2010 Annual Report

Stronger than ever

A proven business model

A partner you can trust.

www.inalco.com

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company with operations in all regions of Canada as well as in the United States.

For more than 100 years, our primary mission has been to assure the financial well-being of our clients by offering them personal protection and investment solutions to help them achieve their life goals.

We offer a range of products that include life and health insurance, savings and retirement plans, mutual and segregated funds, publicly-traded securities, auto and home insurance as well as mortgage loans for both individuals and groups.

Among the top four insurance companies in Canada, we owe our growth and financial strength to a multi-channel distribution network of more than 16,000 agents, a conservative investment portfolio, sound capital management and a strong risk management culture.

Industrial Alliance is listed on the Toronto Stock Exchange under the ticker symbol IAG. At December 31, 2010, the Company's market capitalization was $3.1 billion, placing us among the largest public companies in Canada.

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FINANCIAL HIGHLIGHTS (Consolidated Financial Data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	Variation
Profitability			
Net income available to common shareholders	250.8	205.8	22 %
Earnings per common share (diluted)	$2.99	$2.55	$0.44
Return on common shareholders' equity	12.6%	11.9%	70 bps
Business Growth			
Premiums and deposits by line of business			
Individual Insurance	1,125.6	938.4	20%
Individual Wealth Management	3,676.3	2,350.0	56%
Group Insurance	1,035.2	962.4	8%
Group Pensions	622.5	839.8	(26%)
General Insurance	161.6	140.6	15%
Total	6,621.2	5,231.2	27%
Sales by line of business			
Individual Insurance	186.6	147.1	27%
Individual Wealth Management			
General fund	441.1	404.3	9%
Segregated funds	1,488.0	866.2	72%
Mutual funds	1,747.2	1,079.5	62%
Total	3,676.3	2,350.0	56%
Group Insurance			
Employee Plans	72.2	75.0	(4%)
Creditor Insurance	183.3	152.4	20%
Special Markets Group (SMG)	124.2	113.2	10%
Group Pensions	685.4	839.8	(18%)
Financial Position			
Assets under management/under administration			
Assets under management			
General fund	20,101.1	17,626.5	14%
Segregated funds	13,572.5	11,450.3	19%
Mutual funds	8,135.7	6,615.7	23%
Other	498.0	563.3	(12%)
Total	42,307.3	36,255.8	17%
Assets under administration	24,571.7	22,150.8	11%
Total	66,879.0	58,406.6	15%
Capitalization	3,114.4	2,703.1	15%
Solvency ratio	205%	208%	---
Debt measures			
Debentures/capitalization	16.9%	19.2%	---
Debentures and preferred shares/capitalization	30.5%	31.3%	---
Quality of Investments			
Net impaired investments as a % of total investments	0.12%	0.08%	---
Bonds: BB and lower as a % of the bond portfolio	0.12%	0.07%	---
Mortgages: delinquency rate	0.47%	0.36%	---
Real estate: occupancy rate	93.8%	94.4%	---
Share information			
Number of common shares outstanding (in millions)	83.9	80.5	4%
Weighted average number of common shares - diluted (in millions)	83.9	80.7	4%
Share price	$36.81	$32.20	14%
Market capitalization	3,087.9	2,592.5	19%
Human Resources			
Number of employees	3,756	3,478	278

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

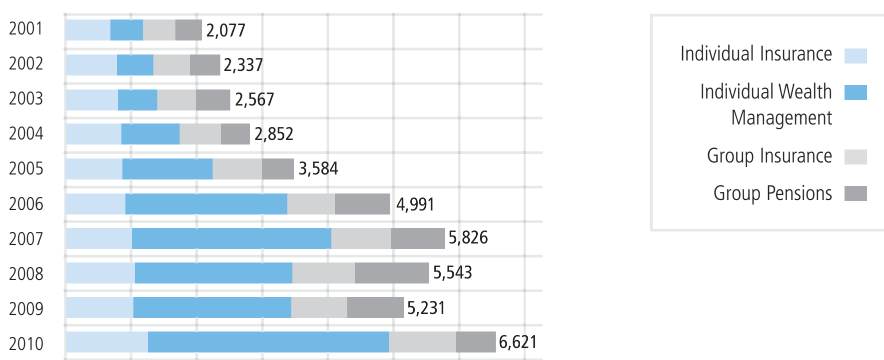
A PROVEN BUSINESS MODEL

In 2010, we proved beyond a doubt that our business model was solid. The year was marked by volatility in the equity markets and historically low long-term interest rates in an economy that was still recovering from the recent financial crisis. Yet Industrial Alliance set new records for business growth and profitability, maintained the high quality of its investment portfolio and preserved financial strength ratings among the highest in its industry. This strong performance is explained by the Company's conservative management philosophy and its focus on assuring the long-term best interests of all its stakeholders.

DIVERSIFIED GROWTH

Over the last ten years, Industrial Alliance has increased its premiums and deposits by more than 11% and its assets under management and administration by 17%, both on an annually compounded basis. This growth has been driven by its multi-channel distribution network, the core strength of its Individual Insurance activities and the deployment of its Individual Wealth Management sector that has become an established player in retail investment funds over the last five years. In addition to these two sectors, the Company is also building a strong market presence in Group Insurance and Group Pensions.

Premiums and Deposits
by line of business ($M)



2010 HIGHLIGHTS

- Premiums and deposits achieved a record $6.6 billion, up 27%
- Assets under management and administration reached a historical high of $66.9 billion, up 15%
- Individual Insurance achieved record sales of $186.6 million, up 27%
- 1st in Canada for net sales of segregated funds with growth of 94%
- 7th in Canada for net sales of mutual funds with growth of 183%

A REPUTATION FOR DELIVERING RESULTS IN LINE WITH GUIDANCE

	2009 Guidance	2009 Results	2010 Guidance	2010 Results	2011 Guidance
EPS (diluted)	$2.50 to $3.00	$2.55	$2.75 to $3.25	$2.99	$3.05 to $3.60
ROE	12% to 14%	11.9%	12% to 14%	12.6%	12% to 14%
Solvency	175% to 200%	208%	175% to 200%	205%	175% to 200%
Dividend Payout	25% to 35%	38%	25% to 35%	33%	25% to 35% (mid-range)

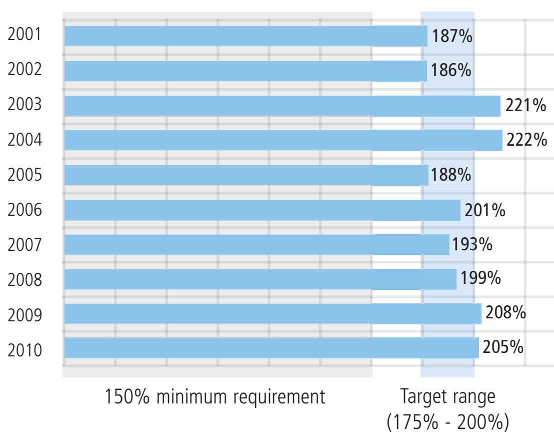
FINANCIAL STRENGTH

The Company maintains a strong financial position with a solvency ratio that is well above the regulatory minimum and above the Company's own target range. Sensitivity analyses at the end of December 31, 2010 concluded once again that the Company has the necessary capacity to absorb a significant downturn in equity markets. The Company's financial strength is also confirmed by credit ratings that remained unchanged throughout the recent financial crisis: Standard & Poors: A+ (Strong);
A.M. BEST: A (Excellent); and DBRS: IC-2.

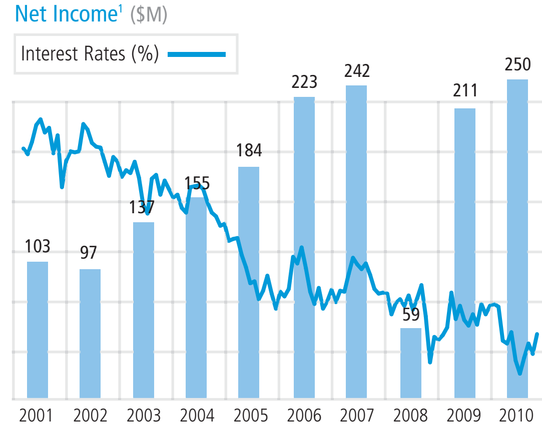
CONSERVATIVE MANAGEMENT

For more than a decade, Industrial Alliance has been able to absorb a decline in long-term interest rates without impacting the quality of its earnings. Its conservative management philosophy combined with well-timed management actions have allowed the Company to withstand significant adverse economic events without compromising its underlying fundamentals. Prudent reserving, a low-risk investment portfolio and strong execution on credit losses are the backbone of the Company's successful business model.

Solvency Ratio



Net Income[1] ($M)



[1]Before provision for Norshield in 2005 and debt asymmetry after 2006

2010 HIGHLIGHTS

› The solvency ratio was 205% at December 31, 2010, above the Company's target range of 175-200%

› Two capital issuances in February 2010 of $100 million in common shares and $100 million in perpetual preferred shares.

› The book value reached a high of $25.49 at December 31, 2010, up 12% over 2009

› Debt ratios and coverage ratios were both in line with credit agency requirements

2010 HIGHLIGHTS

› Record net income to common shareholders of $250.8 million, up 22%

› Diluted earnings per share of $2.99, up 17%

› Return on common shareholders' equity (ROE) of 12.6%, up from 11.9% in 2009

› Net impaired investments represented only 0.12% of total investments

› The proportion of bonds rated BB or lower was only 0.12% of the total bond portfolio

MESSAGE FROM THE CHAIRMAN OF THE BOARD

John LeBoutillier
Chairman of the Board

"The Company achieved record profitability, quite an accomplishment in the low interest rate environment of 2010."

Industrial Alliance achieved success on numerous fronts in 2010. This positive message that we are delivering to our shareholders and policyholders is based on three major observations.

Naturally, the first one is the Company's profitability. Not only did Industrial Alliance return to pre-crisis profitability in 2010, but even surpassed it, quite an accomplishment in the low interest rate environment of 2010. This success results from a variety of factors, including sound risk management and good quality of investments. In this respect, the Board reiterates its support for the strategy of prudence and foresight that characterizes Industrial Alliance so well.

This leads me to the Board's second major observation about 2010, which is Industrial Alliance's strong business growth. This growth, which came from all lines of business, rests on a solid business model that has clearly proven its success – a prospect that bodes very well for the future. Business growth is also closely tied to the privileged relationship between the Company and its distribution networks, which is based on mutual trust.

The third and equally significant observation is that in 2010, Industrial Alliance truly began to develop the full potential of its recent acquisitions, both in Canada and the United States.

Overall, the financial results for the year testify to a well-defined, balanced and realistic business development strategy.

DISCIPLINED MANAGEMENT AND SOUND GOVERNANCE

Low interest rates and stock market volatility in 2010 could have had a major impact on the Company's financial results. That was not the case, however, thanks to the prudence and experience of Industrial Alliance's senior management, who took the necessary steps to absorb further market downturns and to deal with persistently low interest rates.

The Board was once again able to observe the disciplined management and long-term vision that continue to constitute proven strengths for the Company, allowing it to navigate successfully through challenges.

In terms of governance, the Company continued to follow the strictest practices. Already considered a leader in corporate governance in Canada, Industrial Alliance continues to aim even higher.

In another vein, the Board can attest to the quality of the Company's succession following the senior management appointments announced in April 2010.

BOARD ACTIVITIES

The Board of Directors met eight times in 2010, and the Board's committees held a total of 16 meetings. The participation rate in Board meetings was 98%, and 100% in Board committee meetings.

Two members of the Board, Robert Lacroix and Guy Savard, stepped down in 2010. Mr. Lacroix, who joined the Board in 2004 and was a member of the Audit Committee, reached the retirement age for directors, while Mr. Savard left for personal reasons. Mr. Savard spent over fifteen years on the Board. He chaired the Audit Committee for several years and, when he left, he was a member of the Investment Committee. On behalf of myself and the Board of Directors, I sincerely thank them for their important contribution to the conduct of our business.

In May 2010, the Board welcomed a new director, Claude Lamoureux, as a policyholder representative. He also became a member of the Investment Committee. Mr. Lamoureux was President and Chief Executive Officer of the Ontario Teachers' Pension Plan from 1990 until his retirement in 2007.

In January 2011, Industrial Alliance announced the appointment of Jacques Martin to the Company's Board of Directors and as a member of the Investment Committee. Mr. Martin has held executive positions in renowned financial corporations in the United States and England.

CONCLUSION

Industrial Alliance ended a year characterized by strong results; a year in which the Company was able to stay on course and demonstrate an excellent balance of profitability, business growth and risk management.

On behalf of the directors, it's my practice to congratulate the Company's senior management and all employees for their outstanding and steadfast commitment to the Company's goals. Their commitment remains the cornerstone of the Company's strength and future success.

Thank you as well to all policyholders and all shareholders for their continued support and confidence.

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

Yvon Charest
President and
Chief Executive Officer

"I'd like to thank everyone for their valuable contribution, which helped us to collectively achieve the best results in our Company's history. Together, we have proven that we're stronger than ever!"

Industrial Alliance's performance in 2010 clearly demonstrated the strength and stability of our business model. While the economy was slowly starting to recover from one of the worst financial crises in decades, we managed to outperform our record year in 2007 from both a growth and profitability standpoint, while maintaining one of the highest financial solvency ratios in the industry.

Our 2010 results also show that Industrial Alliance benefited from strong sales momentum in almost all lines of business.

Stock market growth and very positive net investment fund entries carried assets under management and under administration to a new high of $66.9 billion, up 15% for 2010. Premiums and deposits also reached a new high of $6.6 billion, a 27% increase over 2009.

Net segregated fund and mutual fund sales reached a record $1.7 billion. In the US, sales benefited from the contribution of American-Amicable, which was acquired in July 2010.

Industrial Alliance Auto and Home Insurance recorded higher growth than the industry average for the fifth year in a row.

In addition, Industrial Alliance's credit ratings were confirmed by all the credit agencies in 2010, and the Company's outlook was revised upward by Standard & Poor's.

It's important to note that our business model showed its resiliency during the recent financial crisis, enabling us to achieve a record year in 2010 within a low interest rate environment.

ECONOMIC AND FINANCIAL ENVIRONMENT

From a profitability standpoint, all of our objectives were achieved in 2010 despite a challenging economic and financial environment.

As at December 31, 2010, the value of the Company's stock was up 14.3% over 2009, with a market capitalization of $3.1 billion. The Company is one of the largest public companies on the Toronto Stock Exchange.

2010 was marked by a still fragile world economy, characterized by a somewhat shaky recovery in the US and the difficulties plaguing certain European countries. Although Canada emerged well from the recent financial crisis, the fact remains that global economic recovery has been slower and more difficult than expected.

In addition, Canada's long-term interest rates dropped nearly 50 basis points in 2010, which was likely to put additional pressure on insurance companies' financial results.

The equity markets had their fair share of volatility, particularly during the first half of the year. Despite this considerable volatility, the S&P/TSX index ended the year up 14%.

We have every reason to be proud and to celebrate Industrial Alliance's performance in 2010. In an environment fraught with many challenges, the Company scored highly on growth, profitability and financial strength.

BUSINESS GROWTH

The Individual Wealth Management sector experienced very strong growth in 2010, with record sales of $3.7 billion, a 56% increase over 2009. It was a particularly good year for segregated funds and mutual funds, which were up 72% and 62% respectively thanks to strong stock markets and the scope of our distribution networks.

At the end of the year, Industrial Alliance was ranked first in terms of net segregated fund sales in Canada, and 7th in terms of net mutual fund sales.

The strong stock market recovery and the acquisition of the American-Amicable life insurance company were particularly beneficial to the Individual Insurance sector, which had record sales of $186.6 million in 2010, up 27% from the previous year.

Industrial Alliance Auto and Home Insurance recorded a 14% increase in direct written premiums in 2010, much higher than the average of 3%, at most, for the general insurance industry. In 2010, this subsidiary continued its vast initiative to substantially improve its efficiency through an innovative approach inspired by the LEAN philosophy.

PROFITABILITY

From a profitability standpoint, the Company surpassed its pre-financial crisis record from 2007, posting net income to common shareholders of $250.8 million.

The main factors that contributed to net income include the stock market recovery; strong growth in sales, particularly in the Individual Wealth Management sector; the Company's many initiatives to alleviate the impact of lower interest rates; and the excellent performance of the auto and home insurance subsidiary.

In terms of the guidance given to the financial markets at the beginning of 2010, the diluted earnings per common share of $2.98 and the return on common shareholders' equity of 12.6% are within their respective target ranges, which is between $2.75 and $3.25 for earnings per share, and between 12% and 14% for return on common shareholders' equity.

FINANCIAL STRENGTH

In terms of financial strength, the Company's solvency ratio sits at 205%, which is above our 175% to 200% target range. This means that Industrial Alliance is able to absorb a significant drop in the stock markets. We expect this ratio to remain above 175% as long as the S&P/TSX stays above about 9,300 points, and to remain above 150% as long as the index stays above about 7,700 points.

This means that the Company is able to absorb a decrease of about 31% in this index before its solvency ratio drops to 175%, and a decrease of 43% before its solvency ratio drops to 150%, which is the minimum required by the regulatory authorities.

At the beginning of 2010, Industrial Alliance continued to improve the strength of its capital by issuing $200 million in shares: $100 million in perpetual preferred shares and $100 million in common shares. These issuances helped push the Company's capital to $3.1 billion as at December 31, 2010, an increase of 15% over 2009.

With sound and prudent management of its capital, Industrial Alliance currently enjoys good credit ratings and strong capitalization, reassuring its clients of the Company's ability to ensure their financial security.

OPERATIONAL GROWTH AND DEVELOPMENT

These excellent results enable us to pursue the growth and development of the Company's operations.

I'd like to mention three events in particular that occurred in 2010. The first was the acquisition of US life insurance company American-Amicable, a Texas-based company that is licensed to sell life insurance in 49 states.

This acquisition provided Industrial Alliance with the scale and presence to accelerate its US growth strategy. Today we can say that Industrial Alliance has truly begun to develop its potential south of the border, with over one hundred employees currently located in the US.

The second event was our business growth in the creditor insurance sector. Creditor insurance sales reached $183.3 million in 2010, up 20% compared to 2009.

In 2010, we completed the acquisition of National Warranties MRWV Limited, a company that specializes in extended warranties for used cars. On February 14, 2011, we acquired the operations of Protection V.A.G. Inc., Communications & Références Multi Assurance Direct inc. and Produits récréatifs Accès inc. These companies operate in the creditor insurance and replacement insurance sectors, primarily through automobile dealers.

These acquisitions are part of our positioning to become a comprehensive service provider in the Group Creditor Insurance sector among new and used automobile dealers.

The third event that characterized 2010 was that The Excellence Life Insurance Company began rolling out its health and disability insurance operations across Canada. Industrial Alliance also became the sole owner of Excellence by purchasing the remaining 2% of the shares held by third parties.

CORPORATE VALUES

The 2010 results are the product of a solid, disciplined business plan. They are also the result of strong corporate values that are firmly upheld by Industrial Alliance employees. These values include the implementation of a high-performance environment that focuses on setting objectives and working toward them energetically and with perseverance.

The Company's values also include ongoing improvement, based on the belief that efficiency is driven by innovation. In this regard, the Company is continuing its efforts to implement a culture of ongoing improvement which ensures that employee mobilization remains strong.

VITALITY AND CHANGE

The environment in which Industrial Alliance operates is characterized by vitality and change. It continually poses new challenges. Some of these challenges include persistently low interest rates, the upcoming implementation of Phase II of the International Financial Reporting Standards (IFRS), the tightening of regulatory guidelines regarding new capital requirements; and changes in the competition's pricing of individual life insurance policies.

In this kind of environment, it's important to recognize that our best asset is, without a doubt, our business model. This model has proven itself brilliantly, as indicated by the Company's results for 2010.

We are in a very enviable position. Our four main lines of business—Individual Insurance, Individual Wealth Management, Group Insurance and Group Pensions—are all showing very good growth. We're also doing business in new market segments, which are at different stages of development, but all very promising. We also have diversified and highly effective distribution networks, which constitute a major strength for Industrial Alliance.

DEVELOPMENT STRATEGY

We believe the past is the foundation of the future. As a result, we will continue to adhere firmly to the strategy that has ensured our growth year after year. Once again, our development strategy will focus on the following components:

- Developing the wealth management sector
- Growing the distribution networks
- Accelerating geographic diversification in Canada
- Creating a strong, viable operating platform in the US
- Penetrating new market segments
- Exercising strict control over unit costs
- Focusing on ongoing improvement
- Maximizing the synergies within the Industrial Alliance group of companies

CONCLUSION

Industrial Alliance has proven its ability to navigate successfully through challenging environments.

We will continue to focus on our strengths, which have been the foundation of our success: a well rooted risk management culture, a prudent investment portfolio, internal development of tomorrow’s leaders, and a disciplined approach to acquisitions. These strengths and many others will continue to guide us in the future.

In terms of social responsibility, Industrial Alliance conducts itself ethically and transparently as a responsible corporate citizen, according to ideals that are endorsed by all Company employees.

We take great pride in the excellent results achieved in 2010, which are largely thanks to the knowledge and determination of the management team and all employees of the Industrial Alliance group. I'd like to thank everyone for their valuable contribution, which helped us to collectively achieve the best results in our Company's history. Together, we have proven that we're stronger than ever!"

I respectfully sign this report on behalf of the Planning Committee, and on behalf of all employees, who are firmly committed to helping ensure the continued success of Industrial Alliance.

Yvon Charest

INDUSTRIAL ALLIANCE PLANNING COMMITTEE

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

President and Chief Executive Officer

Industrial Alliance

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

President and Chief Operating Officer

Industrial Alliance Pacific

Normand Pépin
F.S.A., F.C.I.A.

Executive Vice-President

Life Subsidiaries and Individual Insurance and Annuities

Industrial Alliance

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

President

IA American

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

Executive Vice-President

Investments

Industrial Alliance

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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, 2010 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 18, 2011.

NON-GAAP FINANCIAL MEASURES

Industrial Alliance Insurance and Financial Services Inc. reports its financial results in accordance with generally accepted accounting principles ("GAAP"). However, it also occasionally publishes certain non-GAAP financial measures which either do not have any GAAP equivalent, including sales, value of new business, embedded value and solvency ratio, or which have a GAAP equivalent and which can be compared with GAAP measures, such as data on the operating profit and income taxes on the earnings presented in the sources of earnings table. The Company 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.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis may contain statements relating to strategies used by Industrial Alliance or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may", "will", "could", "should", "would", "suspect", "expect", "anticipate", "intend", "plan", "believe", "estimate", and "continue" (or the negative thereof), as well as words such as "objective" or "goal" or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. Forward-looking statements include, but are not limited to, information concerning the Company's possible or assumed future operating results. These statements are not historical facts; they represent only the Company's expectations, estimates and projections regarding future events.

