the new system during the year. Implementation will continue in 2010.

DEVELOPMENT STRATEGY FOR PERSONAL FINANCIAL SERVICES

Industrial Alliance has been a leader in the personal financial services market in Canada 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 the Company can distribute products that it manufactures itself across Canada.

- Products – Offer a comprehensive line of competitive, innovative and profitable products.

- Operating expenses – Continue to have low operating expenses.

In addition, a few years ago, the Company implemented a specific strategy to develop the US market. The Company's short and medium term goal in this market is to establish a strong local presence:

- US market – Establish a strong local presence.

DISTRIBUTION NETWORKS

What sets Industrial Alliance apart in the retail market is the size and scope of its distribution networks. As the diagram on the following page shows, 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, the Company's goal continues to be growing the number of Career network agents by 3% per year (it grew by 6% in 2009).

The Company is not ruling out the possibility of expanding its networks through acquisitions or by signing distribution agreements in the Individual Insurance and Individual Wealth Management sectors. The Company signed two distribution agreements in 2009, one with MD Life for distributing the Company's individual life insurance products to Canadian physicians, and the other with Vancity for distributing the Company's mutual funds through Vancity branches.

Lastly, the Company wants to reap the full benefits of the possible synergies between the parent company and its subsidiaries, in order to both reduce costs and maximize sales opportunities. Since 2008, Ecofl*extra*, the Company's guaranteed minimum withdrawal benefit, has also been marketed by the IA Clarington sales support team and distributed by its networks of mutual fund and securities brokers.

PRODUCTS

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

In the Individual Insurance sector, the Company will continue to design and promote certain sales tools to selected distributors in order to increase its penetration in the high net-worth market. Also, in view of the very competitive environment prevailing in the individual insurance market, the Company continues to monitor sales trends closely and make any necessary adjustments to the product line, in an ongoing effort to maintain a balance between business growth and profitability.

The acquisition of Excellence at the very end of 2007 allowed the Company 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 segment, both within and outside Quebec. In 2009, Excellence obtained the licenses required to distribute its products in all Canadian provinces. Excellence will also benefit from the networks established by Industrial Alliance to distribute its products nationwide.

In the Individual Wealth Management sector, the Company plans to put innovative products in place in anticipation of stock market growth, and to leverage the synergy between the segregated fund and mutual fund service offers.

OPERATING EXPENSES

In order to continue to have low operating expenses, the Company plans to:

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

› Maximize the synergies among the various Industrial Alliance group entities, in particular among the mutual fund and securities distribution companies, in terms of administration and compliance.

US MARKET

A few years ago, after reviewing its strategy, Industrial Alliance decided to grow its US operations by establishing a solid US local presence.

In 2007, the Company opened an office in Phoenix, Arizona, where high touch functions involving high agent interaction, such as underwriting and marketing, were transferred. These functions had previously been carried out in Vancouver, at the offices of Industrial Alliance Pacific, where the US operations used to be managed.

In 2008, the Company also acquired United Family Life Insurance Company, a small US life insurance company that had stopped writing new business. The company has been rebranded IA American Life Insurance Company.

In 2009, the Company's main goal was to complete the reorganization of the US operations. After transferring the underwriting and marketing functions, the Company now has legal, compliance, accounting and actuarial services as well.

Today we can say that the Company's goal of establishing an independent local team on US soil has been achieved. The Company now has over thirty employees in the US.

The Company also continued to implement its business development strategy in 2009 by launching new products and recruiting new distribution partners. The Company primarily targets the family market.

2010 PRIORITIES

Following are the Company's main priorities for 2010:

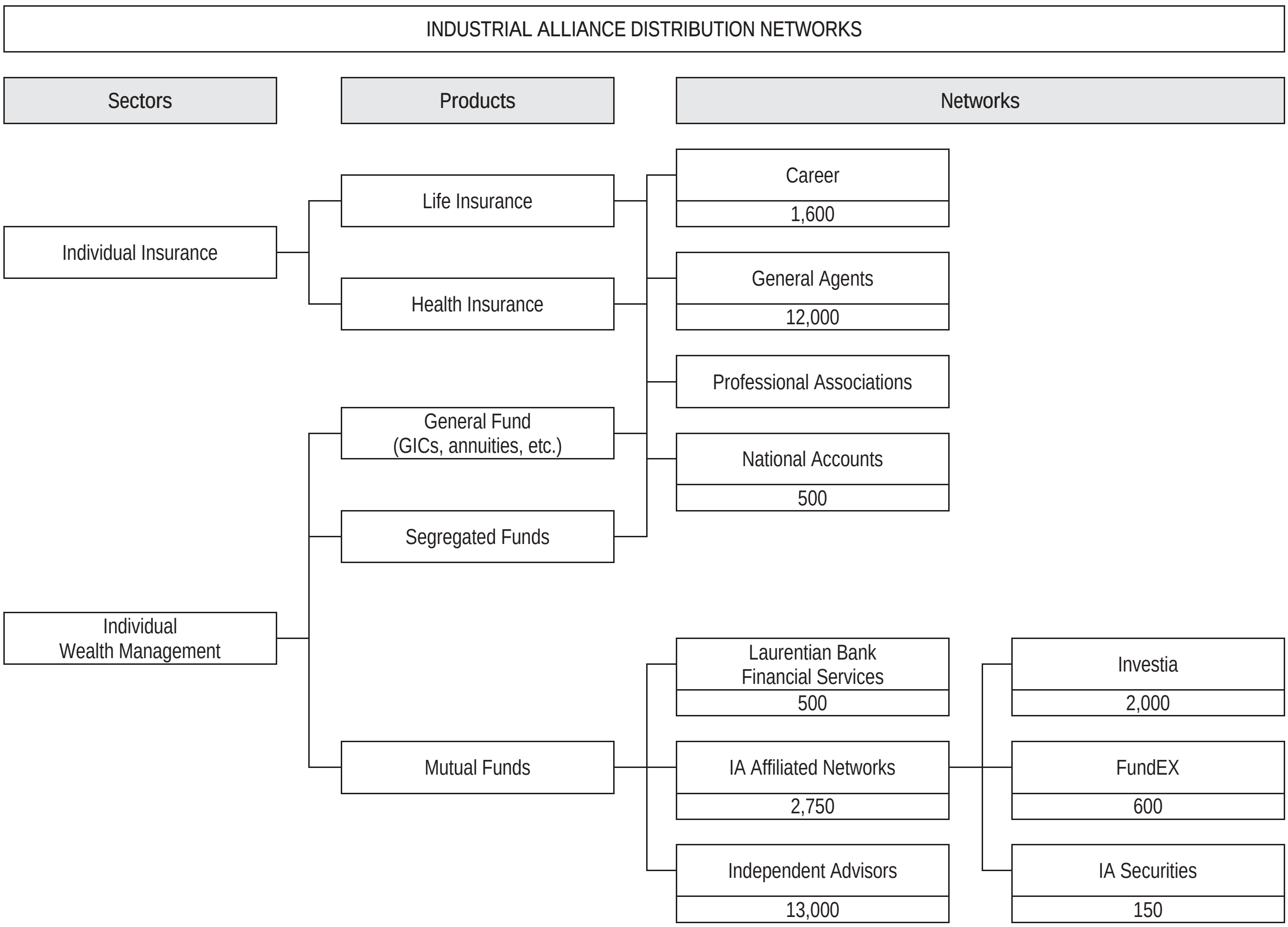
› Expand the operations of Excellence outside Quebec in the health and disability insurance market.

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

› Exercise stricter control over operating expenses by reviewing its 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 development strategy in the United States in order to create a strong, viable and dynamic US company.


INDUSTRIAL ALLIANCE DISTRIBUTION NETWORKS
Sectors
Products
Networks
Individual Insurance
Life Insurance
Health Insurance
Career
1,600
General Agents
12,000
Professional Associations
National Accounts
500
General Fund
(GICs, annuities, etc.)
Segregated Funds
Individual
Wealth Management
Mutual Funds
Laurentian Bank
Financial Services
500
IA Affiliated Networks
2,750
Independent Advisors
13,000
Investia
2,000
FundEX
600
IA Securities
150

INFORMATION ON AUTO AND HOME INSURANCE OPERATIONS

Industrial Alliance markets its auto and home insurance products in Quebec through its Industrial Alliance Auto and Home Insurance Inc. ("IAAH") subsidiary.

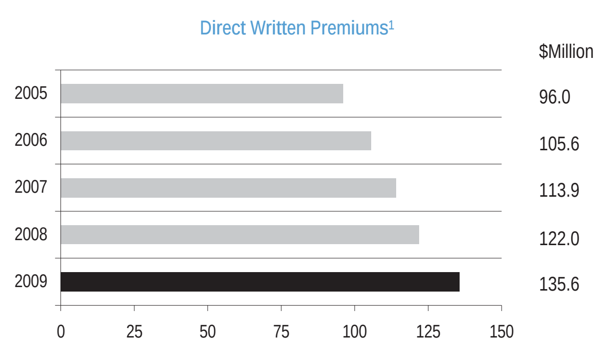
IAAH was initially created to support Industrial Alliance's Career network agents. In the early 2000s, Industrial Alliance adopted an ambitious development plan designed to make its auto and home insurance subsidiary a leader in the direct distribution of retail insurance in Quebec.

This goal has been achieved, because since 2000, IAAH has managed to grow its business volume by 20% a year on average, while providing the parent company with a higher than expected return on its investment.

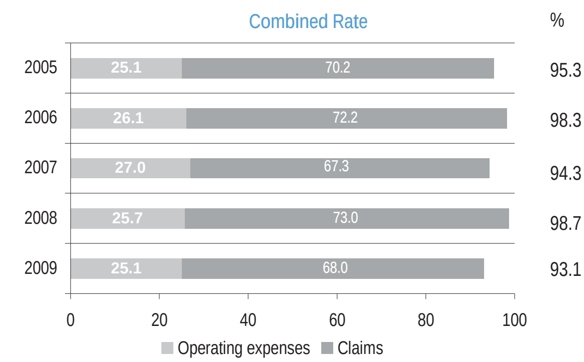
The main advantage that sets IAAH apart is referrals from Industrial Alliance's distribution networks, which represent a unique business development opportunity in the industry. The strong, positive reputation of the “Industrial Alliance” brand name in Quebec has also contributed to the development of IAAH over the years.

At the end of 2008, the implementation of the national Do Not Call List (“DNCL”), which governs the agents' telephone prospecting activities, prompted IAAH to introduce a vast promotional campaign to help attract clients to the Company. The culminating point was a TV advertising campaign, a first in the history of IAAH.

Now, at the end of 2009, we can confirm that the strategy was successful. Direct written premium growth reached 11% in 2009, while industry growth was between 2% and 3%. The company's business volume now amounts to $135.6 million for retail insurance.

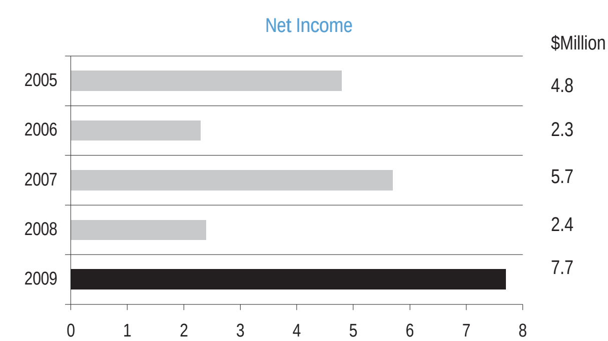


The results were just as good from a profitability standpoint. The claims rate was lower than the previous year, as were operating expenses, which were just above the 25% mark, making IAAH among the leaders in this regard in Quebec. It is interesting to note that the company's combined rate (claims and operating expenses) was below 100% for the seventh year in a row.



In addition to claims and operating expenses, investment income is the third item that has an impact on a general insurance company's profit. In 2009, the company's investment income was also better than the previous year.

The combination of these factors enabled IAAH to earn a net income of $7.7 million, which represents a return on equity of 33.0%, well above Industrial Alliance's target range.



The main challenge that IAAH will have to face in the coming years is the shortage of qualified damage insurance agents. In order to meet this challenge, the company implemented a major initiative in 2005 that extends over a number of years and aims to significantly improve the company's internal efficiency. This initiative involves conducting an in-depth review of all its business processes seeking to establish a culture of ongoing improvement with the ultimate goal of meeting the needs of its clients in a distinctive manner.

At the heart of this major initiative is an innovative operating approach inspired by the LEAN philosophy, which ensures that employee mobilization remains strong. The key success factors of this approach are: the creation of consolidated, independent, multi-disciplinary teams that work together and make decisions; the client's implication in these teams from start to finish; the assignment of dedicated resources to the project; the establishment of visual progress indicators; the holding of periodic briefings that are open to all company employees; and the unconditional support of senior management for resolving impasses.

In light of the results achieved to date, in terms of both efficiency gains and client satisfaction or employee mobilization, this approach promises a future for IAAH that is as bright as the past ten years.

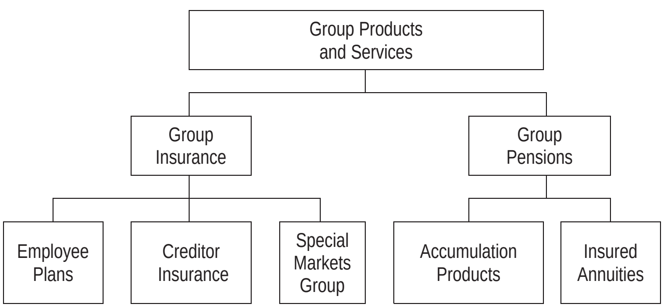
[1] Excluding the business written for Industrial-Alliance Pacific General Insurance Corporation.

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 through car dealers, but also with financial institutions) and special markets ("SMG"). In 2009, the sector wrote $1.1 billion in premiums and premium equivalents. Of this amount, 78% came from employee plans, 11% 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 (disbursement products). As at December 31, 2009, the sector had $7.2 billion in assets under management. Of this amount, 60% came from accumulation products and 40% from insured annuities.



All of these market segments have their own development strategy.

GROUP INSURANCE
EMPLOYEE PLANS

2009 HIGHLIGHTS

- Business Growth
  - New high for premiums and premium equivalents, up 7% to reach $843.6 million
  - $75.0 million in sales, down 19%, following record sales in 2008
  - Sales outside Quebec higher than sales within Quebec for the fifth consecutive year
  - Ranked fourth for sales in 2009 in our target market of groups with 50 to 999 employees, with a 7.6% market share
- Main Target Markets
  - Canada-wide development
  - Medium-sized businesses (50 to 999 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 insurance ("AD&D"), 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, workforce management program, drug payment card, etc.). The Company also has a state-of-the-art transaction-driven website called Web@dmin for plan administrators, members and market intermediaries.

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 sector has over 425 employees, has signed agreements with some 3,300 groups, and serves over 500,000 plan members. The Company has sales and service offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

BUSINESS GROWTH

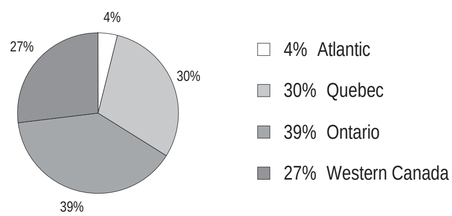
The Group Insurance Employee Plans sector was affected by the general weakness of the job market such that, after a record year in 2008, sales dropped to $75.0 million in 2009, a 19% decrease compared to the previous year. This decrease was primarily due to the fact that very few agreements were signed in the large groups market. Sales were steady in Western Canada, however, and in our target market of medium sized groups, where we continued to rank fourth in Canada.

Group Insurance (Employee Plans) Business Growth	(In millions of dollars, unless otherwise indicated)				
	2009	2008	2007	2006	2005
Sales[1]	75.0	92.9	72.0	70.8	52.3
Growth	(19%)	29%	2%	35%	(6%)
Premiums	727.7	684.1	594.8	509.2	475.4
Premium equivalents[2]	115.9	101.9	94.7	124.1	102.9
Total	843.6	786.0	689.5	633.3	578.3
Growth	7%	14%	9%	10%	6%

[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.

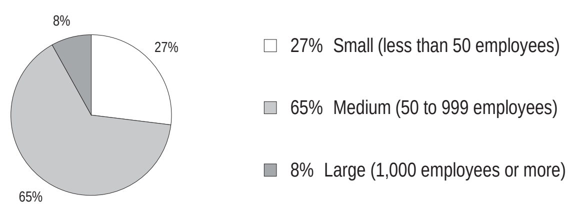
By region, sales remained strong in Western Canada, thanks to the close ties developed with new distributors in recent years; they increased in Ontario and the Atlantic provinces, but decreased in Quebec. Sales outside Quebec were higher than sales within Quebec for the fifth consecutive year, which is in line with the Company's goal to expand in all regions of the country.

Sales by Region
2009



By group size, sales were up in the small groups market, where the Company implemented a new approach over the past two years with Excellence, a life insurance company acquired at the beginning of 2008. Sales were down, however, in the Company's target market of groups with 50 to 999 employees, as well as in the large groups market.

Sales by Group Size
2009



In 2009, industry sales were up 6% from 2008, primarily due to a strong increase in the very large groups market (over 5,000 employees). Excluding the very large groups market, industry sales were stable in 2009. In terms of market share, we ended the year in sixth position in Canada, with 5.6% of the market (sixth in 2008, with 6.9% of the market).

For our target market of groups with 50 to 999 employees, our sales were down from 2008, while industry sales were up 4%. We ended the year in fourth position, with 7.6% of the market (fourth in 2008, with 11.7% of market sales).

Despite a difficult year in terms of sales, a very precarious economic environment for our clients (many of them reduced their staff) and lower than expected business persistency, premiums and premium equivalents peaked at $843.6 million in 2009, an increase of 7% over 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 the increase in gross sales, in-force business persistency (and, consequently, net 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).

2009 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. 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.

For the Employee Plans sector, clients are defined as market intermediaries (specialized brokers and employee benefits consultants), plan sponsors (employers, unions and professional associations) and insured members.

Guided by this strategy, we introduced several initiatives in 2009:

› *Introduction of new functions in Web@dmin* – We added some new functions to the administrative software Web@dmin for plan members and administrators. The primary improvements pertain to the enrolment process for flexible plans, which was particularly popular with large and medium sized groups, and the addition of information for plan members regarding their coverage (amounts claimed and amounts available until the end of the year).

› *Improvement of the business processes* – As part of the corporate objective to improve the business processes, numerous changes were made to our working methods. One of these changes involved the launch of the Go Green campaign, which promotes our electronic services (electronic filing of claims and electronic transmission of reimbursement information). These services are now used by a significant percentage of clients, thereby contributing to the protection of the environment.

› *Employee training* – A number of initiatives were introduced to improve employee training in the customer service centres and among the claims management teams.

› *Improved customer service* – We considerably improved the quality of our customer service as well as turnaround times, from both an administration and claims settlement standpoint. In addition, the calls received by our service centres are now recorded, which allows for better ongoing employee training.

› *Improved profitability* – A number of steps were taken to improve profitability. We focused our efforts on our key success factors: control of operating expenses, improvement of the business processes, sound management of disability cases, and pricing adequacy for each benefit and each market segment. We managed to considerably improve results pertaining to the long-term disability benefit, which had generated disappointing results in 2008.

DEVELOPMENT STRATEGY

Despite the limited number of 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 that is focused on client needs.

Industrial Alliance has everything it takes to compete in all market segments across Canada, including the large groups market.

Our strategy for 2010 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 few years. In Quebec, the small groups and multi-employer groups market will be developed in cooperation with Excellence, which has been doing well in these markets for several years.

- 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 also continue to hold meetings with our intermediary advisory committees.

- Continued development of Web@dmin – We will continue the design and development of new functions in order to maintain our competitive position. The focus will be on adding benefits information for plan members and management reports for plan administrators and intermediaries.

- Improved service quality – We will continue our initiatives to improve service quality by taking steps to provide better training and tools for the staff in our customer service centres.

Finally, the sector's profitability will continue to be an important goal in 2010. Particular attention will be given to the long-term disability benefit and the dental care benefit, which are more sensitive to the economic environment. We will be vigilant regarding the impact of the economic situation 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

2009 HIGHLIGHTS

- Business Growth
  - $152.4 million in sales, down 22%, due to low car sales and the tightening of financing availability
- Competitive Advantages
  - Strong brand recognition and reputation
  - 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
- Key Business Development Initiatives
  - Rejuvenate creditor sales
  - Continue to expand in Ontario
  - Continue marketing Companion Clear
  - 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 by the SAL Division of Industrial Alliance Pacific. The SAL Division has over 130 employees, has signed agreements with more than 2,500 organizations and insures over 440,000 individuals. The products are distributed from seven sales offices: Halifax, Quebec City, Montreal, Toronto, Winnipeg, Edmonton and Vancouver.

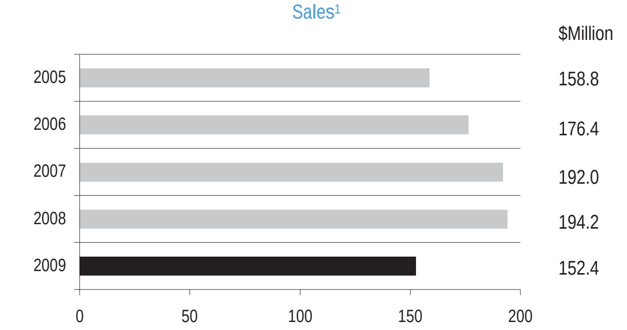
The parent company, Industrial Alliance, also offers some other types of creditor insurance through financial institutions.

2009 ACHIEVEMENTS

Creditor insurance operations reflected the deteriorating car market and the uncertain economic environment in 2009. Creditor insurance sales reached $152.4 million in 2009, down 22% compared to 2008. The decline in the vehicle sales market and the tightening of financing availability are the primary reasons for reduced sales in 2009.

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.

Sales[1]



Despite the difficult economic environment, there have been several positive developments:

- Good performance of the distribution network, which signed on new motor vehicle dealers and leveraged its business relationships with existing dealers.
- Launch of a new loss of employment ("LOE") product—Companion Maxum—which is expected to have a positive effect on our creditor insurance market share.
- Introduction of our new Companion Clear (balance shortfall protection) product, which has been well received in Ontario and the Atlantic regions.
- Signature of a limited partnership with Toyota Credit Canada to provide job loss credit protection insurance on select vehicles, which has been a tremendous success for our non-creditor business. We look forward to exploring other business possibilities with Toyota Credit Canada in the new year.

Group Creditor Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2009	2008	2007	2006	2005
Sales	152.4	194.2	192.0	176.4	158.8
Reinsurance	30.9	34.7	30.7	28.6	26.7
Premiums	121.5	159.5	161.3	147.8	132.1
Growth	(24%)	(1%)	9%	12%	20%

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% and strong brand recognition and reputation.
- 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.
- It is focused on providing unique creditor and ancillary non-creditor products to meet the demand of the market.

DEVELOPMENT STRATEGY

The strategy to develop Group Creditor Insurance distributed through car 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 market.
- Focus on maximizing the existing product portfolio.

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:

- Rejuvenate creditor sales – Recent organizational changes will allow for a more focused management approach on both a national and regional level.
- Continue to expand in Ontario – Considering the potential of the large Ontario market, Industrial Alliance Pacific has established significant growth expectations for the next several years. The recently signed agreement with the Ontario Automobile Dealer Association ("OADA") is a step in that direction. Also, other opportunities to attract dealers to our network and gain market share in the region will be explored.
- Continue marketing Companion Clear – This lower priced alternative to traditional credit insurance has the potential to be very attractive in the current economic environment.
- 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.

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

› **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.

GROUP INSURANCE
SPECIAL MARKETS GROUP (SMG)

2009 HIGHLIGHTS
- Business Growth
  - Sales resilient to economic environment, with net premiums of $113.2 million, up slightly from the previous year
- Competitive Advantages
  - Considerable expertise in AD&D 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 served 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.

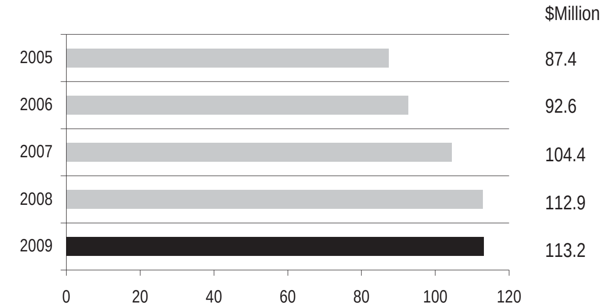
SMG has over sixty employees, has signed agreements with over 4,000 groups and associations, and insures hundreds of thousands of individuals.

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

2009 ACHIEVEMENTS
SMG results are quite resilient to the economic environment. In spite of difficult economic conditions, sales reached $113.2 million in 2009, up slightly from 2008. This result is explained by the diversified business model of SMG in terms of both type and source of business. The AD&D and critical illness lines of business did well in 2009, a result which was tempered, however, by a decline in student health premiums.

SMG Business Growth	(In millions of dollars, unless otherwise indicated) 2009	2008	2007	2006	2005
Gross premiums	118.2	117.3	109.4	100.2	97.8
Reinsurance	5.0	4.4	5.0	7.6	10.4
Sales (premiums)	113.2	112.9	104.4	92.6	87.4
Growth	0%	8%	13%	6%	10%

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, including Creditor and Medical Access insurance, by focusing on distribution.

› Develop relationships with new distributors of specialized insurance products, including AD&D and critical illness insurance.

› 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

2009 HIGHLIGHTS

- Business Growth
  - Sales of $839.8 million, which is in line with expectations, but down 25% following a record year in 2008
  - Assets under management of $7.2 billion, a 17% increase
  - New high for recurring premiums, the core of the sector's strategy, up 8% to reach $366.0 million
  - Sales of new accumulation plans outside Quebec higher than plan sales in Quebec for the fifth 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 (essentially 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 insured annuities, it targets plans of all sizes.

The Group Pensions sector has approximately 140 employees, has signed agreements with nearly 8,000 groups, and serves over 230,000 plan members. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

BUSINESS GROWTH

After a year of record sales in 2008, the sector's 2009 results are in line with expectations in all market segments.

Group Pensions ended the year with $839.8 million in premiums, a decrease of 25% compared to 2008. This decrease is primarily explained by the sale of two large pension plans in 2008, which pushed premiums to a historical high of over $1.1 billion. Fund entries can fluctuate substantially from one year to another in the Group Pensions sector due to the size of the mandates sometimes granted.

Group Pensions Premiums (Sales)	(In millions of dollars, unless otherwise indicated)				
	2009	2008	2007	2006	2005
Accumulation Products					
Recurring premiums	366.0	337.8	289.6	250.7	231.4
Transfers	353.7	526.2	306.3	374.2	179.1
Subtotal	719.7	864.0	595.9	624.9	410.5
Insured Annuities	120.1	250.9	232.4	195.2	154.3
Total	839.8	1,114.9	828.3	820.1	564.8
Growth	(25%)	35%	1%	45%	22%

When considered over a longer period, growth for the sector was relatively high. Over the last four years, for example, the sector recorded average annual growth of 10%. 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 $719.7 million in accumulation product sales in 2009:

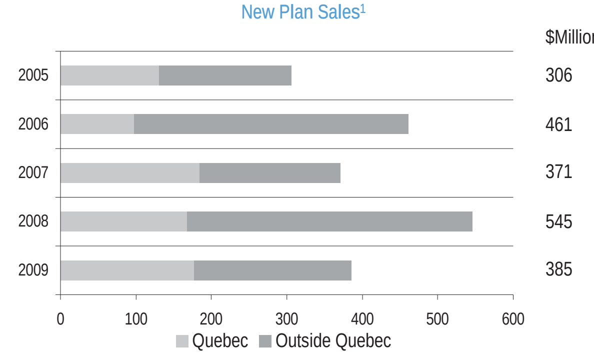
- Recurring premiums totalling $366.0 million, a new high and an 8% increase over 2008. Recurring premiums are the most important element of the sector's strategy, since they represent the core of the business: sustainable development. They correspond to regular member contributions, which are collected from in-force group clients.

- New group transfers representing $353.7 million. Transfers are down 33% from the sector's record transfers in 2008, a year that was marked by the sale of two large retirement plans representing over $200 million. Transfers have now come back down to a level more in line with previous years.

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 $385 million in annualized premiums in 2009.

One of the sector's strategic objectives is to increase business volume outside Quebec. In keeping with this goal, 54% of new plan sales were made outside Quebec in 2009. This is the fifth consecutive year where sales outside Quebec have been higher than within Quebec.

Accumulation Products
New Plan Sales[1]



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

As we can see in the following table, net fund entries are lower than the previous year in spite of lower fund disbursements.

Accumulation Products Net Fund Entries	(In millions of dollars) 2009	2008	2007	2006	2005
Entries	719.7	864.0	595.9	624.9	410.5
Disbursements	351.6	447.0	289.1	270.5	185.3
Net entries	368.1	417.0	306.8	354.4	225.2

Insured Annuities

In the insured annuities segment, despite a decrease by about half compared to 2008, the year ended with $120.1 million in sales, which is in line with Company expectations given the strategy adopted in this market segment. The Company is aiming for selective growth in the insured annuities segment by focusing on adequate risk management, primarily in terms of mortality.

FUNDS UNDER MANAGEMENT

Funds under management peaked at $7.2 billion in 2009, which represents growth of 17% compared to the previous year. This result is attributable to positive net fund entries, attractive sales results for new plans and good stock market performances. Growth in assets under management is important because it is the key long-term profitability driver for the sector.

Group Pensions Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31				
	2009	2008	2007	2006	2005
Accumulation Products	4,339.6	3,443.0	3,560.6	3,220.3	2,588.0
Insured Annuities	2,852.0	2,697.2	2,556.6	2,150.9	2,026.2
Total	7,191.6	6,140.2	6,117.2	5,371.2	4,614.2
Growth	17%	0%	14%	16%	14%

2009 ACHIEVEMENTS

Group Pensions had a good year of achievements in 2009.

- At the beginning of the year, we launched a new interactive retirement planning tool called *Your Virtual Guide*. Created for group pension plan members, this state-of-the-art tool stands out for its leading-edge design and was very well received on the market.
- We launched a new electronic communications service where pension plan members can be notified electronically when their statements are available. In addition to improving customer service, this concept is in keeping with the Company's desire to help protect the environment.
- We improved our fund offer in order to better meet client needs by adding new fund managers who are renowned in the retirement savings industry. A wider selection of funds is now offered, which allows for more effective diversification of investments.
- We launched the first few instalments in a series of video capsules featuring our portfolio managers and focusing on the investment services offered to group pension plan sponsors. These capsules are available on the Company's website.

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 2010.
  - 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 are capital-intensive products, 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 – From a geographic standpoint, 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. The figures show that we are on the right track, with new plan sales outside Quebec accounting for over half of our total sales over the last five 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.

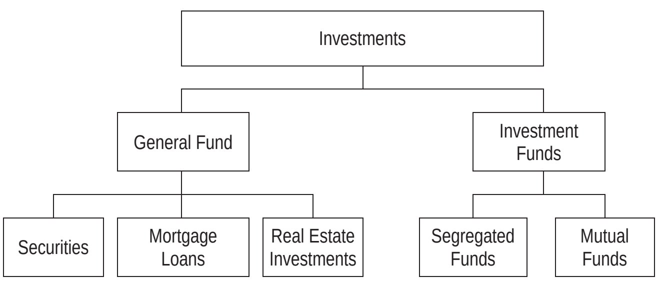
INVESTMENTS

2009 HIGHLIGHTS

- Very good quality of investments despite a still fragile economic environment
- Net impaired investments very low: 0.08% of investments
- Bond portfolio
  - Bonds rated BB and lower: just 0.07%
  - No defaulted bonds as at December 31, 2009
- Mortgage loan portfolio
  - Delinquency rate: 0.36%
  - Proportion of insured loans: 71.8%
  - No investments in US subprime mortgages
- Real estate portfolio
  - Occupancy rate: 94.4%
  - Market value/book value ratio: 126.9%
- Very strict matching: difference in duration of 0.16 years

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 Investments 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 some forty 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 invests.

An Investment Risk Monitoring department has been in place since 2008 in order to exercise greater vigilance with regard to investment risks. 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 reached a high of $58.4 billion as at December 31, 2009, an 18% increase over the end of 2008. 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 grew 20% in 2009 to reach a record $36.3 billion at the end of the year. All the main components of assets under management increased in 2009, particularly segregated funds and mutual funds. This result is largely due to the stock market rebound and the positive net fund entries in all lines of business.

Assets under management in the general fund grew 14% in 2009 to reach $17.6 billion at the end of the year. This growth is primarily due to an increase in the market value of the stock portfolio (caused by the stock market gains) and an increase in the market value of the fixed income securities portfolio (caused by the narrowing of interest rate spreads compared to government bonds). 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.

Assets under administration continued to grow, amounting to $22.2 billion as at December 31, 2009, a 15% increase compared to December 31, 2008. This increase is primarily due to the growth in assets under administration for the mutual fund distribution subsidiaries, resulting mainly from the strong rebound of the stock markets during the year and net fund entries.

Assets Under Management and Under Administration	(In millions of dollars) As at December 31				
	2009	2008	2007	2007	2006
Assets under management				(January 1)	
General fund	17,626.5	15,415.2	15,104.3	14,406.9	13,090.7
Segregated funds	11,450.3	8,924.2	10,210.9	9,201.8	9,204.1
Mutual funds	6,615.7	5,277.7	6,846.9	6,295.4	6,295.4
Other	563.3	596.7	630.6	501.3	501.3
Subtotal	36,255.8	30,213.8	32,792.7	30,405.4	29,091.5
Assets under administration[1]	22,150.8	19,258.4	17,618.9	--	17,812.6
Total	58,406.6	49,472.2	50,411.6	--	46,914.1

[1] Assets under administration primarily include third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services Inc. and FundEX Investments Inc.) and the securities company (Industrial Alliance Securities Inc.), as well as the assets of the trust company (Industrial Alliance Trust Inc.).

GENERAL FUND

Industrial Alliance performed very well on the investment front in 2009. Despite a sometimes hostile economic and financial environment, the quality of investments continued to be very good and the Company even capitalized on opportunities to improve the return on its investment portfolio.

For the financial markets, however, the year got off to a rocky start in 2009. It began with the financial markets still reeling from the financial crisis that shook the markets in 2008, and the economy still in the depths of a recession. However, the situation quickly improved throughout the year. Stimulated by extremely low interest rates, job creation programs and credit facilities for financial institutions, the stock markets, after reaching a low at the beginning of the year, recovered quickly, to the point of being up considerably at the end of the year and even recouping a good part of the losses accumulated the previous year. Interest rate spreads, which had widened considerably during the crisis, gradually narrowed during the year.

While this environment created some attractive investment opportunities, which the Company was able to capitalize on, it also weakened certain investments, resulting in a few credit losses that had to be absorbed in 2009. Nevertheless, credit losses continued to be very low, which testifies to the excellent quality of the Company's investment portfolio.

COMPOSITION OF GENERAL FUND INVESTMENTS

In terms of its investments, the Company's goal is to use a prudent, disciplined approach to investing, while seeking to achieve an optimal balance between risk and return. In addition to closely monitoring its asset/liability matching, the Company ensures that its investments are well diversified among issuers and operating sectors, as well as geographically, and maintains a sufficient level of liquidity at all times.

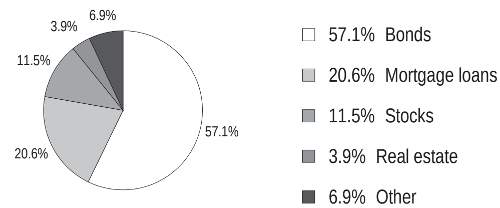
Most of the assets related to the Company's insurance and annuity operations are invested in fixed-income securities, such as bonds and mortgage loans. The assets related to the Company's capital are invested for long-term growth and optimization of the after-tax return.

At the end of 2009, 57.1% of the Company's investments were invested in bonds and 20.6% in mortgage loans, for a total of 77.7% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.

General Fund Investments	(In millions of dollars) As at December 31				
	2009	2008	2007	2007	2006
				(January 1)	
Bonds	9,409.5	7,942.2	8,127.2	8,358.3	7,189.4
Mortgage loans	3,405.0	3,508.1	2,920.2	2,460.0	2,457.2
Stocks	1,896.4	1,340.2	1,764.2	1,600.9	1,453.5
Real estate	649.0	629.5	481.6	451.8	451.8
Other invested assets	1,130.3	976.3	921.1	705.3	704.3
Total	16,490.2	14,396.3	14,214.3	13,576.3	12,256.2

Note that in 2009, investments in non-bank sponsored asset-backed commercial paper ("ABCP") were grouped under the *Bonds* category following the restructuring of these investments on January 21, 2009. These investments were previously grouped under the *Other Invested Assets* category (refer to the "Note Regarding Non-Bank ABCP" section below for more details).

Investments by Asset Category
As at December 31, 2009



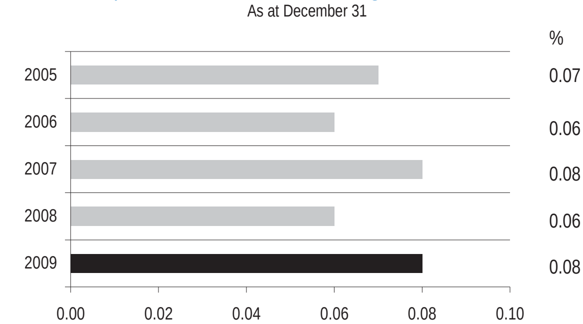
OVERALL QUALITY OF INVESTMENTS

The general quality of investments remained very good in 2009, with most quality indices remaining stable or improving. Net impaired investments totalled $13.0 million as at December 31, 2009 ($8.8 million as at December 31, 2008), which represents just 0.08% of total investments (0.06% as at December 31, 2008). The increase in net impaired investments in 2009 is essentially due to a bond for which the Company had posted a $3.0 million provision before taxes (i.e. 40% of the value of the bond), and the posting of a repossessed property in the US as an impaired investment.

Net Impaired Investments (Excluding Insured Loans)	(In millions of dollars) As at December 31				
	2009	2008	2007	2006	2005
Bonds	4.5	0.5	1.2	1.2	1.2
Mortgage loans	6.9	7.8	2.8	0.2	0.5
Repossessed properties	1.6	0.5	7.7	6.5	5.9
Total	13.0	8.8	11.7	7.9	7.6

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



Despite the severity of the financial crisis that shook the economy, the Company has very little exposure to securities that made the headlines over the past two years. The Company has no investments in the US subprime mortgage loan market, no investments in US automobile manufacturers, no investments in monolines, and a $25 million investment in the securities of UK financial institutions, including $3 million in capital notes.

With respect to the losses associated with certain securities in the investment portfolio, a subject that caught the attention of the markets during the financial crisis, there are two items of note:

- Unrealized losses on corporate fixed income securities classified as "available for sale" amounted to $14.5 million as at December 31, 2009, compared to $64.5 million as at December 31, 2008. This is explained by the gradual narrowing of interest rate spreads during the year.
- The nominal value of bonds whose market value has been 20% or more lower than the nominal value for six or more months amounted to $46.0 million as at December 31, 2009, compared to a high of $111.5 million on June 30, 2009. To a certain extent, the change in this value reflects the passing of the financial crisis (with a six-month delay). Note that the unrealized losses on these bonds (measured according to the difference between the market value and the nominal value), amounted to $13.3 million as at December 31, 2009, after reaching a high of $44.7 million on March 31, 2009, when the stock markets had just bottomed out. Most of these securities are classified as “held for trading.”

NOTE REGARDING NON-BANK ABCP

In 2007, the Company announced that it was exposed to non-bank sponsored asset-backed commercial paper ("ABCP") in the amount of $104.1 million, $90.1 million of which was directly held in the Company's general fund, and $14.0 million of which came from its 45% ownership in an entity subject to significant influence (in this case, MD Life Insurance Company, or "MD Life").

In 2007 and 2008, the Company devalued its ABCP to take into account market conditions, including the temporary absence of liquidity. As a result, the nominal value of the ABCP was devalued by 15% in 2007 and by 14% in 2008, for a total of 29%.

In 2007, a pan-Canadian committee of investors was set up to restructure the ABCP. The restructuring was completed on January 21, 2009. This restructuring resulted in the ABCP being 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. At the time of restructuring, all investors received the new notes, whose nominal value was slightly below that of the ABCP held prior to the restructuring ($1 million less in the case of Industrial Alliance).

Between the time the ABCP was restructured on January 21, 2009, and the end of the 2009 fiscal year on December 31, 2009, the Company received $25.5 million in repayments of principal for the notes resulting from the ABCP. In 2009, the Company wrote off its entire holdings of certain notes, which had already been almost totally devalued, and whose underlying assets, composed exclusively of ineligible assets, had a nominal value of $0.7 million.

Finally, on December 31, 2009, the Company acquired the individual life insurance portfolio of MD Life, a company in which it already had a 45% interest. At the time of this acquisition, 55% of the value of the notes resulting from the ABCP that were part of the acquired portfolio, net of the impact of the adjustment for the restructuring and the capital reimbursements received, was added to Industrial Alliance's balance sheet, which resulted in a $14.0 million increase in the nominal value of the notes resulting from the ABCP to which Industrial Alliance is exposed.

All of these transactions (adjustment for restructuring, capital reimbursements and acquisition of the individual life insurance portfolio of MD Life) brought the nominal value of the Company's investment in the notes resulting from the ABCP to $91.0 million as at December 31, 2009. This investment was posted to the Company's general fund and is presented in the consolidated balance sheet under *Bonds.* From an accounting standpoint, these bonds are part of the *Held for Trading* category and are used to match the policy liabilities in the Individual Insurance sector.

The overall devaluation taken for the old ABCP due to credit risk since 2007, including the additional portion from the individual life insurance portfolio of MD Life acquired on December 31, 2009, is $35.6 million. Despite the recent improvement in market conditions, the Company believes that this devaluation is still justified. This devaluation is equal to 39.1% of the nominal value of the notes resulting from the ABCP that were held as at December 31, 2009.

The fair value of the notes resulting from the ABCP is calculated using models based on the discounting of projected cash flows, which take into account the type of underlying assets, their structure and their maturity. (For more information on the notes resulting from the ABCP and the valuation models used by the Company, refer to note 11 of the Company's consolidated financial statements.)

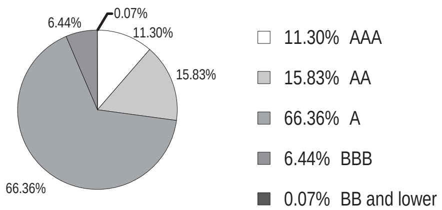
BOND PORTFOLIO

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 $9.4 billion as at December 31, 2009, continued to be very good, even though the economic situation had an impact on a few bonds. In addition to posting a $3.0 million provision, which was discussed earlier, the Company recorded a $1.7 million loss over the past year for a bond that was sold after having been previously devalued. This loss was offset in part by gains of $1.5 million following the sale of bonds that had been written down the previous year. The sum of the provisions and net losses realized on bonds amounted to $3.2 million.

The bond portfolio had no defaulted bonds as at December 31, 2009. In addition, the proportion of bonds rated A or higher represented 93.49% of the portfolio at the end of 2009, compared to 93.10% at the end of 2008. As at December 31, 2009, bonds rated BB and lower represented just $6.5 million (0.07% of the portfolio), compared to $18.1 million as at December 31, 2008 (0.23% of the portfolio). This decrease results primarily from the sale of a few bonds rated BB and lower (which did not have a material impact on the Company's results) and an increase in the credit ratings of certain bond issues by the rating agencies.

Bonds by Credit Rating
As at December 31, 2009



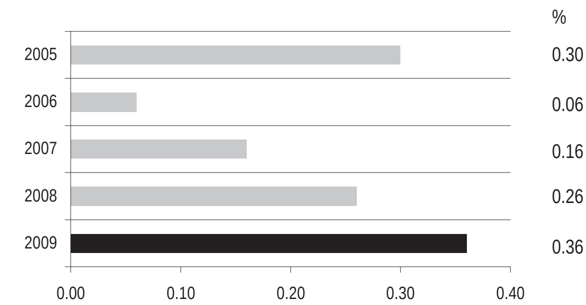
In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance 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				
	2009	2008	2007	2006	2005
Book value of the portfolio ($Million)	9,409.5	7,942.2	8,127.2	7,189.4	6,619.6
Distribution by category of issuer					
Governments[1]	63.3	61.1	59.7	56.9	60.4
Municipalities	1.3	1.4	1.8	1.7	1.6
Corporations - Public issues	20.8	21.6	23.4	26.1	25.1
Corporations - Private issues	14.6	15.9	15.1	15.3	12.9
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.00	0.01	0.02	0.02	0.02

MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio remained excellent in 2009 even though the delinquency rate increased slightly, from 0.26% as at December 31, 2008 to 0.36% as at December 31, 2009. This increase is primarily the result of an insured multi-unit residential loan being added to the defaulted loans category during the year. In total, delinquent mortgage loans represent just $12.1 million of a $3.4 billion portfolio. The Company does not have any investments in the US subprime mortgage loans market.

Mortgage Loan Delinquency Rate
As at December 31



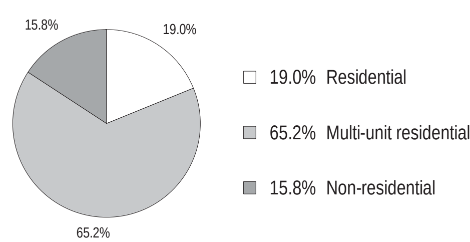
The delinquency rate figure includes both insured and uninsured loans. The statistics in the following table show that the proportion of delinquent loans that are insured was 43.0% as at December 31, 2009. This is higher than in 2008.

Mortgage Loan Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2009	2008	2007	2006	2005
Book value of the portfolio ($Million)	3,405.0	3,508.1	2,920.2	2,457.2	2,420.8
Distribution by type of loan					
Insured loans	71.8	71.3	65.0	60.2	55.6
Conventional loans	28.2	28.7	35.0	39.8	44.4
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.21	0.08	0.10	0.09	0.50
Conventional loans	0.72	0.72	0.27	0.02	0.05
Total	0.36	0.26	0.16	0.06	0.30
Proportion of delinquent loans that are insured	43.0	20.7	41.0	88.0	93.0

Virtually all mortgage loans are secured by first mortgages. In addition, despite the difficult economic environment over the past year, it is interesting to note that the proportion of insured loans has continued to climb, increasing from 55.6% in 2005 to 71.3% in 2008, then to 71.8% in 2009.

As at December 31, 2009, the proportion of loans secured by single-family or multi-unit residential properties was 84.2% compared to 85.9% as at December 31, 2008.

Mortgage Loans by Type of Property
As at December 31, 2009

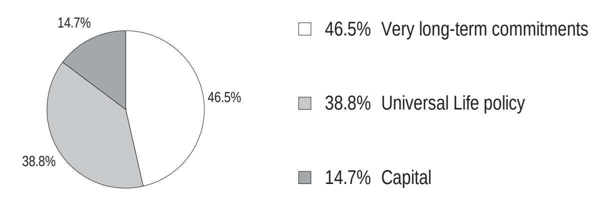


[1] Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

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.

Stock Portfolio by Type of Matching
As at December 31, 2009



The management strategy used 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 concentration risk and to participate in the growth of all primary economic sectors.

As at December 31, 2009, investments in equity securities amounted to $1.9 billion, or 11.5% of the Company's total investments, compared to $1.3 billion or 9.3% a year earlier. This increase can largely be explained by the stock market gains in 2009 and by the purchase of new securities. 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.

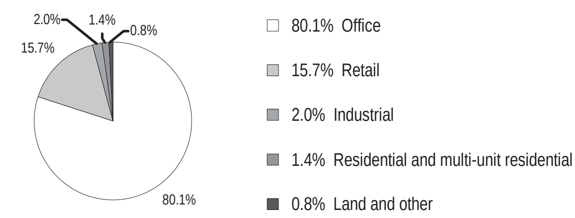
Stock Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2009	2008	2007	2006	2005
Book value of the portfolio ($Million)	1,896.4	1,340.2	1,764.2	1,453.5	1,162.4
Distribution by category of stock					
Common shares	13.5	18.8[1]	5.7	5.0	4.9
Preferred shares	8.8	10.3	8.1	10.9	12.8
Market indices	43.2	26.0	25.6	23.6	18.2
Investment fund units and other	34.5	44.9[1]	60.6	60.5	64.1
Total	100.0	100.0	100.0	100.0	100.0

REAL ESTATE PORTFOLIO

As at December 31, 2009, the book value of the real estate portfolio totalled $649.0 million (including repossessed properties), which represents an increase of 3% compared to the end of 2008. This increase essentially reflects the change in market conditions. Real estate investments represented 3.9% of total investments as at December 31, 2009; 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.

The occupancy rate of the Company's real estate portfolio remained high (94.4% as at December 31, 2009 compared to 94.0% as at December 31, 2008), and compares very favourably with that of commercial properties in large Canadian cities. Office buildings account for over three quarters of real estate investments.

Real Estate Portfolio by Category of Property
As at December 31, 2009



The market value of the real estate portfolio continues to be much higher than the book value (126.9% as at December 31, 2009 compared to 129.4% as at December 31, 2008). The Company generally reappraises each of its properties in turn every three years. In 2009, 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				
	2009	2008	2007	2006	2005
Book value of the portfolio ($Million)	649.0	629.5	481.6	451.8	446.3
Market value/book value of the portfolio	126.9	129.4	129.5	117.4	114.2
Occupancy rate	94.4	94.0	95.5	95.5	96.8

OTHER INVESTED ASSETS

The *Other Invested Assets* category (6.9% 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. Investments related to non-bank ABCP are no longer part of this category as of December 31, 2009 due to the restructuring of the ABCP that occurred on January 21, 2009. These investments have been reclassified under the *Bonds* category.

ASSET AND LIABILITY MATCHING

The Company carries out careful, regular monitoring of its investments, and maintains a disciplined approach to asset/liability matching. Although obtaining a steady improvement in returns is a day-to-day concern of the Company's portfolio managers, the 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.

During the year, the Company introduced certain initiatives designed to further improve the matching situation. At the beginning of the year, the Company capitalized on certain opportunities that presented themselves in the market (opportunities arising from the difficult financial environment at the time) to invest in high-quality long-term bonds offering very good returns. These bonds are used as assets to back the non-immunized liabilities, which is in line with the Company's strategy for this type of liability to optimize the return and quality of the underlying asset portfolio.

[1] The change compared to previous years is explained by the fact that certain investments matched to the savings component of Universal Life policies were transferred from investment fund units to common shares. The Company's risk profile was not affected by this transfer.

An inter-segment note program was also set up to allow cash flows to be exchanged among different lines of business. This program helps to reduce the reinvestment risk.

Lastly, the Company transferred assets between certain lines of business in order to optimize the matching position of each sector.

As at December 31, 2009, the difference between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.16 years, which is 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 which, as mentioned earlier, is aimed at optimizing the return of a high-quality investment portfolio.

Liabilities According to Type of Matching	As at December 31, 2009	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,988	51%
Universal Life policy accounts	1,381	10%
Subtotal	8,369	61%
Non-immunized liabilities	5,434	39%
Total	13,803	100%

LIQUIDITY

In order to maintain a sufficient level of liquidity at all times for the purpose of honouring its commitments, the Company holds a good proportion of easily marketable securities and strictly manages 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 190% as at December 31, 2009 (177% as at December 31, 2008). This means that highly liquid assets, which represent the sources of liquidity, cover nearly two times the liquidity need in an extreme case.

Moreover, given the difficult liquidity conditions that prevailed in the financial markets in 2008, the Company has carried out additional simulations to take into account a lower level of liquidity for certain asset categories that are normally considered very liquid. According to the most extreme scenario considered in the simulations, that is, if it were to become completely impossible to liquidate all bonds other than government bonds and preferred shares, the liquidity ratio amounted to 145% as at December 31, 2009 (130% as at December 31, 2008).

Given the quality of its investment portfolio, and despite the financial market volatility, the Company does not expect its liquidity level to become a worrisome issue in the near future. Due to the very nature of its business 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 $1.1 billion as at December 31, 2009 ($741.1 million as at December 31, 2008). 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 $12.5 million as at December 31, 2009 ($16.6 million as at December 31, 2008). This amount fluctuates from one period to another according to changes in interest rates and equity markets.

The future credit risk associated with these agreements, which represents the amount that the counterparties could eventually owe the Company according to various market scenarios, was $42.4 million as at December 31, 2009 ($28.7 million as at December 31, 2008).

LINES OF CREDIT

The Company has lines of credit to facilitate financing of its day-to-day operations and meet its temporary working capital requirements. As at December 31, 2009, the maximum amount authorized for these lines of credit was $66.9 million, compared to $100.2 million as at December 31, 2008. This decrease was negotiated voluntarily by the Company in 2009 in order to better reflect its actual needs. As at December 31, 2009, none of the lines of credit were used.

VALUATION METHODS FOR DETERMINING THE FAIR VALUE OF INVESTMENTS

The existence of increasingly complex financial instruments in the marketplace combined with the financial crisis that occurred at the end of 2008 prompted investors to be more concerned about the quality of information disclosed by companies and their ability to adequately determine the value of their financial instruments. To respond to these concerns, the Canadian accounting standards (chapter 3862) were amended with respect to disclosure for financial instruments that are valued at their fair value (primarily bonds and stocks).