Although Industrial Alliance believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: general business and economic conditions (including but not limited to performance of equity markets, interest rate fluctuations, currency rates, investment losses and defaults, movements in credit spreads, market liquidity and creditworthiness of guarantors and counterparties); level of competition and consolidation; changes in laws and regulations including tax laws; liquidity of Industrial Alliance including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by Industrial Alliance; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism; failure of information systems and Internet-enabled technology; breaches of computer security and privacy; dependence on third-party relationships including outsourcing arrangements; ability to maintain Industrial Alliance's reputation; regulatory investigations and proceedings and private legal proceedings and class actions relating to practices in the mutual fund, insurance, annuity and financial product distribution industries; the ability to adapt products and services to the changing market; the ability to implement effective hedging strategies; the ability to attract and retain key executives; the ability to complete acquisitions including the availability of equity and debt financing when required for this purpose; the ability to execute strategic plans; the disruption of or changes to key elements of Industrial Alliance's or public infrastructure systems; and environmental concerns.

Additional information about material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of this Management's Discussion and Analysis and in the "Management of Risks Associated with Financial Instruments" note to Industrial Alliance's consolidated financial statements, and elsewhere in Industrial Alliance's filings with Canadian securities regulators, which are available for review at www.sedar.com.

Industrial Alliance does not undertake to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Management's Discussion and Analysis or to reflect the occurrence of unanticipated events, except as required by law.

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

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company with operations across Canada and in the United States.

For over 100 years, the primary mission of Industrial Alliance has been to ensure the financial wellbeing of its clients by offering them personal protection and investment solutions that will help them to accomplish their personal projects.

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.

Industrial Alliance is one of the four largest life and health insurance companies in Canada. It contributes to the financial wellbeing of over three million Canadians, employs more than 3,700 people, has a network of over 18,000 agents, and manages and administers approximately $67 billion in assets.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. The Company has over 70,000 shareholders. Industrial Alliance stock closed 2010 at $36.81, up 14.3% for the year. As at December 31, 2010, the Company had 83.9 million issued and outstanding common shares. With a market capitalization of $3.1 billion (as at December 31, 2010), Industrial Alliance is among the 100 largest publicly listed companies in Canada.

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

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

NETWORK OF SUBSIDIARIES

Industrial Alliance stands out through the size and diversity of its distribution networks. The Company 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, National Financial Insurance Agency Inc. and Solicour Inc.). Refer to the "Industrial Alliance Organization Chart" section for a description of Industrial Alliance's subsidiaries.

PROFITABILITY AND BUSINESS GROWTH

In terms of profitability, Industrial Alliance ended 2010 with net income to common shareholders of $250.8 million, but with an operating profit of $260.0 million on regular operations[1], if we exclude the impact of the changes in assumptions. Of this amount, 38% came from Individual Insurance, 37% from Individual Wealth Management, 18% 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, 17% of the Company's premiums and deposits in 2010 came from Individual Insurance, 56% from Individual Wealth Management, 16% from Group Insurance, 9% from Group Pensions and 2% from general insurance operations.

By region, 5% of premiums and deposits in 2010 came from the Atlantic provinces, 40% from Quebec, 29% from Ontario, 23% from the Western provinces and 3% 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.

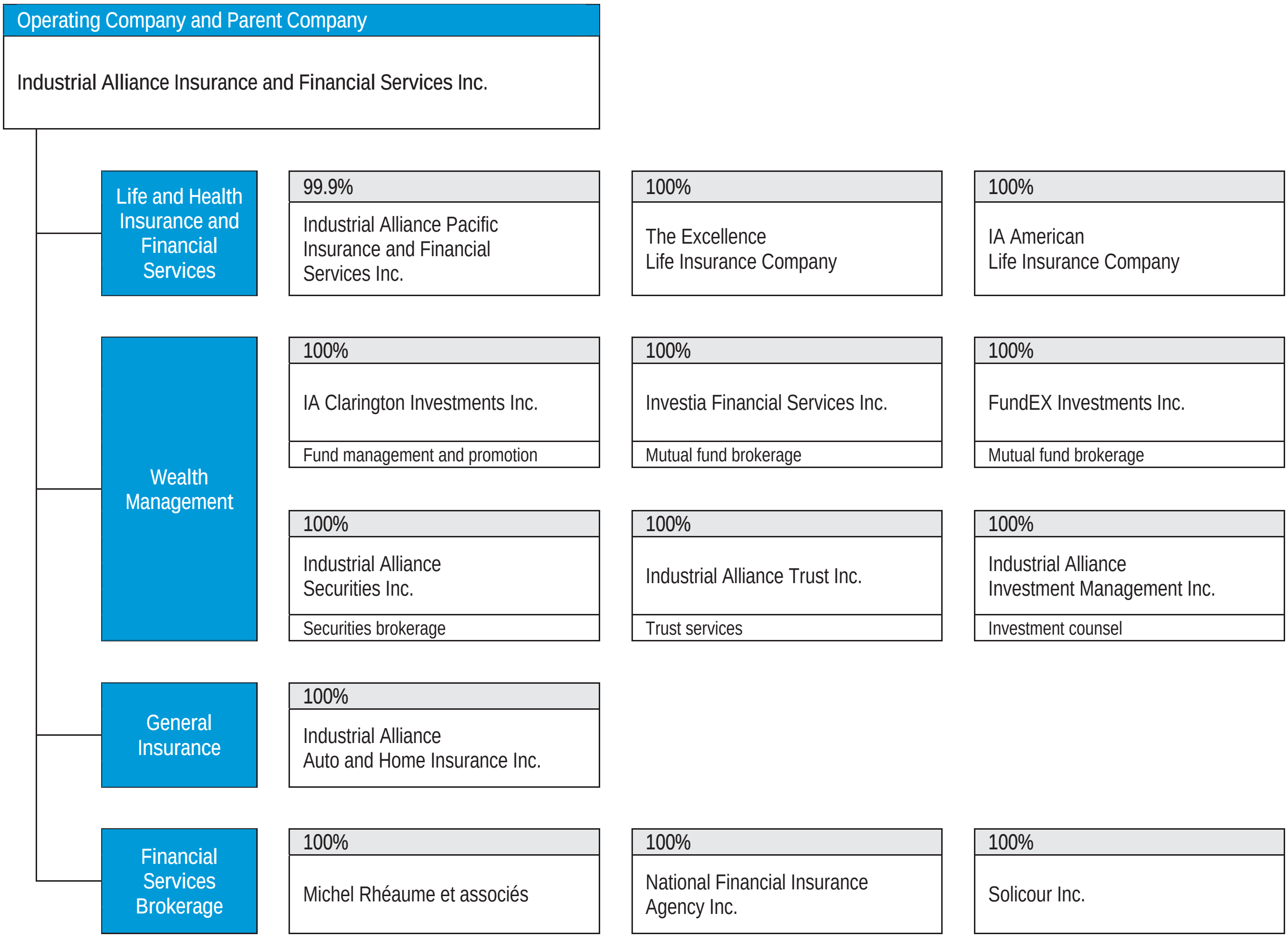
LEGAL CONSTITUTION

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.

[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



INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

Assets under management and under administration: $66.9 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.

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES INC.

Assets under management: $5.6 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. In 2010, IA Pacific acquired privately-owned National Warranties MRWV Limited, a company that sells extended warranties predominately through independent used car dealers in Quebec. The head office of IA Pacific is located in Vancouver, British Columbia.

THE EXCELLENCE LIFE INSURANCE COMPANY

Direct written premiums: $94.9 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 is in the process of rolling out operations Canada-wide. Excellence and the brokerage company with which it is associated, Michel Rhéaume et associés ("MRA"), were acquired by Industrial Alliance in 2008. In 2010, Industrial Alliance concluded the acquisition of the remaining shares of Excellence that it didn't already own. The head office of Excellence is located in Montreal, Quebec.

IA AMERICAN LIFE INSURANCE COMPANY

Assets under management: US$808.8 million
Direct written premiums: US$50.8 million

IA American Life Insurance Company ("IA American") is a life and health insurance company that offers a wide range of life insurance and annuity products in the United States. IA American is the new corporate name of United Family Life Insurance Company, an American life insurance company acquired by Industrial Alliance in 2008. IA American is used as the platform for Industrial Alliance to market its products in the US family market. In 2010, IA American acquired American-Amicable Life Insurance Company and the in-force life policies of Golden State Mutual. The company now has a national distribution network of independent brokers and agencies in 44 states and territories. Its head office is located in Scottsdale, Arizona.

IA CLARINGTON INVESTMENTS INC.

Assets under management: $9.7 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 activities of Industrial Alliance Fund Management Inc. were merged with those of Clarington Corporation. Industrial Alliance Fund Management Inc. was created in 2004 by Industrial Alliance after it acquired BLC-Edmond de Rothschild Asset Management Inc. Clarington Corporation was 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: $9.9 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: $10.9 billion

FundEX Investments Inc. ("FundEX") is a mutual fund broker. Created in 1995, FundEX offers the funds of most large Canadian investment fund companies, and has a network of over 600 advisors. 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: $2.6 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 securities trading. Created in 2002, IA Securities resulted from the merger of five securities brokerage firms. It has some 55 employees, over 21,000 clients and distributes its products in Canada through over 175 representatives. Its head office is located in Montreal, Quebec.

INDUSTRIAL ALLIANCE TRUST INC.

Assets under administration: $4.1 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: $42.4 billion

Industrial Alliance Investment Management Inc. ("IA Investment Management") is an investment advisor. Created in 2004, IA Investment Management oversees the management of the Industrial Alliance group's general fund, segregated fund and mutual fund portfolios. It relies on a team of over forty investment professionals who handle the asset allocation, securities selection and risk management for all investment funds. In addition, IA Investment Management supervises 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: $154.7 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

Commissions: $14.3 million

Michel Rhéaume et associés ("MRA") is a life and health insurance firm. 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: $11.2 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 was acquired by Industrial Alliance in 2008. It is a subsidiary of Investia. Its head office is located in Quebec City, Quebec.

SOLICOUR INC.

Commissions: $4.7 million

Solicour Inc. ("Solicour") is a financial services firm. Created in 1985, Solicour 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. Its head office is located in Quebec City, Quebec.

HIGHLIGHTS OF 2010, MARKET GUIDANCE FOR 2011 AND SENSITIVITY ANALYSIS

2010 HIGHLIGHTS

- Profitability
  - Record net income to common shareholders of $250.8 million, up 22% from the previous year
  - Diluted earnings per common share of $2.99, in the middle of the $2.75 to $3.25 target range for 2010
  - Return of 12.6% according to GAAP and also 12.6% for regular operations, within the 12% to 14% target range
- Dividend
  - Quarterly dividend maintained at $0.2450 per common share in 2010
  - Payout ratio of 33%, in the top end of the 25% to 35% target range
- Business Growth
  - $66.9 billion in assets, a high, up 15%
  - $6.6 billion in premiums and deposits, a high, up 27%
- Financial Strength
  - Solvency ratio of 205%, above the 175% to 200% target range
- Quality of Investments
  - Very good quality of investments for all asset categories
  - Net impaired investments very low: 0.12% of investments
- Risk Management
  - Ability to absorb a significant market downturn
- Embedded Value
  - Embedded value of $3.5 billion, up 17.4% after the payment of dividends (20.1% before the payment of dividends)

Subsequent to one of the worst financial crises on record, 2010 can be described as a year in which the economy picked up momentum. Despite volatility in the financial markets, the year ended on a strong note. At December 31, 2010, the TSX stood at 13,443 points, an increase of more than 14% over the previous year and long-term interest rates recouped some of the basis points shed since the beginning of 2010. Against this backdrop, Industrial Alliance succeeded in surpassing its record results of 2007. On all measures, including organic and strategic business growth, profitability, assets under management, quality of investments and financial strength, we proved that our business model is working and that at the beginning of 2011 our organization is stronger than ever.

Following are the highlights of the Company's results for 2010:

PROFITABILITY

Thanks to an improved economic environment, better stock market performances, excellent sales results, and a number of initiatives to alleviate the impact of an interest rate decrease, the Company's net income to common shareholders reached $250.8 million in 2010, an increase of 22% over 2009. This translates into diluted earnings per common share of $2.99 ($2.55 in 2009) and a return on common shareholders' equity of 12.6% (11.9% in 2009).

Profitability	(In millions of dollars, unless otherwise indicated)	
	2010	2009
Net income to common shareholders	250.8	205.8
Earnings per common share (diluted)	$2.99	$2.55
Return on common shareholders' equity	12.6%	11.9%

The good results in 2010 are primarily explained by the improved economic environment, which enabled the entire Group Insurance sector to realize experience gains of $8.2 million after taxes ($0.10 per common share), and by stock market growth, which improved net income by $1.4 million ($0.02 per common share) compared to the expected result.

2010 results benefited from a gain of $0.5 million after taxes ($0.01 per common share) resulting from the favourable evolution of the difference between the fair value of the debt instruments held for trading and the underlying assets. Excluding this gain, the Company ended 2010 with net income to common shareholders of $250.3 million. This translates into diluted earnings per common share of $2.98 and a return on common shareholders' equity of 12.6%. In terms of the guidance given to the financial markets at the beginning of the year, these two measures are within their respective target ranges, i.e. earnings per share of between $2.75 and $3.25, and a return on common shareholders' equity of between 12% and 14%.

As it does at every year end, the Company completed its review of the assumptions used to determine the provisions for future policy benefits, and carried out a detailed examination of its income tax situation. This year, the combined effect of these two analyses resulted in a $2.2 million increase in net income, which represents $0.03 per common share. This increase is the net result of an $11.3 million strengthening of the provisions for future policy benefits, before taxes ($8.4 million after taxes), and a $10.6 million decrease in income taxes.

DIVIDEND

The Company maintained its dividend in 2010, paying out $0.2450 per common share in each of the four quarters, for a total dividend of $0.98 per common share. This dividend has remained stable since the third quarter of 2008, and translates into a dividend payout ratio of 33% of the net income available to common shareholders for 2010.

MARKET GUIDANCE FOR 2011

Following is the Company's main market guidance for 2011:

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

Earnings per common share – New target range of $3.05 to $3.60 for 2011 (up from the $2.75 to $3.25 target given as guidance for 2010).

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

Dividend payout ratio – Maintain the 25% to 35% target range in the medium term. In addition, the Company expects the ratio to be in the middle of the target range in 2011.

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 2010 results to update its sensitivity analyses as at December 31, 2010. The results of these analyses show that the leeway available to the Company to absorb potential stock market downturns remains relatively 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 10,600 points.

Solvency ratio – The Company expects the solvency ratio to remain above 175% as long as the S&P/TSX index stays above approximately 9,300 points, and to remain above 150% as long as the index stays above approximately 7,700 points.

BUSINESS GROWTH

Following are the business growth highlights:

Premiums and deposits – For 2010, premiums and deposits reached a high of $6.6 billion, 27% higher than in 2009 and 16% higher than budget. The 2010 results surpassed the Company's record year in 2007 by 14%.

Premiums and Deposits[1]	(In millions of dollars, unless otherwise indicated)		
	2010	2009	Variation
Individual Insurance	1,125.6	938.4	20%
Individual Wealth Management	3,676.3	2,350.0	56%
Group Insurance	1,035.2	962.4	8%
Group Pensions	622.5	839.8	(26%)
General Insurance	161.6	140.6	15%
Total	6,621.2	5,231.2	27%

Assets under management and under administration – The increase in the equity markets and positive net fund entries carried assets under management and under administration to a new high of $66.9 billion as at December 31, 2010, an increase of 15% for 2010. 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		
	2010	2009	Variation
Assets under management	42,307.3	36,255.8	17%
Assets under administration	24,571.7	22,150.8	11%
Total	66,879.0	58,406.6	15%

Value of new business – The year ended with a 40% increase in the value of new business over 2009. The value of new business evolves according to three components: sales, profit margins and change in the discount rate. The "sales" component grew the value of new business by $52.6 million in 2010, primarily due to higher sales in the retail sectors and the Group Insurance sector. This substantial increase was somewhat mitigated by the increase in the discount rate at the end of 2009, net of the impact of the increase in interest rates and market returns, which decreased the value of new business by $4.3 million. Profit margins had virtually no impact on the value of new business in 2010.

Value of New Business By Component	(In millions of dollars) 2010
Value of new business in 2009	121.4
Sales	52.6
Profit margins	0.1
Discount rate (increase)	(4.3)
Value of new business in 2010	169.8

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 this sector, thanks mainly to the strong stock market recovery.

› The sector ended the year with record sales of $186.6 million, up 27% over the previous year, mainly owing to strong growth in the high net-worth market, with "excess premiums" up 72%.

› Sales were up 19% in the traditional family market for insurance coverage, measured in terms of "minimum premiums", reaching a high of $150.9 million.

› The level of activity remained high throughout the year, with a 4% increase in the number of Canadian policies sold. The Company sold 117,091 individual insurance contracts in 2010 (112,335 in 2009), which ranks it third in Canada in this respect after nine months.

› The Company continued its US market development strategy by concluding the acquisition of US life insurance company American-Amicable in July 2010.

› The Company continued to adapt its product offer in 2010 by launching a unique product called Life and Serenity 65, adding new options to the IRIS Strategy, improving its guaranteed and simplified issue products, and making a number of pricing adjustments.

Individual Wealth Management – This sector had a year of very strong growth, primarily owing to record sales.

› Assets under management grew 21% to reach $18.7 billion. This increase can be explained by the stock market rebound and very positive net sales.

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.

- Thanks to the strong stock market recovery, the Individual Wealth Management sector realized record sales of $3.7 billion in 2010, a 56% increase over the previous year.

- One of the greatest successes of the year was that net sales were very solid all year long. At the end of the year, the Company ranked 1st in terms of net segregated fund sales in Canada, with a 37.2% market share (10.1% in 2009), and 7th in terms of net mutual fund sales, compared to 17th in terms of assets.

Group Insurance: Employee Plans – Premiums and premium equivalents continued to grow in 2010, which is important for the Company since this is the key long-term profitability driver for Group Insurance Employee Plans.

- Premiums and premium equivalents reached a new high, up 4% to reach $878.4 million.

- Sales totalled $72.2 million in 2010, down 4% from 2009. This decline was primarily due to decreased activity in the medium-sized groups market.

- Sales outside Quebec were slightly lower than within Quebec. This is the first time in six years that sales outside Quebec haven't surpassed those within Quebec.

Group Creditor Insurance – This sector made a solid recovery in 2010, with sales totalling $183.3 million, up 20% over 2009. This growth greatly surpasses that of the automobile market. 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") – Results for this sector were satisfying in terms of sales, with gross premiums net of reinsurance reaching $124.2 million, a 10% increase over 2009. The sector posted good sales growth in 2010 for all products and all business segments. This sector specializes in certain insurance markets that are not well served by traditional insurance carriers.

Group Pensions – Assets under management continued to grow in 2010. This element is the key long-term profitability driver for the sector.

- Assets under management grew 9% to reach $7.8 billion at the end of 2010. This increase is attributable to positive net fund entries and good stock market performances.

- Sales reached $685.4 million in 2010, down 18% compared to 2009. Fund entries can fluctuate substantially from one year to another in this sector due to the size of the mandates sometimes granted.

- Sales of new accumulation plans outside Quebec were higher than sales within Quebec for the sixth 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) 2010	2009	Variation
Individual Insurance			
Minimum premiums	150.9	126.4	19%
Excess premiums	35.7	20.7	72%
Total	186.6	147.1	27%
Individual Wealth Management			
General fund	441.1	404.3	9%
Segregated funds	1,488.0	866.2	72%
Mutual funds	1,747.2	1,079.5	62%
Total	3,676.3	2,350.0	56%
Group Insurance			
Employee Plans	72.2	75.0	(4%)
Creditor Insurance	183.3	152.4	20%
Special Markets Group (SMG)	124.2	113.2	10%
Group Pensions	685.4	839.8	(18%)

FINANCIAL STRENGTH

In 2010, the Company remained well positioned in terms of financial strength:

- The Company successfully carried out two capital issuances in February 2010: the issuance of $100 million in common shares, and the issuance of $100 million in preferred shares.

- These issuances helped grow the Company's capital, which reached $3.1 billion as at December 31, 2010, up 15% from the end of 2009. Net income for the year, net of dividends paid to common shareholders, and the accumulation of latent gains under other comprehensive income, also contributed to this increase.

- The solvency ratio continues to be above the Company's 175% to 200% target range. This ratio decreased slightly during the year, from 208% as at December 31, 2009 to 205% as at December 31, 2010. The decrease is primarily attributable to higher capital requirements as a result of the favourable impact of the financial markets on the value of the investment portfolio, the increase in the proportion of stocks backing reserves (15% to 18%) as well as acquisitions concluded during 2010.

- The book value per common share continued to grow, ending the year at a high of $25.49, an increase of 12% over 2009. This growth comes from the increase in the Company's common shareholders' equity.

- The combined impact of the common and preferred share issuances helped reduce the Company's debt ratios, from 19.2% as at December 31, 2009 to 16.9% as at December 31, 2010, if the debentures alone are included in the debt instruments, and from 31.3% as at December 31, 2009 to 30.5% as at December 31, 2010, 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.

- The coverage ratio remained relatively stable despite an increase in all components (interest charge paid for all debts, dividends paid on preferred shares and consolidated earnings before taxes). It decreased from 6.3x in 2009 to 6.1x in 2010, and continues to meet rating agency requirements.

[1] Refer to the sections on the Company's different business lines for a definition of sales.

Solvency and Capitalization (In millions of dollars, unless otherwise indicated)	As at December 31 2010	2009
Solvency ratio	205%	208%
Capitalization[1]	3,114.4	2,703.1
Book value per common share	$25.49	$22.77
Debt ratio		
Debentures/capital	16.9%	19.2%
Debentures and preferred shares/capital	30.5%	31.3%

QUALITY OF INVESTMENTS

The quality of investments continued to be very good in 2010.