The Company adopted these amendments to the accounting standards on December 31, 2009. For disclosure purposes, the Company now presents its financial instruments based on the approach used to determine their fair value. The presentation is based on a three-level hierarchy:

› Level 1: Valuation based on active market prices (non-adjusted).

› Level 2: Valuation based on observable market data, but that do not directly reflect active market prices.

› Level 3: Valuation based largely on non-observable market parameters.

The following table shows the breakdown of the fair value of the Company's investments by valuation level as at December 31, 2009.

Fair Value of Investments	As at December 31, 2009	
	In millions of dollars	In percent
Level 1	2,794.8	26%
Level 2	7,619.8	71%
Level 3	325.3	3%
Total	10,739.9	100%

As at December 31, 2009, Level 3 was made up solely of bonds for which the markets are not currently efficient. These bonds include the notes resulting from the ABCP. The Company determines the market value of these bonds using valuation models that it deems appropriate under the circumstances, including models based on techniques for discounting projected cash flows.

For more information about the methods and assumptions used to determine the fair value of the financial instruments, refer to note 11 of the Company's consolidated financial statements.

INVESTMENT FUNDS
(Segregated Funds and Mutual Funds)

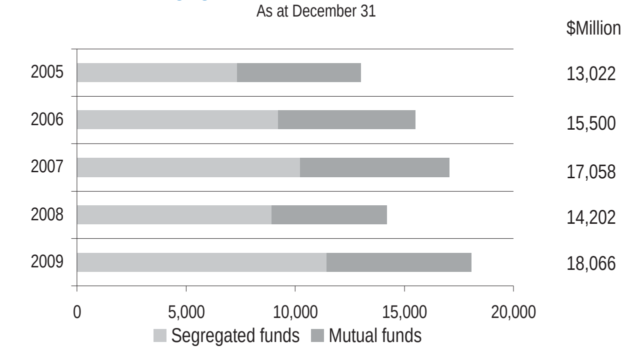
INVESTMENT FUND ASSETS

Investment fund assets for the Industrial Alliance group totalled $18.1 billion as at December 31, 2009 ($11.5 billion in segregated funds and $6.6 billion in mutual funds), which represents an increase of 27% for 2009. Positive net sales and favourable fund performances (which benefited from the stock market upswing in the last nine months of 2009) greatly contributed to the growth in assets.

The Industrial Alliance group holds an enviable position in the investment fund industry, ranking among the top twenty investment fund managers (mutual funds and segregated funds combined) in the Canadian retail market in 2009.

To ensure its development, Industrial Alliance relies largely on a wide range of funds and a vast distribution network. The Company continued its development efforts in 2009 by acquiring the socially responsible investing mutual fund business of Inhance Investment Management Inc.

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, 2009, the main family of funds offered by Individual Wealth Management had 56 funds available for sale, while the main family offered by Group Pensions had 63. 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 families of segregated funds (in the individual and group sectors) continue to offer excellent diversification in terms of asset classes, management styles and geographic regions. In addition, a number of changes were made to the fund families in 2009.

In the Group Pensions sector, 13 new funds were launched in 2009 (and 9 funds were closed). Most of the new funds are managed by well renowned management firms in the group pension plan market.

In the Individual Wealth Management sector, the Company launched 6 new funds in 2009 and made a few improvements to the existing offer. In addition to offering more options for clients, the improvements enabled the Company to continue harmonizing the segregated fund offer with IA Clarington's mutual fund offer, creating useful synergies for the entire group. Among the new funds offered, 3 are foreign equity funds that are managed by our in-house management team. Over the last few years, our in-house team has acquired new resources with all the expertise needed to manage this type of fund.

In terms of mutual funds, IA Clarington launched 9 new funds in 2009 as well as merging a few funds and making four manager changes. These changes bring the number of funds offered by IA Clarington at the end of 2009 to 55. Of the 9 new funds that were launched, 6 are designed to augment the offer in the "socially responsible" fund category. Funds in this category differ from traditional funds by giving investors the option to invest their money in companies known for their healthy environmental, labour and governance policies.

Taking into account all investment funds offered by the Industrial Alliance group (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 86 funds as at December 31, 2009, representing 69.2% of funds under management.

The external managers associated with the Industrial Alliance group were responsible for managing a total of 92 funds, representing 30.8% of investment fund assets under management at the end of 2009. The Industrial Alliance group has strategic alliances with over 40 external managers.

Industrial Alliance Group's Active Investment Funds (As at December 31, 2009)	Number of funds	Assets[1] ($Million)	Distribution of assets	Proportion of assets managed in-house
Segregated funds	123	11,077.4	57.3%	74.3%
Mutual funds	55	8,240.8	42.7%	62.3%
Total	178	19,318.2	100.0%	69.2%

INVESTMENT FUND PERFORMANCE

In 2009, market indicators gradually started to show signs that, little by little, the economic situation was ceasing to deteriorate and even starting to improve a bit. Meanwhile, on the financial front, the support provided by several governments (through capital guarantees and massive injections of liquidity), combined with a large number of attractively priced investments, managed to revive investor interest.

The Toronto Stock Exchange index closed out 2009 slightly below the 11,750 mark, showing annual growth of 35.1% (including dividends) and a spectacular rebound of nearly 60% since its low at the beginning of March. The three most important sectors on the Canadian stock market, i.e. the finance, energy and materials sectors (which make up over 75% of total market capitalization) were all up more than 30%, with their growth surpassed only by the information technology sector, which was up 44%. The Canadian bond market showed signs of improvement as well with a respectable return of 5.4%. This was largely due to corporate bonds, which were up 16.3% in 2009.

[1] The amount of these assets does not take into account the duplication of certain funds.

Foreign stock markets also made a remarkable recovery in 2009. For example, the S&P500, MSCI – EAFE and MSCI – World indices climbed 26.5%, 24.7% and 25.7% respectively in 2009 (in local currency). However, the strong appreciation in the Canadian dollar, stimulated by the rebound in the price of raw materials and a weak US dollar, reduced these returns considerably. Hence, when expressed in Canadian dollars, the increases recorded by these same indices were 8.1%, 12.6% and 11.1% respectively for 2009.

A number of the investment funds offered by the Company benefited from this environment to post excellent nominal rates of return in 2009. Even though it didn't translate into significant changes in terms of relative performance for all the funds, the comparative results in relation to the industry were very good over a number of periods, and generally were higher than overall market results.

The table below shows that, on a relative basis, all of the segregated and mutual funds offered by the Company performed well over all periods in 2009, despite a slight decrease compared to 2008 for periods other than 5 years. Hence, 55% of fund assets generated above-median returns over a one-year period, compared to 64% the year before. Over longer periods, performances are still very good, with nearly three quarters of assets being above the median. For example, the percentage of assets above the median over a three-year, five-year and ten-year period, as at December 31, 2009, was 71%, 71% and 78% respectively.

Funds managed by in-house managers and external firms also generated good returns in 2009, with 57% and 52% of their assets respectively being above the median over a one-year period.

Gross Relative Performance of Segregated Funds and Mutual Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	16	41	23	47
2nd quartile	39	30	48	31
Above the median - As at December 31, 2009	55	71	71	78
Above the median - As at December 31, 2008	64	74	61	85

In the segregated funds category, the following table shows that the relative performance of the funds remained relatively stable over the various periods compared to 2008. There was a slight decline over a one-year period, however, with 57% of fund assets being above the median, compared to 69% the year before. Over longer periods, i.e. three-year, five-year and ten-year periods, a very high percentage of fund assets were above the median, at 72%, 79% and 98% respectively.

Note that, unlike in 2008, the relative performance of in-house managed segregated funds was a little lower than funds managed by external firms. For 2009, 54% of in-house managed fund assets surpassed the median, compared to 67% for those managed externally.

Gross Relative Performance of Segregated Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	18	32	30	66
2nd quartile	39	40	49	32
Above the median - As at December 31, 2009	57	72	79	98
Above the median - As at December 31, 2008	69	77	80	97

With respect to mutual funds, their performance is also above the median for all except the ten-year period. It is important to note that over longer periods (five and ten years), the relative performance of mutual funds does not reflect the expertise of the in-house management team since this team only began managing these funds fairly recently (at the end of 2004 for funds acquired from BLC -Edmond de Rothschild and at the beginning of 2006 for IA Clarington funds). Since the Company's in-house fund managers have taken over from several external managers over the past few years, their expertise will gradually be reflected in the relative performance over longer periods.

Over the past year, mutual funds managed by the in-house team generated relatively good returns, with 61% of fund assets surpassing the median. The relative performance of mutual funds managed by external firms was a little less favourable, however, with 37% of fund assets surpassing the median.

Gross Relative Performance of Mutual Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	13	55	12	18
2nd quartile	40	16	45	29
Above the median - As at December 31, 2009	53	71	57	47
Above the median - As at December 31, 2008	57	69	33	62

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 section 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, 2009, given that the section permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis.

As a financial institution, Industrial Alliance assumes a variety of risks inherent in the conduct of its business. These risks may represent threats, but also opportunities. The Company's challenge is to manage these risks 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.

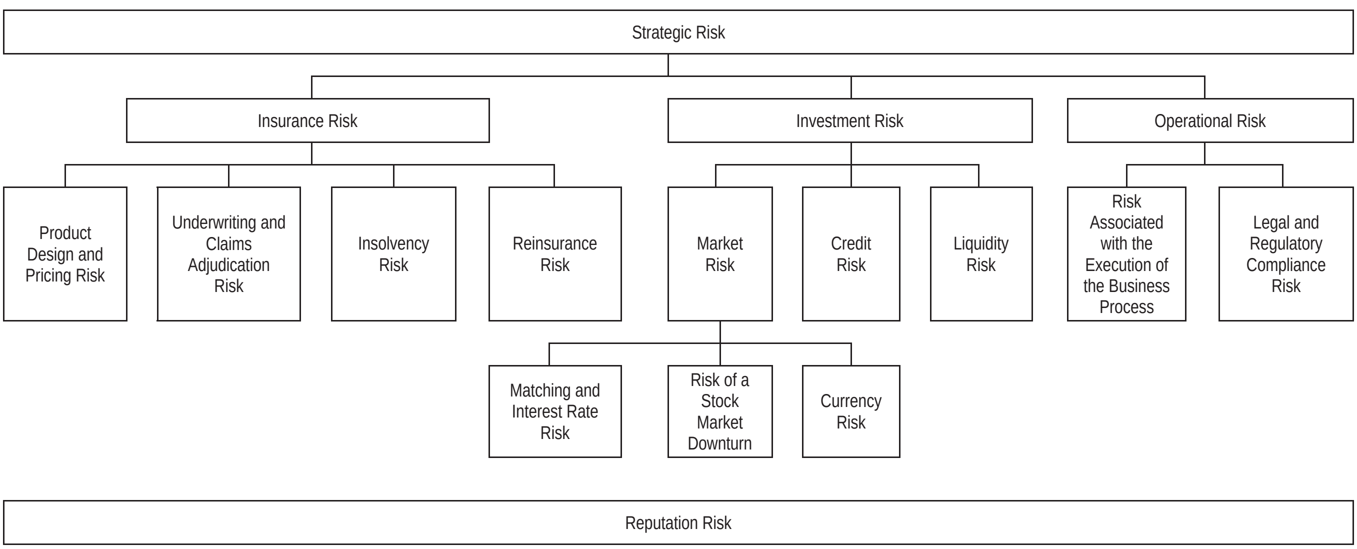
The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The risk management mechanisms put in place by Industrial Alliance effectively resisted the major turbulence that shook the financial markets at the end of 2008 and the beginning of 2009, enabling the Company to preserve its financial strength.

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. For the subsidiaries, however, the boards of directors and audit committees of each subsidiary have an important role to play, as discussed further down.

The managers of the Actuarial and Investment sectors 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.

With respect to the subsidiaries, note that for the most part they are regulated by, and the role of their board of directors is often governed by, very detailed and complex regulations (including rules pertaining to the appointment of board members). The boards of directors for the subsidiaries are made up of members renowned for their expertise in their respective fields, and may also include members of the parent company's Management Committee.

The subsidiaries must follow their own rules of compliance, and their respective audit committee must send all material information to the parent company's Audit Committee. The chairs of the subsidiaries' audit committees also provide reports to the Industrial Alliance Audit Committee (five of these reports, including three in writing, were provided in 2009).

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.

Note that following the financial crisis at the end of 2008 and the beginning of 2009, the regulatory authorities began examining the issue of corporate risk management more carefully. Industrial Alliance is following the discussions on this issue closely, including discussions regarding changes to the guidelines.

INSURANCE RISK

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

Product Design and Pricing Risk

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

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

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

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

Underwriting and Claims Adjudication Risk

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

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

In the event that a deterioration in mortality experience is deemed to be permanent, the policy liabilities could have to be recalculated to take this into account. The Company estimates that a 5% permanent deterioration in mortality rates would result in a $94 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 a predetermined limit. More specifically, this treaty applies to events that may produce losses in excess of $50 million, up to a maximum of $150 million, which is equivalent to coverage where the maximum claim could be up to $100 million. This treaty is renewed annually and covers all types of terrorist activities, including nuclear, biological and chemical.

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 solvency ratio targeted by the Company is 175% or higher, 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 (covering the period form 2008 to 2013), even in the absence of corrective measures by management, the Company's financial soundness is satisfactory under 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 requiring cash deposits 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 adverse deviations from the assumptions with regard to certain insurance risks.

Decrease in Net Income to Common Shareholders Resulting from Adverse Deviations from the Assumptions Risk	In millions of dollars
Insurance risk: adverse deviation of 5%	
Mortality rate	94
Lapse rate[1]	117
Unit costs	29

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 purpose of paying 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.

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, 2009	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	6,988	51%
Universal Life policy accounts	1,381	10%
Subtotal	8,369	61%
Non-immunized liabilities	5,434	39%
Total	13,803	100%

1 › Liabilities Immunized on a Cash Flow Basis

This category represents 51% 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.

One of the other measures used to reduce the reinvestment risk is an inter-segment note program set up by the Company. This program allows cash flows to be exchanged among activity sectors based on their specific needs, which further mitigates the reinvestment risk in the Individual Insurance sector.

1 The adverse 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.

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 10% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities may either be based on a guaranteed interest rate accounts, or determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

For this category, the impact on net income of a change in 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 cash flows have a specific structure and for which a classic immunization strategy cannot be applied. 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, 2009, 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, 2009, the Company estimates that a 10 basis point decrease in the URR would lead to an increase in policy liabilities of approximately $41 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.

In addition, note than an immediate 10 basis point decrease (or increase) in interest rates would increase (decrease) other comprehensive income by $3 million due to the unrealized gains (losses) that would then be generated on the fixed income securities classified as available for sale.

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, 2009, the Company estimates that if the stock markets drop 10% at the very beginning of 2010, to subsequently recover a portion of this loss during the year, net income to common shareholders for 2010 would be about $18 million lower than expected for its regular operations.

The Company also estimates that a 10% drop in the stock markets compared to December 31, 2009 would not produce a material 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.

In addition, note that a drop in the stock markets in the manner described above would lead to a $7 million decrease in other comprehensive income due to the unrealized losses that would then be generated on the equity securities classified as available for sale.

On the other hand, a sudden 10% increase in the stock markets at the beginning of 2010, 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, 2009, the Company's solvency ratio was 208%, and the S&P/TSX index of the Toronto Stock Exchange was at 11,746 points. The Company estimates that if the S&P/TSX index had been at 7,700 points as at December 31, 2009, the solvency ratio would have been around 175%, and if it had been at 6,300 points, the solvency ratio 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.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2009, the Company was not exposed to any material foreign currency risk.

Note that the Company used hedge accounting in 2009. For more information, refer to note 9 of the Company's consolidated financial statements as at December 31, 2009.

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 Adverse 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)	41
Sudden 10% drop in the stock markets[1]	18

Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if certain counterparties or debtors do not meet their 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, 2009.

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. They also impose limits by groups of related issuers, by activity sector and by geographic region. These limits depend on the credit quality of the issuers.

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, 2009, on a notional amount of $1.1 billion, over 98% of the Company's credit risk regarding derivative financial instruments was linked to financial institutions whose lowest credit rating was AA low, and the rest was linked to institutions whose credit rating was A or A high.

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" subsection.

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 prepared by the Investment department's managers once a month, which indicates the liquidity adequacy according to different adverse scenarios. This report is sent to the Investment Committee on a quarterly basis.

[1] Assuming a sudden 10% drop in the stock markets at the beginning of 2010, to subsequently recover a portion of this loss during the year.

The Company maintains a high level of liquidity. As at December 31, 2009, the value of the marketable securities included in the Company's investment portfolio represented 190% of the amount that would be required under an extreme adverse scenario where the Company would have to redeem all of its redeemable contracts (177% as at December 31, 2008). This means that highly liquid assets, which represent the sources of liquidity, cover nearly two times the liquidity need in an extreme case.

Moreover, given the difficult liquidity conditions that prevailed in the financial markets at the end of 2008 and beginning of 2009, the Company has carried out additional simulations to take into account a lower level of liquidity for certain asset categories that are normally considered very liquid. According to the most extreme scenario considered in the simulations, i.e. if it were to become completely impossible to liquidate all bonds other than government bonds and preferred shares, the liquidity ratio amounted to 145% as at December 31, 2009 (130% as at December 31, 2008).

Given the quality of its investment portfolio, and despite the financial market volatility, the Company does not expect its liquidity level to be insufficient 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.

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 disaster, pandemic or other type of 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.

In 2009, the Company activated its business continuity plan in an effort to effectively manage the threat of an influenza A(H1N1) pandemic. An action committee was assigned to closely monitor the progress of the situation and to coordinate the Company's activities. The action committee ensured that all of the group's subsidiaries had activated their own continuity plan. From a communication standpoint, a memo was sent to all employees explaining the activation of the business continuity plan, along with the basic hygiene measures that should be followed to avoid spreading the virus. These measures were also explained using posters that were put up in various locations around the Company. From a prevention standpoint, the Company purchased safety materials (masks, glasses and disinfectant products) and installed antiseptic dispensers for employee use to help reduce the risk of transmitting the virus. Lastly, a monitoring report on the spread of the virus worldwide was produced once a week to keep those in charge of crisis management informed of the situation.

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 of the Board of Directors. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Legal and Regulatory Compliance Risk

The Company and its subsidiaries operate in Canada and the United States. They are subject to strict regulatory requirements and close monitoring of their operations in all provinces or states where they conduct business. 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 ensures the sound management of this risk by being proactive in its approach, and by integrating the Company's legal and regulatory obligations into its day-to-day activities and stressing the importance of legal and regulatory compliance issues through regular employee communications To achieve this, 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 the contracts. Managing the aspects pertaining to regulatory compliance risk allows the Company to proactively establish and understand the events arising from non-compliance with the regulations that could have an impact on the operations and reputation of the Company and its subsidiaries, and to put strategies in place to mitigate this possibility. It also provides reasonable assurance that the Company is in compliance with the legal and regulatory requirements pertaining to its operations.

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 in order 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). This program uses a "risk-based" approach where the level of attention received by the Company's activities is proportional to their relative level of risk. Under this program, the managers of each business line of the parent company and its subsidiaries 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 summary report is submitted annually 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 2009

In terms of both profitability and business growth, Industrial Alliance had its best quarter since the onset of the financial crisis.

The Company ended the fourth quarter of 2009 with record net income to common shareholders of $67.4 million. This translates into diluted earnings per common share of $0.83 and a return on equity to common shareholders of 14.9% on an annualized basis. Profitability for the quarter was much higher than in the fourth quarter of 2008, when the Company strengthened its provisions for future policy benefits to take into account the sharp drop in interest rates and the stock markets, which resulted in a loss for the quarter.

Following are a few highlights regarding the net income posted in the fourth quarter of 2009:

› Profitability for the quarter was stimulated by the stock market upswing during the period, which improved income by $7.0 million after taxes ($0.09 per common share) compared to the expected result.

› An unusual, temporary gain of $5.3 million after taxes ($0.06 per common share) was recorded during the quarter due to the favourable evolution of the difference between the fair value of debt instruments and underlying assets ($7.8 million gain in the fourth quarter of 2008). Excluding this gain, the Company ended the fourth quarter with net income to common shareholders of $62.1 million. This income translates into diluted earnings per common share of $0.77 and a return on common shareholders' equity of 13.7% on an annualized basis, which is in the upper end of the Company's 12% to 14% target range.

› Income was also affected by a modest credit loss of $0.5 million after taxes (or $0.01 per common share) due to the posting of a $1.1 million provision after taxes for a security weakened by the prevailing economic environment. This amount was offset in part, however, by a net gain of $0.6 million after taxes from the sale of previously devalued securities.

› The year-end review of valuation assumptions did not have a significant impact on the results, as the provisions for future policy benefits were strengthened by $1.1 million before taxes ($0.8 million after taxes, or $0.01 per common share). For more details, refer to the "Profitability" section of this report.

› The effective tax rate was 27.4% for the fourth quarter of 2009, which is slightly higher than the Company's expectations of a rate between 26% and 27% in the medium term.

The Company's financial soundness enabled the Board of Directors to announce the payment of a quarterly dividend of $0.2450 per common share, which is the same as the one announced in the previous quarter. This dividend corresponds to a payout ratio of 32% of income from regular operations (that is, excluding the gain resulting from a favourable evolution of the difference between the fair value of debt instruments and the underlying assets). The dividend is payable in cash on March 15, 2010, to the common shareholders of record as at February 19, 2010. The Company also announced that it was maintaining its target range of 25% to 35% in the medium term for the dividend payout ratio. However, the Company expects the ratio to be in the upper part of the target range in 2010.

From a business growth standpoint, the Company had its best quarter since the onset of the financial crisis. Good stock market performance and a general improvement in economic conditions carried premiums and deposits to $1.5 billion in the fourth quarter, a 27% increase over the same quarter in 2008. This increase is primarily explained by the strong rebound of segregated fund and mutual fund sales, which benefited from the strong stock market recovery.

Highlights	(In millions of dollars, unless otherwise indicated)			
	Fourth quarter		Year	
	2009	2008	2009	2008
Net income to common shareholders	67.4	(110.2)	205.8	66.1
Earnings per common share (diluted)	$0.83	($1.37)	$2.55	$0.82
Return on common shareholders' equity	14.9%	(25.8%)	11.9%	4.0%
Premiums and deposits	1,546.8	1,221.1	5,231.2	5,542.9
	December 31, 2009	December 31, 2008	December 31, 2007	
Assets under management and under administration	58,406.6	49,472.2	50,411.6	

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. However, other factors can cause premiums to fluctuate from one quarter to another, including stock market behaviour and the signing of new agreements with large groups in the sectors that distribute their products to groups and businesses.

Premiums reached $1.2 billion in the last quarter of 2009, an 18% jump compared to the last quarter of 2008, showing renewed signs of growth after a few weak quarters. This jump can primarily be explained by the increase in segregated fund premiums as investors, reassured by the overall improvement in the economy, regained confidence in the stock markets.

However, this strong growth was not enough to erase the shortfall accumulated in the first three quarters of the year, a result of lower sales in the Group Pensions sector (which had had a record year in 2008) and a rather modest first half of the year in the Individual Wealth Management sector (sales in this sector had been affected by the stock market downturn, which began in the second half of 2008 and continued into the first quarter of 2009). Premiums still totalled $4.2 billion in 2009, which represents a 3% decrease compared to 2008.

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 much 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 on net income of the market value adjustments of the assets matched to the policy liabilities is largely, if not totally, cancelled out.

In 2009, net investment income was $1.5 billion higher than in 2008, primarily because of the significant increase in the market values of assets held for trading during the last three quarters of the year. During this period, stocks benefited from the stock market rebound, while bonds profited from the narrowing of interest rate spreads. Most of the increase in net investment income occurred in the third quarter of 2009, when it increased $990.9 million from the same quarter in 2008 to reach $597.2 million. The strong growth in market values observed in 2009 contrasts sharply with the situation that prevailed in 2008 (primarily in the last two quarters), when market values were down considerably due to the financial crisis. Most of the stocks and bonds are classified as held for trading and used as assets underlying the provisions for future policy benefits. For this reason, the impact of the increase in net investment income on the 2009 results was largely neutralized by a corresponding increase in the provisions for future policy benefits.

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.

In the first three quarters of 2009, fees and other revenues were lower than in the same quarters of 2008 due to the decrease in average assets under management that resulted from the stock market downturn between June 30, 2008 and March 31, 2009 (the S&P/TSX index was down nearly 40% during this period). The situation was very different, however, in the fourth quarter of 2009, with fees and other revenues up 15% compared to the fourth quarter of 2008. This increase can be explained by the fact that average assets under management, fuelled by the stock market rebound and positive net sales of investment funds, were finally higher than average assets for the previous year. However, despite the increase observed in the last quarter of the year, fees and other revenues for 2009 as a whole were down 3% compared to 2008.

Quarterly Results	2009				2008			
(In millions of dollars, unless otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Premiums	1,190.7	999.7	971.9	989.4	1,006.6	1,114.1	1,142.4	1,018.6
Net investment income	99.2	597.2	545.7	60.2	(43.9)	(393.7)	72.5	177.1
Fees and other revenues	93.3	95.9	90.0	81.1	81.2	97.7	99.0	93.5
Total	1,383.2	1,692.8	1,607.6	1,130.7	1,043.9	818.1	1,313.9	1,289.2
Income before income taxes	79.5	85.7	47.1	70.0	(156.7)	74.1	90.7	83.5
Income taxes	(10.1)	(22.9)	(11.6)	(19.4)	48.0	(20.5)	(25.0)	(19.3)
Net income	69.4	62.8	35.5	50.6	(108.7)	53.6	65.7	64.2
Less: net income (loss) to participating policyholders	(2.2)	(0.3)	0.4	0.8	0.0	1.0	0.8	1.1
Net income to shareholders	71.6	63.1	35.1	49.8	(108.7)	52.6	64.9	63.1
Less: dividends to preferred shareholders	4.2	3.0	3.0	3.6	1.5	1.4	1.5	1.4
Net income to common shareholders	67.4	60.1	32.1	46.2	(110.2)	51.2	63.4	61.7
Earnings per common share								
Basic	$0.84	$0.75	$0.40	$0.58	($1.37)	$0.64	$0.79	$0.77
Diluted	$0.83	$0.74	$0.40	$0.58	($1.37)	$0.63	$0.78	$0.76
Premiums invested in segregated funds	517.2	332.2	343.8	358.8	315.1	440.2	490.0	416.3
Change in provisions for future policy benefits	65.0	584.7	488.4	56.4	229.3	(351.2)	56.0	119.1
Total general fund assets	17,626.5	16,920.4	16,222.5	15,622.4	15,415.2	15,269.5	15,467.9	15,331.6
Segregated fund net assets	11,450.3	10,970.4	10,091.3	8,945.8	8,924.2	9,830.0	10,651.8	10,153.8

CASH FLOWS

A review of the cash flows allows us to determine the Company's sources of funds and how these funds are used. The Company's 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 and mutual funds.