- The bond portfolio had no defaulted bonds at the end of 2010.
- The Company posted two provisions totalling $2.0 million in 2010. These provisions were entirely offset, however, by reimbursements of $2.1 million associated with a security that had been devalued in 2009.
- Net impaired investments totalled $22.8 million as at December 31, 2010, compared to $13.0 million as at December 31, 2009. This increase essentially results from the posting of two bonds as impaired investments for which a provision was taken, as well as three mortgage loans on multi-unit residential properties. The proportion of net impaired investments represented just 0.12% of total investments as at December 31, 2010.
- The proportion of bonds rated BB or lower increased slightly during the year, from 0.07% of the portfolio as at December 31, 2009 to 0.12% as at December 31, 2010. This increase is primarily due to three bonds that were added to the list of bonds rated BB and lower due to a downgrading.
- A number of initiatives were introduced to enhance the quality of the investment portfolio, increase returns and improve matching. The Company continued to develop its inter-segment note program, repositioned assets and set up a hedging program to mitigate the risks related to the minimum guaranteed withdrawal benefit offered by the Individual Wealth Management sector.
- No additional provisions were taken for the non-bank sponsored asset-backed commercial paper ("ABCP"). The Company's exposure to ABCP decreased by $36.2 million in 2010, from $91.0 million as at December 31, 2009 to $54.8 million as at December 31, 2010. This decrease is primarily due to the sale of certain notes supported by synthetic assets, whose nominal value was $28.2 million, and capital reimbursements (at their par value) totalling $7.0 million. The overall devaluation taken for these securities due to credit risk amounted to $23.8 million, which is equal to 43.4% of their nominal value. The Company believes that this devaluation is adequate under the circumstances.
- The Company has very little exposure to securities that have made the headlines over the past few years, whether it be the securities of countries struggling with public finance issues, or securities that belong to certain economic sectors such as the US subprime mortgage loan market, US automobile manufacturers or monolines. The Company's exposure to all of these sectors or countries is limited to a $22.6 million investment in securities of UK financial institutions, a $5.0 million investment in a province in Spain, and a $1.0 million private investment in a Spanish company.

Investment Quality Indices (In millions of dollars, unless otherwise indicated)	As at December 31 2010	2009
Net impaired investments	22.8	13.0
Net impaired investments as a % of total investments	0.12%	0.08%
Bonds – Proportion rated BB and lower	0.12%	0.07%
Mortgage loans – Delinquency rate	0.47%	0.36%
Real estate – Market/book value	122.6%	126.9%

ACQUISITIONS

Industrial Alliance announced the conclusion of five acquisitions in 2010.

Through its subsidiary IA American Life Insurance, the Company acquired 100% of the common shares of American-Amicable Holding Inc. on July 19, 2010, the individual life insurance portfolio of Golden State Mutual Life Insurance Company on September 2, 2010, and the life insurance policy administration operations of Dream Life Administration LLC on September 30, 2010.

Also, on October 1, 2010, through its wholly-owned subsidiary Industrial Alliance Pacific Insurance and Financial Services Inc., Industrial Alliance acquired all outstanding shares of privately-owned National Warranties MRWV Limited.

Lastly, through Corporation Financière L'Excellence Ltée, the Company purchased the remaining 2% of the shares held by third parties, bringing its ownership of the shares in The Excellence Life Insurance Company to 100%.

On February 14, 2011, the Company acquired the operations of Protection V.A.G. Inc., Communications & Références Multi Assurance Direct inc. and Produits récréatifs Accès Inc. These companies operate in the creditor insurance and replacement warranty products sectors primarily through automobile dealers. The acquisition will be financed from the company's general funds.

EMBEDDED VALUE

Embedded value reached a record $3.5 billion as at December 31, 2010, which represents $41.56 per common share. This is up 20.1% from the value calculated as at December 31, 2009, before the payment of dividends to common shareholders, and up 17.4% after the payment of these dividends. The embedded value/book value ratio increased slightly, from 1.62x as at December 31, 2009 to 1.63x as at December 31, 2010.

Some of the factors that contributed to the increase in embedded value include normal growth in the value of the in-force block of business, which added 6.5% to the embedded value ($2.41 per common share), the value of new business, which added 5.7% to the embedded value ($2.02 per common share), and stock market growth, which added 2.3% to the embedded value ($0.86 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 12.2% to the embedded value in 2010 ($4.43 per common share). Since the Company began calculating its embedded value, it has always achieved more than 10% annual growth through the recurring items, which is in line with the Company's expectations in a normal environment.

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

PROFITABILITY

2010 HIGHLIGHTS

- Net income to common shareholders of $250.8 million, a 22% increase over last year and higher than 2007 (pre-financial crisis high)
- Diluted earnings per common share of $2.99, in the middle of the $2.75 to $3.25 target range
- Return on common shareholders' equity of 12.6%, within the 12% to 14% target range
- Main factors that affected profit:
  - Stock market rebound
  - Strong growth in sales, particularly in the Individual Wealth Management sector
  - A number of measures introduced to soften the impact of an interest rate decrease
  - Excellent performance of the auto and home insurance subsidiary

Thanks to an improved economic environment, better stock market performances, excellent sales results, and initiatives to alleviate the impact of an interest rate decrease, the Company's net income to common shareholders reached $250.8 million in 2010, an increase of 22% over 2009. This translates into diluted earnings per common share of $2.99 ($2.55 in 2009) and a return on common shareholders' equity of 12.6% (11.9% in 2009).

Profitability	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
Net income to shareholders	273.7	219.6	71.9	248.0	227.9
Less: dividends to preferred shareholders	22.9	13.8	5.8	5.8	4.9
Net income to common shareholders	250.8	205.8	66.1	242.2	223.0
Earnings per common share					
Basic	$3.02	$2.56	$0.82	$3.02	$2.77
Diluted	$2.99	$2.55	$0.82	$2.99	$2.74
Return on common shareholders' equity	12.6%	11.9%	4.0%	15.1%	15.7%

Following is an explanation of the main factors that influenced the results for 2010:

- *Improved economy* – The improved economic environment enabled the Group Insurance sector to obtain good experience results in 2010. The three divisions that make up this line of business (Employee Plans, SAL and SMG) generated experience gains of $8.2 million after taxes ($0.10 per common share). In the retail sectors, improved economic conditions also helped grow sales to record levels. Exceptional growth in net sales in the Individual Wealth Management sector was a positive factor in the Company's profitability.

- *Stock markets* – The growth of the equity markets improved the Company's net income by $1.4 million in 2010 ($0.02 per common share) compared to the expected result. The S&P/TSX index of the Toronto Stock Exchange was up 14% in 2010. The increase in the markets was especially beneficial for discounted future revenues on Universal Life policy funds.

- *Fair value of debt instruments* – In 2010, the Company recorded a gain of $0.5 million after taxes ($0.01 per common share) resulting from the favourable evolution of the difference between the fair value of the debt instruments held for trading and the underlying assets. This gain arises from the favourable evolution of risk premiums in 2010.

  Excluding this gain, the Company ended 2010 with net income to common shareholders of $250.3 million. This translates into diluted earnings per common share of $2.98 and a return on common shareholders' equity of 12.6%. In terms of the guidance given to the financial markets at the beginning of the year, these two measures are within their respective target ranges, i.e. earnings per share of between $2.75 and $3.25, and a return on common shareholders' equity of between 12% and 14%.

  This is the last year where the evolution of the difference between the fair value of the debt instruments and the corresponding assets will have an impact on income. The Company will use the introduction of the International Financial Reporting Standards ("IFRS") on January 1, 2011 as an opportunity to modify the classification of these debt instruments so they will now be accounted for at cost rather than at their fair value. In total, since the new accounting standards took effect in 2007, the asymmetric evolution of the market value of debt instruments and the underlying assets has resulted in a loss of $0.1 million.

Profitability on Regular Operations (In millions of dollars, unless otherwise indicated)	2010	2009
Net income to common shareholders	250.8	205.8
Less: gain (loss) resulting from the difference in the fair value of the debt instruments and the underlying assets (after taxes)	0.5	(5.4)
Net income to common shareholders on regular operations	250.3	211.2
Earnings per common share (diluted) on regular operations	$2.98	$2.62
Return on common shareholders' equity on regular operations	12.6%	12.2%

- *Changes in assumptions and income taxes* – As it does at every year end, the Company completed its review of the reserve valuation assumptions and carried out a detailed examination of its income tax situation. This year, the combined effect of these two analyses resulted in a $2.1 million increase in net income, which represents $0.03 per common share. This increase is the net result of an $11.3 million strengthening of the provisions for future policy benefits, before taxes ($8.4 million after taxes), and a $10.5 million decrease in income taxes.

  The decrease in income taxes can be primarily explained as follows. The analysis of the Company's tax situation revealed that a good part of the income taxes it was expecting to have to pay in the next few years will actually be payable later than expected. One consequence of this deferral is that the Company will benefit from more favourable tax conditions given that the tax rates prescribed by the regulatory authorities will be decreasing in the years to come.

As for the changes to the valuation assumptions, the considerations that led to the strengthening of the reserves are as follows:

- In 2010, the Company absorbed a decrease of 47 basis points in the initial reinvestment rate ("IRR"). This rate had dropped considerably in the first nine months of 2010, when it was down 62 basis points, but regained 15 basis points in the last quarter.

- The Company reduced the ultimate reinvestment rate ("URR") by 20 basis points in order to recognize the downward trend in long-term interest rates. The Company thus reduced the ultimate reinvestment rate from 3.9% at the end of 2009 to 3.7% at the end of 2010. The maximum rate that the Company could use at the end of 2010 for the ultimate reinvestment rate was 4.0%, 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 where they were on December 31, 2010, the maximum rate that the Company could use at the end of 2011 would be 3.8%, and would drop to 3.6% at the end of 2012. This means that, in these circumstances, the Company would not be required to strengthen its reserves for the ultimate reinvestment rate before 2012, in less than two years. However, the decrease in interest rates that occurred in 2010 will continue to put downward pressure on the maximum ultimate rate trend for future years. If this trend is confirmed, the maximum ultimate rate would drop to 3.5% at the end of 2013, then to 3.4% in 2014.

- The Company updated its mortality valuation parameters. The Company adopted a new mortality table published for the Individual Insurance sector in 2010. This new table, which has no impact on the mortality gains accumulated in previous years, will become the new benchmark for comparing changes in the Company's mortality to industry changes in the years to come. The mortality parameters were updated to take into account the increased longevity of annuitants in the Group Pensions sector (for the non-reinsured portion of the in-force insured annuities business) and the Individual Wealth Management sector.

To soften the impact of the interest rate decrease, a number of management actions were introduced throughout the year, and these actions largely offset the impact of strengthening the provisions for future policy benefits due to the decrease in the IRR and the URR. These actions impacted a group of assets totalling approximately $1.0 billion and produced a number of positive results, including an improvement in the return on assets supporting long-term commitments related to life insurance policies, a decrease in the reinvestment risk on certain investments, and an improvement in the asset/liability matching of certain blocks of business. The four main actions were as follows:

- First, the Company continued to develop its inter-segment note program. The notes in question allow cash flows to be exchanged among the Company's activity sectors based on their specific needs. This exchange offers the option to invest for a longer term, and therefore at higher rates, given the current interest rate curve. It also helps reduce the reinvestment risk, particularly in the Individual Insurance sector.

- Secondly, following an in-depth review of the Company's liabilities, the maturity of certain investments was deferred in order to better match the maturity of the liabilities they support, thereby optimizing asset/liability matching.

- Thirdly, forward contracts were negotiated with certain financial institutions in order to secure reinvestment rates for fixed-income securities that will be maturing in the future.

- Fourthly, a reallocation of the assets was carried out to increase the proportion of stock investments backing long-term commitments by 3% (from 15% to 18%), which made it possible to use a higher long-term return assumption.

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 sources of earnings highlights for 2009 and 2010 are indicated below. The table also provides additional information by activity sector which comply with the presentation of the financial statements.

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.

The expected profit on in-force business for 2010, which was calculated in the budget analysis prepared at the end of 2009, totalled $364.4 million, a 14% increase over the previous year. The increase comes primarily from the Individual Wealth Management sector and mainly reflects expected sales growth for this sector and the stock market upswing anticipated for 2010. The expected profit on in-force is down (compared to 2009) for the Group Insurance sector. When the budget was drawn up at the end of 2009, the Company was expecting 2010 profitability in this sector to continue to be affected by the economic slowdown that prevailed in 2009. The increase in the expected profit on in-force for all sectors is consistent with the guidance that the Company gave to the financial markets when it published its fourth quarter 2009 results.

Sources of Earnings[1]	Individual Insurance		Individual Wealth Management		Group Insurance		Group Pensions		Total	
(In millions of dollars)	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Expected profit on in-force	209.6	197.4	102.8	59.2	38.0	48.1	14.0	15.8	364.4	320.5
Experience gains (losses)	(2.2)	17.4	4.5	(4.4)	11.1	(10.4)	3.5	1.3	16.9	3.9
Gain (strain) on sales	(105.4)	(89.0)	(7.7)	(5.5)	0.0	0.0	(0.2)	(1.1)	(113.3)	(95.6)
Changes in assumptions	(2.2)	68.6	(6.8)	(16.9)	(2.3)	(0.9)	0.0	(51.9)	(11.3)	(1.1)
Operating profit	99.8	194.4	92.8	32.4	46.8	36.8	17.3	(35.9)	256.7	227.7
Income on capital	77.7	51.3	2.2	8.4	10.5	12.6	7.7	7.4	98.1	79.7
Income taxes	(38.0)	(68.1)	(22.1)	(11.7)	(15.1)	(13.6)	(6.4)	11.0	(81.6)	(82.4)
Net income to shareholders on regular operations	139.5	177.6	72.9	29.1	42.2	35.8	18.6	(17.5)	273.2	225.0
Less: dividends on preferred shares	16.1	8.0	4.0	5.8	1.6	0.0	1.2	0.0	22.9	13.8
Net income to common shareholders on regular operations	123.4	169.6	68.9	23.3	40.6	35.8	17.4	(17.5)	250.3	211.2
Other items	0.3	(3.4)	0.0	(0.4)	0.1	(1.0)	0.1	(0.6)	0.5	(5.4)
Net income to common shareholders	123.7	166.2	68.9	22.9	40.7	34.8	17.5	(18.1)	250.8	205.8
Additional information according to the financial statements:										
Premiums (excluding general insurance)	1,125.6	938.4	1,929.1	1,270.5	1,035.2	962.4	622.5	839.8	4,712.4	4,011.1
Net income to shareholders	139.8	174.2	72.9	28.7	42.3	34.8	18.7	(18.1)	273.7	219.6
Less: dividends on preferred shares	16.1	8.0	4.0	5.8	1.6	0.0	1.2	0.0	22.9	13.8
Net income to common shareholders	123.7	166.2	68.9	22.9	40.7	34.8	17.5	(18.1)	250.8	205.8

[1] The operating profit and income taxes presented in this table are not defined by GAAP. A reconciliation between non-GAAP financial measures and GAAP is presented in the Accounting Matters and Additional Information section of this management's discussion and analysis. Comments for each activity sector are also presented in other sections of this management's discussion and analysis which describe each activity sector in detail.

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 $16.9 million. These gains are primarily explained by good experience results in the Group Insurance sector thanks to improved economic conditions, and by stock market growth. Note that the three divisions that make up the Group Insurance sector, i.e. Employee Plans, Creditor Insurance ("SAL") and Special Markets Group ("SMG"), recorded $11.1 million in experience gains before taxes in 2010. The stock market rebound produced a gain of $1.8 million more than expected, before taxes. Note that the events surrounding issuers' credit had very little impact on the Company's profit.

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 $113.3 million in 2010, which is 19% higher than the previous year. This increase is primarily due to strong sales growth in the Individual Insurance sector during the year.

The strain in the Individual Insurance sector alone, expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 56% in 2010 compared to 61% in 2009. This decrease is primarily due to the rate increases applied to certain products in the last year and to the fact that the savings component of Universal Life policies (which are less strain intensive) accounted for a larger proportion of sales than in 2009.

Even though the strain remained slightly above the Company's 50% to 55% target range, the Company estimates that the current pricing structure combined with recent changes to the pricing of certain products should allow new business strain to be maintained 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.

In 2010, the review of the valuation assumptions led to an increase of $11.3 million before taxes ($8.4 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 $98.1 million in 2010, up $18.4 million, or 23%, over 2009. Three factors contributed to this increase during the year: the excellent performance of the auto and home insurance subsidiary, improved market conditions and the sale of financial securities matched to equity.

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 $81.6 million in 2010, which translates into an effective tax rate of 23.0%. This rate is below the Company's 26% to 27% range expected for 2010, which can be explained by the fact that the Company posted a decrease in income taxes at the end of the fourth quarter. As explained earlier, income taxes were reduced primarily because a portion of the taxes that the Company had expected to have to pay in the next few years will actually be payable later than expected. Because of this deferral, the Company will benefit from more favourable tax conditions given that the tax rates prescribed by the regulatory authorities will be decreasing in the years to come. Note that for 2011, 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 2010, 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 gain of $0.5 million after taxes for 2010.

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 $99.8 million, compared to $194.4 million in 2009. A portion of this decrease is explained by the increase in strain resulting from strong sales growth (strain was up $16.4 million over 2009). Unlike the previous year, when the year-end review of the valuation assumptions led to a $68.6 million release in the provisions for future policy benefits (to take into account improved mortality and improved return on investments), the changes in valuation assumptions in 2010 resulted in a $2.2 million strengthening in the provisions for future policy benefits. Lastly, the sector had a $2.2 million experience loss in 2010 compared to a $17.4 million experience gain in 2009. Even though the sector benefited from stock market growth, which helped increase discounted future revenues on Universal Life policy funds, experience was less favourable in 2010 due to several factors related to changes in interest rates and the policy lapse rate.

Individual Wealth Management – The Individual Wealth Management sector recorded an operating profit of $92.8 million in 2010, compared to $32.4 million in 2009. This increase is primarily due to the growth in assets under management, which benefited from strong market growth since the middle of 2009 and the strong growth in net sales in the investment fund market in 2010 (which more than doubled compared to 2009). In terms of changes in valuation assumptions, the sector was negatively affected by the update of mortality parameters for insured annuities. This update was made to reflect industry trend, which shows an increase in longevity of annuitants.

Group Insurance – The Group Insurance sector ended the year with an operating profit of $46.8 million, a 27% increase over 2009. This sector benefited from the improved economic environment. The Creditor Insurance ("SAL") division benefited from the fact that credit insurance sales through car dealers were up 20% over 2009. The Special Markets Group ("SMG") division posted experience gains for life insurance and accidental death benefits. Lastly, all benefits offered by the employee plans division had positive experience results.

Group Pensions – The Group Pensions sector recorded an operating profit of $17.3 million in 2010. Unlike the previous year, the changes in the valuation assumptions made in 2010 had no impact on operating profit. The strengthening of the reserves due to increased longevity of annuitants was much less significant than in 2009, and was offset by various initiatives taken in 2010. These initiatives improved the return of assets and improved matching. The Company reinsured 60% of the longevity risk for its in-force block of insured annuities in the third quarter of 2010, which reduced the Company's risk in this area.

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)		
	2010	2009	2008
Revenues	6,769.0	5,814.3	4,465.1
Policy benefits and expenses	6,421.1	5,532.0	4,373.5
Income before income taxes	347.9	282.3	91.6
Income taxes	(73.2)	(64.0)	(16.8)
Net income	274.7	218.3	74.8
Less: net income to to participating policyholders	1.0	(1.3)	2.9
Net income to shareholders	273.7	219.6	71.9
Less: dividends to preferred shareholders	22.9	13.8	5.8
Net income to common shareholders	250.8	205.8	66.1
Earnings per common share			
Basic	$3.02	$2.56	$0.82
Diluted	$2.99	$2.55	$0.82

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 2010 totalled $6.8 billion, which represents a 16% increase over 2009. This was primarily due to the increase in premiums, as explained below.

Revenues	(In millions of dollars)		
	2010	2009	2008
Premiums	4,874.0	4,151.7	4,281.7
Net investment income	1,444.5	1,302.3	(188.0)
Fees and other revenues	450.5	360.3	371.4
Total	6,769.0	5,814.3	4,465.1

Premiums totalled $4.9 billion in 2010, which represents a 17% increase compared to 2009. This increase is mainly due to higher segregated fund sales in the Individual Wealth Management sector. This sector had a record year in this regard in 2010.

If mutual fund deposits are added to the premiums, premiums and deposits totalled $6.6 billion in 2010, a 27% increase over 2009. This increase can be explained by the strong growth in segregated fund sales and mutual fund deposits in 2010. This growth is primarily due to the strength and diversity of the Company's distribution networks and good stock market performances in 2010.

Premiums and Deposits	(In millions of dollars)		
	2010	2009	2008
Premiums			
General fund	2,784.4	2,599.7	2,620.1
Segregated funds	2,089.6	1,552.0	1,661.6
Subtotal	4,874.0	4,151.7	4,281.7
Deposits – Mutual funds	1,747.2	1,079.5	1,261.2
Total	6,621.2	5,231.2	5,542.9

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 prior to 2007. 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 $1.4 billion in 2010, compared to $1.3 billion in 2009. This increase essentially comes from the appreciation of the stock portfolio, which benefited from the stock market growth, and the appreciation of the bond portfolio, a result of the decrease in interest rates in 2010.

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

Net Investment Income	(In millions of dollars)		
	2010	2009	2008
Investment income	598.2	587.6	393.3
Amortization of realized and unrealized gains (losses) on real estate	18.3	19.6	16.3
Gains realized on the disposition of assets available for sale	14.8	6.4	3.6
Variation in the fair value of assets held for trading	813.7	691.8	(596.0)
Change in provisions for losses	(0.5)	(3.1)	(5.2)
Total	1,445.5	1,302.3	(188.0)

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 $450.5 million in 2010, up 25% from 2009. This increase can be explained by the increase in assets under management, which benefited from stock market growth and positive net investment fund entries.

Policy Benefits and Expenses

Policy benefits and expenses totalled $6.4 billion in 2010, which represents a $0.9 billion increase over 2009. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses	(In millions of dollars)		
	2010	2009	2008
Change in provisions for future policy benefits	1,256.6	1,194.5	53.2
Payments to policyholders and beneficiaries	2,102.0	1,928.5	1,950.1
Net transfer to segregated funds	1,779.2	1,298.9	1,346.9
Commissions	661.0	527.8	545.1
General expenses	448.0	399.9	358.4
Other	174.3	182.4	119.8
Total	6,421.1	5,532.0	4,373.5

The change in provisions for future policy benefits constitutes an expense on the income statement, and this expense totalled $1.3 billion in 2010, compared to $1.2 billion in 2009. 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.

The variation in the market value of the assets underlying the provisions for future policy benefits (increase or decrease) must also be added to this list of factors. However, this factor had very little impact on net income given that a corresponding change in net investment income is recorded on the income statement.

Payments to policyholders and beneficiaries in 2010 were slightly higher than in 2009 (by $173.5 million), which reflects the normal course of operations. 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 $1.8 billion in 2010, which represents an increase of $480.3 million over 2009. The improved economic environment and good equity market performances renewed investor confidence, making them more inclined to move their savings into segregated funds.