The funds are primarily used for: claims that become payable under policies, including annuities and surrender values, the purchase of new investments, mortgage loans disbursements, net transfers from the general fund to segregated funds, the payment of dividends to policyholders and the payment of operating expenses, including income and other taxes. The table below summarizes the Company's consolidated cash flows.

In 2009, the cash flows related to operating activities increased by $214.8 million compared to 2008. This increase was primarily due to two items that had no direct impact on cash or cash equivalents and that, for the most part, were mutually neutralized: the increase in expenses associated with the increase in provisions for future policy benefits, and the variation in the fair value of securities designated as held for trading.

Investing activities produced net disbursements of $864.5 million in 2009, compared with net disbursements of $877.2 million in 2008, which represents a difference of $12.7 million. This difference is primarily due to an increase in the purchase of bonds compared to 2008, which was offset in part by a decrease in mortgage loan disbursements.

Financing activities produced cash flows of $105.1 million, $12.1 million more than in 2008. Note that in 2009, financing activities included the issuance of $100 million in debentures in March, and the issuance of $100 million in preferred shares in October. Dividends paid to common shareholders amounted to $78.7 million in 2009 ($75.5 million in 2008), while dividends paid to preferred shareholders amounted to $13.8 million ($5.8 million in 2008).

Cash Flows	(In millions of dollars)		
	2009	2008	2007
Cash flows related to the following activities:			
Operating	891.1	676.3	674.8
Investing	(864.5)	(877.2)	(609.1)
Financing	105.1	93.0	(71.0)
Gains (losses) resulting from the currency translation of cash and cash equivalents	(8.3)	4.6	(4.7)
Increase (decrease) in cash and cash equivalents	123.4	(103.3)	(10.0)
Cash and cash equivalents at the beginning of the year	258.5	361.8	371.8
Cash and cash equivalents at the end of the year	381.9	258.5	361.8

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, 2009, the balance of these loans totalled $0.6 million ($0.8 million as at December 31, 2008).

In the normal course of its operations, the Company also carried 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 is 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 2009, reinsurance ceded reduced the policy liabilities by $247.3 million ($293.4 million in 2008). The Company's recent mortality studies show a significant improvement in mortality. The results of these studies are in line with the trends observed in the most recent work done by the industry, including work by the Canadian Institute of Actuaries. This improvement has major, but diverging effects on the Company's activity sectors, benefiting the Individual Insurance sector, but adversely affecting the annuity sectors (Group Pensions and Individual Wealth Management). In total, since the Company's insurance operations are much larger than its annuity operations, the Company benefits from the improved mortality. The Company also retains a higher proportion of mortality risk than the industry, which adds to the income that the Company draws from improved life expectancy. For more information about the mortality assumption, refer to the "Profitability" section of this report. 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 2009 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, 2009 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, 2009 results were unfavourable compared to 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 income taxes, refer to note 8 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 2009, the losses on mortgages and defaults on bonds were lower 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 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.

Adjustable Features of Contracts – 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 used to evaluate policy liabilities are adjusted accordingly.

ACCOUNTING STANDARDS AND POLICIES

Changes to Accounting Policies in 2009

The Company made changes to a number of accounting policies in 2009 to comply with the new standards adopted by the Canadian Institute of Chartered Accountants ("CICA") and the Emerging Issues Committee ("EIC"). These changes deal with the accounting of goodwill and intangible assets (section 3064 of the *CICA Handbook*), the consideration of credit risk and the fair value of financial assets and financial liabilities (EIC-173 of the EIC) and the accounting, valuation and disclosure of financial instruments (sections 3855 and 3862 of the *CICA Handbook*). These changes are described in note 3 of the consolidated financial statements, entitled "Change in Accounting Policies – Impact of the Change in Accounting Policies". The changes to the accounting policies had no impact on the Company's results.

Future Changes in Accounting Policies

In 2009, the CICA adopted new changes to section 3855 on the accounting and valuation of financial instruments, published three new sections (section 1582 on business combinations, section 1601 on consolidated financial statements, and section 1602 on non-controlling interests), and amended two sections to comply with the instructions provided for these three new sections, i.e. section 1625 on the comprehensive revaluation of assets and liabilities, and section 3251 on equity. The changes will apply as of January 1, 2011, but early adoption is permitted for some of them under certain conditions. The Company is currently evaluating the impact of the changes on its consolidated financial statements. For more information, refer to note 3 of the consolidated financial statements, entitled "Change in Accounting Policies – Future Changes in Accounting Policies".

International Financial Reporting Standards

The Company will adopt International Financial Reporting Standards ("IFRS") on January 1, 2011, and will produce its first financial statements using IFRS in the first quarter of 2011. These statements will have to comply with IAS 34, "Interim Financial Reporting", which requires the presentation of corresponding comparative financial reporting in 2010. In addition, the interim financial statements will have to include an opening balance sheet as at January 1, 2010.

In May 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed January 1, 2011 as the date generally accepted accounting principles ("GAAP") will be replaced by IFRS published by the International Accounting Standards Board ("IASB") for publicly accountable enterprises. The Company has established a conversion plan containing three phases in order to be ready for the changeover to IFRS: 1) identification of risks; 2) implementation of the new standards; and 3) conversion.

The conversion plan for meeting IFRS requirements is on schedule. The project managers regularly take stock of progress in the plan and convey key elements of the analyses to the project steering committee, management, the Audit Committee and the Board of Directors.

In 2009, the Company worked on phase 2 of the project, namely implementation of the new standards, by carrying out detailed analyses of each standard that applies to the Company. These analyses included the analysis of IFRS 1, "First-time Adoption of International Financial Reporting Standards", which contains various options regarding the transition date to IFRS. The Company also established the impact that the new standards will have on the accounting systems, and on certain administrative systems like the contract management systems. The analyses also considered the tax aspects, as well as the impact of the conversion on the Company's capital requirement. The Company is currently evaluating the financial impact of the accounting changes on its financial statements.

For an insurer, one of the important aspects of the conversion plan is the classification of insurance contracts according to the definition in IFRS 4, "Insurance Contracts". Based on the analysis work done so far on the classification of insurance contracts, the Company does not expect a material impact on its financial statements.

The significant accounting changes for the Company pertain to the options regarding investment properties, own-use properties, and the classification of financial instruments. Certain presentation differences are also to be expected in the financial statements, primarily in terms of income from sources other than insurance contracts, as well as reinsurance and employee benefits. Certain expenses can no longer be presented as a deduction from income, such as expenses related to real estate or investment management. Reinsurance must be presented separately, both on the income statement and the balance sheet. Pension plan assets must be presented separately from pension plan liabilities since the assets do not meet the definition of eligible assets under IAS-19, "Employee Benefits". In addition, segregated fund assets will be consolidated under the Company's assets.

Phase II of IFRS 4, "Insurance Contracts", which covers the evaluation and recognition of insurance contracts, is currently being developed and will not be in effect on January 1, 2011. Consequently, when IFRS is adopted, the Company will continue to evaluate provisions for future policy benefits according to the Canadian Asset Liability Method ("CALM"). According to this method, the evaluation of provisions for future policy benefits is based on the book value of the matched assets. Phase II of the standard should be in effect in 2013, and could have a material financial impact on the Company.

During the next period, the Company will establish its opening balance sheet, monitor the parallel accounting of financial data, evaluate the consequences of conversion to IFRS, and make the necessary changes. The Company will also complete the design of the financial statements and the notes to the financial statements. It will also make changes to internal control over financial reporting, and will continue with its training and communication plan.

The Company monitors and analyzes changes made to IFRS, considering that these changes could have an impact on preliminary decisions. Modifications are expected for financial instruments. Phase I of the standard was published in November 2009 and will take effect on January 1, 2013. Early application of the standard is possible, but is not authorized by the regulatory authorities.

The overall impact of adopting IFRS on the Company's financial situation and future results cannot be reasonably established until the conversion process is completed.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the 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 regarding disclosure. These controls and procedures are also designed to ensure that the information is gathered, recorded, processed, condensed and reported within the time frames 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, 2009, 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 Company's financial reporting is reliable and that, for the purposes of publishing its financial information, the financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP").

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of Disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2009, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the *Internal Control – Integrated Framework* report published by the *Committee of Sponsoring Organizations* of the Treadway Commission*.* Following this evaluation, they concluded that the internal control over financial reporting was effective. During the period, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

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) 2009	2008	2007
Debentures	519.8	385.9	309.8
Preferred shares	325.0	223.7	125.0
Total	844.8	609.6	434.8

ACQUISITIONS IN 2009

Industrial Alliance announced the completion of two acquisitions in 2009: the individual life insurance portfolio of MD Life Insurance Company ("MD Life"), a life and health insurance company that offers life insurance and annuity products to Canadian physicians (this acquisition was effective December 31, 2009); and the socially responsible investing mutual fund business of Inhance Investment Management Inc. ("Inhance"), a subsidiary of Vancouver City Savings Credit Union, one of the largest credit unions in Canada (this acquisition was completed on December 7, 2009).

Through its subsidiary IA American Life Insurance Company ("IA American"), the Company also completed the acquisition of two small closed blocks of business in the US in December 2009: World Service Life Insurance Company and the life insurance portfolio of Freedom Life Insurance Company of America. These two modest acquisitions should contribute to improving the unit costs of IA American.

For more information about these acquisitions, refer to note 4 of Industrial Alliance's consolidated financial statements.

DISPOSITIONS DURING THE PERIOD

No dispositions were made during the period.

In 2007, Industrial Alliance completed the sale of a block of business in the Caribbean. 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, 2009, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period	(In millions of dollars) Total (As at 12-31-09)	Less than 1 year	1 year to 3 years	4 years to 5 years	More than 5 years
Debentures[1]	519.8	--	--	--	519.8
Capital lease	--	--	--	--	--
Operating lease	51.5	20.2	23.2	6.6	1.5
Purchasing commitments	12.2	6.9	4.9	0.3	0.1
Other long-term commitments	183.1	139.9	40.2	3.0	--
Total of contractual obligations	766.6	167.0	68.3	9.9	531.4

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2009, these investment commitments totalled $74.1 million ($132.1 million in 2008), including $52.4 million that will be maturing in the next year ($91.0 million in 2008), and $21.7 million that will be maturing in more than one year ($41.1 million in 2008).

OUTSTANDING SHARES

As at February 11, 2010, Industrial Alliance had 80,511,771 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

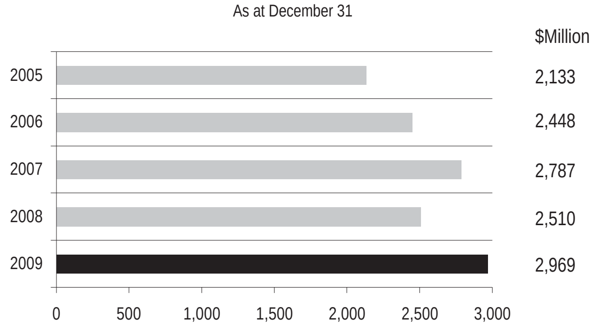
2009 HIGHLIGHTS

- Embedded value of $3.0 billion as at December 31, 2009 ($36.89 per common share), up 18.3% compared to December 31, 2008 after the payment of dividends (up 21.4% before the payment of dividends)
- Embedded value/book value ratio: 1.62x as at December 31, 2009
- Addition of new business to embedded value in 2009: $1.51 per common share ($1.53 in 2008)
- Contribution of recurring items to growth in embedded value: 11.0% in 2009

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.

On December 31, 2009, Industrial Alliance's embedded value reached $3.0 billion, or $36.89 per common share, a high for the Company. This is up 21.4% from the value calculated as at December 31, 2008, before the payment of dividends to common shareholders, and up 18.3% after the payment of these dividends.

Embedded Value
As at December 31



The increase in embedded value is primarily explained by:

- The stock market rebound, which added 8.6% to the embedded value ($2.68 per common share). The stock market rebound increased shareholders' equity and the Company's future profits, primarily due to the expected growth of management fees collected on segregated funds, mutual funds and Universal Life policy funds.

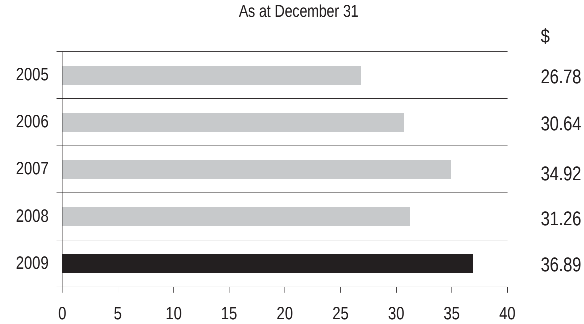
- The normal growth in the value of the in-force block of business, which added 6.1% to the embedded value ($1.92 per common share).

- The value of new business, which added 4.9% to the embedded value ($1.51 per common share). The Company continues to stand out through its ability to generate profitable new sales (see below for more information on the value of new business).

Note that recurring items, which are those over which the Company has a certain amount of control (i.e. the expected growth of embedded value and new business) added a total of 11.0% to the embedded value in 2009 ($3.43 per common share). Since the Company began calculating its embedded value, it has always achieved low double-digit growth of the embedded value through the recurring items, which is in line with the Company's expectations in a normal environment.

The year-end changes in assumptions regarding the provisions for future policy benefits, combined with an increase in the discount rate (from 6.50% to 7.25%) and the risk-free rate used to calculate embedded value (from 3.50% to 4.25%), had no material impact on embedded value in 2009. The Company used the same discount rate and the same risk-free rate in 2009 as it did in 2007, before the financial crisis. These assumption changes are intended to reflect the change in the current economic environment in which the Company operates.

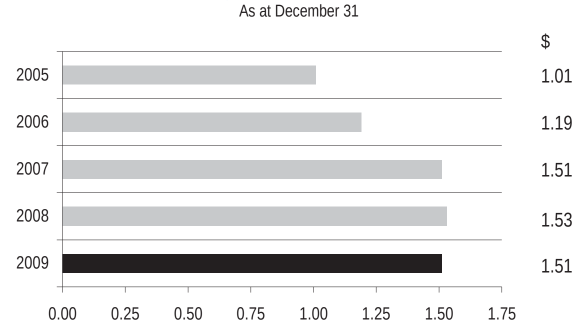
Embedded Value Per Common Share
As at December 31



EMBEDDED VALUE OF NEW SALES

As indicated earlier, the value added by new business increased the embedded value by 4.9% ($1.51 per common share). The value added of new business indicates the extent to 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.

Embedded Value per Common Share of New Business
As at December 31



The embedded value of new business evolves according to three components: the level of sales, profit margins and the change in the discount rate.

Hence, as the table below shows, despite a strong increase in new sales at year-end, the "sales" component reduced the embedded value of new business by $8.5 million in 2009, primarily due to weak sales of savings products. Profit margins had no impact on embedded value in 2009. The discount rate, which had been reduced at the end of 2008, increased the embedded value of new business by $7.1 million, net of the impact of lower interest rates and stock market returns.

Embedded Value of New Business by Component	(In millions of dollars) 2009
Value added in 2008	122.8
Sales	(8.5)
Profit margins	0.0
Discount rate (decrease)	7.1
Value added in 2009	121.4

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 2009, the embedded value represented 1.62x 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 following table.

Economic and Capital Assumptions	As at December 31 2009	2008
Discount rate	7.25%	6.50%
Risk-free rate	4.25%	3.50%
Risk premium	3.00%	3.00%
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 (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.

Sensitivity Analysis	Impact on Embedded Value As at December 31, 2009
1% increase in risk premium	(9%)
3% increase in risk premium	(24%)
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	(6%)

Embedded Value	Embedded value	Contribution to embedded value	Embedded value per common share
	($Million)	(%)	($)
Embedded value as at December 31, 2008	2,510	--	31.26
Recurring items			
Expected growth of embedded value	154	6.1	1.92
New sales	121	4.9	1.51
Subtotal	275	11.0	3.43
Non-recurring items			
Experience gains (losses) – related to the equity markets	215	8.6	2.68
Experience gains (losses) – other	47	1.8	0.58
Assumption changes and management actions	(10)	(0.4)	(0.12)
Changes to the solvency requirements	(2)	(0.1)	(0.03)
Acquisitions	7	0.3	0.08
Subtotal	257	10.2	3.19
Changes in capital structure	6	0.2	(0.01)
Embedded value as at December 31, 2009, before dividends	3,048	21.4	37.87
Dividends paid to common shareholders	(79)	(3.1)	(0.98)
Embedded value as at December 31, 2009	2,969	18.3	36.89

TEN-YEAR HISTORY

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
PROFITABILITY										
Net income										
Net income	218.3	74.8	249.2	231.3	134.6	159.2	140.3	103.5	106.6	100.8
Less: net income (loss) to participating policyholders	(1.3)	2.9	1.2	3.4	2.4	4.1	3.4	6.1	2.7	2.7
Net income to shareholders	219.6	71.9	248.0	227.9	132.2	155.1	136.9	97.4	103.9	98.1
Less: preferred shareholders dividends	13.8	5.8	5.8	4.9	---	0.1	0.3	0.7	0.7	0.7
Net income to common shareholders	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
Earnings per common share[4]										
Basic	$2.56	$0.82	$3.02	$2.77	$1.66	$1.96	$1.76	$1.29	$1.38	$1.30
Diluted	$2.55	$0.82	$2.99	$2.74	$1.65	$1.95	$1.74	$1.29	$1.38	$1.30
Return on common shareholders' equity	11.9%	4.0%	15.1%	15.7%	10.3%	13.6%	13.9%	11.8%	14.0%	15.0%
Net income (loss) to common shareholders by line of business										
Individual Insurance	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2	55.3	54.7
Individual Wealth Management	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9	24.9
Group Insurance	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3	11.8	2.9
Group Pensions	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1	15.2	14.9
Total	205.8	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										
Provision on investments	(2.6)	(3.6)	---	---	---	---	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	(0.1)	(10.8)	---	---	---	---	---	---	---	---
Decrease in value of non-bank-sponsored ABCP[5]	---	(10.6)	(7.3)	---	---	---	---	---	---	---
Provision for the Norshield funds[6]	---	---	---	---	(52.1)	---	---	---	---	---
Provision for an investment in Teleglobe[7]	---	---	---	---	---	---	---	(19.4)	---	---
Impact of stock market downturn[8]										
Increase (decrease) in income on UL policies	3.8	(9.8)	---	---	---	---	---	---	---	---
Higher (lower) than expected management fees	8.7	(23.9)	---	---	---	---	---	---	---	---
Higher (lower) than expected income on capital	0.8	(4.6)	---	---	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	(5.4)	7.6	0.6	---	---	---	---	---	---	---
Changes in assumptions and management actions	(0.8)	(138.2)	(0.7)	0.4	(1.5)	(2.6)	2.5	1.4	0.6	2.0
Restructuring charges[9]	---	---	---	(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[10]	---	---	---	---	---	---	---	---	(3.4)	(2.9)

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
SPECIFIED ITEMS (continued)										
Impact on earnings per common share										
Impact of credit										
Provision on investments	($0.04)	($0.04)	---	---	---	---	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	($0.14)	---	---	---	---	---	---	---	---
Decrease in value of non-bank-sponsored ABCP[5]	---	($0.13)	($0.09)	---	---	---	---	---	---	---
Provision for the Norshield funds[6]	---	---	---	---	($0.65)	---	---	---	---	---
Provision for an investment in Teleglobe[7]	---	---	---	---	---	---	---	($0.26)	---	---
Impact of stock market downturn[8]										
Increase (decrease) in income on UL policies	$0.05	($0.12)	---	---	---	---	---	---	---	---
Higher (lower) than expected management fees	$0.11	($0.30)	---	---	---	---	---	---	---	---
Higher (lower) than expected income on capital	$0.01	($0.05)	---	---	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	($0.07)	$0.09	$0.01	---	---	---	---	---	---	---
Changes in assumptions and management actions	($0.01)	($1.71)	($0.01)	$0.01	($0.02)	($0.03)	$0.03	$0.02	$0.01	$0.03
Restructuring charges[9]	---	---	---	($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[10]	---	---	---	---	---	---	---	---	($0.05)	($0.04)
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit (loss)										
Expected profit on in-force	197.4	200.4	184.5	172.5	156.0	146.6	126.7	108.0	95.9	87.0
Experience gain (loss)	17.4	(34.2)	(8.9)	2.6	5.7	0.1	9.7	(7.5)	(2.1)	4.5
Gain *(strain)* on sales	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)	(70.3)	(57.7)	(52.9)	(41.3)	(56.2)
Changes in assumptions and management actions	68.6	(175.6)	(1.6)	(1.7)	(1.5)	(0.5)	(4.3)	2.9	2.4	10.6
Total	194.4	(91.0)	91.0	70.7	77.3	75.9	74.4	50.5	54.9	45.9
Income on capital	51.3	41.5	57.2	50.6	41.4	36.5	28.2	17.9	22.1	19.7
Income taxes	(68.1)	17.8	(42.2)	(40.6)	(37.4)	(34.2)	(30.5)	(17.8)	(21.3)	(19.4)
Net income (loss) to shareholders, before other items	177.6	(31.7)	106.0	80.7	81.3	78.2	72.1	0.1	55.7	46.2
Less: preferred shareholders dividends	8.0	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.4	0.4
Net income (loss) to common shareholders, before other items	169.6	(31.7)	106.0	80.7	81.3	78.2	71.9	50.2	55.3	45.8
Other items[11]	(3.4)	4.8	0.3	5.1	(0.9)	(4.8)	0.9	0.0	0.0	8.9
Net income (loss) to common shareholders	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2	55.3	54.7

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Individual Wealth Management										
Operating profit										
Expected profit on in-force	59.2	117.9	106.0	92.9	55.8	46.7	41.9	42.1	45.3	39.8
Experience gain (loss)	(4.4)	(32.1)	6.1	9.4	13.6	2.5	(0.9)	(18.2)	(11.5)	0.4
Gain *(strain)* on sales	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)	(11.9)	(10.8)	(5.8)	(8.7)	(7.7)
Changes in assumptions and management actions	(16.9)	(1.9)	(0.9)	1.4	(1.6)	(1.9)	0.3	0.1	(0.8)	(3.2)
Total	32.4	80.2	106.6	98.3	59.5	35.4	30.5	18.2	25.1	32.5
Income on capital	8.4	5.9	5.4	4.8	11.7	14.6	12.1	6.9	8.1	9.5
Income taxes	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)	(15.7)	(13.1)	(6.9)	(11.4)	(12.2)
Net income to shareholders, before other items	29.1	62.5	77.8	76.9	49.0	34.3	29.5	18.2	21.8	29.8
Less: preferred shareholders dividends	5.8	5.8	5.8	4.9	0.0	0.0	0.1	0.1	0.1	0.1
Net income to common shareholders, before other items	23.3	56.7	72.0	72.0	49.0	34.3	29.4	18.1	20.9	26.5
Other items[11]	(0.4)	0.6	0.1	0.9	(50.4)	(1.0)	0.6	0.0	0.0	(1.6)
Net income (loss) to common shareholders	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9	24.9
Group Insurance										
Operating profit										
Expected profit on in-force	48.1	53.4	46.0	40.5	44.0	27.9	21.2	14.4	10.7	4.5
Experience gain (loss)	(10.4)	(8.3)	0.4	5.3	(0.3)	16.3	1.3	9.3	5.1	4.8
Gain *(strain)* on sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in assumptions and management actions	(0.9)	(1.0)	1.5	1.3	(1.1)	(1.3)	0.3	(0.4)	(0.8)	(4.4)
Total	36.8	44.1	47.9	47.1	42.6	42.9	22.8	23.3	15.8	9.3
Income on capital	12.6	9.0	15.1	13.2	10.1	8.0	5.4	3.7	4.0	1.7
Income taxes	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)	(17.0)	(9.3)	(8.6)	(7.1)	(2.5)
Net income to shareholders, before other items	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.4	12.7	8.5
Less: preferred shareholders dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Net income to common shareholders, before other items	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.3	11.8	4.0
Other items[11]	(1.0)	1.4	0.1	2.6	(0.6)	(0.3)	0.9	0.0	0.0	(1.1)
Net income to common shareholders	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3	11.8	2.9
Group Pensions										
Operating profit (loss)										
Expected profit on in-force	15.8	19.7	16.2	15.3	12.5	10.5	9.4	15.4	18.9	19.6
Experience gain (loss)	1.3	(17.8)	1.7	1.4	0.0	(0.8)	2.9	(8.2)	(3.3)	(5.0)
Gain *(strain)* on sales	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)	(0.2)	(0.9)	(0.9)	(1.4)	(1.6)
Changes in assumptions and management actions	(51.9)	(16.7)	0.0	(0.4)	2.1	0.0	(1.0)	(0.6)	0.0	(0.2)
Total	(35.9)	(17.5)	15.8	15.0	13.4	9.5	10.4	5.7	14.2	12.8
Income on capital	7.4	6.0	9.2	9.4	11.3	10.7	9.0	6.6	7.8	7.5
Income taxes	11.0	3.8	(6.6)	(6.8)	(6.5)	(5.5)	(4.7)	(2.1)	(6.7)	(5.1)
Net income (loss) to shareholders, before other items	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.2	15.3	15.2
Less: preferred shareholders dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Net income (loss) to common shareholders, before other items	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.1	15.2	15.1
Other items[11]	(0.6)	0.8	0.1	(0.1)	(0.1)	0.0	(0.7)	0.0	0.0	(0.2)
Net income (loss) to common shareholders	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1	15.2	14.9

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Total company										
Operating profit										
Expected profit on in-force	320.5	391.4	352.7	321.2	268.3	231.7	199.2	179.9	170.8	150.9
Experience gain (loss)	3.9	(92.4)	(0.7)	18.7	19.0	18.1	13.0	(24.6)	(11.8)	4.7
Gain *(strain)* on sales	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)	(82.4)	(69.4)	(59.6)	(51.4)	(65.5)
Changes in assumptions and management actions	(1.1)	(195.2)	(1.0)	0.6	(2.1)	(3.7)	(4.7)	2.0	0.8	2.8
Total	227.7	15.8	261.3	231.1	192.8	163.7	138.1	97.7	108.4	92.9
Income on capital										
Investment income	73.3	58.8	78.0	---	---	---	---	---	---	---
Realized gains (losses) on assets available for sale	6.4	3.6	8.9	---	---	---	---	---	---	---
Total	79.7	62.4	86.9	78.0	74.5	69.8	54.7	35.1	42.0	38.4
Income taxes	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)	(72.4)	(57.6)	(35.4)	(46.5)	(39.2)
Net income to shareholders, before other items	225.0	64.3	247.4	219.4	184.2	161.1	135.2	97.4	103.9	92.1
Less: preferred shareholders dividends	13.8	5.8	5.8	4.9	0.0	0.0	0.3	0.7	0.7	0.7
Net income to common shareholders, before other items	211.2	58.5	241.6	214.5	184.2	161.1	134.9	96.7	103.2	91.4
Other items[11]	(5.4)	7.6	0.6	8.5	(52.0)	(6.1)	1.7	0.0	0.0	6.0
Net income to common shareholders	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7	103.2	97.4
BUSINESS GROWTH										
Revenues										
Premiums										
General fund	2,599.7	2,620.1	2,463.7	2,209.0	1,981.2	1,870.9	1,724.7	1,580.5	1,504.2	1,545.5
Segregated funds	1,552.0	1,661.6	1,565.6	1,554.0	1,189.9	981.5	842.0	756.7	572.8	693.5
Total	4,151.7	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	587.6	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)	19.6	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	6.4	3.6	8.9	---	---	---	---	---	---	---
Variations in the market value of assets held for trading	691.8	(596.0)	125.9	---	---	---	---	---	---	---
Change in provision for losses	(3.1)	(5.2)	0.2	2.0	(76.3)	0.8	(0.1)	(28.9)	(2.2)	(2.2)
Total	1,302.3	(188.0)	578.8	860.0	690.9	696.9	677.3	450.2	542.3	599.2
Fees and other income	360.3	371.4	363.5	314.9	167.4	128.9	99.5	90.8	92.0	87.4
Total revenues	5,814.3	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 category										
Premiums	4,151.7	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
Deposits (mutual funds)	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---	---	---	---
Total	5,231.2	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
Premiums and deposits by line of business										
Individual Insurance	938.4	920.7	897.3	838.6	768.7	763.1	683.4	663.9	658.8	607.8
Individual Wealth Management	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8	658.7	590.7	529.1	613.8
Group Insurance	962.4	956.5	860.5	749.6	694.9	637.9	603.0	543.0	449.8	388.9
Group Pensions	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4	407.0	616.5
General Insurance	140.6	128.4	118.2	107.2	95.1	83.5	65.2	48.2	32.3	12.0
Total	5,231.2	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)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
BUSINESS GROWTH (continued)										
Distribution of premiums and deposits by region										
Atlantic provinces	4.6%	4.7%	5.8%	4.7%	3.6%	3.6%	3.4%	3.7%	4.9%	5.4%
Quebec	44.9%	42.8%	43.1%	43.3%	51.5%	50.1%	53.1%	54.9%	47.4%	43.7%
Ontario	29.4%	31.8%	30.9%	31.6%	26.3%	25.0%	23.7%	21.9%	21.8%	26.8%
Western provinces	19.5%	19.6%	19.1%	18.9%	16.7%	18.6%	17.2%	17.3%	23.9%	22.1%
Outside Canada	1.6%	1.1%	1.1%	1.5%	1.9%	2.7%	2.6%	2.2%	2.0%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Individual Insurance										
Sales[12]	147.1	146.9	159.0	153.6	141.3	139.9	128.7	133.3	145.0[13]	134.1[13]
Premiums	938.4	920.7	897.3	838.6	768.7	763.1	683.4	663.9	658.8	607.8
Individual Wealth Management										
Sales[12]										
General fund	404.3	345.5	334.4	289.2	242.4	237.5	227.9	198.7	147.4	163.9
Segregated funds	866.2	815.7	990.6	958.3	805.2	669.3	430.8	392.0	381.7	449.9
Mutual funds	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---	---	---	---
Total	2,350.0	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	476.4	322.9	578.7	607.6	547.4	332.7	117.5	152.1	199.0	264.6
Mutual funds	281.4	289.5	799.2	267.0	148.7	---	---	---	---	---
Total	757.8	612.4	1,377.9	874.6	696.1	332.7	117.5	152.1	199.0	264.6
Funds under management										
General fund	1,672.8	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	7,204.5	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	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5	94.1	---	---	---
Total	15,479.2	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[12]										
Employee Plans	75.0	92.9	72.0	70.8	52.3	55.7	53.3	92.4	59.1	37.4
Creditor Insurance	152.4	194.2	192.0	176.4	158.8	132.6	130.1	124.5	108.0	100.3
Special Markets Group (SMG)	113.2	112.9	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Premiums and premium equivalents										
Employee Plans	727.7	684.1	594.8	509.2	475.4	448.4	426.0	378.6	331.6	276.5
Creditor Insurance	121.5	159.5	161.3	147.8	132.1	109.8	105.5	98.7	85.9	84.6
Special Markets Group (SMG)	113.2	112.9	104.4	92.6	87.4	79.7	71.5	65.7	32.3	27.8
Total premiums	962.4	956.5	860.5	749.6	694.9	637.9	603.0	543.0	449.8	388.9
Premium equivalents	115.9	101.9	94.7	124.1	102.9	96.1	99.2	43.9	33.5	29.0
Total	1,078.3	1,058.4	955.2	873.7	797.8	734.0	702.2	586.9	483.3	417.9
Group Pensions										
Sales[12]										
Accumulation contracts										
General fund	33.9	18.1	20.9	29.2	25.8	49.1	35.3	40.7	82.0	309.8
Segregated funds	685.8	845.9	575.0	595.7	384.7	312.2	411.2	364.7	191.1	243.6
Total	719.7	864.0	595.9	624.9	410.5	361.3	446.5	405.4	273.1	553.4
Insured annuities (general fund)	120.1	250.9	232.4	195.2	154.3	99.8	109.9	86.0	133.9	63.1
Total	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4	407.0[13]	616.5[13]

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
BUSINESS GROWTH (continued)										
Group Pensions (continued)										
Funds under management										
Accumulation contracts										
General fund	173.2	144.8	147.0	142.4	150.4	158.8	162.5	153.7	147.5	203.2
Segregated funds	4,126.8	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	39.6	36.9	34.1	36.4	34.7	33.3	36.8	35.1	5.3	0.2
Total	4,339.6	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)	2,852.0	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	7,191.6	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
Assets under management / administration										
Assets under management										
General fund	17,626.5	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	11,450.3	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	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7	1,018.5	94.1	---	---	---
Other	563.3	596.7	630.6	501.3	785.9	872.0	---	---	---	---
Total	36,255.8	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	22,150.8	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	58,406.6	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	16,490.2	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 financial instrument category										
Available for sale	11.6%	10.0%	8.7%	---	---	---	---	---	---	---
Held for trading	53.9%	51.3%	58.6%	---	---	---	---	---	---	---
Loans and receivables	30.5%	34.2%	27.8%	---	---	---	---	---	---	---
Real estate	3.9%	4.4%	3.4%	---	---	---	---	---	---	---
Other	0.1%	0.1%	1.5%	---	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	---	---	---	---	---	---	---
Distribution of investments by asset category										
Bonds	57.1%	55.2%	57.2%	58.6%	58.9%	57.4%	55.7%	52.5%	48.9%	46.9%
Mortgages	20.6%	24.3%	20.5%	20.1%	21.6%	23.5%	25.1%	28.3%	31.0%	33.0%
Stocks	11.5%	9.3%	12.4%	11.9%	10.4%	10.2%	9.4%	8.1%	8.2%	8.6%
Real estate	3.9%	4.4%	3.4%	3.7%	4.0%	4.2%	4.3%	4.9%	5.0%	4.8%
Other	6.9%	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%	100.0%
Distribution of investments by region										
Atlantic provinces	4.2%	3.9%	4.1%	3.9%	4.8%	5.1%	4.6%	5.3%	4.4%	4.0%
Quebec	46.9%	48.6%	48.1%	48.0%	49.5%	49.6%	50.1%	50.5%	49.3%	49.8%
Ontario	21.5%	20.5%	20.6%	20.6%	20.3%	20.7%	20.5%	20.3%	20.5%	20.1%
Western provinces	18.1%	17.5%	16.8%	16.6%	16.9%	17.3%	17.9%	18.1%	18.5%	20.2%
Outside Canada	9.3%	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%	100.0%
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	16.7	14.0	20.7	95.2	96.8	47.6	60.5	60.4	39.8	35.7
Net impaired investments (excluding insured loans)										
Bonds	4.5	0.5	1.2	1.2	1.2	1.2	1.2	1.4	1.4	0.0
Mortgages	6.9	7.8	2.8	0.2	0.5	1.4	11.1	8.9	9.1	1.8
Real estate acquired to settle loans	1.6	0.5	7.7	6.5	5.9	5.9	7.5	9.0	13.6	19.6
Total	13.0	8.8	11.7	7.9	7.6	8.5	19.8	19.3	24.1	21.4

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
INVESTED ASSETS (continued)										
Impaired investments and provisions (continued)										
Provisions for losses										
At beginning of period	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7	14.3	14.1
Increase for the period	3.6	5.3	0.3	0.3	78.2	0.0	0.1	29.4	1.9	2.2
Decrease for the period	(5.1)	(7.3)	0.0	(2.2)	(28.1)	(1.6)	(0.5)	(4.0)	(0.5)	(2.0)
Impact of financial instrument as at January 1, 2007	---	---	(78.6)	---	---	---	---	---	---	---
Transfer of provisions to investments	---	(1.8)	---	---	---	---	---	---	---	---
At end of period	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7	14.3
Provisions for losses by type of investments										
Bonds	3.0	5.0	5.2	4.8	4.6	32.4	30.5	30.5	2.8	1.3
Mortgages	0.7	0.2	0.1	0.8	3.0	3.0	4.5	2.3	2.5	2.2
Real estate acquired to settle loans	0.0	0.0	3.7	3.7	3.7	3.7	3.8	4.0	6.1	6.4
Other	0.0	0.0	0.0	78.0	77.9	0.0	1.9	4.3	4.3	4.4
Total	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7	14.3
Net impaired investments as a % of total investments	0.08%	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	22.2%	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	9,409.5	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 financial instrument category										
Available for sale	16.9%	14.7%	11.8%	---	---	---	---	---	---	---
Held for trading	73.1%	74.7%	78.8%	---	---	---	---	---	---	---
Loans and receivables	10.0%	10.6%	9.4%	---	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	---	---	---	---	---	---	---
Distribution by credit rating										
Rating – AAA	11.30%	11.80%	13.70%	17.40%	12.28%	9.81%	11.30%	12.20%	12.43%	10.92%
Rating – AA	15.83%	18.24%	19.80%	17.93%	16.31%	17.09%	15.67%	14.98%	13.07%	14.78%
Rating – A	66.36%	63.06%	60.53%	58.25%	63.77%	65.64%	66.64%	65.04%	65.85%	66.86%
Rating – BBB	6.44%	6.67%	5.86%	6.11%	7.28%	7.22%	6.25%	7.67%	8.62%	7.21%
Rating – BB and lower	0.07%	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%	100.00%
Distribution by category of issuer										
Governments	63.3%	61.1%	59.7%	56.9%	60.4%	64.5%	59.2%	55.1%	52.4%	51.9%
Municipalities	1.3%	1.4%	1.8%	1.7%	1.6%	1.7%	1.8%	2.5%	1.2%	1.7%
Corporates – Public issues	20.8%	21.6%	23.4%	26.1%	25.1%	22.4%	26.0%	28.2%	32.9%	34.1%
Corporates – Private issues	14.6%	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%	100.0%
Other quality measures										
Delinquency rate	0.00%	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	3,405.0	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 financial instrument category										
Loans and receivables	100.0%	100.0%	100.0%	---	---	---	---	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
INVESTED ASSETS (continued)										
Mortgages (continued)										
Distribution by type of property										
Residential	19.0%	19.4%	21.6%	20.4%	16.3%	16.4%	17.1%	18.4%	18.7%	19.0%
Multi-residential	65.2%	66.5%	60.2%	59.5%	58.9%	59.5%	55.6%	52.5%	51.3%	49.7%
Non-residential	15.8%	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%	100.0%
Distribution by type of loan										
Insured	71.8%	71.3%	65.0%	60.2%	55.6%	52.8%	48.6%	45.3%	40.9%	39.3%
Conventional	28.2%	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%	100.0%
Other quality measures										
Delinquency rate										
Insured loans	0.21%	0.08%	0.10%	0.09%	0.50%	0.50%	0.75%	0.80%	0.27%	0.48%
Conventional loans	0.72%	0.72%	0.27%	0.02%	0.05%	0.13%	0.97%	0.69%	0.62%	0.08%
Total	0.36%	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	43.0%	20.7%	41.0%	88.0%	93.0%	81.0%	42.2%	49.0%	23.3%	80.4%
Delinquency rate, including real estate acquired to settle loans	0.40%	0.28%	0.55%	0.48%	0.69%	0.70%	1.31%	1.25%	1.21%	1.17%
Proportion of conventional restructured loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.03%	0.02%
Stocks										
Book value of the stock portfolio	1,896.4	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 by financial instrument category										
Available for sale	17.5%	19.2%	15.6%	---	---	---	---	---	---	---
Held for trading	82.5%	80.8%	84.4%	---	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	---	---	---	---	---	---	---
Distribution by category										
Common	13.5%	18.8%[14]	5.7%	5.0%	4.9%	4.1%	4.1%	6.1%	7.4%	4.6%
Preferred	8.8%	10.3%	8.1%	10.9%	12.8%	21.6%	24.8%	32.4%	29.8%	31.6%
Market indices	43.2%	26.0%	25.6%	23.6%	18.2%	12.0%	11.1%	15.3%	19.3%	13.6%
Investment fund units and other	34.5%	44.9%[14]	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%	100.0%
Real estate										
Book value of the real estate portfolio	649.0	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	823.5	814.6	623.7	530.5	509.9	482.9	446.4	455.6	451.8	416.1
Market value/book value	126.9%	129.4%	129.5%	117.4%	114.2%	108.6%	104.9%	104.5%	106.3%	106.1%
Occupancy rate	94.4%	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	95.8	83.4	78.3	73.1	77.7	97.5	---	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
CAPITALIZATION AND SOLVENCY										
Capital structure										
Debentures[15]	519.8	385.9	309.8	310.1	373.0	150.0	135.0	185.0	185.0	185.0
Other debt (IATS[16])[15]	---	---	---	---	---	150.0	150.0	---	---	---
Participating policyholders' account	25.7	27.0	24.1	23.1	19.7	17.3	13.2	59.5	53.4	50.7
Equity										
Common shares	545.7	541.0	513.1	507.7	510.6	458.1	438.3	382.0	382.0	379.2
Preferred shares	325.0	223.7	125.0	125.0	---	---	18.7	75.0	75.0	75.0
Contributed surplus	21.6	19.8	17.1	14.6	12.3	9.5	6.5	3.3	---	---
Retained earnings	1,254.8	1,127.7	1,148.3	971.3	845.4	751.7	627.5	470.2	397.6	316.9
Accumulated other comprehensive income	10.5	(54.3)	(3.8)	---	---	---	---	---	---	---
Currency translation account	---	---	---	(6.8)	(7.1)	(5.8)	(2.5)	7.5	10.2	7.4
Total	2,157.6	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	2,703.1	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)	1,961.9	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)	343.1	195.4	120.6	128.6	134.9	136.1	295.8	342.4	317.8	329.5
Total	2,305.0	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	1,107.2	967.1	934.6	809.9	704.5	624.0	583.7	556.5	534.3	503.4
Solvency ratio	208%	199%	193%	201%	188%	222%	221%	186%	187%	187%
Debt measures										
Debt[17]/capital structure	19.2%	17.0%	14.5%	15.9%	21.3%	19.6%	20.6%	15.6%	16.8%	18.2%
Debt[17] and preferred shares/capital structure	31.3%	26.8%	20.4%	22.4%	21.3%	19.6%	21.9%	22.0%	23.6%	25.6%
Coverage ratio (in number of times)[18]	6.3	3.9	12.2	12.1	11.0	13.4	9.6	8.7	---	---
MISCELLANEOUS INFORMATION										
Market data[4]										
Common shares										
Share price										
High	$32.70	$42.64	$43.75	$37.28	$29.82	$27.93	$22.08	$23.80	$23.50	$20.75
Low	$13.75	$19.50	$34.25	$29.14	$26.55	$21.01	$17.25	$16.00	$17.00	$7.80
Share price at end of period	$32.20	$23.31	$42.58	$36.14	$29.07	$27.50	$21.90	$19.75	$23.33	$20.33
Average share price	$24.63	$32.11	$38.28	$32.42	$28.49	$23.44	$18.69	$20.18	$21.16	$17.72
Number of common shares outstanding (in millions)	80.5	80.3	79.8	79.9	81.4	79.5	78.6	75.4	75.4	75.2
Weighted average number of common shares (in millions)										
Basic	80.3	80.2	80.1	80.5	79.6	79.2	77.6	75.1	74.9	75.1
Diluted	80.7	81.0	81.1	81.3	80.2	79.7	79.6	75.1	75.0	75.1
Dividends										
Dividends paid per common share	$0.98	$0.94	$0.76	$0.60	$0.50	$0.41	$0.35	$0.32	$0.30	$0.08
Dividend payout ratio	38%	115%	25%	22%	30%	21%	20%	25%	22%	6%
Company's worth										
Market capitalization	2,592.5	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	$22.77	$20.35	$20.98	$18.61	$16.72	$15.27	$13.61	$11.46	$10.49	$9.36
Embedded value	2,969	2,510	2,787	2,448	2,133	2,138	1,899	1,643	1,542	1,393
Embedded value per common share	$36.89	$31.26	$34.92	$30.64	$26.78	$26.90	$24.17	$21.89	$20.56	$18.54
General expenses	399.9	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)	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001	2000
MISCELLANEOUS INFORMATION (continued)										
Human resources										
Number of employees										
Life insurance companies	2,623	2,644	2,318	2,192	2,115	2,159	2,138	2,110	2,035	1,948
General insurance company	432	379	367	386	367	346	329	305	237	178
Other	423	404	262	241	264	121	36	19	9	8
Total	3,478	3,427	2,947	2,819	2,746	2,626	2,503	2,434	2,281	2,134
Number of Career representatives	1,688	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 Adoption of the new financial instruments accounting standards.

2 The 2003 data were reclassified to take into account a $49.7 million transfer from the participating policyholders' account to the retained earnings.

3 2002 data have been restated to reflect the change in accounting policies for the stock option plan.

4 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.

5 ABCP: Asset-backed commercial paper.

6 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.

7 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.

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

9 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.

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

11 Starting in 2007, other items are composed of gains or losses related to the asymmetric evolution of the fair value of debt instruments and the underlying assets.

12 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.

13 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.

14 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 common stocks. The company's risk profile is unchanged.

15 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 debentures in Industrial Alliance's capital structure.

16 IATS: Industrial Alliance Trust Securities.

17 Debt includes debentures and other debts.

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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

Yvon Charest
President and Chief Executive Officer
Quebec, February 8, 2010

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, 2009 and 2008 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 8, 2010

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, 2009 and 2008 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 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, 2009 and 2008 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 8, 2010

[1] Chartered Accountant Auditor permit no 11848

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2009	2008
	$	$
Revenues		
Premiums (Note 26)	4,152	4,282
Net investment income (Note 6)	1,302	(188)
Fees and other revenues	361	371
	5,815	4,465
Policy benefits and expenses		
Payments to policyholders and beneficiaries	1,928	1,950
Net transfer to segregated funds	1,299	1,347
Dividends, experience rating refunds and interest on amounts on deposit	56	62
Change in provisions for future policy benefits	1,194	53
	4,477	3,412
Commissions	528	545
Premium and other taxes	63	62
General expenses (Notes 7, 12 and 13)	400	358
Financing expenses (Note 18)	64	(4)
	5,532	4,373
Income before income taxes	283	92
Less: income taxes (Note 8)	64	17
Net income	219	75
Less: net income (loss) attributed to participating policyholders	(1)	3
Net income attributed to shareholders	220	72
Less: preferred share dividends	14	6
Net income available to common shareholders	206	66
Earnings per common share (in dollars) (Note 21)		
basic	2.56	0.82
diluted	2.55	0.82

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

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of dollars)	2009	2008
	$	$
Assets		
Invested assets (Note 10)		
Bonds	9,410	7,942
Mortgages	3,405	3,508
Stocks	1,896	1,340
Real estate	649	630
Policy loans	381	320
Cash and cash equivalents	382	259
Other invested assets	367	397
	16,490	14,396
Other assets (Note 12)	646	547
Intangible assets (Note 13)	375	357
Goodwill (Note 14)	116	115
Total general fund assets	17,627	15,415
Segregated funds net assets	11,450	8,924
Liabilities		
Policy liabilities (Note 15)		
Provisions for future policy benefits	13,392	11,853
Provisions for dividends to policyholders and experience rating refunds	60	56
Benefits payable and provision for unreported claims	139	156
Policyholders' amounts on deposit	212	185
	13,803	12,250
Other liabilities (Note 16)	772	648
Future income taxes (Note 8)	339	236
Net deferred gains (Note 17)	9	10
Debentures (Note 18)	520	386
Participating policyholders' account	26	27
	15,469	13,557
Equity		
Share capital (Note 20)	871	765
Contributed surplus	22	19
Retained earnings and accumulated other comprehensive income	1,265	1,074
	2,158	1,858
Total general fund liabilities and equity	17,627	15,415
Segregated funds liabilities	11,450	8,924

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)	2009	2008
	$	$
Balance at beginning	27	24
Net income for the year	2	6
Dividends	(3)	(3)
Net income (loss) attributed to participating policyholders	(1)	3
Balance at end	26	27

CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 31 (in millions of dollars)	2009	2008
	$	$
Balance at beginning	19	17
Current year contribution for the stock option plan (Note 22)	3	4
Stock options exercised	---	(2)
Balance at end	22	19

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

Years ended December 31 (in millions of dollars)	2009	2008
	$	$
Consolidated shareholders' retained earnings		
Balance at beginning	1,128	1,148
Net income attributed to shareholders	220	72
Common share dividends	(79)	(75)
Preferred share dividends	(14)	(6)
Issue cost of preferred shares, net of $1 of taxes ($2 in 2008)	(2)	(2)
Adjustment relating to the transaction with the entity subject to significant influence (Note 28)	2	---
Purchase and cancellation of common shares	---	(9)
Balance at end	1,255	1,128
Consolidated accumulated other comprehensive income (loss), net of income taxes		
Balance at beginning	(54)	(4)
Total other comprehensive income (loss)	64	(50)
Balance at end	10	(54)
Total	1,265	1,074
Balance at end of consolidated accumulated other comprehensive income (loss), net of income taxes:		
Unrealized gains (losses) on bonds available for sale	---	(37)
Unrealized gains (losses) on stocks available for sale	14	(16)
Comprehensive income from an entity subject to significant influence	---	(1)
Currency translation gains (losses) in a self-sustaining foreign operation, net of hedging activities	(4)	---
Consolidated accumulated other comprehensive income (loss), net of income taxes	10	(54)

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	2009	2008
	$	$
Net income	219	75
Other comprehensive income (loss), net of income taxes		
Unrealized gains (losses) arising during the year on available for sale financial assets:		
Bonds	43	(33)
Stocks	29	(26)
Reclassification of losses (gains) on available for sale financial assets included in the net income:		
Bonds	(6)	2
Stocks	1	(5)
Change in unrealized gains (losses) on available for sale financial assets	67	(62)
Comprehensive income from the entity subject to significant influence	1	(1)
Change in unrealized currency translation gains (losses) in a self-sustaining foreign operation	(13)	15
Hedges of net investment in a self-sustaining foreign operation	9	(2)
Total other comprehensive income (loss)	64	(50)
Comprehensive income	283	25
Comprehensive income attributed to shareholders	284	22
Comprehensive income attributed to participating policyholders	(1)	3
Income taxes included in other comprehensive income		
Unrealized gains (losses) arising during the year on available for sale financial assets:		
Bonds	(17)	14
Stocks	(8)	10
Reclassification of losses (gains) on available for sale financial assets included in the net income:		
Bonds	2	(1)
Stocks	---	2
Hedges of net investment in a self-sustaining foreign operation	(3)	---
Total of income taxes included in other comprehensive income	(26)	25

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

CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars)	2009	2008
	$	$
Cash flows from operating activities		
Net income	219	75
Items not affecting cash and cash equivalents:		
Change in provisions for future policy benefits	1,194	53
Share of results of the entity subject to significant influence	(2)	7
Amortization of realized and unrealized gains	(19)	(16)
Amortization of premiums and discounts	6	1
Change in fair value on designated held for trading financial assets and liabilities	(657)	584
Realized losses (gains) on available for sale financial assets	(7)	(4)
Future income taxes	83	(28)
Stock option plan	3	4
Amortization of deferred sales commissions, depreciation of fixed assets and depreciation of intangible assets	56	51
Provision for loss	3	5
Other	25	(7)
	904	725
Changes in other assets and liabilities	(13)	(49)
Cash flows from operating activities	891	676
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	2,804	2,673
Mortgages	391	374
Stocks	739	495
Real estate	2	21
Policy loans	116	97
Other invested assets	3	3
	4,055	3,663
Purchases of the following items:		
Bonds	(3,544)	(2,586)
Mortgages	(317)	(908)
Stocks	(901)	(499)
Real estate	(2)	(148)
Policy loans	(179)	(143)
Other invested assets	(76)	(262)
Acquisition of cash and cash equivalents (Note 4)	99	6
	(4,920)	(4,540)
Cash flows from investing activities	(865)	(877)
Cash flows from financing activities		
Issue of common shares	4	4
Redemption of common shares	---	(11)
Issue of preferred shares (less cost of issuance of $3 ($4 in 2008))	97	96
Increase in debentures	99	88
Dividends paid to preferred shareholders	(14)	(6)
Dividends paid to common shareholders	(79)	(75)
Decrease in mortgage debt	(2)	(1)
Decrease in long-term debt	---	(2)
Cash flows from financing activities	105	93
Foreign currency gain (loss) on cash and cash equivalents	(8)	5
Increase (decrease) in cash and cash equivalents	123	(103)
Cash and cash equivalents at beginning	259	362
Cash and cash equivalents at end	382	259
Supplementary information:		
Cash	29	(4)
Cash equivalents	353	263
Total cash and cash equivalents	382	259
Interest paid	29	23
Income taxes paid, net of refunds	(9)	69

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)	2009	2008
	$	$
Assets		
Bonds	3,357	2,745
Stocks	3,116	2,297
Fund units	4,373	3,209
Cash, short-term investments and other invested assets	594	655
Other assets	62	50
	11,502	8,956
Liabilities		
Accounts payable and accrued expenses	52	32
Net assets	11,450	8,924

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	2009	2008
	$	$
Balance at beginning	8,924	10,211
Additions:		
Amounts received from policyholders	2,216	1,792
Interest and dividends	322	369
Net realized gains (losses)	20	(108)
Net increase (decrease) in fair value	1,609	(2,062)
	13,091	10,202
Deductions:		
Amounts withdrawn by policyholders	1,468	1,097
Operating expenses	173	181
	1,641	1,278
Balance at end	11,450	8,924

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (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 (MD Life), 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 consolidated where the company is considered to be the primary beneficiary. The VIEs 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 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 with the subsidiaries have been eliminated.