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 increased by $133.2 million in 2010 compared to the previous year, which primarily reflects the growth in sales recorded in most business lines in 2010.

General expenses were up $48.1 million in 2010 compared to the previous year. This increase is primarily explained by the acquisition of business in 2010 and by business growth.

Income taxes

Income taxes amounted to $73.2 million in 2010, compared to $64.0 million in 2009. This increase essentially results from an increase in profit in 2010.

CAPITALIZATION AND SOLVENCY

2010 HIGHLIGHTS

- Solid financial position
  - Solvency ratio of 205% as at December 31, 2010, down slightly from 2009, but still above the Company's 175% to 200% target range
  - Credit ratings confirmed by all the credit agencies in 2010, and outlook revised upward by Standard & Poor's
- Prudent capital management
  - Quarterly dividend of $0.2450 per common share maintained in 2010
  - Issuance of $100 million in common shares
  - Issuance of $100 million in preferred shares
  - $3.1 billion in capital, a 15% increase
  - Debt ratio of 16.9%, down 2.3 percentage points from last year
- Stock market return
  - Stock price and market capitalization up 14% and 19% respectively in 2010

Thanks to sound and prudent management of its capital, the Company currently enjoys good credit ratings and strong capitalization, allowing it to continue growing and developing its business. This 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 2010, equity accounted for 82% of the Company's capital.

As at December 31, 2010, the Company's capital totalled $3.1 billion, a 15% increase compared to December 31, 2009. The main items that caused the capital to increase in 2010 were: the issuance of $100 million in common shares, 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), and the accumulation of latent gains under other comprehensive income. These gains are attributable to the securities available for sale, whose market value increased due to the decrease in interest rates and the stock market rebound.

Capital Structure (In millions of dollars)	As at December 31				
	2010	2009	2008	2007	2006
Equity					
Common shares	652.5	545.7	541.0	513.1	507.7
Preferred shares	425.0	325.0	223.7	125.0	125.0
Retained earnings	1,422.0	1,254.8	1,127.7	1,148.3	971.3
Contributed surplus	23.3	21.6	19.8	17.1	14.6
Currency translation account	--	--	--	--	(6.8)
AOCI[1]	38.3	10.5	(54.3)	(3.8)	--
Subtotal	2,561.1	2,157.6	1,857.9	1,799.7	1,611.8
Debentures[2]	526.4	519.8	385.9	309.8	310.1
Participating policyholders' account	26.9	25.7	27.0	24.1	23.1
Total	3,114.4	2,703.1	2,270.8	2,133.6	1,945.0

FINANCIAL LEVERAGE AND COVERAGE RATIO

The combined effect of the common share and preferred share issuances in 2010 decreased the Company's debt ratios. As a result, the debt ratio, measured by debentures compared to the capital structure, went from 19.2% as at December 31, 2009 to 16.9% as at December 31, 2010. If the preferred shares are added to the debentures, the ratio went from 31.3% as at December 31, 2009 to 30.5% as at December 31, 2010. The decrease is less significant for this ratio due to the issuance of preferred shares in February 2010. 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. pre-tax income and interest financing expenses compared to the interest financing expenses and dividends, remained relatively stable, decreasing from 6.3x in 2009 to 6.1x in 2010. The issuance of preferred shares led to an increase in financing expenses, creating downward pressure on the coverage ratio. On the other hand, the growth in income in 2010 had a positive impact on the ratio. The current coverage ratio level is in line with rating agency requirements.

Debt Ratios and Coverage Ratio	As at December 31				
	2010	2009	2008	2007	2006
Debt ratios					
Debentures/Capital structure	16.9%	19.2%	17.0%	14.5%	15.9%
Debentures and preferred shares/capital structure	30.5%	31.3%	26.8%	20.4%	22.4%
Coverage ratio (number of times)	6.1	6.3	3.9	12.2	12.1

SOLVENCY

The Company has a strong financial position despite a slight decrease in the solvency ratio from 2009. This ratio was 205% as at December 31, 2010, compared to 208% as at December 31, 2009. This solvency ratio is above the Company's 175% to 200% target range.

Several factors put upward or downward pressure on the solvency ratio in 2010. Following are some of the main factors that caused the solvency ratio to increase:

- The issuance of $100 million in common shares in February 2010 (addition of 8.5 percentage points to the solvency ratio).
- The issuance of $100 million in preferred shares in February 2010 (addition of 8.5 percentage points to the solvency ratio).
- 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 2010, primarily American-Amicable. These acquisitions resulted in an increase in required capital and goodwill, and consequently, a decrease in available capital (decrease of 10 percentage points in the solvency ratio).

- The 3% increase in the proportion of assets backing the reserve (decrease of 4 percentage points in the solvency ratio).

Solvency	(In millions of dollars, unless otherwise indicated) As at December 31				
	2010	2009	2008	2007	2006
Available capital					
Tier 1 (net)	2,303.8	1,961.9	1,726.0	1,685.6	1,498.9
Tier 2 (net)	348.3	343.1	195.4	120.6	128.6
Total	2,652.1	2,305.0	1,921.4	1 806.2	1,627.5
Required capital	1,296.2	1,107.2	967.1	934.6	809.9
Solvency ratio	205%	208%	199%	193%	201%

DIVIDENDS

The Company maintained its dividend in 2010, paying out $0.2450 per common share in each of the four quarters, for a total dividend of $0.98 per common share. This dividend has been the same since the third quarter of 2008. In total, the Company paid out $81.2 million in dividends to common shareholders in 2010. This translates into a dividend payout ratio of 33% of the net income available to common shareholders for 2010, which is in the top end of the Company's 25% to 35% target range.

At the beginning of 2011, the Company announced that it was keeping its medium term target range of 25% to 35% for the dividend payout ratio, and that it was expecting the ratio to be in the middle of the target range in 2011.

Dividends	2010	2009	2008	2007	2006
Dividends paid per common share	$0.98	$0.98	$0.94	$0.76	$0.60
Dividend payout ratio	33%	38%	115%	25%	22%

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, 2010 was 83,887,771, an increase of 3,376,000 compared to December 31, 2009. This increase is largely due to the issuance of common shares in February 2010. A small part of the increase is 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 2010. The Company's policy stipulates that it can buy 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 Buy-Back of Shares subsection below).

Common Shares (In millions)	As at December 31				
	2010	2009	2008	2007	2006
Number of common shares outstanding	83.9	80.5	80.3	79.8	79.9

STOCK PRICE AND MARKET CAPITALIZATION

On December 31, 2010, the last trading day of the year, Industrial Alliance stock closed at $36.81, an increase of 14% over the end of 2009. The Company's market capitalization amounted to $3.1 billion on that date, up 19% from the previous year. Note that with this kind of market capitalization, the Company was one of the largest public companies on the Toronto Stock Exchange.

Stock Price and Market Capitalization	(In millions of dollars, unless otherwise indicated) End of period				
	2010	2009	2008	2007	2006
Stock price	$36.81	$32.20	$23.31	$42.58	$36.14
Market capitalization	3,087.9	2,592.5	1,872.5	3,399.6	2,887.6

Industrial Alliance became a stock company in February 2000. 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 367% between February 3, 2000 and December 31, 2010, compared to 55% for the S&P/TSX benchmark index of the Toronto Stock Exchange.

BOOK VALUE PER COMMON SHARE

The book value per common share closed the year at $25.49, 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).

Book Value Per Common Share	As at December 31				
	2010	2009	2008	2007	2006
Book value per common share	$25.49	$22.77	$20.35	$20.98	$18.61

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, 4,000,000 class A, series E preferred shares issued and outstanding, for a nominal value of $100 million, and 4,000,000 class A, series F 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, E and F) 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, $0.3750 per preferred share for series E, and $0.36875 per preferred share for series F. The Company paid $22.9 million in dividends to preferred shareholders in 2010.

Series B, C, E and F 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, starting December 31, 2014 for series E shares, and starting March 31, 2015 for series F shares. The series B, C, E and F preferred shares have no voting rights and cannot be converted into common shares.

The class A, series F preferred shares were issued on February 17, 2010. They are perpetual preferred shares that yield 5.90% per annum, payable quarterly, as and when declared by the Board of Directors of the Company. The series F preferred shares are not redeemable by the Company prior to March 31, 2015. Subject to regulatory approval, on or after March 31, 2015, Industrial Alliance may, on no less than 30 and no more than 60 days' notice, redeem the preferred shares in whole or in part, at the Company's option, by paying the amount of $26.00 per Series F Preferred Share if redeemed prior to March 31, 2016, $25.75 per Series F Preferred Share if redeemed on or after March 31, 2016 but prior to March 31, 2017, $25.50 per Series F Preferred Share if redeemed on or after March 31, 2017 but prior to March 31, 2018, $25.25 per Series F Preferred Share if redeemed on or after March 31, 2018 but prior to March 31, 2019 and $25.00 per Series F Preferred Share if redeemed on or after March 31, 2019, 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, 2010, with a total book value of $526.4 million:

- A $158.8 million series A debenture (nominal value of $150.0 million). This debenture bears interest of 5.714%, payable semi-annually. It is redeemable at the option of the Company as of December 2008 or repayable on maturity in 2053.
- A $10.7 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.
- A $157.8 million subordinated debenture (nominal value of $150.0 million). This debentures matures on June 30, 2019. It bears interest of 5.13%, payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1%, payable quarterly. This debenture is redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the 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 debenture in whole, but not in part, on each payment date of quarterly interest, at the nominal value, subject to prior 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 prior 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.
- A $99.2 million subordinated debenture (nominal value of $100.0 million). This debenture matures on March 27, 2019. It was issued on March 27, 2009 and bears 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 debenture is 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 debenture in whole or in part, on each payment date of quarterly interest, at the nominal value, subject to prior approval by the AMF.

The first three series of debentures described above, whose book value totalled $327.3 million as at December 31, 2010, 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, decreased from $63.7 million in 2009 to $37.5 million in 2010. The interest expense increased slightly from $29.0 million in 2009 to $31.0 million in 2010, while the variation in the fair value of debentures decreased significantly from $34.7 million in 2009 to $6.5 million in 2010. The decrease in the total financing expense primarily reflects the fact that the fair value of debentures fluctuated less in 2010 than it did in 2009. The fair value of debentures held for trading fluctuates based on changes in interest rates and rate spreads observed in the market.

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 2010 the Human Resources and Corporate Governance Committee issued 497,000 new stock options. These new options, which will expire in 2020, were granted at an average weighted exercise price of $32.08. The issue, net of the options exercised and cancelled during the year, brings the number of stock options outstanding to 3,944,000, or 4.7% of the number of issued and outstanding shares as at December 31, 2010.

CREDIT RATINGS

In 2010, the three independent credit agencies that rate Industrial Alliance renewed all of their ratings for the Company. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors. Industrial Alliance emerged from the 2008-2009 financial crisis with all of its credit ratings intact, which shows the Company's ability to absorb the effects of financial market turbulence and manage risks effectively under such circumstances.

On October 1, Standard & Poor's ("S&P") confirmed the A+ (Strong) credit rating that it grants to IA for its financial strength and raised the company's outlook from negative to stable. In announcing its decision, S&P emphasized that "Industrial Alliance's profit and capitalization outlook improved with the market recovery." The agency also stated that the company was able to maintain its strong competitive advantages despite the financial and economic crisis and that the prudence of its segregated fund guarantees made it less sensitive to stock market volatility.

Note that the $100 million in Series F preferred shares issued by Industrial Alliance in February 2010 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).

Credit Ratings

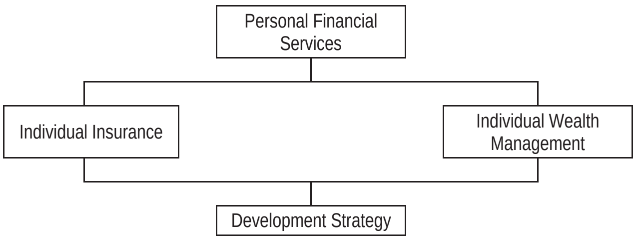
Agency	Type of Evaluation	Rating	Outlook
Standard & Poor's	Financial Strength	A+ (Strong)	Stable
	Issuer Credit Rating	A+ (Strong)	Stable
	Subordinated debentures	A	--
	Industrial Alliance Trust Securities ("IATS")		
	Canadian scale	P-1 (Low)	--
	Global scale	A-	--
	Preferred shares		
	Canadian scale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

BUY-BACK OF SHARES

Under its last normal course issuer bid, which began on February 18, 2010 and ending on February 17, 2011, to date the Company did not buy back any common shares. At this time, the Company has not renewed its normal course issuer bid with the Toronto Stock Exchange.

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 two distribution networks:

- The Career Agents network, which has over 1,750 dedicated Industrial Alliance agents, primarily in Quebec.
- The General Agents and National Accounts network, which has over 12,000 insurance, 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. The US business accounts for approximately 4% of premiums and deposits in the Individual Insurance and Individual Wealth Management sectors.

INDIVIDUAL INSURANCE

2010 HIGHLIGHTS

- Sales Growth
  - Record sales of $186.6 million
  - Sales up 27% thanks to strong growth in the high net-worth market following the stock market recovery
  - Fourth in Canada for individual insurance sales for the first nine months of 2010, but third for Universal Life sales
- Main Achievements
  - Acquisition of a life insurance company in the US.
  - Improvements to the product line (Universal Life, long-term care, guaranteed issue and term insurance)
  - 4% increase in the number of Career network agents

It was a particularly profitable year in the Individual Insurance sector, thanks mainly to the sustained stock market recovery. Sales continued to climb in the traditional family market, and were up considerably in the high net-worth market. The number of Career network agents continued to grow significantly. In addition, the Company acquired a life insurance company in the US.

BUSINESS GROWTH

Benefiting from the improved economic environment, Individual Insurance sales were excellent throughout the year. In the family market where consumers seek primarily to cover their basic insurance needs, sales, measured in terms of "minimum premiums," grew by 19% in 2010 to reach a high of $150.9 million.

In the high net-worth market, sales, measured in terms of "excess premiums," grew by 72% in 2010 to reach $35.7 million, a considerable increase over 2009. Excess premiums are premiums deposited by clients into their Universal Life policies to take advantage of the tax benefits offered by this type of product. These amounts are often invested in accounts linked to the equity markets, which experienced a strong rebound in 2010.

In total, the sector ended the year with sales of $186.6 million, up 27% over the previous year. In terms of relative performance of individual insurance sales, Industrial Alliance is still doing very well in Canada, ranking fourth for the first nine months of 2010, with a market share of 10.6%[1] (the same ranking as in 2009), but ranking third for Universal Life sales, with a market share of 15.8%.

The efforts made with certain distribution networks operating in the high net-worth market and the purchase of the individual life insurance portfolio of MD Life Insurance Company Limited (MD Life) on December 31, 2009 are two factors that contributed to the increase in premiums, particularly excess premiums.

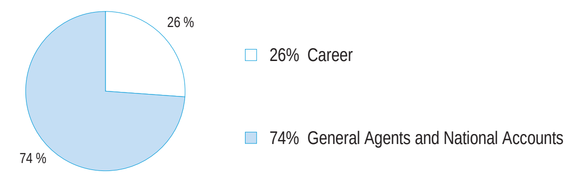
Individual Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
Sales[2]					
Minimum premiums	150.9	126.4	118.6	111.0	119.5
Excess premiums	35.7	20.7	28.3	48.0	34.1
Total	186.6	147.1	146.9	159.0	153.6
Growth	27%	0%	(8%)	4%	9%
Premiums	1,125.6	938.4	920.7	897.3	838.6
Growth	20%	2%	3%	7%	9%
Number of policies	117,091	112,335	107,030	98,369	102,773
Growth	4%	5%	9%	(4%)	6%

Agents maintained a high level of activity throughout the year, as demonstrated by the fact that the number of policies sold in Canada increased in 2010 to end the year 4% higher than in 2009. Note that the Company sold 117,091 individual insurance policies in 2010. 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 performance.

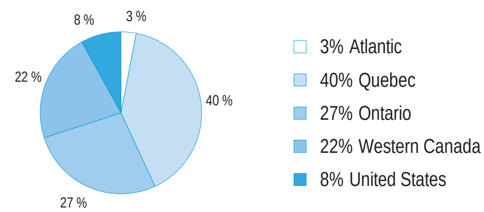
By distribution network, 74% of sales in 2010 came from the General Agents and National Accounts network, which is made up of brokers throughout all regions of Canada, and 26% came from the Career network, which is made up of dedicated Industrial Alliance agents, primarily in Quebec. Note that the number of Career network agents grew by 4% in 2010. 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
2010



By region, 60% of all sales came from outside Quebec. Quebec accounted for 40% of sales in 2010, compared to 27% for Ontario, 22% in the Western provinces and 3% in the Atlantic provinces. Note that sales in the US accounted for 8% of all sales in 2010 (compared to 1% in 2009).

Sales by Region
2010



By product, the Company recorded good sales growth for all product categories.

Universal Life sales were up 30% in 2010 after being down for two years in a row. With the sustained stock market recovery, investors regained confidence in Universal Life policies, which offer the option to accumulate significant amounts of money tax-free. The increase was much more pronounced for yearly renewable term ("YRT") policies (up 71%) than for level cost insurance policies (up 12%). YRT policies accounted for 39% of sales in 2010, compared to 30% in 2009. These policies are less strain-intensive, which helps to improve the business line's profitability.

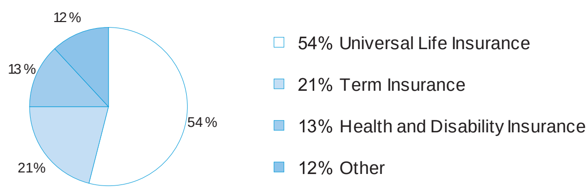
Universal Life policies continue to be the Company's most popular product. These policies accounted for 54% of the sector's total sales for 2010, compared with an average of 36% for the industry (industry data for the first nine months of the year). As indicated earlier, the Company ranked third in Canada for the sale of new Universal Life policies for the first nine months of 2010, with a market share of 15.8%.

With respect to term products, sales grew by 24% in 2010. This increase can be explained by the decrease in rates in the third quarter of 2010. Aside from boosting sales, the revised pricing had no impact on profitability due to the renegotiation of the reinsurance agreement. Nevertheless, competition continues to be very strong in the term insurance market.

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

In terms of health and disability insurance products, sales grew by 10% in 2010. This increase is primarily explained by the strong growth in sales by 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
2010



Carried by sales of new policies and good persistency of in-force business along with the business obtained from the acquisition of MD Life at the end of 2009, premium income in the Individual Insurance sector was up 20% in 2010 to reach $1.1 billion.

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 for 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 AMERICAN-AMICABLE
One of the great achievements in the Individual Insurance sector was the acquisition of American-Amicable Life Insurance Company on July 20, 2010. The cost of this acquisition was US$145.3 million.

American-Amicable is a Texas-based life insurance company that primarily markets traditional life insurance products. With 100 years in the business, American-Amicable has over 211,500 in-force policies that generated premium income of $86 million in 2009. It is licensed to sell life insurance in 49 states and territories, and its products are marketed through a national distribution network of more than 6,000 independent agents.

The acquisition of American-Amicable provides Industrial Alliance with the scale and presence to accelerate its US growth strategy.

2010 ACHIEVEMENTS
Aside from the acquisition of American-Amicable, the main achievements in 2010 centred around product development. 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 2010:

- *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 more flexibility in terms of investment choices and borrowing conditions. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive financial planning investment vehicle.

- *Long-term care insurance* – The Company launched a new product unlike any other on the market: Life and Serenity 65. This innovative new product offers guaranteed-premium whole life coverage, along with a long-term care component. After age 65, this hybrid coverage provides an additional source of income to help maintain quality of life for insureds who experience loss of independence.

- *Guaranteed Issue insurance* – We made some improvements to our guaranteed issue and simplified issue life insurance products. In addition to adjusting premiums in order to be more competitive in this market, we also introduced a new 20-year term coverage.

- *Term insurance* – To improve its positioning in the very competitive term product market, the Company lowered the premiums on its 20-year term insurance products.

- *Product pricing adjustments* – In December, the Company announced an increase in rates for its level cost Universal Life products and its permanent life insurance products, which took effect on January 17, 2011. Made necessary by low interest rates over the past several years, this major pricing adjustment will help reduce the strain on these products and increase their profitability.

INDIVIDUAL WEALTH MANAGEMENT

2010 HIGHLIGHTS
- Business Growth
  - Record sales totalling $3.7 billion, an increase of 56%
  - Assets under management of $18.7 billion, an increase of 21%
  - Net investment fund sales very positive
  - Improved market position compared to the industry
- Main Achievements
  - Development of a new savings approach, the IAG Savings and Retirement Plan, which offers savings and retirement strategies that adjust to clients' changing needs
  - Improvement of Ecofl*extra* retirement income product

BUSINESS GROWTH

Thanks to the strong stock market rebound, the Individual Wealth Management sector realized record sales of $3.7 billion in 2010, a 56% increase over the previous year.

Individual Wealth Management Sales[1]	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
General fund	441.1	404.3	345.5	334.4	289.2
Segregated funds	1,488.0	866.2	815.7	990.6	958.3
Mutual funds	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6
Total	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1
Growth	56%	(3%)	(22%)	26%	70%

For guaranteed return products (essentially guaranteed interest products and insured annuities), which are found in the Company's general fund, sales were up 9%. The popularity of these products was most likely prompted by memories of the recent financial crisis, which drew some investors to them, and by the contribution of the US business acquired in 2010.

It was a particularly good year for segregated funds and mutual funds, which were up 72% and 62% respectively thanks to strong stock markets and the size of our distribution networks.

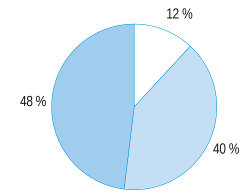
One of the greatest successes of the year was that net sales were very solid all year long, which enabled the Company to gain market share.

Net segregated fund sales jumped 94% over 2009 to reach $925.0 million in 2010. Thanks to this good performance, the Company ranked first in net segregated fund sales at the end of the year, with a market share of 37.2% (10.1% in 2009).

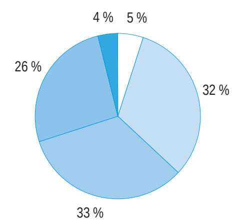
The results are even more impressive for mutual funds, where net sales totalled $797.1 million in 2010, nearly three times more than in 2009. The Company also continued to do better than its size would suggest, ending the year ranked 7th in terms of net sales, compared to 17th in terms of assets.