Classification of Financial Instruments

The Company has chosen to designate its assets matching the provisions for future policy benefits held for trading with the exception of mortgages, stocks, and bonds that are not quoted on an active market. The liabilities related to policies are calculated according to the Canadian Asset Liability Method (CALM) and 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 directly 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 and are carried at cost.

Regular-way Purchases and Sales of Financial Instruments

For financial assets acquired or disposed of a regular-way contract, the Company applies 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 financial instruments classified as designated held for trading and in other comprehensive income for the financial assets classified as available for sale. Considering that no fair value is accounted for the financial 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, 2009 and 2008 (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 instruments classified as designated held for trading are recorded in income as incurred. Transaction costs related to financial assets classified as loans and receivables and financial liabilities classified as financial liabilities at amortized cost 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. Fair value is also based on valuation models using unobservable inputs that are supported by little or no market activity.

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 could be reversed when the bond's fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Following impairment loss recognition, these bonds 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. The Company considers as objective evidence of depreciation the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. When there is evidence of depreciation on bonds classified as loans and receivables, a provision for losses is recorded in order to adjust the book value according to the amount recoverable. This provision is immediately recorded in income. 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 on mortgage loans, a provision for losses is recorded in order to adjust the book value according to the amount recoverable. This provision is immediately recorded in income. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Stocks (continued)

Available for sale: (continued)

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

Stocks classified as available for sale are tested for impairment and when there is evidence of impairment, and the decline in value is considered other than temporary, the loss accounted in the accumulated other comprehensive income is reclassified to income. Once an impairment loss is recorded in income, it is not reversed. Following impairment loss recognition, these stocks 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 carrying 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 property held for investment is appraised every 3 years. The Company appraises its real estate held for investment at a minimum annual rate of 27%.

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 (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 foreclosure date. When the fair value of a property is less than the carrying value of underlying loans at 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, Treasury bills and 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, cash in trust and leases. Notes receivable are classified as loans and receivables and accounted at the amortized cost using the effective interest rate. Cash in trust is 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 foreign currency, interest rates, stock market variations and credit risk associated with certain assets and liabilities.

The Company uses hedge accounting to reduce its exposure to currency risk. The Company has designated derivative financial instruments as hedging items of a net investment in a self-sustaining foreign operation and as hedging items of currency risk related to financial assets for accounting purposes. Hedge accounting is used with respect to certain derivatives to reduce the volatility of its results. The hedging relationships for accounting purposes are documented when they are implemented and their efficiency is evaluated each quarter. All derivative financial instruments, including those designated as hedging items for accounting purposes, are posted in the balance sheet at their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Derivative Financial Instruments (continued)

Forward contracts are designated as hedging items of a net investment in a self-sustaining foreign operation. Variation in fair value of derivative financial instruments is accounted in hedges of a self-sustaining foreign operation in the comprehensive income statements. This amount reported in the comprehensive income statements is net of taxes. Variation of currency change of the net investment in a self-sustaining foreign operation is accounted in change in unrealized currency translation gains (losses) in a self-sustaining foreign operation in the comprehensive income statements. Any ineffectiveness is accounted in net investment income in the income statements. Gains or losses on the hedge item constituting the efficient portion of 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 a self-sustaining foreign operation is reduced by an operation on the equity, a dilution or sale of the foreign operation in whole or in part.

Forward contracts are designated as hedging items of currency risk related to financial assets classified as available for sale. Variations in fair value of derivative financial instruments are reported in net investment income. Hedge accounting is used to account in the income statements variations in fair value of the derivative financial instruments considered as a hedging item against variations of exchange rate of a hedged item. Variations in fair value related to variations in the market price of a hedged item and variations of currency change of this fair value continue to be reported in the comprehensive income. Any ineffectiveness is accounted in the net investment income.

The Company also uses currency forward contracts as part of its program to match its assets to its policy liabilities. Realized and unrealized gains and losses on these derivative financial instruments are accounted in net investment income.

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 notional amount on which the payments are based. 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 foreign exchange risk exposure with respect to certain investments or commitments denominated in foreign currency. Currency gains and losses resulting from these swaps are offset by corresponding currency gains and losses on matched items and are accounted in net investment income.

The Company uses credit swap contracts as part of its management of the credit risk exposure with respect to certain investments. Realized and unrealized gains and losses on these derivative financial instruments are accounted in net investment income.

The Company also use options as part of its program to match its assets to its policy liabilities and as part of its management of risk exposure with respect to certain investments. Realized and unrealized gains and losses on these derivative financial instruments are accounted in net investment income.

Fair value of derivative financial instruments is included with other assets and other liabilities.

Embedded Derivative Financial Instruments

For embedded derivatives, changes in fair value of derivative financial instruments 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 classified as loans and receivables, 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, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Other Assets
The financial assets included in other assets are classified as loans and receivables, except for the derivative financial instruments that are classified as held for trading.

Deferred Sales Commissions
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
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 in relation with the premium revenue recognition. Deferred acquisition costs arising on segregated funds are calculated and included in the provisions for future policy benefits.

Capital Assets
Capital assets, consisting mainly of systems hardware and operations software, leasehold improvements to real estate, office furniture and equipment are recorded at cost less accumulated amortization. Capital assets except leasehold improvements are depreciated under the straight-line method over their estimated useful lives, which range from 3 to 10 years, or declining balance method using rates between 20% and 30%. Leasehold improvements are depreciated under the straight-line method over 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.

Intangible Assets
Indefinite-life unamortized 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 unamortized intangible assets exceed their fair value, the Company considers an impairment loss and a depreciation expense is recognized immediately. Impairment losses cannot be reversed even if the fair value increases in the future.

Amortized intangible assets with finite life are depreciated under the straight-line method over their estimated useful lives, which range from 5 to 20 years. Amortized intangible assets with finite life are assessed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Amortized intangible assets with finite life are principally software applications.

Software applications have a useful life which ranges from 2 to 8 years. Therefore, software applications in development are unamortized because they are still not being used.

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 representing the excess 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.

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, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Other Financial Liabilities
The other financial liabilities are classified as financial liabilities at amortized cost, except for the derivative financial instruments that are classified as held for trading.

Income Taxes
The Company uses the liability method of tax allocation to record income taxes. According to this method, the income tax expense includes current taxes and 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 applicable to the dates 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.

Debentures
The Company has chosen to classify certain debentures as designated held for trading and the others as financial liabilities at amortized cost. The debentures classified as designated held for trading are measured at fair value with gains and losses presented as a financing expense. The debentures classified as financial liabilities at amortized cost are measured at amortized cost using the effective interest rate.

The interest paid for debentures classified as designated held for trading and the interest calculated according to the effective interest rate method for debentures classified as financial liabilities at amortized cost 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 average rate of the period. Gains and losses on foreign currency transactions in a self-sustaining foreign operation as well as hedge results of some of these investments, net of income taxes, are accounted in the other comprehensive income.

The other transactions carried out by the Company in foreign currencies are translated at the rate in effect when each transaction related to revenues and expenses takes place. Items in the balance sheet are translated at the period-end exchange rate.

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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

2 › Accounting Policies (continued)

Employee Future Benefits (continued)

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.

3 › Change in Accounting Policies

Impact of the Change in Accounting Policies

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted Section 3064, Goodwill and Intangible Assets, published by the Canadian Institute of Chartered Accountants (CICA). This section replaces Section 3062 and 3450 Goodwill and Intangible Assets and Research and Development Costs. Section 3064 clarifies the criteria for accounting for and measuring intangible assets, including intangible assets generated internally. This section specifies that costs can only be deferred when they are related to an item that corresponds to the definition of an asset. As a result, start-up costs must be expensed as they are incurred.

The adoption of this standard doesn't result in any modification in the recognition of the Company's goodwill and intangible assets. However, software applications must be presented in the intangible assets. As at December 31, 2009, the Company reclassified these software applications with a net accounting value of $27 ($25 in 2008) from other assets to intangible assets.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee (EIC) published EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under this EIC, the Company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The adoption of this abstract had no impact on the Company.

Financial instruments — Disclosure

In June 2009, the CICA modified Section 3862, Financial Instruments — Disclosure, to improve the disclosure of fair value measurements, particularly with respect to the relative reliability of the data on which these measurements are based, and the liquidity risk related to financial instruments.

All financial instruments evaluated at the fair value must be classified according to a hierarchy containing three levels:

- Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities.
- Level 2 – Valuation model based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Valuation model based on significant unobservable inputs that are supported by little or no market activity.

Financial Instruments — Recognition and Measurement

In July 2009, the CICA modified Section 3855, Financial Instruments – Recognition and Measurement, in order to adopt the definition of loans and receivables and the provisions related to reclassifications and reversals in IAS 39, International Financial Reporting Standards (IFRS), Financial Instruments – Recognition and Measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies (continued)

Impact of the Change in Accounting Policies (continued)

Financial Instruments — Recognition and Measurement (continued)
Debt instruments not quoted on an active market can be classified as loans and receivables and their impairment must be determined according to the loss suffered on the loan as currently provided in Section 3025, Impaired Loans. At the same time, section 3855 has been amended to require that financial instruments classified as loans and receivables that an entity intends to sell immediately or in the near term be classified as held for trading, and that loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, be classified as available for sale.

These modifications allow for the reclassification of financial assets classified as designated held for trading and available for sale to financial assets classified as loans and receivables, and indicate the circumstances in which these reclassifications are allowed and the way to recognize them. Section 3855 was also amended to provide an indication of the re-examination of embedded derivatives required on the reclassification of financial assets.

These modifications also allow for reversals of impairment for an available for sale debt security when the fair value increases during a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.

The adoption of these amendments has no impact on the Company.

Future Changes in Accounting

Financial Instruments — Recognition and Measurement
In April 2009, in section 3855, Financial Instruments — Recognition and Measurement, the CICA modified the conditions for determining when a prepayment option embedded in a debt host instrument is closely related to the host. Section 3855, has also been amended to clarify the effective interest method of a financial asset subsequent to the recognition of an impairment loss. The modifications will apply to the interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Company is currently evaluating the impact of the modifications to this standard on the consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
In January 2009, the CICA published three new sections: Section 1582, Business Combinations, which will replace section 1581 of the same name, Section 1601 Consolidated Financial Statements and Section 1602 Non-Controlling Interests. The application of these sections will take effect on January 1, 2011. Sections 1582 and 1602 are converging towards IFRS 3, Business Combinations, and the provisions of IAS 27, Consolidated and Separate Financial Statements, concerning non-controlling interests. Earlier adoption is allowed under the condition that sections 1601 and 1602 be simultaneously applied to section 1582. The Company is currently evaluating the impact of adopting these new standards on its consolidated financial statements.

Business Combinations
When the Company obtains control of an entity, on the acquisition date it becomes responsible for all assets, liabilities and operations of the acquired company, regardless of its level of ownership. The acquirer measures the fair value of the acquired entity as a whole. Transaction costs are accounted for directly in the income statement in periods during which costs are incurred and services are received. The standard provides for a measurement period after the acquisition date during which the acquirer may adjust any provisional amounts that were recognized at the acquisition date. This period cannot exceed one year after the acquisition date.

Consolidated Financial Statements
Section 1601 provides indications for the preparation of consolidated financial statements after the acquisition date and certain aspects of consolidation on the acquisition date.

Non-Controlling Interests
Section 1602 provides indications on the accounting and presentation of non-controlling interests following a business combination. Non-controlling interests will be accounted for as an item of the equity. This standard will also affect the presentation of the income statement given that the share of results of the non-controlling interests will no longer be deducted from the income statement, but will be subject to a distinct presentation that allocates the result between the non-controlling interests and the controlling interests.

In August 2009, the CICA modified sections 1625 and 3251, respectively Comprehensive Revaluation of Assets and Liabilities, and Equity, to reflect the information provided in sections 1582, 1601 and 1602. The modifications of sections 1625 and 3251 apply to years beginning after January 1, 2011. Early adoption is permitted under the condition that sections 1582 and 1602 are also applied. The Company is currently evaluating the impact of the modifications to this standard on the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

3 › Change in Accounting Policies (continued)

Future Changes in Accounting (continued)

International Financial Reporting Standards (IFRS)
In 2008, the Accounting Standards Board (AcSB) published an exposure draft and confirmed that all publicly accountable entities will have to adopt IFRS for the accounting and presentation of financial information. These standards will replace current GAAP and will take effect for years beginning on or after January 1, 2011. Consequently, the Company will adopt IFRS on January 1, 2011 and will produce its first financial statements in IFRS in the first quarter of 2011, including comparative data. The Company is currently evaluating the future impact of these new standards on its commercial operations, financial information systems and financial statements.

4 › Acquisitions and Disposition of Businesses

Acquisitions

Individual Wealth Management

On December 7, 2009, IA Clarington Investments Inc., one of the Company's subsidiaries which specializes in mutual funds management, acquired certain assets related to the socially responsible investing mutual fund business of Inhance Investment Management Inc. (Inhance), a wholly owned subsidiary of Vancouver City Savings Credit Union (Vancity), for a cash consideration of $2 and transaction costs of $1. Preliminary goodwill related to this transaction is $3.

On October 31, 2008, IA Clarington Investments Inc., also 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.

During 2008, Investia Financial Services Inc., a subsidiary of the Company, 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 managing agency, a mutual fund broker, a financial services firm and an insurance brokerage firm, for a cash payment of $13. On December 31, 2008, the subsidiary also acquired the financial planning, mutual fund dealer and life insurance sales operations of DundeeWealth Inc. in the province of Quebec, for a cash consideration of $12. Preliminary goodwill related to these transactions is respectively $11 and $14.

Individual life and health insurance

On December 7, 2009, IA American Life Insurance Company, a subsidiary of the Company, purchased 100% of common shares of World Service Life Insurance Company, a life insurance company in Colorado, for a cash consideration of US$4. On December 30, 2009, the subsidiary also acquired the life insurance portfolio of Freedom Life Insurance Company of America (Freedom) for a cash consideration of US$10. The total payments for these transactions represent $15. Preliminary goodwill related to these transactions is less than $1.

On December 31, 2009, the Company acquired the individual life insurance portfolio of MD Life for a cash consideration of $9. The preliminary goodwill related to this transaction is $9.

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 $1 of transaction fees. Preliminary goodwill related to this transaction is $49.

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. The 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 with the exception of goodwill relating to acquisitions of Inhance and MD Life. The results of these acquired companies were recognized in the Company's results on the acquisition date.

Goodwill

The Company has 12 months following the acquisition date to complete the allocation of the acquisition price. Once the analysis is finalized, the allocation of the preliminary purchase price and its distribution by activity sector were adjusted. The allocation of preliminary goodwill between intangible assets and goodwill is presented in Note 13 Intangible Assets and Note 14 Goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

4 › Acquisitions and Disposition of Businesses (continued)

Acquisitions (continued)

The assets acquired and liabilities assumed are summarized as follows:

	2009		2008	
	Individual Wealth Management $	Individual life and health Insurance $	Individual Wealth Management $	Individual life and health Insurance $
Assets acquired				
Invested assets				
Cash and cash equivalents	---	99	4	2
Bonds	---	249	---	73
Stocks	---	75	---	28
Mortgages	---	13	---	---
Real Estate	---	---	---	3
Policy loans	---	3	---	---
	---	439	4	106
Other assets	---	2	8	20
	---	441	12	126
Liabilities assumed				
Policy liabilities				
Provisions for future policy benefits	---	420	---	51
Payments to policyholders and provisions for unreported claims	---	---	---	4
Amounts of contracts on deposit	---	2	---	---
	---	422	---	55
Other liabilities (including restructuring charges)	---	4	16	30
Debentures	---	---	---	12
	---	426	16	97
Net assets acquired	---	15	(4)	29
Preliminary goodwill	3	9	29	52
	3	24	25	81
Transaction amount	2	24	24	80
Transaction fees	1	---	1	1
Purchase price	3	24	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. The transaction was completed on January 18, 2008.

The assets sold and liabilities assumed by purchaser are 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, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

5 › Restructuring Costs

On acquisition of entities, the Company established plans to restructure and consolidate business operations, locations and back-office systems. These costs were accounted for as part of the purchase prices. None of the acquisitions in 2009 led to restructuring charges.

During the current year, the Company re-evaluated the costs for these plans, which decreased the total anticipated costs from $28 to $27.

	Accrued on acquisition					
	Expected costs $	Cumulative amounts incurred as at December 31, 2008 $	Expected cost adjustments in 2009 $	Amounts incurred in 2009 $	Cumulative amounts incurred to date $	Balance as at December 31, 2009 $
Termination of contracts	12	9	(2)	1	10	---
Conversion of systems, integration and other	16	14	1	3	17	---
Cost of restructuring operations	28	23	(1)	4	27	---

The balance of restructuring costs is presented in accounts payable in Note 16 "Other liabilities".

6 › Net Investment Income

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

	2009					
	Held for trading $	Designated Held for trading $	Available for sale $	Loans and receivables $	Other $	Total $
Bonds						
Interest	---	144	52	57	---	253
Change in fair value	---	400	---	---	---	400
Change in provisions for loss	---	---	---	(2)	---	(2)
Gains (losses) realized	---	---	8	3	---	11
Mortgages						
Interest	---	---	---	182	---	182
Change in provisions for loss	---	---	---	(1)	---	(1)
Gains (losses) realized	---	---	---	3	---	3
Stocks						
Dividends	---	22	10	---	---	32
Change in fair value	---	292	---	---	---	292
Gains (losses) realized	---	---	(1)	---	---	(1)
Real estate						
Rental income (net of $61 of operating expenses)	---	---	---	---	39	39
Amortization of realized gains (losses)	---	---	---	---	1	1
Amortization of unrealized gains (losses)	---	---	---	---	18	18
Cash and cash equivalents						
Interest	4	---	---	---	---	4
Derivative income	53	---	---	---	---	53
Entity subject to significant influence	---	---	---	---	2	2
Other	---	---	---	31	---	31
	57	858	69	273	60	1,317
Investment expenses	---	---	---	---	(15)	(15)
Total	57	858	69	273	45	1,302

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

6 › Net Investment Income (continued)

	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 (losses) realized	---	---	---	3	---	3
Stocks						
Dividends	---	18	6	---	---	24
Change in fair value	---	(441)	---	---	---	(441)
Gains (losses) realized	---	---	7	---	---	7
Real estate						
Rental income (net of $58 of operating expenses)	---	---	---	---	34	34
Amortization of realized gains (losses)	---	---	---	---	1	1
Amortization of unrealized gains (losses)	---	---	---	---	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)

7 › Government Assistance

The Company has qualified for the major investment project of the Quebec government, for which government assistance could be available until 2010. The program calls for annual eligibility certification by the Quebec government on a prospective basis. The Company accounted for government assistance, in reduction of general expenses for, $12 ($9 after tax) in 2009 ($11 in 2008 ($8 after tax)), based upon receipt of formal confirmation in 2009 and 2008 from the Quebec government.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

8 › Income Taxes

Income taxes reflect an effective tax rate that is lower than the federal and provincial combined tax rate due to the following items:

	2009		2008	
	$	%	$	%
Income before income taxes	283	---	92	---
Provision for income tax at statutory rates	81	28	31	34
Non-taxable income	(2)	(1)	(15)	(17)
Adjustments of prior years	(1)	---	---	---
Minimum tax to recover	(1)	---	---	---
Change in tax rate	(13)	(4)	1	1
Income taxes and effective income tax rates	64	23	17	18

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

	2009	2008
	$	$
Current income taxes	(19)	45
Future income taxes	83	(28)
Total	64	17

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

	2009	2008
	$	$
Future income tax liabilities		
Policy liabilities	342	288
Real estate	75	51
Other	(78)	(103)
Total	339	236

9 › 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 53 and 54.

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 commitments 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

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

a) Risk Management Principles and Responsibilities (continued)

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 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 the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization, which consists in using fixed-income securities to immunize a liability against interest rate variations. 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.

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, 2009, the Company was not exposed to any material foreign currency risk.

The Company also uses hedge accounting to protect itself against currency risk. The details of significant items follow.

Forward contracts, designated as hedging items of net investment in a self-sustaining foreign operation, have a nominal value of US$71 (US$30 in 2008), a fair value lower than $1 ($(2) in 2008) and maturities of less than 1 year. The fair value is accounted in the other comprehensive income as is the currency translation of the net investment in a self-sustaining foreign operation.

Forward contracts, designated as hedging items of currency risk related to financial assets designated available for sale, have a nominal value of US$10 (US$8 in 2008), a fair value lower than $1 (lower than $1 in 2008) and maturities of less than 1 year. The fair value is accounted in the net investment income as well as the currency variation of hedged financial assets.

The counterparties related to the transactions involving hedge accounting have a credit rating of AA. For the years ended December 31, 2009 and 2008, the Company has not observed any inefficiency of the hedge.

More information about the Company's 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 53 to 58.

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, 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 page 58.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

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

a) Risk Management Principles and Responsibilities (continued)

Credit Risk (continued)

The Company's credit 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. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. 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.

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. The Company retains primary responsibility to its policyholders and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. More information about the Company's 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 55.

Maximal Credit Risk

The maximal credit risk associated with financial instruments corresponds to the carrying value of financial assets net of provision for losses. Consequently, the carrying value recorded on the balance sheet for bonds, mortgages, policy loans, cash and cash equivalents and other invested assets, except for the entity subject to significant influence, correspond to the maximal credit risk for the Company. Also, the carrying value recorded in other assets (Note 12) for investment income due and receivable, derivative financial instruments and accounts receivable and amounts due represent the maximal credit risk for the Company.

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.

Maturity Dates of Financial Liabilities

	2009				
	Due in 1 year or less $	Due after 1 year through 3 years $	Due after 4 year through 5 years $	Due after 5 years $	Total $
Other policy liabilities	26	4	1	---	31
Mortgage debt	1	28	---	---	29
Derivative financial instruments	1	3	---	(2)	2
Amounts on deposit related to products other than insurance	138	13	3	---	154
Other financial liabilities	356	1	1	1	359
Debentures	---	---	---	520	520
Total	522	49	5	519	1,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

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

a) Risk Management Principles and Responsibilities (continued)

Liquidity Risk (continued)

Maturity Dates of Financial Liabilities (continued)

	2008				
	Due in 1 year or less $	Due after 1 year through 3 years $	Due after 4 year through 5 years $	Due after 5 years $	Total $
Other policy liabilities	27	3	---	---	30
Mortgage debt	2	3	26	---	31
Derivative financial instruments	(5)	11	5	(1)	10
Amounts on deposit related to products other than insurance	107	10	3	---	120
Other financial liabilities	297	---	1	1	299
Debentures	---	---	---	386	386
Total	428	27	35	386	876

Other financial liabilities include taxes payable, accounts payable and amounts due to reinsurers as presented in other liabilities (Note 16).

Annual interest payments on mortgage debt will amount to $2 for 2010 and 2011 and $1 for 2012. Annual interest payment on debentures is $31 for the next 5 years.

Information on off balance sheet commitments is presented in note 27, Guarantees, Commitments and Contingencies.

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 pages 58 and 59.

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 57 and 58.

Permanent decline in fair value

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 declines in fair value are on financial assets classified as available for sale, they were reclassified from the accumulated other comprehensive income, net of income taxes to the net investment income.

	2009	2008
	Available for sale	
	$	$
Bonds	1	7
Stocks	---	1
	1	8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10 › Invested Assets

a) Carrying Value and Fair Value

The following tables provide details on the carrying value and fair value of the Company's invested assets.

More detailed disclosure on valuation models and assumptions used to determine fair value is presented in Note 11, Fair Value of Financial Instruments.

	2009						
	Held for trading	Designated Held for trading	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$	$
Bonds							
Governments	---	4,875	1,025	59	---	5,959	
Municipalities	---	103	15	3	---	121	
Corporate and other	---	1,902	550	878	---	3,330	
	---	6,880	1,590	940	---	9,410	9,410
Mortgages							
Insured							
Residential	---	---	---	573	---	573	
Multi-residential	---	---	---	1,833	---	1,833	
Non-residential	---	---	---	39	---	39	
	---	---	---	2,445	---	2,445	
Conventional							
Residential	---	---	---	73	---	73	
Multi-residential	---	---	---	389	---	389	
Non-residential	---	---	---	498	---	498	
	---	---	---	960	---	960	
	---	---	---	3,405	---	3,405	3,456
Stocks							
Common stocks	---	199	56	---	---	255	
Preferred stocks	---	1	165	---	---	166	
Stock indexes	---	730	89	---	---	819	
Investment fund units	---	635	21	---	---	656	
	---	1,565	331	---	---	1,896	1,896
Real estate							
Held for investment	---	---	---	---	647	647	
Held for resale	---	---	---	---	2	2	
	---	---	---	---	649	649	823
Policy loans	---	---	---	381	---	381	381
Cash and cash equivalents	382	---	---	---	---	382	382
Other invested assets	49	---	---	296	22	367	367
Total	431	8,445	1,921	5,022	671	16,490	16,715

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

	2008						
	Held for trading	Designated Held for trading	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$	$
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	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	3,584
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	1,340
Real estate							
Held for investment	---	---	---	---	628	628	
Held for resale	---	---	---	---	2	2	
	---	---	---	---	630	630	815
Policy loans	---	---	---	320	---	320	320
Cash and cash equivalents	259	---	---	---	---	259	259
Other invested assets	130	---	---	249	18	397	397
Total	389	7,009	1,429	4,921	648	14,396	14,657

Other Invested Assets

	2009	2008
	$	$
Entity subject to significant influence	22	18
Cash in trust	49	65
Notes receivable	277	249
Lease contract	19	---
Non-bank sponsored asset-backed commercial paper	---	65
Total	367	397

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › 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 following tables provide information about concentration risk and credit risk of the Company.

Bonds by sectors of activity

	2009			
	Designated Held for trading $	Available for sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	956	336	203	1,495
Asset backed securities	268	107	23	398
Utilities and energy	299	45	336	680
Industrial products	213	13	116	342
Consumer cyclical and non-cyclical	83	31	55	169
Health	19	1	137	157
Other	64	17	8	89
	1,902	550	878	3,330

	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, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Bonds by investment grade

	2009	2008
	Carrying value	
	$	$
AAA	1,063	937
AA	1,490	1,448
A	6,244	5,009
BBB	607	530
BB and lower	6	18
Total	9,410	7,942

The investment grades of bonds take into account the characteristics of issuers of derivative financial instruments (Note 10 section d Derivative Financial Instruments – credit contracts) matching certain securities held, thus reducing the credit risk.