Investment Funds Net Sales	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
Segregated funds	925.0	476.4	322.9	578.7	607.6
Mutual funds	797.1	281.4	289.5	799.2	267.0
Total	1,722.1	757.8	612.4	1,377.9	874.6
As a percentage of sales	53%	39%	29%	49%	40%

By product, sales of mutual funds accounted for 48% of the year's sales in the Individual Wealth Management sector. Segregated funds and guaranteed return general fund products accounted for 40% and 12%, respectively, of the sector's sales for the year.



In 2010, 68% 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 networks Canada-wide.



Funds under management totalled $18.7 billion as at December 31, 2010, up 21% from the end of the previous year. This significant increase is explained by the stock market rebound and strong net sales. The Company was ranked 4th in Canada with respect to segregated fund assets as at December 31, 2010, with 10.0% of the market (9.1% as at December 31, 2009), and 17th for mutual fund assets (17th in 2009).

Individual Wealth Management Funds Under Management	(In millions of dollars, unless otherwise indicated) As at December 31				
	2010	2009	2008	2007	2006
General fund	1,751.4	1,672.8	1 627.9	1,584.4	1,631.7
Segregated funds	8,794.6	7,204.5	5,562.1	6,695.9	6,046.8
Mutual funds	8,124.1	6,601.9	5,264.0	6,834.7	6,281.2
Total	18,670.1	15,479.2	12,454.0	15,115.0	13,959.7
Growth	21%	24%	(18%)	8%	14%

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.

2010 ACHIEVEMENTS

On the product front, the following initiatives were introduced in 2010 in order to capitalize on the stock market recovery and to help promote sales of segregated funds and mutual funds.

- *Ecofl*extra – A number of improvements were made to our Ecofl*extra* retirement product in order to improve its flexibility and profitability. One of these improvements was to extend the 5% bonus on accumulated funds for life. This bonus applies every year that no withdrawals are made by the client. In the past, this bonus only applied for the first 15 years following the initial deposit. We also added a clause that allows the Company to reallocate the amounts invested by the client to less volatile funds, when required by the economic situation, in order to protect the contract guarantees. Note that the offer for guaranteed minimum withdrawal products was modified in 2010 because, like us, our main competitors have modified their products.

- *New savings approach* – The highlight of the year was the development of a new integrated savings approach: the IAG Savings and Retirement Plan. This new plan gives clients all the flexibility they need to carry out a global, integrated savings strategy that evolves throughout their lifetime. This new plan combines the current Ecoflex and Ecofl*extra* products under one contract, allowing transfers to be made from one product to another with no tax impact on non-registered investments. This combination facilitates retirement planning by offering the option to develop both an accumulation and a disbursement strategy.

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 as follows:

- 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 4% in 2010).

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.

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 certain niche markets, including the high net-worth market. Also, in view of the very competitive environment 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 objectives.

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 further 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.

- Continue efforts to implement a culture of ongoing improvement inspired by the LEAN philosophy, which ensures that employee mobilization remains strong.

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 were formerly 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.

In July 2010, through its US subsidiary IA American Life Insurance Company, the Company acquired a Texas-based life insurance company: American-Amicable. This company primarily sells traditional life insurance products. This acquisition provides us with the scale and presence we need to accelerate our US growth strategy.

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 one hundred employees in the US, and primarily targets the family market.

2011 PRIORITIES

Following are the Company's main priorities for 2011:

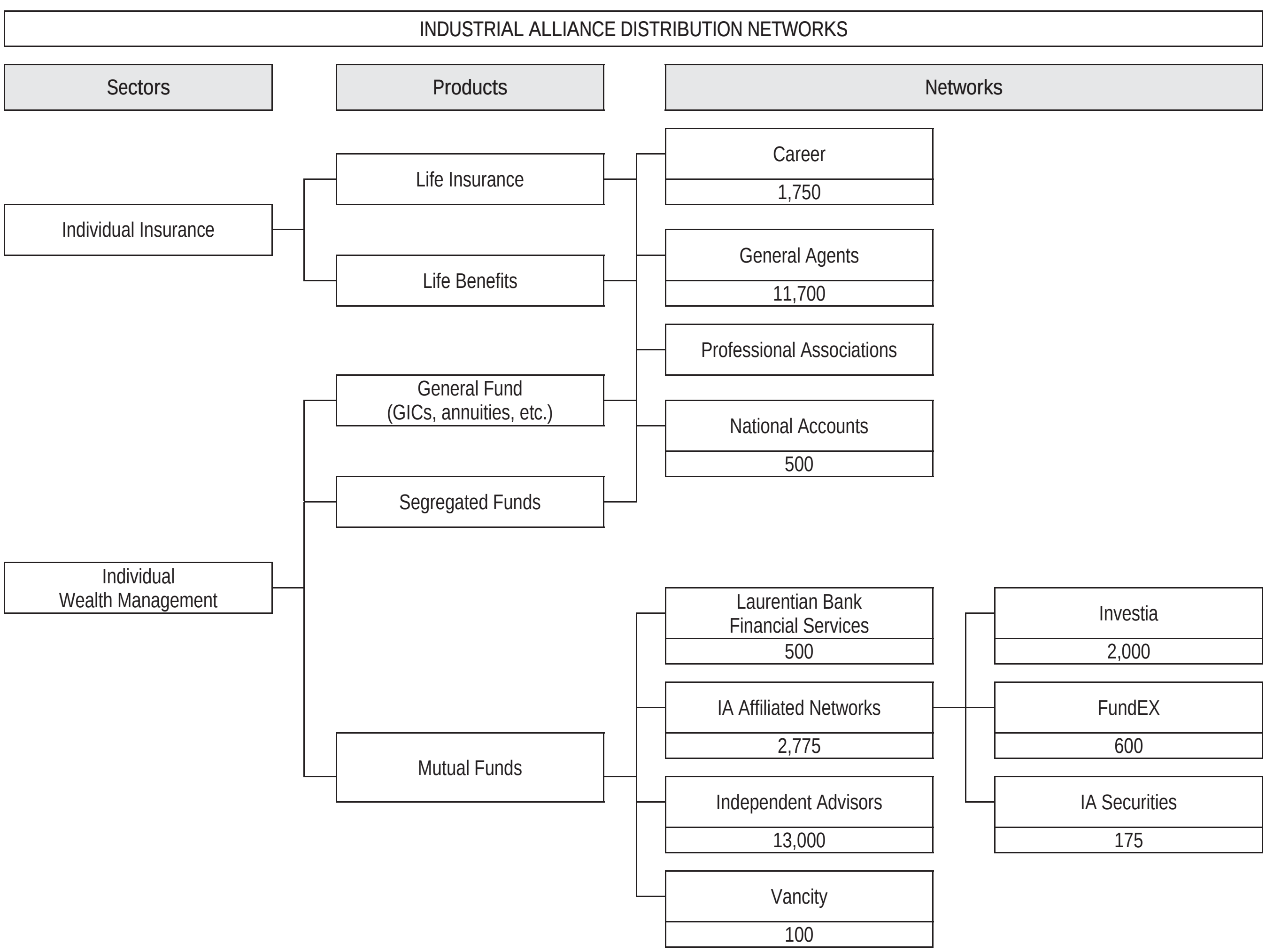
› Continue to develop Excellence business outside Quebec in the health and disability insurance market.

› Set up a mortgage agency to support the prospecting activities of our Career Agents network.

› Develop a variable life insurance product to compete with participating products.

› Enhance our business processes that have the most impact on our clients and distribution partners.

› Implement sales and client management tools using web-based technology.



INFORMATION ON AUTO AND HOME INSURANCE OPERATIONS

2010 HIGHLIGHTS

- Business Growth
  - 14% growth in direct written premiums
  - Number of in-force policies up 13%
- Main Achievements
  - Net income of $10.7 million, up 39%
  - Combined rates (claims and operating expenses) below 100%
- Development Strategy:
  - Continue to apply the current business model, which focuses on referrals and a strong media presence
  - Respond to the resource shortage by building on the culture of ongoing improvement inspired by the LEAN philosophy

DESCRIPTION OF SECTOR

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. Today its mission is defined as follows: *"To contribute to the growth of the Industrial Alliance Group and its distribution networks through the direct sale of general insurance products to individuals".*

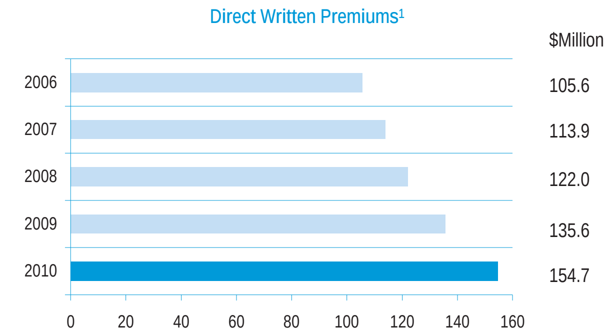
In the early 2000s, Industrial Alliance adopted an ambitious development plan. This plan has been achieved, because over the last decade, IAAH has managed to grow its business volume by 20% a year on average, while providing the parent company with a return on its investment well beyond expectations.

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.

Since the implementation of the national Do Not Call List in September 2008, IAAH has invested considerably in TV advertising campaigns. The goal of this media presence is to attract clients directly so they can then be referred to Industrial Alliance's distribution networks.

BUSINESS GROWTH

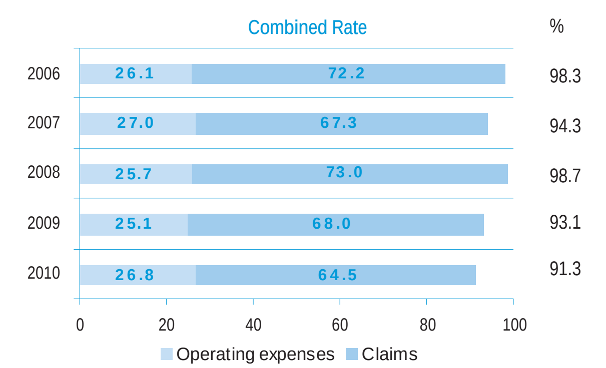
In 2010, this unique business model once again yielded excellent results. Direct written premiums grew by 14%, compared to industry growth of 3% at most. The company's business volume now amounts to $154.7 million for retail insurance. The number of policies in force increased 13% to 240,288 as a result of strong sales and a high net retention rate.



PROFITABILITY

The results were just as good from a profitability standpoint. The claims rate was lower than the previous year due to favourable weather conditions, with very little precipitation—snow or rain—in 2010.

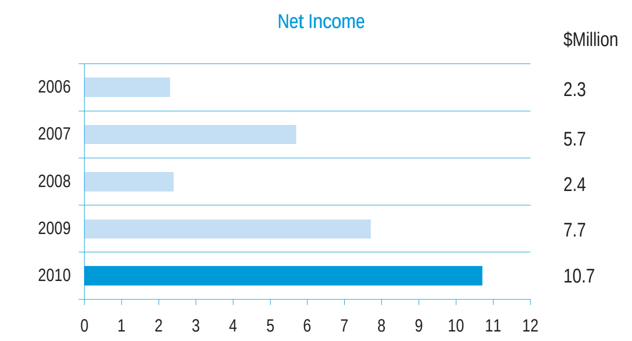
Operating expenses were 26.8% in 2010, enabling IAAH to remain a leader in this regard in Quebec. It is interesting to note that the company's combined rate (claims and operating expenses) was below 100% for the eighth year in a row.



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 2010, 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 $10.7 million, which represents a return on equity of 37%, well above Industrial Alliance's target range.

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



DEVELOPMENT STRATEGY

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 introduced a major initiative in 2005 that extends over a number of years and aims to significantly improve the company's internal efficiency. IAAH needs to continue implementing the solutions drawn from the in-depth analysis of its business processes. The goal is to adopt a culture of ongoing improvement in order to meet its clients' basic needs in a distinctive manner.

In 2010, two new key indicators were adopted:

- The Client Recommendation Index (CRI), which measures client satisfaction; and
- The "cost per policy" indicator, which looks at the company's operating expenses in relation to the average number of policies in force over a given period.

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 presence 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.

2010 is the first year in the most recent three-year plan developed by IAAH. This plan focuses on three areas:

- Strengthening our partnership with the Career Agents network.
- Developing a partnership with Industrial Alliance Pacific (IAP) and the network of distributors.
- Implementing a LEAN philosophy.

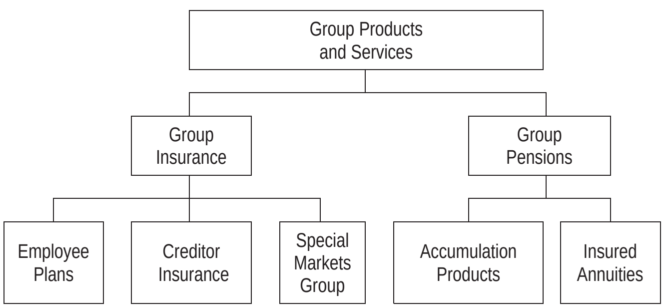
In light of the results achieved to date, in terms of both efficiency gains and client satisfaction or employee mobilization, this approach definitely paves the way to a future for IAAH that promises to be just as bright as the past ten years.

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 2010, the sector wrote $1.2 billion in premiums and premium equivalents. Of this amount, 76% came from employee plans, 13% 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, 2010, the sector had $7.8 billion in assets under management. Of this amount, 62% came from accumulation products and 38% from insured annuities.



All of these market segments have their own development strategy.

GROUP INSURANCE
EMPLOYEE PLANS

2010 HIGHLIGHTS

- Business Growth
  - New high for premiums and premium equivalents, up 4% to reach $878.4 million
  - $72.2 million in sales, down 4% from 2009
  - Ranked fifth for sales in 2010 in our target market of groups with 50 to 999 employees, with a 7.9% market share
- Main Achievements
  - Improved profitability
  - Introduction of new functions in Web@dmin
  - Improved business processes and customer service
- Development Strategy
  - Focus on medium-sized businesses (50 to 999 employees)
  - Canada-wide development
  - To be recognized as an insurer of choice, one that is focused on the needs of its clients
  - Opportunistic attitude towards larger group sales

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.). In 2010, Industrial Alliance launched the Health & Wellness Companion, a website designed to promote the health and wellness of employees and their dependents. 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 450 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

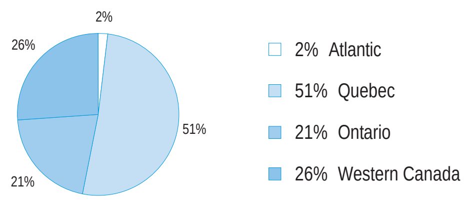
Sales for the Group Insurance Employee Plans sector were similar to 2009, amounting to $72.2 million, a decrease of 4%. This decline was primarily due to decreased activity in the medium-sized groups market. The Company did well, however, in the large groups market.

Group Insurance (Employee Plans) Business Growth	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
Sales[1]	72.2	75.0	92.9	72.0	70.8
Growth	(4%)	(19%)	29%	2%	35%
Premiums	762.2	727.7	684.1	594.8	509.2
Premium equivalents[2]	116.2	115.9	101.9	94.7	124.1
Total	878.4	843.6	786.0	689.5	633.3
Growth	4%	7%	14%	9%	10%

[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.

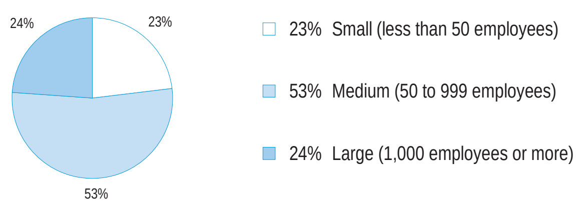
By region, sales remained strong in Western Canada, thanks to the sale of a few large groups in the Prairies; they experienced good growth in Quebec, but decreased in Ontario and the Atlantic provinces. Sales outside Quebec were slightly lower than within the province. This is the first time in six years that sales within Quebec have been higher than outside Quebec.

Sales by Region
2010



By group size, sales remained stable in the small groups market. Sales were down in our target market of groups with 50 to 999 employees, but were up considerably in the large groups market.

Sales by Group Size
2010



In 2010, industry sales were up 16% from 2009, primarily due to a strong increase in the very large groups market (over 5,000 employees). Excluding this segment, industry sales in 2010 were down 3% compared to 2009. In terms of market share, Industrial Alliance ended the year in sixth position in Canada, with 5.2% of the market (sixth in 2009, with 4.8% of the market).

In our target market of groups with 50 to 999 employees, our sales were up 2% over 2009, while industry sales dropped by 1%. In terms of market share, we ended the year in fifth position, with 7.9% of the market in this segment (fourth in 2009, with 7.6% of the market).

Despite an improving but still fragile economic environment and lower than expected business persistency and sales, premiums and premium equivalents peaked at $878.4 million in 2010, an increase of 4% over the previous year.

Growth in premiums and premium equivalents is important because this is the key long-term profitability driver for the Group Insurance Employee Plans sector. 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 the size of the Company's distribution network and our quotation success rate. Premiums from renewed groups are a function of the change in the number of employees within in-force groups, salary growth (which influences the volume of life and disability insurance) and changes in group experience (primarily claims rates).

2010 ACHIEVEMENTS

We continued our positioning efforts to make Industrial Alliance stand out as an insurer of choice that focuses on client needs. Naturally, we have to remain competitive in terms of pricing and unit costs, but we believe that clients place just as much importance on service quality, and consider their employee benefit plans to be a key part of their business strategy.

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 plan members. We identify the needs of our clients primarily through satisfaction surveys and focus groups, but also through suggestions from our clients in our day-to-day interaction with them.

Guided by this strategy, we introduced several initiatives in 2010:

› *Introduction of new functions in Web@dmin* – We added some new functions to the administrative software Web@dmin for plan members and administrators. The main improvements involved adding information on reimbursed benefits and migrating our tool to a Web 2.0 environment, which greatly facilitates the presentation and navigation of the website.

› *Improvement of the business processes* – As part of the corporate objective to improve the business processes, numerous changes were made to our working methods. We continued to promote our online services and, in this respect, we saw a 25% increase in the number of plan members who use our online reimbursement services (electronic filing of claims and electronic transmission of reimbursement information). These services are now used by a growing number of clients, thereby contributing to the protection of the environment.

› *Improved customer service* – We achieved our customer service objectives, particularly with respect to turnaround times. In addition, our customer service agents now use a new system called KMS (Knowledge Management System), which gives them quick access to all pertinent coverage information, improving the accuracy and quality of the information provided to our clients.

› *Improved profitability* – We're continuing to regularly monitor 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. The improved profitability of the long-term disability benefit in 2009 continued in 2010.

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.

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

Our strategy for 2011 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.
- 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.
- Small groups market development (fewer than 50 employees) – For small groups, our goal is to continue focusing on a smaller number of intermediaries that specialize in the distribution and administration of insurance plans. In April 2010, the group insurance staff at Excellence teamed up with Industrial Alliance to develop the small groups and multi-employer groups market.
- Opportunistic attitude towards larger group sales – Our goal is to increase our market share in 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 in order to respond 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 management reports for plan administrators and intermediaries, and on developing a function that enables plan members to submit claims online. At the request of one of our new clients, we will be working with an outside supplier to develop a system linked to Web@dmin that will be used for enrolment, administration and billing of flexible cafeteria-type plans.
- Control of plan costs – Plan sponsors are concerned with growing plan costs and what they can do to control these costs. In addition, a number of provinces have announced changes to generic drug reimbursements, which will have a definite impact on private plans. With this in mind, we are working with specialized brokers and employee benefits consultants to develop solutions to limit the growth of plan costs.
- Improved service quality – We will continue our initiatives to improve service quality by taking steps to simplify our business processes and improve the quality of customer service.

Lastly, since profitability continues to be an important objective, we will be improving profitability measures by market segment in order to adjust our pricing strategies more promptly and efficiently. Constant monitoring of loss ratios and the implementation of corrective measures are key priorities.

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

- 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 "superior service" – Our clients want service that meets their needs and expectations quickly and effectively, as well as state-of-the-art technology tools. This is what we intend to continue offering them, at competitive prices.
- By being "accessible" – We have sales and service teams in all regions of Canada. Our administrative centres in Montreal and Toronto offer comprehensive customer service, including underwriting, contract issue, administration, billing, claims management and a customer service centre.

GROUP INSURANCE
CREDITOR INSURANCE

2010 OVERVIEW

- Business Growth
  - $183.3 million in sales, up 20%, significantly outperforming Canadian light vehicle sales
- Main Achievements
  - Acquisition of National Warranties, a company specializing in extended warranties for used vehicles.
  - Good performance of the distribution network, which signed new dealers and leveraged its business with existing dealers.
- Key Business Development Initiatives
  - Expand into the used vehicle market
  - Continue to expand in Ontario
  - Market lower premium products
  - Overcome bank and OEM financing limits
  - Position SAL to become a full service provider

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.

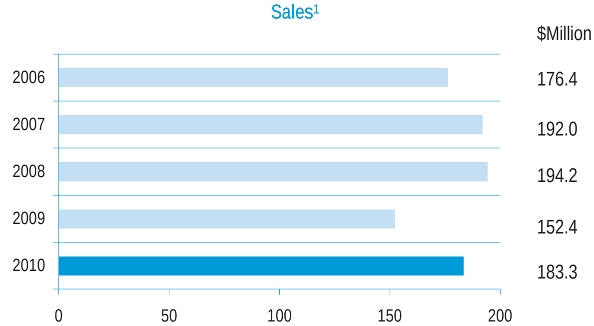
In addition to creditor insurance products, SAL offers extended warranties and a full range of P&C ancillary products. Dealers and distributors demand "one stop shopping" for their after-market needs and SAL is one of the few companies that are close to completely meeting this demand.

2010 ACHIEVEMENTS

Creditor insurance operations have shown very strong recovery in most regions and posted strong gains in 2010. Creditor insurance sales reached $183.3 million in 2010, up 20% compared to 2009. Sales have significantly outperformed the car industry. The Canadian light vehicle industry shows light vehicle sales up 6.6% compared to 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]



In addition to strong sales gains, there have been other positive developments:

- Good performance of the distribution network, which signed on new motor vehicle dealers and leveraged its business relationships with existing dealers.
- A new agreement was signed with Daimler Financial Services ("DFS") for the exclusive distribution of creditor insurance on heavy equipment vehicles.
- The acquisition of National Warranties, a small P&C extended warranty company in Quebec, has been finalized. The company specializes in extended warranties for used vehicles and this acquisition fits SAL's strategic objective of expanding into the used automobile dealer market starting with extended warranty products.
- An arrangement with W3 Solutions, a company that has been in the extended warranty business for over 30 years, has been finalized to underwrite extended warranties for new home appliances and consumer electronic products.

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

Group Creditor Insurance Business Growth	(In millions of dollars, unless otherwise indicated)				
	2010	2009	2008	2007	2006
Sales	183.3	152.4	194.2	192.0	176.4
Reinsurance	34.5	30.9	34.7	30.7	28.6
Premiums	148.8	121.5	159.5	161.3	147.8
Growth	22%	(24%)	(1%)	9%	12%

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 offers a full range of creditor and ancillary products in addition to a full range of service and training programs to meet the demands of the market.

DEVELOPMENT STRATEGY

The strategy to develop Group Creditor Insurance distributed through car dealers encompasses five key components:

- Continue to grow the creditor business by taking advantage of the Company's strong marketing position in key markets.
- Expand into the used vehicle dealer market.
- Pursue Canada-wide expansion, concentrating on the Ontario market.
- Continue to develop new and unique products to meet the demands of a dynamic market.
- Position ourselves to be a full service provider.

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

- Expand into the used vehicle dealer market – Traditionally, SAL has distributed products through new vehicle and RV dealers, and their used vehicle divisions. However, the independent used vehicle dealer market, which represents thousands of potential dealer partners, remains untouched by SAL. We are examining various methods of expanding into this market, starting with extended warranty products.

- 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. We are currently reorganizing to integrate Ontario Automobile Dealer Association ("OADA") sales representatives into our existing SAL sales force and we expect strong growth to continue in Ontario as we continue integrating OADA dealerships to our network. Also, other opportunities to attract dealers to our network and gain market share in the region will be explored.

- Market lower premium products – We will continue marketing Companion Clear which was developed as a lower priced alternative to traditional credit insurance. There is also a potential to develop a version of Companion Clear for consumers who use a line of credit as a source of financing. This would be a whole new market for SAL and we are exploring all the possibilities.

- Overcome bank and OEM financing limits – We are focused on expanding SAL's product offering to develop programs that are not contingent on bank and OEM financing. Options such as balance shortfall protection on lines of credit are being investigated and monthly premium programs for both creditor and extended warranty programs have been introduced.

- Position SAL to become a full service provider – 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. We want to position ourselves to be recognized as a leader in the extended warranty and ancillary product market just as we have been recognized in the creditor market for over 45 years.

Finally, SAL is exposed to regulatory risk and there has been pressures in 2010 regarding different topics such as compensation and loss ratios disclosures and contractual exclusions. We are closely monitoring the developments of those issues as some potential changes could negatively affect our sales and profitability.

GROUP INSURANCE
SPECIAL MARKETS GROUP (SMG)

2010 OVERVIEW

- Business Growth
  - Good overall sales growth, with net premiums of $124.2 million, up 10% from the previous year
  - Nearly all product lines delivered steady growth throughout the year
- Competitive Advantages
  - Considerable expertise in AD&D and other products in the special risks market
  - Excellent reputation for customized service and business solutions
  - Coast-to-coast local presence
- Development Strategy
  - Increase market share of Creditor and AD&D insurance lines
  - Develop relationships with new distributors of specialized insurance 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), creditor insurance (primarily through mortgage broker organizations), 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.

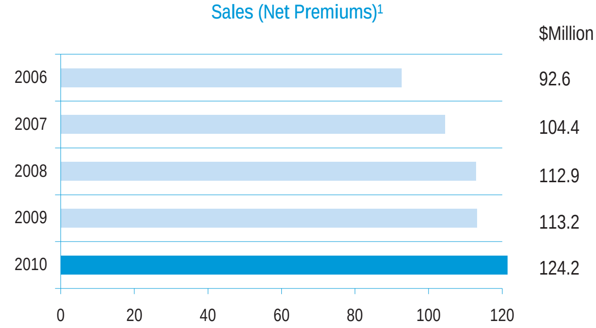
SMG distributes its products from five regional offices, each with its own dedicated sales staff. The five offices are located in Vancouver, Calgary, Toronto, Montreal and Halifax, making SMG truly coast-to-coast.

2010 ACHIEVEMENTS

SMG results for the year were very good. Sales, defined here as gross premium net of reinsurance, reached $124.2 million in 2010, up 10% from the prior year. The creditor, medical, critical illness, ancillary and, in particular, travel lines of business all grew well in 2010. However, this result was tempered by the mid-year termination of a large student health group. Meanwhile, Life showed reasonable growth, and AD&D and Disability experienced very modest growth.

SMG	(In millions of dollars, unless otherwise indicated)				
Business Growth	2010	2009	2008	2007	2006
Gross premiums	133.2	118.2	117.3	109.4	100.2
Reinsurance	9.0	5.0	4.4	5.0	7.6
Sales (net premiums)	124.2	113.2	112.9	104.4	92.6
Growth	10%	0%	8%	13%	6%

Sales (Net Premiums)[1]



DEVELOPMENT STRATEGY AND MARKET OPPORTUNITIES

SMG's core strength is a strong reputation for customer service and special risk solutions. Coast-to-coast 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 enhancing its product offering.

Our goal is to be the leader in providing innovative and unique special risk insurance solutions that meet 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 2011 development strategy of the SMG division encompasses the following components:

› Increase the market share of the Creditor and AD&D lines of business.

› 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.

GROUP PENSIONS

2010 HIGHLIGHTS

› Business Growth
  › Assets under management of $7.8 billion, a 9% increase
  › New high for recurring premiums, up 11% to reach $405.1 million
  › Sales of new accumulation plans outside Quebec higher than plan sales within Quebec for the sixth consecutive year
› Development Strategy
  › Sales growth
  › Focus on accumulation products
  › Canada-wide development
  › Enhancement of product and service offer

DESCRIPTION OF SECTOR

The Group Pensions sector offers a wide range of products and services 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 insured annuities, it targets plans of all sizes; and for institutional money management services, it targets pension funds valued from $25 to $500 million.

The Group Pensions sector has approximately 140 employees, has signed agreements with nearly 8,200 groups, and serves over 230,000 plan members. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

BUSINESS GROWTH

Group Pensions ended the year with $685.4 million in premiums, a decrease of 18% compared to the previous year. 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)				
	2010	2009	2008	2007	2006
Accumulation Products					
Recurring premiums	405.1	366.0	337.8	289.6	250.7
Transfers	230.6	353.7	526.2	306.3	374.2
Subtotal	635.7	719.7	864.0	595.9	624.9
Insured Annuities	49.7	120.1	250.9	232.4	195.2
Total	685.4	839.8	1,114.9	828.3	820.1
Growth	(18%)	(25%)	35%	1%	45%

Accumulation Products

Two factors contributed to the $635.7 million in accumulation product sales in 2010:

› Recurring premiums totalling $405.1 million, a new high and an 11% increase over 2009. Recurring premiums are the core of the sector's strategy, since they represent long-term sustainable growth. They correspond to regular member contributions, which are collected from in-force group clients.

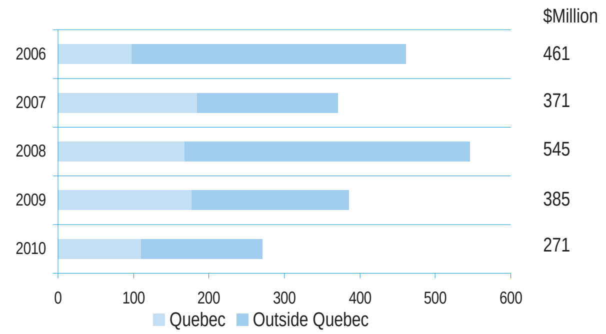
› New group transfers representing $230.6 million, down 35% compared to 2009.

[1] In the Special Markets Group sector, sales are defined as gross premium net of reinsurance.

For the sector to successfully grow its business volume, we need to sell new plans and maintain existing plans. With respect to new plan sales, we generated $271 million in annualized premiums in 2010[1].

One of the sector's strategic objectives is to increase business volume outside Quebec. In keeping with this goal, 59% of new plan sales were made outside Quebec in 2010. This is the sixth consecutive year where sales outside Quebec have been higher than within Quebec.

Accumulation Products
New Plan Sales[1]



Net fund entries were lower than the previous year, primarily due to a higher number of large plan sales in 2009 than in 2010.

Accumulation Products Net Fund Entries	(In millions of dollars) 2010	2009	2008	2007	2006
Entries	635.7	719.7	864.0	595.9	624.9
Disbursements	411.0	351.6	447.0	289.1	270.5
Net entries	224.7	368.1	417.0	306.8	354.4

Insured Annuities

In the insured annuities segment, the year ended with $49.7 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 longevity.

FUNDS UNDER MANAGEMENT

Funds under management amounted to $7.8 billion in 2010, which represents growth of 9% compared to the previous year. This result is attributable to positive net fund entries 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				
	2010	2009	2008	2007	2006
Accumulation Products	4,883.1	4,339.6	3,443.0	3,560.6	3,220.3
Insured Annuities	2,941.8	2,852.0	2,697.2	2,556.6	2,150.9
Total	7,824.9	7,191.6	6,140.2	6,117.2	5,371.2
Growth	9%	17%	0%	14%	16%

2010 ACHIEVEMENTS

The sector's achievements for 2010 were as follows:

- We launched our new secure website for plan sponsors and members. The state-of-the-art web architecture will enable us to develop new tools and innovative products in the years ahead.
- We introduced new communication tools for plan members and sponsors, including a series of webinars presenting a review of the economic situation.
- We launched a new retirement options guide to help future retirees plan their payout phase by providing them with information about the various retirement income options available.
- We launched new 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.
- We implemented certain measures for our insured annuities to help us manage our longevity risk.
- We reviewed an administrative process as part of our first Kaizen mandate, which is part of the LEAN ambition undertaken on a corporate level.

DEVELOPMENT STRATEGY

Our development strategy is as follows:

- Sales growth – We want to grow our sales and the number of producers Canada-wide with whom we have a preferred business relationship.
- Focus on accumulation products – We will continue to focus on developing accumulation products in 2011.
  - We will do this by continuing to adhere strictly to the game plan in place for the past few years: continuing to promote our products to market intermediaries and actuarial consulting firms; continuing to improve our products and services so we can offer added value to market intermediaries, plan sponsors and members; and finally, relying on a communication strategy designed to improve the Company's brand awareness among business clients, particularly outside Quebec.
  - For insured annuities, which are capital-intensive products primarily due to the long-term longevity risks, we want to achieve selective, prudent growth.
- Canada-wide development – From a geographic standpoint, our objective is to continue growing our business outside Quebec, particularly for accumulation products. We're developing an increasingly strong presence in all parts of the country, with new plan sales outside Quebec accounting for over half of our total sales over the last six years.
- Enhancement of our product and service offer – We want to make enhancements to our product and service offer, particularly in terms of technology, communication and investment tools.

In conclusion, our efforts in 2011 will mainly focus on growing our sales and continually enhancing our product and service offer.

[1] New plan sales are measured by first-year annualized premiums, which equals the total of the initial asset transfer and recurring first-year annualized premiums.

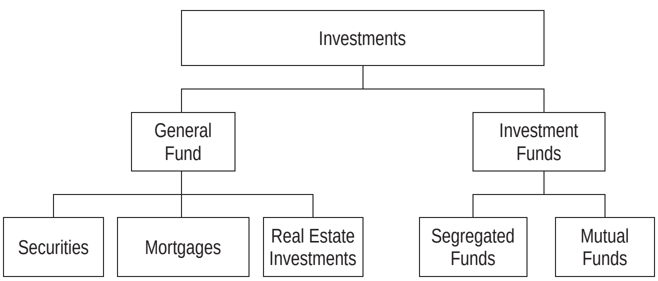
INVESTMENTS

2010 HIGHLIGHTS

- Very good quality of investments despite a still unsettled economy
- Net impaired investments very low: 0.12% of investments
- Bond portfolio
  - Bonds rated BB and lower: just 0.12%
  - No defaulted bonds as at December 31, 2010
- Mortgage loan portfolio
  - Delinquency rate: 0.47%
  - Proportion of insured loans: 68.4%
  - No investments in US subprime mortgages
- Real estate portfolio
  - Occupancy rate: 93.8%
  - Market value/book value ratio: 122.6%
- Very strict matching: difference in duration of 0.09 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 of the Company's investment activities are combined under a single authority, including those related to its US operations, which expanded in 2010 with the acquisition of American-Amicable and Golden State Mutual. As a result, the investments related to the Company's US operations are managed using the same philosophy and principles as those used in managing the Canadian business.

Although the investment activities are combined under a single authority, the investment teams work out of 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.

Lastly, it should be noted that an Investment Risk Monitoring department has been in place since 2008 in order to exercise utmost 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 $66.9 billion as at December 31, 2010, a 15% increase over the end of 2009. 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 17% in 2010 to reach a record $42.3 billion at the end of the year. All the main components of assets under management increased in 2010, 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 2010 to reach $20.1 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).

Assets under administration continued to grow, amounting to $24.6 billion as at December 31, 2010, an 11% increase compared to December 31, 2009. 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				
	2010	2009	2008	2007	2007
Assets under management					(January 1)
General fund	20,101.1	17,626.5	15,415.2	15,104.3	14,406.9
Segregated funds	13,572.5	11,450.3	8,924.2	10,210.9	9,201.8
Mutual funds	8,135.7	6,615.7	5,277.7	6,846.9	6,295.4
Other	498.0	563.3	596.7	630.6	501.3
Subtotal	42,307.3	36,255.8	30,213.8	32,792.7	30,405.4
Assets under administration[1]	24,571.7	22,150.8	19,258.4	17,618.9	--
Total	66,879.0	58,406.6	49,472.2	50,411.6	--

GENERAL FUND

2010 was marked by uncertainty surrounding the recovery of the world economy, which continues to be on shaky ground. Despite concerns generated by inflationary fears in China, the problems plaguing several European countries and a still unsteady US economy, the markets managed to perform quite well.

Although stock markets were volatile in the first half of the year and seemed to be moving in no particular direction, they finally trended upwards in the second half of 2010 to close the year with positive returns. In terms of fixed-income securities, the markets benefited greatly from the uncertainty surrounding the world economy. This uncertainty led to a decrease in interest rates, which allowed the bond market to post generous returns for a good part of the year. However, with renewed investor optimism in the second half of the year, particularly in the fourth quarter, interest rates started to go up again for all maturities. This change of course slowed the performance of the bond portfolios in the last few months of 2010, but the performance for the year as a whole was still excellent.

Industrial Alliance was able to capitalize on opportunities created by the market volatility to post good returns on its investment portfolio. A few assets were added to the list of impaired investments during the year, but these assets did not have a significant impact on the Company's net income. Impaired assets still represent just a very small portion of investment assets, which testifies to the prudence of the Company's investment operations.

COMPOSITION OF GENERAL FUND INVESTMENTS

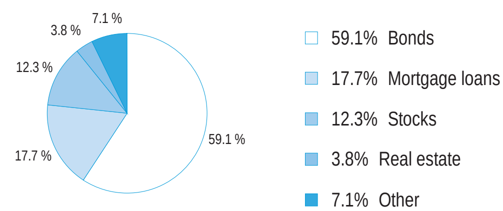
In terms of its investments, the Company's goal is to use a prudent, disciplined approach to investing, while seeking to achieve an optimal balance between risk and return. In addition to closely monitoring its asset/liability matching, the Company ensures that its investments are well diversified among 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, and to a lesser extent, in equity securities. 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 2010, 59.1% of the Company's investments were invested in bonds and 17.7% in mortgage loans, for a total of 76.8% 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				
	2010	2009	2008	2007	2007
					(January 1)
Bonds	11,119.8	9,409.5	7,942.2	8,127.2	8,358.3
Mortgages	3,334.5	3,405.0	3,508.1	2,920.2	2,460.0
Stocks	2,318.7	1,896.4	1,340.2	1,764.2	1,600.9
Real estate	711.9	649.0	629.5	481.6	451.8
Other invested assets	1,343.8	1,130.3	976.3	921.1	705.3
Total	18,828.7	16,490.2	14,396.3	14,214.3	13,576.3

Investments by Asset Category
As at December 31, 2010



OVERALL QUALITY OF INVESTMENTS

The overall quality of investments continued to be very good in 2010. Net impaired investments totalled $22.8 million as at December 31, 2010 compared to $13.0 million as at December 31, 2009, but despite this increase, represented just 0.12% of total investments (0.08% as at December 31, 2009). The increase in net impaired investments in 2010 is due to the addition of two bonds valued at $10.4 million – for which the Company posted a $2.0 million provision before taxes – and the posting of three mortgage loans on multi-unit residential properties in the US as impaired investments. However, one positive event in 2010 was that the Company was almost entirely reimbursed for a $4.5 million bond that was included in the Company's impaired investments at the end of 2009. The bond was reimbursed at par, and the residual balance of the investment ($0.9 million) is fully provisioned.

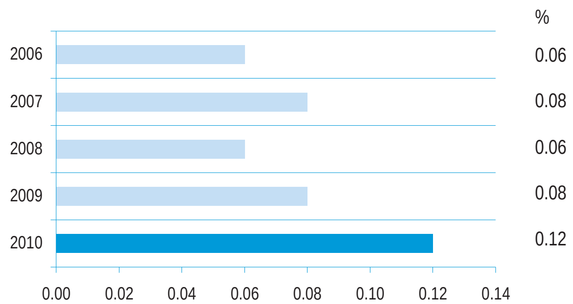
Net Impaired Investments (Excluding Insured Loans)	(In millions of dollars) As at December 31				
	2010	2009	2008	2007	2006
Bonds	8.4	4.5	0.5	1.2	1.2
Mortgages	13.1	6.9	7.8	2.8	0.2
Repossessed properties	1.3	1.6	0.5	7.7	6.5
Total	22.8	13.0	8.8	11.7	7.9

[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.).

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

Net Impaired Investments as a Percentage of Total Investments

As at December 31



The Company has very little exposure to securities that have made the headlines over the past few years, whether it be the securities of countries struggling with public finance issues, or securities that belong to certain economic sectors such as the US subprime mortgage loan market, US automobile manufacturers or monolines. The Company's exposure to all of these sectors or countries is limited to a $22.6 million investment in securities of UK financial institutions, a $5.0 million investment in a province in Spain, and a $1.0 million private investment in a Spanish company.

Unrealized losses on corporate fixed income securities classified as "available for sale" amounted to $2.9 million as at December 31, 2010, compared to $14.5 million as at December 31, 2009. This decrease 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 $16.5 million as at December 31, 2010, compared to $46.0 million as at December 31, 2009. This value reached a record $111.5 million on June 30, 2009, six months after the lowest point of the financial crisis. Note that the unrealized losses on these bonds (measured according to the difference between the market value and the nominal value) amounted to $6.2 million as at December 31, 2010 ($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.

NOTE REGARDING NON-BANK ABCP

The nominal value of non-bank asset-backed commercial paper, or ABCP (known as "floating rate notes" since their restructuring on January 21, 2009), decreased by $36.2 million in 2010, from $91.0 million as at December 31, 2009 to $54.8 million as at December 31, 2010. This decrease is essentially due to the sale of certain notes backed by synthetic assets, whose nominal value was $28.2 million, and repayments of principal (at their par value) totalling $7.0 million. It should also be noted that notes supported by ineligible assets, with a nominal value of $1.0 million, were written off in 2010.

The relatively high sales over the past year are explained by the fact that the market in which these notes are traded grew in 2010, particularly in the fourth quarter. This favourable evolution prompted the Company to sell under conditions that it deemed reasonable, or in other words, at prices that were slightly higher than those estimated when the restructuring took place.

Since the restructuring on January 21, 2009, the nominal value of the Company's exposure to the notes resulting from the ABCP decreased by 47%, from $104.1 million to $54.8 million as at December 31, 2010. This decrease is essentially due to repayments of principal and sales of securities. The table below summarizes the items that affected the nominal value of the notes over the past two years.

Variation in the Nominal Value of the Notes Resulting From ABCP	(In millions of dollars) 2009-2010 Period	2010	2009
Nominal value at the beginning	104.1	91.0	104.1
Restructuring adjustment	(1.0)	--	(1.0)
Capital reimbursements	(32.5)	(7.0)	(25.5)
Sales of securities	(28.2)	(28.2)	--
Write-offs	(1.6)	(1.0)	(0.6)
Acquisition of MD Life[1]	14.0	--	14.0
Nominal value at the end	54.8	54.8	91.0

Lastly, as at December 31, 2010, the overall devaluation taken for these notes due to credit risk was $23.8 million ($35.6 million as at December 31, 2009). Despite the recent improvement in market conditions, the Company believes that this devaluation is justified. The devaluation is equal to 43.4% of the nominal value of the notes held as at December 31, 2010 (39.1% as at December 31, 2009).

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.

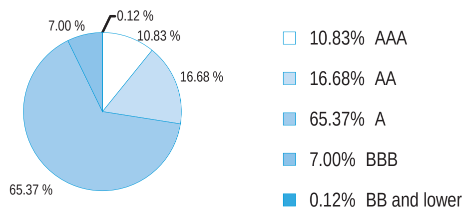
The quality of the bond portfolio, which totalled $11.1 billion as at December 31, 2010, continued to be very good, even though two bonds were affected by the economic environment during the year. As indicated earlier, the Company posted a $2.0 million provision, before taxes, for these two bonds. However, the impact of this provision on net income was totally offset by gains realized from reimbursements received for other bonds that had been written down the previous year.

The bond portfolio had no defaulted bonds as at December 31, 2010. The proportion of bonds rated A or higher represented 92.88% of the portfolio at the end of 2010, compared to 93.49% at the end of 2009. As at December 31, 2010, bonds rated BB and lower represented just $13.0 million (0.12% of the portfolio), compared to $6.5 million as at December 31, 2009 (0.07% of the portfolio). This increase can be explained as follows. Three bonds worth $9.6 million were added to the list of bonds rated BB and lower due to a downgrading. However, other bonds rated BB and lower were sold or

[1] On December 31, 2009, Industrial Alliance acquired the remaining portion (55%) of the individual life insurance portfolio of MD Life, of which it already owned 45% (excluding the surplus associated with this block of business). The amount of $14.0 million represents the residual nominal value of the ABCP that was held by MD Life at the time the life insurance portfolio was acquired by Industrial Alliance.

redeemed by the issuer for an amount of $2.0 million (with no significant impact on the Company's results). Lastly, the redemption or change in market value of certain notes resulting from ABCP decreased the value of the bonds rated BB and lower by approximately $1 million.

Bonds by Credit Rating
As at December 31, 2010



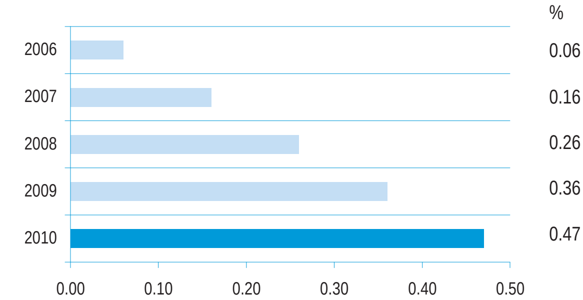
In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance 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. As at December 31, 2010, private issue bonds accounted for $1.6 billion, which represents about 14.2% of the bond portfolio.