The Company prepares an evaluation of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of $738 ($750 in 2008).

Mortgages by region and type

2009	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgage loans						
Residential	1	536	33	3	---	573
Multi-residential	46	924	340	523	---	1,833
Non-residential	1	2	8	28	---	39
	48	1,462	381	554	---	2,445
Conventional mortgage loans						
Residential	---	69	3	1	---	73
Multi-residential	---	51	19	111	208	389
Non-residential	31	170	96	176	25	498
	31	290	118	288	233	960
Total	79	1,752	499	842	233	3,405

2008	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgage loans						
Residential	---	560	35	1	---	596
Multi-residential	47	949	350	521	---	1,867
Non-residential	1	2	8	28	---	39
	48	1,511	393	550	---	2,502
Conventional mortgage loans						
Residential	---	77	5	2	---	84
Multi-residential	---	70	24	125	249	468
Non-residential	33	117	111	165	28	454
	33	264	140	292	277	1,006
Total	81	1,775	533	842	277	3,508

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Real estate by type of property

	2009	2008
	Carrying value	
	$	$
Residential and multi-residential	11	11
Office	519	504
Retail	101	97
Industrial	13	12
Land and other	5	6
Total	649	630

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.

	2009			
	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	9	5	18
Conventional mortgage loans	1	13	---	14
Total	5	22	5	32

	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	---	---	6
Total	10	7	2	19

As at December 31, 2009 and 2008, the Company did not hold any past due bonds.

Allowances for losses

	2009				
	Bonds $	Mortgages $	Real estate held for sale $	Other $	Total $
Balance at beginning	5	---	---	---	5
Increase of allowances for losses	3	1	---	---	4
Decrease of allowances for losses	(5)	---	---	---	(5)
Balance at end	3	1	---	---	4

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Impaired Investments

	2009		
	Gross $	Provisions $	Total $
Bonds	7	3	4
Mortgage loans	8	1	7
Real estate held for resale	2	---	2
Balance at end	17	4	13

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

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.

	2009		2008	
	Bonds	Mortgages	Bonds	Mortgages
	Carrying value		Carrying value	
	$	$	$	$
Due in 1 year or less	530	274	738	296
Due after 1 year through 5 years	1,922	1,443	1,391	1,471
Due after 5 years through 10 years	1,680	859	1,418	772
Due after 10 years	5,278	829	4,395	969
Total	9,410	3,405	7,942	3,508

The effective yield is between 0.06% and 11.77% (0.15% and 18.49% in 2008) for bonds, between 1.25% and 12.25% (2.55% and 15.00% in 2008) for mortgages and between 3.00% and 10.00% (4.65% and 10.00% in 2008) for policy loans.

d) Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuation in interest rates, currency exchange rates and fair values of invested assets.

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 derivative financial instruments 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 financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2009, all counterparties have a credit rating of A and higher (AA low and higher as at December 31, 2008).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

d) Derivative Financial Instruments (continued)

The following tables summarize the Company's derivative financial instruments portfolio, the fair value and related credit exposure.

	2009			
	Notional amount $	Maximum credit risk $	Potential future credit risk $	Credit equivalent amount $
Equity contracts				
Equity swaps	486	2	29	31
Currency contracts				
Forward contracts	222	2	2	4
Currency swaps	79	9	3	12
Interest rate contracts				
Interest rate swaps	166	---	1	1
Credit contracts				
Credit swaps	18	---	---	---
Other derivative contracts				
Options on futures contract	1	---	---	---
Written put options	54	---	3	3
Stock options issued	66	---	4	4
Total	1,092	13	42	55

	2008			
	Notional amount $	Maximum credit risk $	Potential future credit risk $	Credit equivalent amount $
Equity contracts				
Equity swaps	345	10	22	32
Currency contracts				
Forward contracts	93	---	1	1
Currency swaps	83	3	5	8
Interest rate contracts				
Interest rate swaps	181	2	1	3
Credit contracts				
Credit swaps	39	1	---	1
Total	741	16	29	45

	2009				
	Notional amount				Fair Value
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	$
Equity contracts					
Equity swaps	464	22	---	486	(3)
Currency contracts					
Forward contracts	222	---	---	222	2
Currency swaps	33	29	17	79	7
Interest rate contracts					
Interest rate swaps	31	122	13	166	(6)
Credit contracts					
Credit swaps	18	---	---	18	---
Other derivative contracts					
Options on futures contract	1	---	---	1	---
Written put options	54	---	---	54	(1)
Stock options issued	66	---	---	66	---
Total	889	173	30	1,092	(1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

d) Derivative financial instruments (continued)

	2008				
	Notional amount				Fair Value
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	$
Equity contracts					
Equity swaps	272	66	7	345	4
Currency contracts					
Forward contracts	93	---	---	93	(2)
Currency swaps	4	49	30	83	(7)
Interest rate contracts					
Interest rate swaps	69	98	14	181	(6)
Credit contracts					
Credit swaps	21	18	---	39	1
Total	459	231	51	741	(10)

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, 2009, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $422 ($352 in 2008).

f) Restructuring of Non-Bank Sponsored Asset-Backed Commercial Paper

The non-bank sponsored asset-backed commercial paper (ABCP) market was shaken by a liquidity crisis in August 2007. Since then, different steps have been taken, which led to the implementation of a restructuring plan on January 21, 2009.

Restructuring Plan

In accordance with the restructuring plan, the ABCP was replaced by variable rate notes that are differentiated according to the type of underlying assets:

- ABCP backed by traditional assets was exchanged for floating rate notes whose maturity date and return follow those of the underlying assets.
- ABCP backed by synthetic assets was pooled. Floating rate notes were issued with a maturity of about 8 years, based on the maturity of the underlying assets. Two limited partnerships were created: Master Asset Vehicles 1 and 2 (MAV 1 and MAV 2), which issued the new notes. The Company chose MAV 2, which means that it will not finance margin calls.
- ABCP backed by "ineligible" assets, those that are not part of the previous two categories, was restructured separately. It was exchanged for floating rate notes whose maturity date and return will follow those of the underlying assets.

When the restructuring took place, all investors received new notes for a slightly lower amount than the nominal value of the previously held ABCP. The Company's total exposure before the implementation of the restructuring plan was $104, of which $90 was held directly by the Company and $14 resulted from the Company's 45% share in an entity subject to significant influence. The Company respectively received $89 and $14 in new notes. Consequently, the old notes held directly by the Company were withdrawn from other invested assets on the balance sheet and replaced by the new notes. These new notes are presented as bonds, continue to match individual life insurance policy liabilities and are classified as designated held for trading.

Since the notes are fully matched, 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 credit events regarding future cash flows would have an impact on the Company's net results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

10 › Invested Assets (continued)

f) Restructuring of Non-Bank Sponsored Asset-Backed Commercial Paper (continued)

Interest
During the year, the Company received interest payments totalling $5 which represent the total of the accrued interest on the old notes from August 13, 2007 to January 21, 2009. According to the information obtained, the interest distribution for the old notes is now completed and no other payments are to be expected.

Repayments of Principal
During the year, the Company received $25 in repayments of principal on the new notes reducing the nominal value to $64 before the acquisition of MD Life's life insurance portfolio.

Fair Value
No efficient market has developed since the restructuring. 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 the new notes is modelled on an individual basis according to the category of underlying assets. Note 11, Fair Value of Financial Instruments, provides more information about our valuation models.

Financial Data
In terms of notes held directly by the Company, the evaluation resulted in an increase of $5 in 2009 in the estimated fair value other than related to credit events. Since policy liabilities are calculated according to the Canadian Asset Liability Method, variations in the fair value of notes matching the policy liabilities have been directly reflected in the policy liabilities.

Given that the treatment described in the previous paragraph also applies to the entity subject to significant influence, these notes did not result in any variation in value of the investment in an entity subject to significant influence (included under other invested assets).

Investments in notes held by the Company are established as follows:

	2009	2008
	$	$
Traditional assets	16	41
Synthetic assets		
Category A-1	42	29
Category A-2	16	11
Category B	3	2
Category C	2	2
Ineligible assets	10	5
Total	89	90

As at December 31, 2009, the fair value of the notes is $62 ($65 as at December 31, 2008).

In the acquisition of MD Life's life insurance portfolio on December 31, 2009, the Company acquired $13 in synthetic assets of Category A-1, $5 of Category A-2, $1 of Category B, $1 of Category C and $5 in ineligible assets for a total nominal value of $25 and a fair value of $15.

Given the additional information obtained on the nature of the assets backing three notes with a nominal value of $1, classified as traditional assets, the Company has reclassified these notes as synthetic assets.

11 › Fair Value of Financial Instruments

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuations models used to value financial assets and liabilities. The inputs or methodology used for valuing securities may not be an indication of the risk associated with those securities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs when market prices are not readily available or reliable. The three levels of the hierarchy are described below:

- Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities.
- Level 2 – Valuation model based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Valuation model based on significant unobservable inputs that are supported by little or no market activity.

The financial instruments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is directly classified into Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

11 › Fair Value of Financial Instruments (continued)

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

Bonds
Bonds are valued on bid prices using independent pricing services or by dealers who evaluate the fair value of these financial instruments. Independent pricing services consider yield or price of fixed-income securities of comparable quality, coupon, maturity and type as well as dealer supplied prices.

No efficient market has been developed for some bonds designated held for trading and available for sale. The Company estimates the fair value of these financial instruments according to a valuation model that it believes is appropriate under the circumstances. The valuation is modelled on an individual basis according to the category of underlying assets.

The Company uses two models to valuate notes from the restructuring of non-bank sponsored asset-backed commercial paper whose underlying assets are composed exclusively of traditional assets. For notes whose underlying assets are composed of a single type of asset, the Company uses a model based on the discounting of expected future cash flows. The discount rate used is the rate of return of bonds with a risk profile similar to that of the underlying assets and a term corresponding to the anticipated maximum maturity of the bonds. Notes whose underlying assets are composed of several types of assets are evaluated on a model based on the JP Morgan valuation that was made in March 2008. This valuation was based on data observed on the markets or on expected future cash flows models developed by JP Morgan. Subsequently, the fair value of bonds is adjusted to take into account fluctuations in value observed in the market since the initial valuation by JP Morgan.

The notes backed by synthetic assets and some bonds are valuated according to a model based on the discounting of expected future cash flows. The discount rate used is the fluctuations of a reference index with a risk profile similar to that of the underlying assets and a term corresponding to the anticipated maximum maturity of the notes and the bonds.

An increase of 100 basis points in the discount rate, which is the critical assumption in the Company's valuation model, would lead to a decrease of $20 in the fair value of bonds classified at level 3. A decrease of 100 basis points in the discount rate would lead to an increase of $22 in the fair value.

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

Stocks
Each listed investment security is valued at the latest bid price reported by the principal securities exchange on which the issue is traded or, if no bid price is reported, the closing sale price is used.

Investment fund units are evaluated at the value published by the fund manager.

Real estate
The fair value of real estate is estimated using the valuations made by chartered appraisers.

Cash and cash equivalents and policy loans
The fair value of cash and cash equivalents and policy loans is deemed to approximately correspond to the carrying value due to their short-term maturity.

Other Assets
The fair value of the other financial assets, except the derivative financial instruments, is approximately the same as the carrying value due to their short-term nature. The derivative financial instruments are classified as held for trading.

Derivative financial instruments
Swap contracts and options are marked-to-market on each valuation day according to the gain or loss that would be realized if they were settled.

The fair value of forward currency contracts is determined according to a model based on current market quotes for the underlying currencies, whereby forward bid rates (for currencies held) and forward ask rates (for currencies sold short) are used.

Other Liabilities
The fair value of the other liabilities, except the mortgage debt and the derivative financial instruments, is approximately the same as the carrying value due to their short-term nature.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11 › Fair Value of Financial Instruments (continued)

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

Debentures
Since December 2009, debentures designated held for trading are evaluated at market prices through brokers who evaluate the fair value of these financial instruments. In their evaluations, the brokers take into consideration the return or market price of financial instruments that have comparable conditions, such as quality, maturity and type of investment. Previously, the fair value of debentures was established with the help of internal valuation models requiring the use of assumptions. One of the principal assumptions was unobservable on market.

The calculation of the variation in the fair value attributable to the Company's credit is made by determining the difference between the discounting of the future cash flows using an interest rate that includes the credit spread of the Company's debentures and the discounting of these same cash flows using an interest rate excluding this credit spread. The detail of the variation in the fair value attributable to credit is presented in Note 18, Debentures.

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.

The fair value of the debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have the same terms. This fair value can fluctuate due to the interest rates and the credit risks associated with these instruments.

The following table presents information about the fair value of financial instruments based on the levels of the inputs used.

	2009			
	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Invested assets				
Bonds				
Designated Held for trading	94	6,531	255	6,880
Available for sale	431	1,089	70	1,590
	525	7,620	325	8,470
Stocks				
Designated Held for trading	1,565	---	---	1,565
Available for sale	273	---	---	273
	1,838	---	---	1,838
Cash and cash equivalents				
Held for trading	382	---	---	382
Other invested assets				
Held for trading	49	---	---	49
Total	2,794	7,620	325	10,739
Liabilities				
Other liabilities				
Held for trading	2	---	---	2
Debentures				
Designated Held for trading	---	321	---	321
Total	2	321	---	323

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11 › Fair Value of Financial Instruments (continued)

The following table provides financial instruments recognized at fair value and for which Level 3 inputs were used in determining fair value:

	2009							
	Balance as at December 31, 2008 $	Net realized and unrealized gains (losses) included in Income Statements $	Net unrealized gains (losses) included in Other Comprehensive Income Statement $	Purchases $	Sales, maturities and repayments $	Transfers in (out) of Level 3 $	Balance as at December 31, 2009 $	Total unrealized gains (losses) on financial instruments held as at December 31, 2009 $
Assets								
Invested assets								
Bonds								
Designated Held for trading	194	13	---	111	(63)	---	255	11
Available for sale	73	---	1	17	(21)	---	70	2
Other invested assets								
Held for trading	65	---	---	---	(65)	---	---	---
Total	332	13	1	128	(149)	---	325	13
Liabilities								
Debentures								
Designated Held for trading	286	35	---	---	---	(321)	---	---
Total	286	35	---	---	---	(321)	---	---

12 › Other Assets

Other assets consist of the following:

	2009 $	2008 $
Systems hardware and operation software, furniture, and equipment, at cost	72	70
Less: accumulated depreciation	55	52
	17	18
Leasehold improvements, at cost	95	84
Less: accumulated depreciation	52	44
	43	40
Investment income due and accrued	70	68
Derivative financial instruments	1	---
Outstanding premiums	55	55
Due from reinsurers	46	52
Due from agents	39	32
Accounts receivable	197	174
Deferred sales commissions	75	87
Prepaid expenses	12	6
Employee future benefits	60	---
Miscellaneous	31	15
Total	646	547

The depreciation and amortization of fixed assets included in the general expenses and the deferred sales commissions included in commissions are respectively $14 ($13 in 2008) and $34 ($32 in 2008).

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13 › Intangible Assets

	2009					
	Cost at beginning	Acquisitions (Dispositions)	Reclassification after purchase price allocation process	Cost at end	Accumulated depreciation	Balance at end
	$	$	$	$	$	$
Unamortized intangible assets with indefinite life	331	---	13	344	---	344
Amortized intangible assets with finite life	1	---	3	4	---	4
Software applications	62	6	---	68	45	23
Software applications in development	---	4	---	4	---	4
Total	394	10	16	420	45	375

	2008					
	Cost at beginning	Acquisitions (Dispositions)	Reclassification after purchase price allocation process	Cost at end	Accumulated depreciation	Balance at end
	$	$	$	$	$	$
Unamortized intangible assets with indefinite life	298	---	33	331	---	331
Amortized intangible assets with finite life	---	---	1	1	---	1
Software applications	48	14	---	62	37	25
Software applications in development	8	(8)	---	---	---	---
Total	354	6	34	394	37	357

During the year, software applications in development were put into service. Consequently, an amount of $1 ($10 in 2008) included in acquisitions and dispositions was reclassified from software applications in development to software applications.

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

The amortization expense is lower than $1 in 2009 and 2008 for amortized intangible assets with finite life and $8 ($7 in 2008) for the software applications and are included in general expenses.

14 › Goodwill

The carrying value and changes of goodwill are as follows:

	Preliminary goodwill		Goodwill		Total	
	2009	2008	2009	2008	2009	2008
	$	$	$	$	$	$
Balance at beginning	32	---	83	68	115	68
Acquisition of businesses	12	81	---	---	12	81
Reclassification after allocation of the acquisition price	(21)	(15)	21	15	---	---
Adjustment on previous years transactions	5	---	---	---	5	---
Reclassification to intangible assets	(16)	(34)	---	---	(16)	(34)
Balance at end	12	32	104	83	116	115

The amount shown on the adjustment on previous years' transactions line represents the payment of conditional clause from the purchase price of BLC-Edmond de Rothschild Asset Management Inc., a company acquired in 2004 (merged with IA Clarington Investments Inc.) and of FundTrade Financial Corporation, a company acquired in 2006 (merged with FundEX Investments Inc.) for a total of $8 in 2009, adjustments to restructuring charges $(1) and the adjustment of preliminary goodwill related to the 2008 acquisition for a total of $(2).

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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:

	2009				
	Individual		Group		
	Life & Health $	Wealth Management $	Life & Health $	Pensions $	Total $
Policy liabilities					
Canada	7,665	1,348	1,282	3,026	13,321
United States	139	328	5	---	472
Other countries	10	---	---	---	10
Total	7,814	1,676	1,287	3,026	13,803
Assets backing policy liabilities					
Bonds and other fixed interest securities	4,656	548	771	1,799	7,774
Mortgages	619	846	469	1,183	3,117
Stocks	1,565	49	6	6	1,626
Real estate	595	---	---	---	595
Policy loans	316	53	10	---	379
Other invested assets	63	180	31	38	312
Total	7,814	1,676	1,287	3,026	13,803

	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

The fair value of assets backing policy liabilities as at December 31, 2009 was estimated at $13,885 ($12,426 in 2008). 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, 2009 and 2008 (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 $94 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, 2009 is $96 ($83 in 2008).

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, 2009, 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 $41 after taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities (continued)

Investment Return and Interest Rate Risk (continued)

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 $18 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 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. Provisions for adverse deviations that are not required to offset future adverse experience will be released back into income over the remaining term of the policies.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amount limits, which vary by line of business, are established for life and health insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

To reduce the reinsurance risk, reinsurance agreements are concluded with well-established, highly-rated reinsurers. Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders.

Total policy liabilities on the balance sheet are presented net of ceded reinsurance. In 2009, ceded reinsurance reduced the policy liabilities by $247 ($293 in 2008).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

15 › Policy Liabilities (continued)

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.

	2009	2008
	$	$
Balance at beginning	12,250	12,088
Disposition of the Caribbean block of business	---	(45)
Reclassification of prepaid commissions	(5)	---
Acquisition of portfolios or life insurance companies	422	55
Changes in assumptions – provision for future policy benefits	24	189
Normal changes – provision for future policy benefits	1,170	(136)
Changes in other items of policy liabilities	12	14
Foreign currency translation	(70)	85
Balance at end	13,803	12,250

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:

	2009	2008
	$	$
Unearned premiums	168	124
Other policy liabilities	31	30
Mortgage debt	29	31
Derivative financial instruments	2	10
Income tax payable	17	20
Amounts on deposit on products other than insurance	154	120
Accounts payable	313	252
Employee future benefits	29	34
Due to reinsurers	29	27
Total	772	648

Fair value

The fair value of the mortgage debt is $31 ($32 in 2008).

The mortgage debt bears interest of 6.82% (6.82% and 7.17% in 2008) and with a maturity in 2012 (2009 and 2012 in 2008). The mortgage debt is secured on real estate with a carrying value of $70 ($148 in 2008). The interest expense on the mortgage debt is $2 ($2 in 2008) and is included in net investment income.

The reimbursement of the mortgage debt over the next 3 years will be:

2010	2011	2012
$	$	$
1	2	26

17 › Net Deferred Gains

Net deferred gains of $9 ($10 in 2008) related to real estate are realized gains and losses which have not yet been recognized in income. An amount of $3 ($3 in 2008) is related to policy liabilities and an amount of $6 ($7 in 2008) is related to equity. They are amortized at 3% per quarter on a declining balance basis into future net investment income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

18 › Debentures

Debentures are detailed as follows:

	2009		2008	
	Nominal amount $	Carrying value $	Nominal amount $	Carrying value $
Debentures designated held for trading				
Debenture, Series A, bearing interest of 5.714% payable semi-annually, redeemable at the option of the Company, in whole or in part, subject to prior approval by the AMF beginning on December 31, 2008 and on any interest payment date thereafter or repayable on maturity in 2053. This subordinated debenture is redeemable before December 31, 2013 at the higher of the Canada yield price and par. After December 31, 2013, the Company may redeem the debenture at par.	150	157	150	138
Funding debenture, Series A, bearing interest of 5.714%, payable semi-annually, redeemable at the option of the Company at any time or repayable on maturity in 2053.	10	11	10	9
Subordinated debenture maturing 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, in whole or in part, 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.	150	153	150	139
	310	321	310	286
Debenture classified as financial liabilities at amortized cost				
Subordinated debenture maturing March 27, 2019 and bearing interest of 8.25% payable semi-annually until March 27, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 7.55% payable quarterly. This subordinated debenture is redeemable by the Company before March 27, 2014, in whole or in part, and subject to approval by the AMF, at the higher of the Canada yield price and par. After March 27, 2014, the Company may redeem the debenture in whole or in part, on each payment date of quarterly interest, at par, with the prior approval of the AMF. The carrying value of the debenture includes transaction costs and issue discount for a total of $1.	100	99	---	---
Subordinated debenture maturing 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 semi-annually until August 1, 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	100	100	100
	200	199	100	100
Total	510	520	410	386

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

Management has estimated the fair market value of these debentures according to a valuation model that it believes is appropriate under the circumstances. More information about our valuation models is provided in Note 11, Fair Value of Financial Instruments. The fair value of debentures classified as financial liabilities at amortized cost is $217 ($89 in 2008).

Debenture financing expenses are detailed as follows:

	2009 $	2008 $
Debentures designated held for trading		
Increase (decrease) in fair value due to:		
Credit risk	42	(52)
Market risk	(7)	28
	35	(24)
Interest expenses	17	17
	52	(7)
Debentures classified as financial liabilities at amortized cost		
Interest expenses	12	3
Total	64	(4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

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 that regulates its operations, the AMF, 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.

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 five risk categories, namely asset default risk, insurance risk, changes in interest rate environment risk, segregated funds risk and currency risk. Component capital requirements are determined using factor-based or other methods that are applied to specific on- and off-balance sheet assets or liabilities.

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 most of its capital is Tier 1. As at December 31, 2009 and 2008, 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

	2009	2008
	$	$
Available capital		
Total Tier 1 capital (net)	1,962	1,726
Total Tier 2 capital (net)	343	195
Total	2,305	1,921
Required capital	1,107	967
Solvency ratio	208%	199%

Various items cause the solvency ratio to increase or decrease. The issue of a $100 debenture, the issue of preferred shares for an amount of $100, the decrease in capital requirements following the update of actuarial assumptions and the usual contribution of the net income to available capital, net of the normal increase in required capital, led to an increase in the solvency ratio. However, higher capital requirements associated with the increase in the market value of stocks and bonds and acquisitions concluded in 2009, primarily MD Life's individual life insurance portfolio and Inhance's socially responsible investing mutual fund business, caused the solvency ratio to decrease.

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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 whole 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 whole 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 E preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.375 dollars per share, redeemable in whole or in part at the option of the Company after December 31, 2014, 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 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.

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20 › Share Capital (continued)

	2009		2008	
	Number of shares (in thousands)	Amount $	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	80,330	541	79,841	513
Shares issued on exercise of stock options	181	5	175	5
Shares issued on acquisition of business	---	---	579	25
Cancellation following the repurchase of common shares	---	---	(265)	(2)
Balance at end	80,511	546	80,330	541
Shares held in treasury	(22)	---	(22)	---
	80,489	546	80,308	541
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	4,000	100	---	---
Shares issued	---	---	4,000	100
Balance at end	4,000	100	4,000	100
Shares held in treasury	---	---	(51)	(1)
	4,000	100	3,949	99
Preferred shares, class A – Series E				
Shares issued	4,000	100	---	---
Balance at end	4,000	100	---	---
Total share capital		871		765

On October 15, 2009 the Company issued 4,000,000 class A – Series E preferred shares for an amount of $100.

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 18, 2009 to February 17, 2010, 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.

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21 › Earnings Per Common Share

	2009	2008
	$	$
Net income available to common shareholders	206	66
Weighted daily average number of shares outstanding	80,325,684	80,226,465
Add: diluted effect of stock options granted and outstanding	384,643	748,093
Weighted average number of shares outstanding on a diluted basis	80,710,327	80,974,558
Earnings per common share (in dollars)		
basic	2,56	0.82
diluted	2,55	0.82

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 each interim period). An average of 798,004 (252,153 in 2008) anti-dilutive stock options was excluded from the calculation.

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:

	2009		2008	
	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	3,622	27.73	3,300	25.98
Options granted	499	19.23	511	37.38
Options exercised	(181)	22.26	(175)	22.49
Options forfeited	(43)	28.96	(14)	32.68
At end	3,897	26.88	3,622	27.73
Exercisable at end	2,678	25.92	2,369	24.11

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 2009 is $2.92 ($6.76 in 2008). The pricing model assumes the following information:

	2009	2008
Risk free interest rate	2.54%	3.59%
Expected volatility	25%	20%
Expected life	7 years	7 years
Expected dividends	4.93%	2.61%

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22 › Stock-Based Compensation (continued)

Stock Option Plan (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	359	1.11	359
22.81	486	1.96	486
18.63	258	2.81	258
19.00	10	3.82	10
23.44	366	3.68	366
28.72	427	4.58	427
30.22	499	5.66	385
35.64	483	6.75	256
36.03	10	7.33	5
37.37	499	8.10	125
38.25	4	8.32	1
19.23	496	9.10	---
Total	3,897	5.17	2,678

The charge related to the stock-based compensation during the year is $3 ($4 in 2008).

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 215,183 (212,471 in 2008) units and the remuneration expense for the plan is $3 ($(4) in 2008).

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.