Bond Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2010	2009	2008	2007	2006
Book value of the portfolio ($Million)	11,119.8	9,409.5	7,942.2	8,127.2	7,189.4
Distribution by category of issuer					
Governments[1]	63.2	63.3	61.1	59.7	56.9
Municipalities	1.5	1.3	1.4	1.8	1.7
Corporations – Public issues	21.1	20.8	21.6	23.4	26.1
Corporations – Private issues	14.2	14.6	15.9	15.1	15.3
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.01	0.00	0.01	0.02	0.02

MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio remained excellent in 2010 even though the delinquency rate increased slightly, from 0.36% as at December 31, 2009 to 0.47% as at December 31, 2010. This increase is primarily due to the 2010 addition of three conventional mortgages on multi-unit residential properties in the US in the defaulted loans category. These loans are not related to the US subprime mortgage market. It is important to note that the Company does not hold any investments in this market. In total, as at December 31, 2010 delinquent mortgage loans represented just $15.8 million of a $3.3 billion portfolio.

Mortgage Loan Delinquency Rate
As at December 31



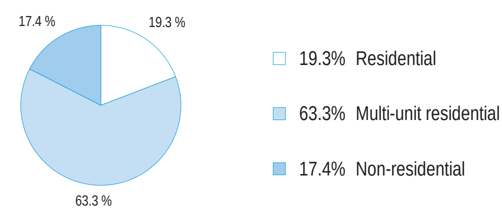
The delinquency rate figure includes both insured and uninsured loans.

Mortgage Loan Portfolio	(In percent, unless otherwise indicated) As at December 31				
	2010	2009	2008	2007	2006
Book value of the portfolio ($Million)	3,334.5	3,405.0	3,508.1	2,920.2	2,457.2
Distribution by type of loan					
Insured loans	68.4	71.8	71.3	65.0	60.2
Conventional loans	31.6	28.2	28.7	35.0	39.8
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate					
Insured loans	0.06	0.21	0.08	0.10	0.09
Conventional loans	1.36	0.72	0.72	0.27	0.02
Total	0.47	0.36	0.26	0.16	0.06

Virtually all mortgage loans are secured by first mortgages. Also, despite a slight decrease in 2010, it is interesting to note that the proportion of insured loans has remained around 70% on average over the last three years.

As at December 31, 2010, the proportion of loans secured by single-family or multi-unit residential properties was 82.6% compared to 84.2% as at December 31, 2009.

Mortgage Loans by Type of Property
As at December 31, 2010

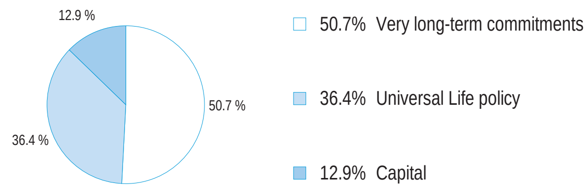


[1] Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

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, 2010



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, 2010, investments in equity securities amounted to $2.3 billion, or 12.3% of the Company's total investments, compared to $1.9 billion or 11.5% a year earlier. This increase can largely be explained by the stock market gains in 2010 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				
	2010	2009	2008	2007	2006
Book value of the portfolio ($Million)	2,318.7	1,896.4	1,340.2	1,764.2	1,453.5
Distribution by category of stock					
Common shares	21.2	13.5	18.8[1]	5.7	5.0
Preferred shares	8.0	8.8	10.3	8.1	10.9
Market indices	39.1	43.2	26.0	25.6	23.6
Investment fund units and other	31.7	34.5	44.9[1]	60.6	60.5
Total	100.0	100.0	100.0	100.0	100.0

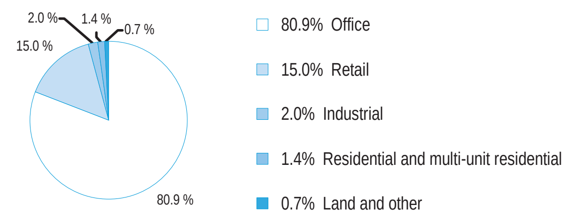
REAL ESTATE PORTFOLIO

As at December 31, 2010, the book value of the real estate portfolio totalled $711.9 million (including repossessed properties), which represents an increase of 9.7% compared to the end of 2009. This increase mainly reflects the acquisition of a new office building in Vancouver for $27.4 million. Real estate investments represented 3.8% of total investments as at December 31, 2010; according to Company policy, the target real estate portfolio should represent approximately 5% of the Company's total investments.

Unlike other types of investment, the accounting method for real estate investments was not affected by the introduction of the new accounting standards at the beginning of 2007. However, the accounting of real estate will be affected in 2011 due to the adoption of the new international financial reporting standards. For real estate held for investment purposes, the Company plans to use the fair value as deemed cost, whereas for own-use properties, it plans to use the amortized cost as deemed cost for some properties, and the fair value for others. To learn about the impact of these changes, and for other information in this regard, please refer to the Accounting Matters and Additional Information section of this report.

The occupancy rate of the Company's real estate portfolio remained high (93.8% as at December 31, 2010 compared to 94.4% as at December 31, 2009), 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, 2010



The market value of the real estate portfolio continues to be much higher than the book value (122.6% as at December 31, 2010 compared to 126.9% as at December 31, 2009). The Company generally reappraises each of its properties in turn every three years. In 2010, 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				
	2010	2009	2008	2007	2006
Book value of the portfolio ($Million)	711.9	649.0	629.5	481.6	451.8
Market value/book value of the portfolio	122.6	126.9	129.4	129.5	117.4
Occupancy rate	93.8	94.4	94.0	95.5	95.5

OTHER INVESTED ASSETS

The *Other Invested Assets* category (7.1% 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, 2010 due to the restructuring of the ABCP that occurred on January 21, 2009. These investments have been reclassified under the *Bonds* category.

[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.

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.

In 2010, the Company continued to develop the inter-segment note program that it created in 2009. This program was set up to allow cash flows to be exchanged among different lines of business, and is one of many initiatives introduced by the Company to mitigate reinvestment risk.

As at December 31, 2010, the difference between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.09 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, 2010	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	7,900	50%
Universal Life policy accounts	1,445	9%
Subtotal	9,345	59%
Non-immunized liabilities	6,330	41%
Total	15,675	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 201% as at December 31, 2010 (190% as at December 31, 2009). This means that highly liquid assets, which represent the sources of liquidity, cover approximately two times the liquidity need in an extreme case.

The Company also carries out additional simulations to take into account a potential stock market crisis. These simulations 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 155% as at December 31, 2010 (145% as at December 31, 2009).

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 operations and its asset/liability matching policy, the Company is regularly in a positive cash flow position. This means that fund entries are regularly higher than disbursements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company holds swap contracts that are calculated according to a notional amount of $2.0 billion as at December 31, 2010 ($1.1 billion as at December 31, 2009). The increase in 2010 is primarily due to the hedging program that was set up during the year to mitigate the risks related to a product with a guaranteed minimum withdrawal benefit offered by the Individual Wealth Management sector. These derivative financial instruments 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 $20.1 million as at December 31, 2010 ($12.5 million as at December 31, 2009). 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 $39.5 million as at December 31, 2010 ($42.4 million as at December 31, 2009).

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, 2010, the maximum amount authorized for these lines of credit was $66.9 million, the same amount as at December 31, 2009. As at December 31, 2010, none of the lines of credit were used.

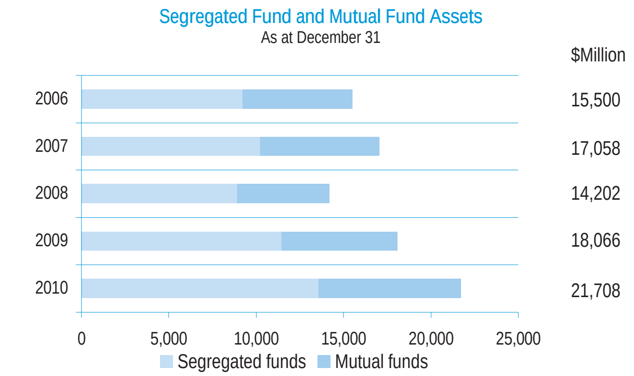
INVESTMENT FUNDS (Segregated Funds and Mutual Funds)

INVESTMENT FUND ASSETS

Investment fund assets for the Industrial Alliance group totalled $21.7 billion as at December 31, 2010 ($13.6 billion in segregated funds and $8.1 billion in mutual funds), which represents an increase of 20% over 2009. This growth is largely due to the excellent results in terms of net sales over the last year and the performance of the funds.

Over the last few years, the Industrial Alliance group has gradually become a leader in the investment fund industry. As at December 31, 2010, the group was ranked among the top fifteen fund managers (mutual funds and segregated funds combined) in Canada. Note that the group did particularly well in terms of net segregated fund sales in 2010, ranking number one in the industry.

To continue to develop its business successfully, Industrial Alliance relies on a broad, diversified range of funds and a vast distribution network.



RANGE OF FUNDS

Industrial Alliance offers a broad range of segregated funds designed for its individual and group clients. As at December 31, 2010, Individual Wealth Management was offering its clients 54 funds open to new premiums, while Group Pensions was offering 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 main families of segregated funds offered by each line of business (individual and group) offer excellent diversification in terms of asset class, management style, geographic region and choice of management firm. Given the vast and diversified selection currently offered, very few changes were made in 2010.

In the Group Pensions sector, no new funds were added to or removed from the current fund offering. In the Individual Wealth Management sector, however, the Company removed one fund from its offering in 2010 and made a few improvements to existing funds. In addition, a number of changes — including closures and restructuring — were made to certain funds that belong to old fund families for the Individual sector but are no longer open to new sales.

In January 2011, the Individual Wealth Management sector will be adding 24 new funds, 20 of which will be hybrid funds, which means that they will contain 25% fixed income securities and 75% equity securities (stocks). These new funds will be available within the IAG Savings and Retirement Plan, a new investment plan (or family of funds) that will now offer 78 funds.

In terms of mutual funds, IA Clarington launched 6 new funds in the past year. This brings the number of funds offered by IA Clarington at the end of 2010 to 56. Of the 6 new funds launched, 5 focus on the "income" component (a characteristic sought by many investors in the past few years), mainly by incorporating bonds. In addition, 3 of the new funds launched were added to the "Category" family of funds, thereby expanding this family to 16 funds. One of the appeals of the "Category" funds is that they allow investors to reallocate the money invested in them to other funds in the same family without any tax consequences.

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 81 funds as at December 31, 2010, representing 64.7% of funds under management.

The external managers associated with the Industrial Alliance group were responsible for managing a total of 90 funds, representing 35.3% of investment fund assets under management at the end of 2010. The Industrial Alliance group has strategic alliances with over 40 external managers.

Industrial Alliance Group's Active Investment Funds (As at December 31, 2010)	Number of funds	Assets ($Million)[1]	Distribution of assets[1]	Proportion of assets managed in-house
Segregated funds	115	13,292	56.3%	73.3%
Mutual funds	56	10,329	43.7%	53.6%
Total	171	23,622	100.0%	64.7%

ECONOMIC ENVIRONMENT AND STOCK MARKET PERFORMANCE

The performance of the stock markets was fairly volatile in 2010, with economic indicators and investor sentiment evolving differently during two distinct phases.

During the first six months of the year, the markets were influenced by a fairly worrisome economic environment. In Europe, the budget problems experienced in Greece and the risk of contagion to other Eurozone countries set the tone for increased financial tension. Meanwhile, in the US, weak job growth, residential real estate woes and US government debt cast some doubt about the strength of the economic recovery. In emerging countries, the climate was dominated by inflationary fears. During these six months, stock market returns were quite negative, while bond indexes and safe havens like gold posted positive returns. This climate of uncertainty prompted massive bond purchases by investors looking for more security.

The situation changed considerably in the second part of 2010, however, as investors showed renewed appetite for risk, which increased even further in the last quarter. Even amidst a still-lagging US job market and fears that the economy could be heading into a deflationary period, investors grew more optimistic and began looking for news of more favourable trends. The improvement of certain economic indicators and the US Federal Reserve's introduction of a second quantitative easing program in the fall of 2010 — which fuelled hopes of positive momentum that could last into 2011 — revived investor interest.

Thanks to the more optimistic environment in the second half of the year, the S&P/TSX index, which represents the Canadian stock market, ended 2010 with a total return (including dividends) of 17.6%. Note that nine of the ten sub-sectors of the index experienced positive growth. Of the three largest sectors in the index, the materials sector performed the best, with 35.8% growth. This sector benefited from strong growth in the price of several commodities. The other two large sectors, i.e. financials and energy, had returns of 6.3% and 10.0% respectively. These three sectors alone account for nearly 80% of the index.

The DEX index, which measures the performance of the Canadian bond market, was up 6.7% during the year. Of the numerous factors that contributed to this performance, economic uncertainty and fears that the economy might move into a deflationary period were the most prominent. Note as well that the DEX long-term bond index was up 12.5% in 2010. This index benefited from the drop in interest rates on long-term bonds that occurred during the year.

[1] These data don't take into account the duplication of certain funds.

With respect to the US stock market performance, the S&P 500 index ended the year with a return of 15.1% in local currency and 9.3% in Canadian currency (the difference is due to the fact that the Canadian dollar was up 5.2% compared to the US dollar). The ten sectors that make up the S&P 500 all had positive returns, the best being in the consumer discretionary sector, with a return of over 25% (in local currency), followed by industrials (+24%) and materials (+18%).

Outside North America, the MSCI EAFE index, which represents the international market (Europe, Asia and the Far East), was up 4.8% in local currency in 2010 (2.4% in Canadian currency). However, this index showed a great deal of disparity among the countries represented. For example, Sweden realized an annual gain of nearly 20% (in local currency), while the countries that had the most serious sovereign debt problems saw a decrease in their securities. In particular, the securities of the countries designated by the acronym PIIGS (Portugal, Italy, Ireland, Greece and Spain) were down 12%, 13%, 7%, 40% and 17% in local currency, respectively.

The "MSCI World" index, which includes 1,700 securities from 24 developed countries, finally surpassed its old record dating back to September 2008 with an annual performance of 10.0% in local currency and 6.2% in Canadian dollars. Although this is good news for investor confidence, it took this index 17 months more than the "MSCI Emerging Markets" index to surpass its previous record. This time period highlights the different environments that exist between developed countries, where unemployment is still high and the vast majority of central banks are maintaining an accommodating monetary policy, and the situation of many emerging countries where the central banks need to contain growth by restricting credit. For the major industrialized countries, economic growth in 2011 could be modest but still positive, which makes many strategists comfortable with the idea of allocating a greater percentage of assets to stocks instead of bonds.

INVESTMENT FUND PERFORMANCE

Thanks to the economic environment and the financial markets, many of the Company's investment funds were able to generate very good nominal returns in 2010. This is particularly true for a number of Canadian equity funds as well as certain diversified funds, which benefited from significant exposure to both the Canadian stock market, which performed well in 2010, and the Canadian bond market, which generated adequate returns over the past twelve months.

While the nominal returns of many funds have been very good in the past year, the relative performance of the fund families offered by the Company was less impressive in 2010. The relative performance over a 1-year period was the weakest in 2010, with only 47% of assets managed surpassing the median.

Over longer periods, however, the results were quite good compared to the industry. The table below shows that over 3-year, 5-year and 10-year periods, 70%, 65% and 74% of assets, respectively, were above the median.

The performance of funds managed by in-house managers and funds managed by external firms were both very good over 3-year, 5-year and 10-year periods. The various funds managed in-house, however, had a more challenging year over a 1-year period, with 38% of these assets being above the median compared to 64% for funds managed by external firms. The weaker performance of assets managed in-house can be explained in part by the weaker performance of large cap securities and bonds that are part of the asset mix of various portfolios.

Gross Relative Performance of Segregated Funds and Mutual Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	31	23	39	33
2nd quartile	16	47	26	41
Above the median - As at December 31, 2010	47	70	65	74
Above the median - As at December 31, 2009	55	71	71	78

In the segregated fund category, relative performance was down significantly in 2010, primarily over the 1-year period. Over longer periods, i.e. 3-year, 5-year and 10-year periods, the results are relatively stable and a high percentage of fund assets were above the median, at 68%, 61% and 91% respectively.

The decline in segregated fund performance in 2010 was a result of less favourable results (on a relative basis) by various in-house managed funds. These funds include bond funds, various balanced funds containing Canadian large cap securities that performed less favourably, and certain large funds, including bond, diversified and Canadian equity funds. Over a 1-year period, 51% of the assets in the funds managed externally surpassed the median, compared to 24% for those managed in-house.

Gross Relative Performance of Segregated Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	21	21	37	40
2nd quartile	11	47	24	51
Above the median - As at December 31, 2010	32	68	61	91
Above the median - As at December 31, 2009	57	72	79	98

Mutual funds performed very well in 2010, which increased the percentage of assets above the median for all except the 10-year period. Over 1-year, 3-year and 5-year periods, 67%, 73% and 70% of mutual fund assets, respectively, surpassed the medians.

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 even more favourable, with 74% of externally-managed fund assets surpassing the median.

Gross Relative Performance of Mutual Funds	(In percent) 1 year	3 years	5 years	10 years
1st quartile	45	26	43	20
2nd quartile	22	47	27	25
Above the median - As at December 31, 2010	67	73	70	45
Above the median - As at December 31, 2009	53	71	57	47

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, 2010, 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 enhance long-term profitability and shareholder value, while continuing to meet the needs of policyholders and comply with regulatory requirements.

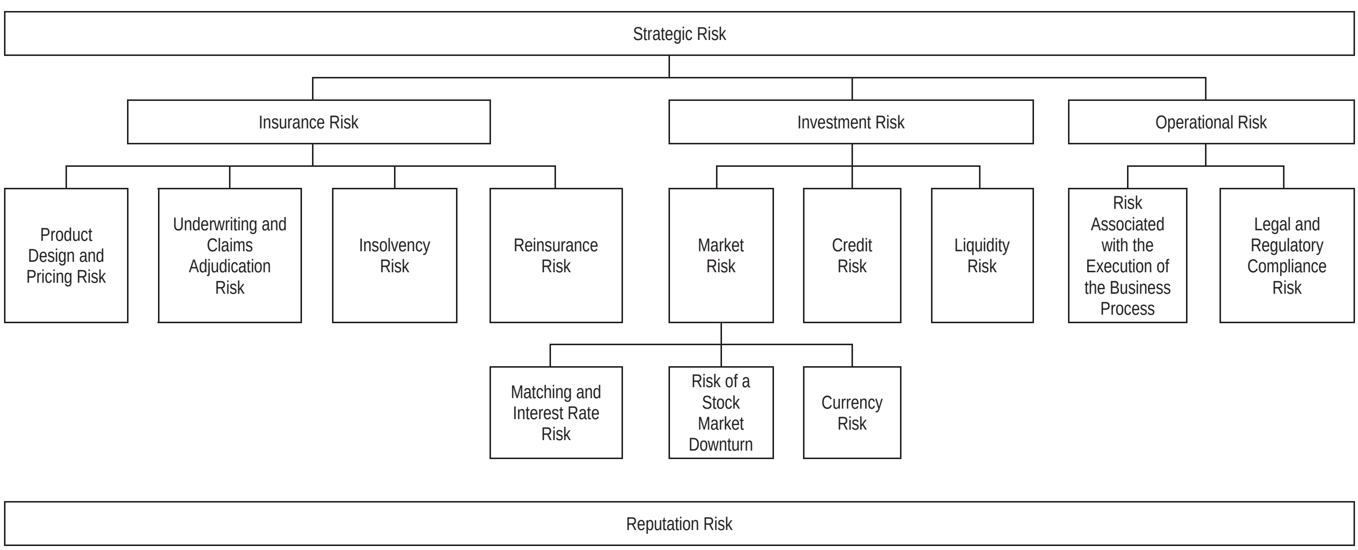
The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The risk management mechanisms put in place by Industrial Alliance effectively resisted the major turbulence that shook the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

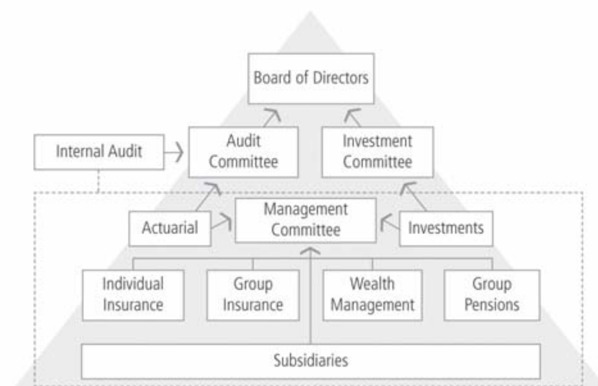
This Committee is responsible for the application of the policies and procedures. It also ensures that managers carefully assess the material risks to which the Company is exposed, and that they act with prudence and discipline within the stipulated limits for risk tolerance.

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 periodic reports to the Industrial Alliance Audit Committee.

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 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 might have to be recalculated to take this into account. The Company estimates that a 5% permanent deterioration in mortality rates would result in a $118 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 2009 to 2014), 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	118
Lapse rate[1]	139
Unit costs	36
Morbidity[2]	17

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, 2010	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	7,900	50%
Universal Life policy accounts	1,445	9%
Subtotal	9,345	59%
Non-immunized liabilities	6,330	41%
Total	15,675	100%

1 › Liabilities Immunized on a Cash Flow Basis

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

For liabilities immunized on a cash flow basis, the primary objective of the matching is to minimize the volatility of the deviations that can occur between the returns realized on the assets and those expected for the liabilities. In terms of the liabilities, the expected returns include the interest rates credited to client contracts and the fluctuation margins set out in the actuarial valuation of the policy liabilities. To appropriately monitor matching, investments are segmented by blocks 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.

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.

2 The adverse deviation is expressed assuming 95% of the termination rate for policies where the insured is disabled and 105% of the expected occurrence rate for policies in which the insured is active.

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.

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

2 › Immunized Liabilities Linked to Universal Life Policy Accounts
This category represents 9% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities may either be based on a guaranteed interest rate account, or determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

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

3 › Non-Immunized Liabilities
This category corresponds to 41% 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 rates of return on the valuation date, considering the target asset mix. As at December 31, 2010, the Company estimates that a 50 basis point decrease in the IRR would lead to a decrease in net income of approximately $144 million.
- 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, 2010, the Company estimates that a 10 basis point decrease in the URR would lead to a decrease in net income of approximately $49 million.