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, 2008 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was December 31, 2008 and the next required valuation will be as at December 31, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

	2009		2008	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning	323	---	389	---
Actual loss (return) on assets	80	---	(68)	---
Company contributions	78	---	17	---
Employee contributions	7	---	7	---
Benefits paid	(17)	---	(23)	---
Acquisitions	---	---	1	---
Fair value at end	471	---	323	---
Accrued benefit plan obligations				
Balance at beginning	348	22	393	25
Current service cost	10	1	14	1
Interest cost	26	1	23	2
Employee contributions	7	---	7	---
Benefits paid	(17)	(1)	(23)	(1)
Actuarial losses (gains)	140	9	(67)	(5)
Acquisitions	---	---	1	---
Balance at end	514	32	348	22
Accrued plan obligations are composed of:				
Funded plans	454	---	306	---
Unfunded plans	60	32	42	22
	514	32	348	22
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	471	---	323	---
Accrued benefit plan obligations	514	32	348	22
Funded status of plans–deficit	(43)	(32)	(25)	(22)
Unamortized net actuarial (gains) losses	99	5	16	(5)
Unamortized past service costs	4	1	4	1
Unamortized transitional obligation	(3)	---	(3)	---
Accrued benefit asset (liability), net of valuation allowance	57	(26)	(8)	(26)
The amounts in the balance sheet are:				
Other assets (Note 12)	60	---	---	---
Other liabilities (Note 16)	3	26	8	26

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:

	2009		2008	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Funded status – plan deficit				
Accrued benefit plan obligations	18	---	11	---
Fair value of plan assets	17	---	10	---
Funded status – plan deficit	(1)	---	(1)	---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

	2009		2008	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Benefit plan expenses				
Current service cost	10	1	14	1
Interest cost	26	1	23	1
Actual loss (return) on plan assets	(80)	---	68	---
Actuarial loss (gain) on plan	140	9	(67)	(5)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	96	11	38	(3)
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	57	---	(95)	---
Difference between actuarial gains (loss) recognized for the year and actuarial gains (loss) on accrued benefit plan obligations for the year	(140)	(10)	68	5
Difference between amortization of past service costs for the year and actual plan amendments for the year	---	---	1	---
Amortization of the transitional obligation	---	---	(1)	---
Defined benefit costs recognized	13	1	11	2

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

	2009	2008
	%	%
Asset categories		
Bonds	40	36
Stocks	58	58
Other	2	6
Total	100	100

The pension plan assets did not contain any common shares of the Company in 2009 and 2008.

Significant Assumptions

	2009		2008	
Accrued benefit plan obligations	Pension plans	Other plans	Pension plans	Other plans
Discount rate	5.10%	5.10%	7.40%	7.40%
Rate of compensation increase	3.50%	---	3.50%	---
Benefit plan expenses				
Discount rate	7.40%	7.40%	5.80%	5.80%
Expected long-term rate of return on plan assets	7.00%	---	7.00%	---
Rate of compensation increase	3.50%	---	3.50%	---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

23 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

	2009			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Other
Initial health care cost trend rates	9.70%	11.40%	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	9	9	---	---

	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	---	---

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 2009.

	Increase	Decrease
	$	$
Total of service and interest cost	---	---
Accrued benefit obligations	5	4

The total of service and interest cost for 2009 and 2008 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 2008). The liability related to this plan is presented in other liabilities (Note 16 included in Accounts payable) for an amount of $2 ($2 in 2008).

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 2009 and 2008, this transfer to shareholders is less than $1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (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

2009	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Revenues						
Premiums	938	1,271	963	840	140	4,152
Net investment income	838	112	89	257	6	1,302
Fees and other revenues	5	304	9	29	14	361
	1,781	1,687	1,061	1,126	160	5,815
Operating expenses						
Cost of commitments to policyholders	1,165	357	739	821	96	3,178
Net transfer to segregated funds	---	999	---	300	---	1,299
Commissions, general and other expenses	404	290	275	35	51	1,055
	1,569	1,646	1,014	1,156	147	5,532
Income before income taxes	212	41	47	(30)	13	283
Less: income taxes	47	12	12	(12)	5	64
Net income before allocation of other activities	165	29	35	(18)	8	219
Allocation of other activities	8	---	---	---	(8)	---
Net income	173	29	35	(18)	---	219
Attributed to shareholders	174	29	35	(18)	---	220
Attributed to participating policyholders	(1)	---	---	---	---	(1)

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

* Includes other segments and intercompany eliminations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

25 › Segmented Information (continued)

Segmented General Fund Assets

	2009					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	9,274	2,128	1,607	3,128	353	16,490
Other assets	242	178	99	42	85	646
Intangible assets	49	322	3	1	---	375
Goodwill	55	41	20	---	---	116
Total	9,620	2,669	1,729	3,171	438	17,627

	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	158	147	83	47	112	547
Intangible assets	42	312	2	1	---	357
Goodwill	49	46	20	---	---	115
Total	8,164	2,281	1,593	3,029	348	15,415

* Includes other segments and intercompany eliminations.

26 › Premiums

	2009					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	938	405	963	154	140	2,600
Invested in segregated funds	---	866	---	686	---	1,552
Total	938	1,271	963	840	140	4,152

	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008 (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:

2010	2011	2012	2013	2014	2015 and thereafter
$	$	$	$	$	$
27	18	10	5	2	2

In addition, from time to time, the Company will make financial commitments in the normal course of business. The maximum amount of such commitments as at December 31, 2009 is $1 ($1 as at December 31, 2008).

Investment

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	2011 and thereafter
	$	$	$
	33	19	22

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 believes that these legal proceedings will not have a negative effect on its financial position or consolidated results.

Letters of Credit

In the normal course of its operations, the Company establishes bank letters of credit. The balance of these letters is $1 ($1 in 2008).

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.

Other

On December 7, 2009, IA Clarington Investments Inc., one of the Company’s subsidiaries, purchased the mutual fund business of Inhance. An amount up to a maximum of $4 can be paid at the end of 2014 if certain conditions are met.

Lines of Credit

As at December 31, 2009, the Company had operating lines of credit totalling $67 ($100 as at December 31, 2008). As at December 31, 2009 no lines of credit were used ($5 in 2008). 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, 2009 and 2008 (in millions of dollars, unless otherwise indicated)

28 › Related Party Transactions

Related party transactions are measured at 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, 2009, the balance of loans granted to them was $1 ($1 in 2008).

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 the entity subject to significant influence during the period:

	2009	2008
	$	$
Fees and other revenues	8	8

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

	2009	2008
	$	$
Assets		
Accounts receivable	2	2
Other invested assets	4	4
Liabilities		
Accounts payable	9	---
Provisions for future policy benefits	---	17

On December 31, 2009, the Company concluded a transaction with the entity subject to significant influence not in the normal course of operations. The Company acquired the individual life insurance portfolio of the entity subject to significant influence for a consideration of $9. This transaction was concluded at fair value and generated a $2 equity interest for the Company.

In December 2008, the Company acquired a $4 debenture of the entity subject to significant influence.

Variable Interest Entity

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

	2009	2008
	$	$
Financing expenses	9	9

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

	2009	2008
	$	$
Assets		
Notes receivable	10	10
Liabilities		
Debenture – series A	157	138
Funding debenture – series A	11	9

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.

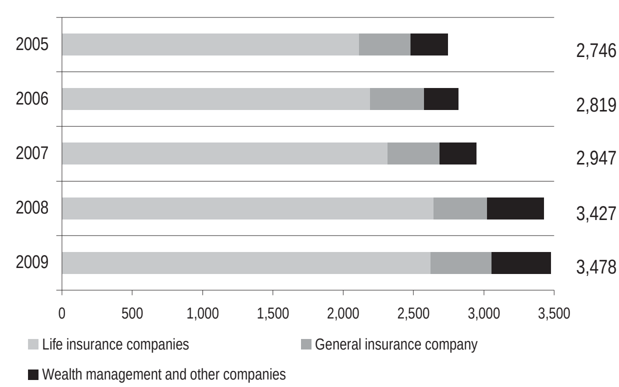
SOCIAL RESPONSIBILITY REPORT

The following section describes the main achievements of Industrial Alliance and its subsidiaries in 2009 with respect to human resources management, community commitment and protection of the environment.

OUR EMPLOYEES

At the end of 2009, Industrial Alliance and its subsidiaries had 3,478 employees, which is 51 more than in 2008. This increase is due to the normal growth of business. Since 2005, the number of employees working for the Industrial Alliance group has grown by 732, an increase of 27%.

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 policies and training 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. For 2009, a total bonus of 3% of the eligible salary was paid, which corresponds to the target set by the Company. The maximum bonus was also increased in 2009; it can go up to 6% of the annual regular salary. The bonus is calculated using three components: profit, general expenses and business growth by line of business. Each of the three components accounts for a 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. Employees can purchase up to 5% of their annual salary in Industrial Alliance shares, to a maximum of $3,000 per year. 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, 2009, 1,380 eligible employees were enrolled in the plan, a participation rate of 49%.

Five Corporate Values

In 2009, 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.

Employee Quality of Life

To ensure quality of life for its employees, a flexible work schedule is in effect for Industrial Alliance employees in Montreal and Toronto and at the head office in Quebec City. A flexible schedule is also in effect for Industrial Alliance Pacific employees in Vancouver.

To prevent the spread of the H1N1 virus, the Industrial Alliance group held information meetings about the flu and published electronic messages and a self-care guide for its employees. Buildings with the Company's main offices were also equipped with hand sanitizer dispensers. The annual seasonal flu vaccination campaign also took place in offices in Montreal, Toronto and Vancouver, and at the head office in Quebec City.

Moreover, Industrial Alliance and its subsidiaries rigorously respect all federal and provincial government laws regarding occupational health and safety.

As part of its Health, Wellbeing and Productivity Program, Industrial Alliance organized new lunchtime conferences on a variety of themes corresponding to employee interests.

Industrial Alliance also encourages employees to exercise, either in workout rooms in the workplace, available at the Industrial Alliance Auto and Home offices in Quebec City, at Industrial Alliance in Toronto and Industrial Alliance Pacific in Vancouver, or through organized activities nearby, like the Outdoor Fitness classes in the park across from IA's head office, which are offered at a low cost.

Finally, in 2009, Industrial Alliance modified its Employee Recognition Program, to better respond to employee expectations. The new recognition program lets employees and managers show their appreciation for a colleague's work with a colourful card—the famous *Wow*! A manager can also highlight individual or group accomplishments from their team through the use of budgets specifically allocated for recognition activities.

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 2009, 345 employees of Industrial Alliance and Industrial Alliance Pacific 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.

Industrial Alliance also successfully pursued its manager training programs with the *Management Learning Path*, which consists of 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 2009, Industrial Alliance continued its recruiting efforts throughout Canada. For a second consecutive year, a special recruiting mission was also organized in Europe, which resulted in the hiring of 11 additional employees.

To facilitate employee recruiting, the Company enhanced its internal referral program, with a summertime incentive added to the cash incentive already in place. Under the employee referral 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.

In concert with its ten partners in the Insurance and Financial Services Development Center ("CDASF") created in 2007, Industrial Alliance established a recruiting and information campaign called "the Power of Eleven." The program encourages postsecondary students to join the ranks of one of the 11 companies in the CDASF, each of which has its head office in the greater Quebec City and Lévis region. The CDASF is the largest group of insurance and financial service company head offices in Canada.

Finally, Industrial Alliance and its subsidiaries comply with all federal and provincial government laws regarding the hiring of women, visible minorities, native people and handicapped people.

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 supports employees who collect donations from colleagues for humanitarian organizations. The Company also created a new donation policy for employees at the beginning of 2010. All Industrial Alliance employees and retirees, as well as representatives from the Career network are eligible if they sign up for a fundraising activity for a charitable organization to take part and to raise funds, volunteer for a charitable activity or are a member of the board of directors for a charitable organization.

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.

For the Vancouver 2010 Olympic Games, Industrial Alliance Pacific implemented temporary changes to annual vacations and flexible hours so that employees who wanted to volunteer could do so.

In its internal newsletter, the Company also published five testimonies from IAP employees who volunteered for the Olympic Games. And to recognize their personal commitment to the event, Industrial Alliance also proudly wrote about three employees and a former president of the Company who carried the Olympic torch on Canadian soil in the fall of 2009.

AWARDS AND HONOURS

- Ranked first for best stock market and economic performance in 2009 among all publicly-listed firms located in the greater Quebec and Chaudière-Appalaches region
- *Maestria 2 Stars – Major Donor* Certificate granted by the United Way
- *TravelSmart* honour from Translink, Metro Vancouver's regional transportation authority, for transportation management to Industrial Alliance Pacific during the 2010 Winter Olympic Games
- 20th among 157 Canadian public companies with respect to corporate governance (*The Globe and Mail*)
- Finalist for the Arts & Business Award from the *Conseil de la culture des régions de Québec et de Chaudière-Appalaches*
- Architecture Durability Award at the 25th Excellence in Architecture Awards from the Quebec Society of Architects for 1981 McGill College (The "BNP Tower")

In addition to the major donations made by Industrial Alliance in 2009 which are detailed below, in January 2010, the Industrial Alliance group made a special donation to the Canadian Red Cross to help the earthquake victims in Haiti. This donation helped the Red Cross to respond quickly to the most urgent needs.

Canada-wide Contributions

Across Canada, Industrial Alliance group employees collected over $620,000 for the 2009 United Way campaign. At the Company's head office in Quebec City, this outpouring of generosity earned Industrial Alliance a Maestria 2 Star – Major Donor Certificate. The certificate had not yet been awarded at press time. To obtain a Maestria 2 Star award, a company must have an average donation of more than $52 per employee and a participation rate between 60% and 69%. The additional "Major Donor" distinction is awarded to companies whose campaigns solicited donors of $500 and more.

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 pays an external representative to assume the role with the United Way.

In the fall of 2009, a number of 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.

To mark its ten years on the stock exchange, Industrial Alliance decided to create a million dollar fund for young Canadians to learn a second language. The Industrial Alliance Fund for Learning a Second Language will offer scholarships for immersion stays or school sessions sponsored by secondary, college or university level institutions across the country. These scholarships are intended for French students who want to perfect their English and English students who want to improve their knowledge of French. Beginning in the summer of 2010, as part of an initial, related project, the Company will partner with the LINK (Language Interaction'N Knowledge) Program to offer 24 scholarships to francophone students seeking to improve their English in an English-speaking environment.

Also in the fall of 2009, Industrial Alliance and other large employers in the Quebec City region signed a statement of support which allows military reservists among its employees to train and serve with the Canadian Forces Reserves, if necessary.

Contributions by Region

In Western Canada, Industrial Alliance and its subsidiary Industrial Alliance Pacific provided financial support to the Vancouver General Hospital and to the Alberta Children's Hospital Foundation. IAP 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 Markham Stouffvile Hospital Foundation. It also supported teaching establishments, including the University of Ottawa, and cultural organizations such as the Art Gallery of Ontario.

In Quebec, Industrial Alliance supported the Chair in Leukemia Research at the University of Montreal and the *Fondation du CHUQ*. In the arts community, the *Mondial des cultures de Drummondville* and the Quebec Symphony Orchestra ("QSO") received financial assistance from the Company. The Company's support for the QSO resulted in its nomination as a finalist for the Arts and Business Award at the 2009 Excellence in Arts and Culture Awards organized by the *Conseil de la culture des régions de Québec et de Chaudière-Appalaches*. Also in the cultural domain, 1981 McGill College (The "BNP Tower"), a building owned by Industrial Alliance, received the Architecture Durability Award at the 25th Excellence in Architecture Awards from the Quebec Society of Architects. In education, in addition to its major commitment to Laval University, Industrial Alliance has helped several postsecondary teaching institutions. Yvon Charest, President and CEO of Industrial Alliance, also helped launch a financing campaign for the *Fondation de la Maison Dauphine*, an organization that helps street kids in Quebec City. The Company also continued to provide financial support for the 211 service in two regions of Quebec, a service which directs people free of charge to the social and community organizations that best meet their needs.

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, especially through the green committees at Industrial Alliance Pacific and at Company offices in Montreal and Quebec City, including the head office.

In 2009, the green committee at Industrial Alliance Pacific installed motion detectors to reduce unnecessary lighting in bathrooms, made its operations data centre much more energy efficient and had a bus route close to its office extended. Thanks to its programs such as carpooling, extended hours for operating systems availability and working from home or satellite offices, Industrial Alliance Pacific was one of six companies honoured by Translink, the Metro Vancouver transportation authority, for their commitment to reduce traffic on its routes by at least 30% during the 2010 Olympic Games.

At the Industrial Alliance head office in 2009, the green committee increased its awareness-raising initiatives. One of them, conducted jointly with employees from the Montreal offices for the *Climate Challenge* campaign, inspired 403 employees to commit to reducing their annual greenhouse gas emissions by about 1,500 tonnes, which is the equivalent of taking 375 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.). Paper recycling programs in different buildings that Industrial Alliance and Industrial Alliance Pacific own enabled more than 5,000 trees to be saved in 2009.

Lastly, in 2009, 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 four 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 chlorine, and is EcoLogo 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.

In 2009, Industrial Alliance continued the evaluation of its 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, and established estimates for all of its real estate holdings in Canada. 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. Moreover, the increased use of videoconferencing caused a decrease in land and air business trips for IA managers and employees.

At the beginning of 2010, Industrial Alliance distributed about 5,000 reusable coffee mugs to its employees and representatives, encouraging them to reduce their use of disposable cups. Disposable cup users at the IA head office and at Industrial Alliance Auto and Home Insurance in Quebec City must also pay for each cup used.

Finally, Industrial Alliance is seeking to reduce, whenever possible, the quantity of documents it prints by encouraging their consultation on screen. Since 2005, Industrial Alliance provides shareholders and anyone else making a request with an electronic version of the annual report. Printed copies of the annual report have thus been reduced from 113,200 to 10,500 over the past few years. Furthermore, in 2009, Industrial Alliance continued to reduce the print run of numerous internal documents.

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

Vice-President, Chief Marketing Officer, Navistar Inc., a manufacturer of commercial trucks and engines

● ◆

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

Corporate Director

▲

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

Consultant and 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
Professor Emeritus 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
- 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

Christopher Enright
Senior Vice-President
Wealth Management Distribution

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., CHRP
Vice-President, Human Resources

Jacques Carrière – M.E.Sc.
Vice-President, Investor Relations
Secretary of the Management Committee

Douglas A. Carrothers – LL.B., M.B.A.
Vice-President, Legal Department
Corporate Secretary

Guy Daneau – B.B.A., M.B.A.
Vice-President, Information Systems

Manon Gauthier – CA, CFA
Vice-President
Accounting and Taxation

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

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

Randall Fell – B.Proc., CFP, EPC
Vice-President, Personal Financial Services

Gordon A. Robinson – M.A.
Vice-President, Treasurer and Controller

Leanne Sersun – B.Comm, M.B.A.
Vice-President, Human Resources

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

Patrik R. Guindon – F.S.A., M.A.A.A.
Vice-President, Corporate 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, Sales and Development
Individual Insurance, Quebec

Charles Parent – F.S.A., F.C.I.A.
Vice-President, Sales and Development
Individual Insurance, Outside Quebec

Éric Duval – ASA
Vice-President, Actuarial and Specialized
Products

Michel Giguère
Vice-President, Sales

Alain Jordan
Vice-President, Information Systems

Julie Sigouin – CA
Controller

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

Stéphane Blanchette – CA
Senior Director of Operations
Chief Financial Officer

David Chapman
Senior Director of Operations, Toronto

Jean-Sébastien Proulx – LL.B., B.A.
Chief Compliance Officer

FundEX Investments Inc.

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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

Bruno Blouin
Chief Financial Officer

Linda Boiteau
Chief Compliance Officer

Michel Rhéaume et associés

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

Industrial Alliance Auto and Home Insurance Inc.

Michel Laurin – F.C.I.A., F.C.A.S.
President and Chief Operating Officer

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

Industrial Alliance Trust Inc.

Yvon Sauvageau – M.E.Sc.
Vice-President
Strategic Planning

Daniel Marceau – F.S.A., F.C.I.A.
General Manager

- Member of the Planning Committee

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Quebec City, QC G1S 1C1
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1 877 585-8832

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1 866 688-8631

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1 800 255-2116

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1 800 697-9767

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1 800 665-4458
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480 473-5540

Group Insurance
Special Markets Group (SMG)
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680 Sherbrooke Street West
9th Floor
PO Box 790, Station B
Montreal, QC H3B 3K6
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1 866 499-3748

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416 498-8319
1 800 611-6667

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403 266-7582
1 800 661-1699

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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

Montreal
4255 Lapinière Boulevard
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Brossard, QC J4Z 0C7
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204 942-8907

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780 435-1833

Vancouver
9440 202nd Street, Suite 305
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604 882-8220

IA AMERICAN LIFE INSURANCE COMPANY
Head Office – Scottsdale, Arizona
17550 North Perimeter Drive
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Scottsdale, AZ 85255
USA
480 473-5540
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Head Office – Montreal
5055 Metropolitain Boulevard East
Suite 202
Montreal, QC H1R 1Z7
514 327-0020
1 800 465-5818
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MICHEL RHÉAUME ET ASSOCIÉS
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5055 Metropolitain Boulevard East
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info@rheaume.qc.ca

IA CLARINGTON INVESTMENTS INC.
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1 888 229-0765

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1 888 795-6677

FUNDEX INVESTMENTS INC.

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INDUSTRIAL ALLIANCE
SECURITIES INC.

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1 877 275-1544

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1 800 207-2445

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Sherbrooke, QC J1L 2G5
819 569-2772
1 877 569-2772

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Suite 308
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514 876-8885
1 888 867-8885

2075 University Street, Suite 810
Montreal, QC H3A 2L1
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Immigrant Investor Program – Montreal
2200 McGill College Avenue
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Toronto
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Toronto, ON M5G 1W7
416 586-5454

350 Burnhamthorpe Road West
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Mississauga, ON L5B 3J1
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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.industriellealllianceauto.com

INDUSTRIAL ALLIANCE
TRUST INC.

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NATIONAL FINANCIAL
INSURANCE AGENCY INC.

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SOLICOUR INC.

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1 800 463-6236

Quebec City
Place-Iberville-IV, Suite 720
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Quebec City, QC G1V 4T2
418 650-2211
1 888 852-4444

Montreal
Tour A, Suite 615
1600 Saint-Martin Boulevard East
Laval, QC H7G 4R8
450 669-9454
1 888 243-7152

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* pages 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.

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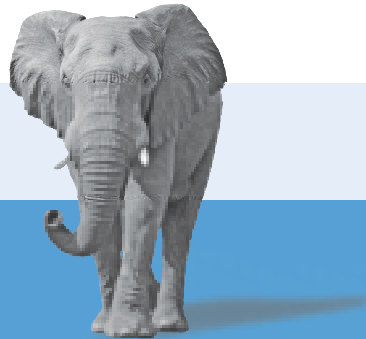
Ce rapport annuel est également disponible en français.



WHY THE ELEPHANT?

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

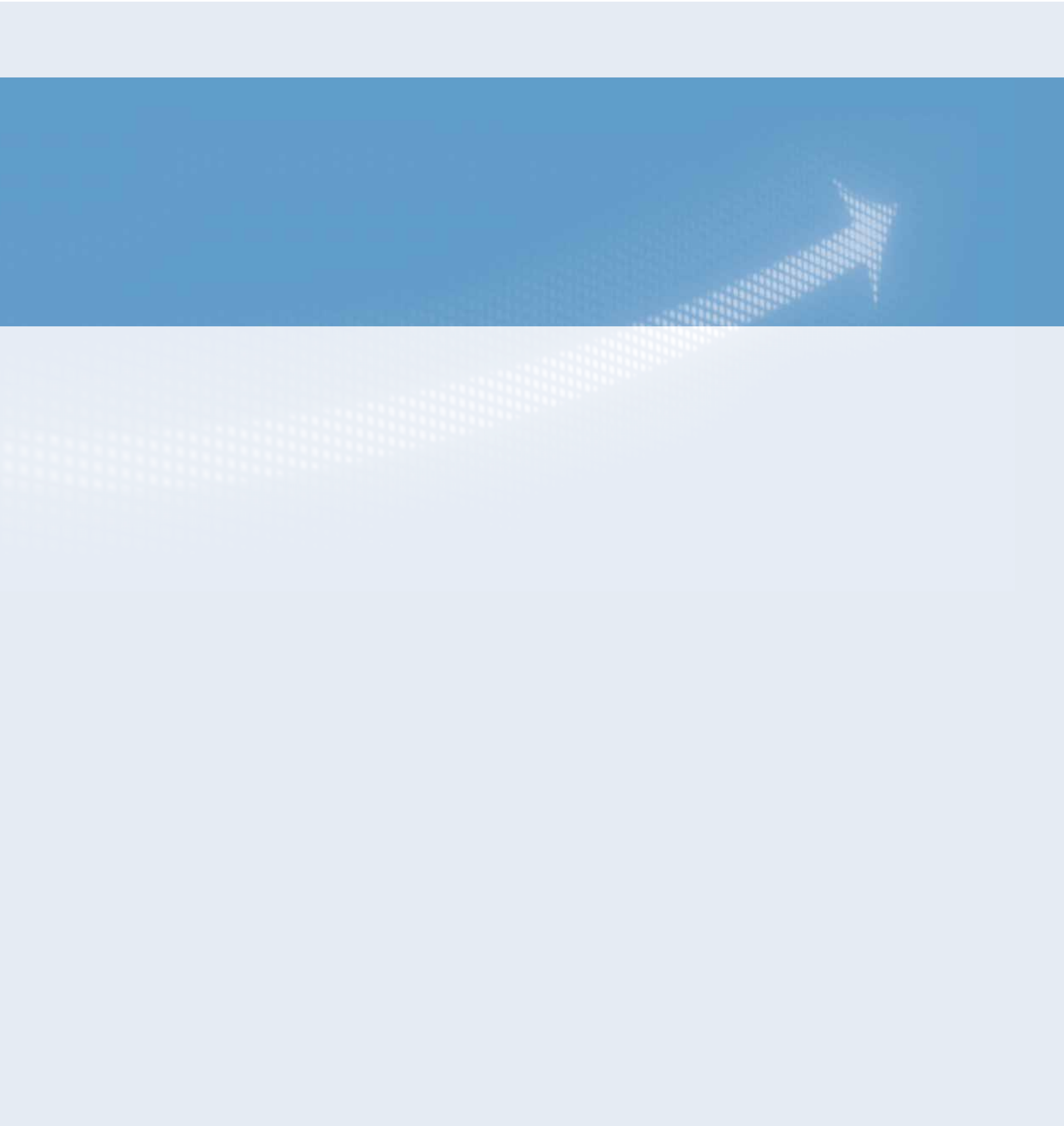
Industrial Alliance and the elephant share exceptional strength. Both are highly energetic and can easily take on the most colossal of tasks.

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 does its part to respect and protect 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 online 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.