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 50 basis point increase in the IRR and a 10 basis point increase in the URR would have a similar impact to a 50 basis point decrease and a 10 basis point decrease respectively, but in the opposite direction.

In addition, it should be noted than an immediate 50 basis point decrease (or increase) in the IRR would increase (decrease) other comprehensive income by $20 million due to the unrealized gains (losses) that would then be generated on the fixed income securities classified as available for sale. A variance in the URR would have no impact on other comprehensive income.

To test for market sensitivity, the Company uses an interest rate variance of 50 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2010.

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. For these three items, the Company estimates that a 10% drop in the markets as at December 31, 2010 would have led to a $4 million decrease in net income and a $7 million decrease in other comprehensive income. A 25% drop in the markets as at December 31, 2010 would have reduced net income by approximately $10 million, and other comprehensive income by $14 million. Upward market variances by the same amounts would have had the same impact, but in the opposite direction.

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. For these two items, the Company estimates that a 10% drop in the markets as at December 31, 2010 would have led to a decrease in net income of approximately $1 million, while a 25% drop in the markets would have led to a decrease in net income of approximately $56 million. On the other hand, upward market variances by the same amounts would have had the same impact on net income, but in the opposite direction. Following a 25% drop in the markets (compared to their December 31, 2010 levels), all other things being equal, the Company would no longer have the leeway to absorb an additional market downturn without a significant impact on its provisions for future policy benefits.

Note that in order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2010, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

Under another scenario, the Company estimates that if the stock markets should suddenly drop by 10% at the very beginning of 2011, to subsequently grow in line with expectations for the rest of the year, net income to common shareholders for 2011 would be about $20 million lower than expected for its regular operations. On the other hand, a sudden 10% increase in the stock markets at the beginning of 2011, followed by market growth in line with expectations, would have a similar impact to a 10% decrease, but in the opposite direction.

Segregated funds expose the Company to the risk of a stock market downturn, and in order to mitigate some of the risk associated with this exposure, the Company set up a hedging program in 2010, which is described a little later in this section.

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Some products may also offer a guarantee for partial withdrawals. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. In order to get an overview of its exposure to the risk associated with the segregated fund guarantees, the Company determines the net amount at risk, which is the amount by which the guaranteed minimum value exceeds the market value for all contracts in this situation at a given point in time. The net amount at risk does not constitute a payable benefit as such, since in reality, benefits that might have to be paid in the future will depend on various eventualities, including market performance and contract holder longevity and behaviour.

As at December 31, 2010, segregated fund assets under management in the Individual Wealth Management sector totalled $8,799 million, and the guaranteed minimum value of these funds totalled $7,319 million. On this same date, the net amount at risk (for funds whose market value was lower than their guaranteed minimum value) totalled $61 million. For segregated funds whose guarantees are not covered by the hedging program, the Company's liabilities included $9 million in provisions for future policy benefits while no provisions for future policy benefits were required for funds that are covered by the program.

One of the Company's segregated fund products includes a guaranteed minimum withdrawal benefit that poses a special risk in the event of significant market fluctuations. The dynamic hedging program put in place in 2010 covers all of the Company's exposure to this type of guarantee, this attenuating the associated risk. The value of the assets underlying the hedged guarantees was $1,709 million as at December 31, 2010.

The hedging program involves short selling futures contracts on market indices traded on the Stock Exchange, as well as signing agreements for forward exchange contracts for currencies traded on the Stock Exchange and interest rate swaps. This program is used to hedge the sensitivity of the provisions for future policy benefits arising from the segregated fund guarantees to fund performance and interest rate fluctuations. In order for the Company's strategy to adequately cover the risks related to the hedged guarantees, a dynamic rebalancing of the hedging instruments is carried out based on changes in financial market conditions.

Under the hedging program, the value of the liabilities associated with the capital guarantees is updated weekly to reflect differences between expected experience and actual results. In the process of calculating expected experience, the Company uses certain assumptions regarding policyholder longevity and future redemptions. The redemption assumption, however, has certain limitations. The timing and size of the withdrawals and fund transfers cannot be hedged using derivative financial instruments since these are factors decided by the contract holder, and adverse deviation from expected experience can alter the quality of the hedge.

The hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss on the income statement. The hedging program itself entails certain risks that may limit the program's effectiveness, in particular:

- The program is based on dynamic rebalancing of the derivative hedging instruments. A decrease in the liquidity of these instruments would have an adverse impact on the effectiveness of the program, thereby affecting the amounts accounted for as hedges.
- The use of derivative hedging instruments entails a counterparty risk.

In addition to the risks indicated above, there could be other unidentified risks that could have an adverse impact on the Company's future financial results.

In addition to the impact on the Company's income, a stock market downturn may also have an impact on the Company's solvency ratio. As at December 31, 2010, the Company's solvency ratio was 205%, and the S&P/TSX index of the Toronto Stock Exchange was at 13,443 points. The Company estimates that if the S&P/TSX index had been at 9,300 points as at December 31, 2010 (i.e. 31% lower), the solvency ratio would have been around 175%, and if it had been at 7,700 points (i.e. 43% lower), 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.

During the period ended December 31, 2010, no derivative financial instruments were used for hedging purposes except those used under the hedging program for segregated fund guarantees, as described previously.

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, 2010, the Company was not exposed to any material foreign currency risk.

Note that the Company used hedge accounting for foreign currency in 2010. For more information, refer to note 9 of the Company's consolidated financial statements as at December 31, 2010.

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	
50 basis point decrease in the initial reinvestment rate (IRR)	144
10 basis point decrease in the ultimate reinvestment rate (URR)	49
Sudden 10% drop in the stock markets[1]	20

[1] Assuming a sudden drop in the stock markets at the beginning of 2011, followed by market growth in line with expectations for the rest of the year.

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 9 of the consolidated financial statements as at December 31, 2010.

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, 2010, on a notional amount of $2.0 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.

The Company maintains a high level of liquidity. As at December 31, 2010, the value of the marketable securities included in the Company's investment portfolio represented 201% of the amount that would be required under an extreme adverse scenario where the Company would have to redeem all of its redeemable contracts (190% as at December 31, 2009). This means that highly liquid assets, which represent the sources of liquidity, cover approximately two times the liquidity need in an extreme case.

The Company also carries out additional simulations to take into account a potential stock market crisis. These simulations 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 155% as at December 31, 2010 (145% as at December 31, 2009).

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.

During the G-20 summit in Toronto last June, the business continuity plan ensured that customer service activities could be carried out from other business offices.

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.

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 2010

Industrial Alliance closed the year with a solid fourth quarter performance. The Company's results were in line with or above expectations on all fronts, including profitability, business growth, solvency and quality of investments.

The Company ended the fourth quarter of 2010 with net income to common shareholders of $67.4 million on a generally accepted accounting principles ("GAAP") basis. This translates into diluted earnings per common share of $0.80 and a return on common shareholders' equity of 12.7% on an annualized basis. Profitability for the quarter was similar to the fourth quarter of 2009, which was a record quarter for Industrial Alliance.

Following are a few highlights regarding the net income posted in the fourth quarter of 2010:

- Profitability for the quarter was stimulated by the stock market upswing, which improved income by $3.6 million after taxes ($0.04 per common share) compared to the expected result.
- The asymmetric evolution of the market value of debt instruments and the underlying assets generated a loss of $0.6 million ($0.01 per common share) in the fourth quarter. This is the last quarter and the last year where debt asymmetry will impact the volatility of the Company's income. The Company is going to use the introduction of the International Financial Reporting Standards ("IFRS") on January 1, 2011 as an opportunity to change the classification of these debt instruments so they will now be accounted for at cost rather than at their fair value. Excluding this loss, the Company ended the fourth quarter with record net income to common shareholders of $68.0 million. This income translates into diluted earnings per common share of $0.80 and a return on common shareholders' equity of 12.8% on an annualized basis, which is in the middle of the Company's 12% to 14% target range.
- This year, the combined effect of the review of the reserve valuation assumptions and the detailed examination of the Company's income tax situation resulted in a $2.1 million increase in net income. This increase is the net result of a $11.3 million (before tax) strengthening of the reserves ($8.4 million after tax) and a $10.5 million decrease in income taxes. For more details, refer to the "Profitability" section of this report.
- The effective tax rate was 13.8% for the fourth quarter of 2010, which is below the Company's 26% to 27% target range. This is the result of the decrease in the income taxes mentioned in the previous paragraph, which was accounted for at the end of the quarter.

The Company's financial strength 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 31% 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, 2011, to the common shareholders of record as at March 2, 2011. The Company also announced that it was maintaining its target range of 25% to 35% in the medium term for the dividend payout ratio. In addition, the Company expects the ratio to be in the middle of the target range in 2011.

In terms of top-line growth, the Company once again performed very well in the fourth quarter, continuing the momentum of the previous four quarters. Year over year, premiums and deposits and value of new business grew by 15% and 49% respectively. This fifth consecutive quarter of strong growth was driven primarily by the overall improvement in economic conditions and good stock market performances over the last year.

Highlights	(In millions of dollars, unless otherwise indicated)			
	Fourth quarter		Year	
	2010	2009	2010	2009
Net income to common shareholders	67.4	67.4	250.8	205.8
Earnings per common share (diluted)	$0.80	$0.83	$2.99	$2.55
Return on common shareholders' equity	12.7%	14.9%	12.6%	11.9%
Premiums and deposits	1,781.9	1,546.8	6,621.2	5,231.2
	December 31, 2010	December 31, 2009	December 31, 2008	
Assets under management and under administration	66,879.0	58,406.6	49,472.2	

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 a record $1.3 billion in the last quarter of 2010, a 13% jump compared to the last quarter of 2009. As a result, the Company ended the year with premiums totalling $4.9 billion, an increase of 17% over 2009 and a new record for the Company. This good performance can primarily be explained by the increase in segregated fund premiums, an increase that reflects renewed investor confidence in the stock markets and the overall improvement in economic conditions.

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 2010, net investment income was $142.2 million higher than in 2009, primarily because of the increase in the market values of assets held for trading. During the first three quarters of 2010, growth in net investment income came from bonds, which benefited from the decrease in interest rates. During the second half of the year, however, it was primarily stocks that contributed to net investment income following the rebound in the stock markets. Like in 2009, it was in the third quarter that net investment income reached its highest level ($604.0 million). 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 2010 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.

Fees and other revenues for each of the four quarters surpassed $100 million, which had never been achieved in any other quarter. This can be explained by the increase in average assets under management thanks to strong market growth and positive net sales of investment funds. As a result, fees and other revenues for all of 2010 jumped 25% from 2009 to reach $450.5 million.

Quarterly Results	2010				2009			
(In millions of dollars, unless otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Premiums	1,348.0	1,140.6	1,113.2	1,272.2	1,190.7	999.7	971.9	989.4
Net investment income	154.0	604.0	306.3	380.2	99.2	597.2	545.7	60.2
Fees and other revenues	125.1	112.1	108.3	105.0	93.3	95.9	90.0	81.1
Total	1,627.1	1,856.7	1,527.8	1,757.4	1,383.2	1,692.8	1,607.6	1,130.7
Income before income taxes	74.8	96.4	87.0	89.7	79.5	85.7	47.1	70.0
Income taxes	(2.0)	(24.5)	(22.8)	(23.9)	(10.1)	(22.9)	(11.6)	(19.4)
Net income	72.8	71.9	64.2	65.8	69.4	62.8	35.5	50.6
Less: net income (loss) to participating policyholders	(0.5)	0.5	0.5	0.5	(2.2)	(0.3)	0.4	0.8
Net income to shareholders	73.3	71.4	63.7	65.3	71.6	63.1	35.1	49.8
Less: dividends to preferred shareholders	5.9	6.0	6.0	5.0	4.2	3.0	3.0	3.6
Net income to common shareholders	67.4	65.4	57.7	60.3	67.4	60.1	32.1	46.2
Earnings per common share								
Basic	$0.80	$0.78	$0.69	$0.74	$0.84	$0.75	$0.40	$0.58
Diluted	$0.80	$0.78	$0.68	$0.73	$0.83	$0.74	$0.40	$0.58
Premiums invested in segregated funds	625.6	457.6	409.6	596.8	517.2	332.2	343.8	358.8
Change in provisions for future policy benefits	103.6	568.3	275.5	309.2	65.0	584.7	488.4	56.4
Total general fund assets	20,101.1	19,996.3	18,623.6	18,206.0	17,626.5	16,920.4	16,222.5	15,622.4
Segregated fund net assets	13,572.5	12,711.5	11,699.7	11,935.1	11,450.3	10,970.4	10,091.3	8,945.8

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 2010, the cash flows related to operating activities decreased by $93.5 million compared to 2009, reaching $797.6 million. This decrease was essentially due to the variation in the fair value of securities classified as "held for trading".

Investing activities produced net disbursements of $733.0 million in 2010, compared with net disbursements of $864.5 million in 2009, which represents a difference of $131.5 million. This difference is primarily due to the increase in *Cash and cash equivalents* arising mainly from the business acquisitions in 2010.

Financing activities produced cash flows of $110.2 million, $5.1 million more than in 2009. Note that in 2010, financing activities included the issuance of $100 million in common shares and $100 million in preferred shares in February. Dividends paid to common shareholders amounted to $81.2 million in 2010 ($78.7 million in 2009), while dividends paid to preferred shareholders amounted to $22.9 million ($13.8 million in 2009).

Cash Flows	(In millions of dollars) 2010	2009	2008
Cash flows related to the following activities:			
Operating	797.6	891.1	676.3
Investing	(733.0)	(864.5)	(877.2)
Financing	110.2	105.1	93.0
Gains (losses) resulting from the currency translation of cash and cash equivalents	(29.5)	(8.3)	4.6
Increase (decrease) in cash and cash equivalents	145.3	123.4	(103.3)
Cash and cash equivalents at the beginning of the year	381.9	258.5	361.8
Cash and cash equivalents at the end of the year	527.2	381.9	258.5

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, 2010, the balance of these loans totalled $0.5 million ($0.6 million as at December 31, 2009).

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 27 of the Company's consolidated financial statements.

SIGNIFICANT ACCOUNTING AND ACTUARIAL POLICIES

The Company's significant accounting policies are summarized in note 2 to the consolidated financial statements. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") while maintaining the 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 and risk management, 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 signed a reinsurance treaty for the Group Pensions sector in the third quarter of 2010 in order to share 60% of the longevity risk for its in-force insured annuities portfolio, which represents $2.5 billion. 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 2010, reinsurance ceded reduced the policy liabilities by $460.4 million ($247.3 million in 2009).

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 2010 was 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, 2010 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, 2010 results were slightly 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 7 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 2010, 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 2010

The Company did not make any changes to its accounting policies in 2010 to comply with the new standards adopted by the Canadian Institute of Chartered Accountants ("CICA").

Future Changes in Accounting Policies

The only future change to its accounting policies is the application of the International Financial Reporting Standards ("IFRS").

International Financial Reporting Standards ("IFRS")

The Company will adopt 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 order to be ready for the transition to IFRS, the Company has established a transition plan containing three phases.

Phase 1 – Determination of risks

Activities

- Identification of IFRS standards that will lead to accounting changes in the consolidated financial statements and disclosure requirements
- Classification of standards according to their impact on our consolidated financial statements and efforts required to implement them

Status

- Completed

Phase 2 – Implementation of new standards

Activities

- Analysis of differences between GAAP and IFRS
- Choice of accounting policies that the Company will apply on an ongoing basis
- Decision by the Company on IFRS 1 on the transition date
- Identification of impacts on various other items:
  - Information technology
  - Internal control over financial reporting
  - Disclosure
  - Training

Status

- Completed

Phase 3 – Conversion

Activities

- Preparation of opening balance sheet on transition date
- Compilation of comparative financial data
- Establishment of interim consolidated financial statements and disclosure requirements
- Establishment of annual consolidated financial statements and disclosure requirements
- Application of modifications

Status

- The Company has drawn up its opening balance sheet as at January 1, 2010 and reconciliation of retained earnings according to the choices it made.
- The Company has also prepared the balance sheet, income statement and reconciliation of retained earnings for the first, second and third quarters according to the new accounting policies that it will apply on an ongoing basis.
- The Company will continue to monitor the parallel accounting of 2010 financial data, and continue to evaluate the financial consequences and impacts of the conversion to IFRS.
- The Company is preparing and setting up its interim and annual consolidated financial statements, including notes to the financial statements.

The transition plan is on schedule, which ensures that the Company will be able to meet IFRS requirements.

The project managers regularly monitor progress in the transition plan and convey key elements of the analyses to the project steering committee, management, the Audit Committee and the Board of Directors.

The Company does not expect any major impact on information systems, internal controls over financial reporting and financial reporting.

IFRS 1 – "First-time Adoption of International Financial Reporting Standards"

To establish the opening balance sheet, the Company made choices based on IFRS 1, "First-time Adoption of International Financial Reporting Standards." The Company's retained earnings and accumulated other comprehensive income in the opening balance sheet should decrease by $77 million. This decrease primarily comes from unamortized actuarial gains and losses. Even though the Company has not yet made its final decisions, it currently expects to take advantage of the following exemptions or choices:

Business combinations

- The Company will not restate acquisitions that were made prior to the conversion date due to the complexity involved in obtaining historical values.
- This choice will not have any impact on the Company's data.
- Consequently, the Company will apply IFRS 3, "Business Combinations", prospectively for acquisitions made after January 1, 2010.

Currency translation account

- The Company expects to reset the currency translation gains and losses in self-sustaining foreign operations, net of hedging activities, to zero, which will result in an increase of about $4 million in accumulated other comprehensive income, and a decrease in retained earnings for the same amount.

Employee benefits

- Rather than apply IFRS requirements retrospectively to employee future benefits, the Company plans to recognize the undepreciated actuarial loss of about $104 million before taxes in the retained earnings when the transition takes place.

Fair value or amortized cost used as deemed cost: real estate held for investment and own-use properties

- The Company expects to use the fair value as deemed cost for real estate held for investment, which will lead to an increase of about $87 million in the value of these assets. However, since all of this real estate is matched to the provisions for future policy benefits, it will not have any impact on retained earnings.
- For own-use properties, the Company makes a decision on a case by case basis, and plans to use the amortized cost as deemed cost for some properties, and the fair value for others. This will lead to a reduction in retained earnings of about $17 million before taxes.

Reclassification of financial instruments

- The Company expects to use reclassification of financial assets and liabilities for certain debentures and their underlying assets. This choice will lead to a reduction of $11 million before taxes in the book value of debentures and, consequently, an $11 million increase in retained earnings. The assets matching these debentures will be reclassified from "designated as held for trading" to "available for sale." This will lead to a decrease of $9 million before taxes in retained earnings and an increase in the accumulated other comprehensive income for the same amount. Use of this transition rule will eliminate the effect of volatility created in the Company's results by the accounting asymmetry that currently exists between these debentures and their underlying assets.

The other exemptions of IFRS1 – "First-time Adoption of International Financial Reporting Standards" either are not applicable or their financial impact is not material.

Major Differences Between IFRS and GAAP

To date, the Company has determined the following major differences between IFRS and GAAP. These differences are presented in two categories: accounting differences and reporting differences.

Accounting Differences

Classification of contracts

- For an insurer, one of the important aspects of the conversion plan is the classification of insurance contracts. These contracts must be classified into one of the following categories: insurance contract, investment contract or service contract. According to the definition in IFRS 4, "Insurance Contracts," to classify a contract as an insurance contract, it must contain a significant insurance risk. Since the Company has classified the majority of its contracts as insurance contracts, the Company does not expect a material impact on its results.
- Also, according to IFRS 4, which will take effect on the changeover date, the Company will continue to evaluate its 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, which corresponds to the current accounting method.
- The few contracts that do not contain a significant insurance risk will be classified as investment contracts, and no more premium income, benefits, or variation in the provisions for future policy benefits will be posted on the income statement for these contracts and, consequently, there will be no impact on the Company's net income. The amounts for these contracts will be posted directly as investment contract amounts on deposit under liabilities on the balance sheet. This represents about 3% of the Company's total premium income. Under liabilities, these contracts will either be measured at fair value or at amortized cost, as chosen by the Company. If they are measured at amortized cost, the assets matching these liabilities will be classified as available for sale according to IFRS in order to reduce the matching spread.
- A few other contracts, which are currently accounted for as service contracts, will be classified as insurance contracts. These contracts will continue to generate the posting of revenue on the income statement, but this revenue will be reported under premiums rather than other revenues. This represents about 1% of the premium income.

Real estate held for investment

- According to Canadian GAAP as it applies to life and health insurance companies, the value of real estate held for investment 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.
- According to IAS 40, "Investment Property," for real estate the Company classifies as investment property, the Company must choose between the cost model and the fair value model. The Company plans to use the fair value model and report a higher value in its balance sheet for this real estate than currently posted according to Canadian GAAP.
- However, since this real estate is used to match the provisions for future policy benefits in the matching process, any variation in the fair value will be offset by a corresponding adjustment in the provisions for future policy benefits, such that there will be no impact on the Company's net income.

Own-use property

- According to Canadian GAAP, the value of own-use property is carried at the moving average market method. Under IFRS, IAS 16, "Property, Plant and Equipment," property that a corporation holds for its own use may be valued at cost or using a revaluation model, and a depreciation expense for use of such property must be posted. The Company intends to use the cost method to evaluate its own-use property, and the depreciation expense will be posted in the income statement.

Deferred credit

- On the sale of real estate under Canadian GAAP, the Company accounted for a deferred gain or a deferred loss, posted as a liability in the balance sheet under deferred credits. These deferred credits were amortized at a quarterly rate of 3%.
- Considering that deferred credits no longer meet the definition of a liability according to IFRS and that no standard covers this subject, deferred credits must be derecognized. A portion of these deferred credits, approximately $3 million out of a $9 million total, came from real estate that was matched at the time of sale. Consequently, this portion of deferred credits will be offset by a corresponding adjustment in the provisions for future policy benefits, such that the effect will be nil on the retained earnings. The difference (approximately $6 million) will directly increase the retained earnings in the opening balance sheet since these gains came from real estate that was matched to the surplus at the time of disposition.

Earnings Per Share ("EPS")

- According to GAAP, even though the IATS debentures (Tier 1 innovative instruments) are convertible into preferred shares which, in turn, are convertible into common shares, they have no dilutive effect on the EPS calculation since they fulfil certain specific criteria. These criteria correspond to the Company's past experience in terms of conversions and the possibility of cash settlement. Under IFRS, EPS will be calculated on the assumption that the IATS will ultimately be converted into common shares. If the IATS were converted into preferred shares at $25, 6,000,000 preferred shares would be issued. These preferred shares are convertible at 95% of the weighted average price of common shares according to the conversion conditions. If the common shares were trading at $36, 4,375,027 shares would be issued. The annual dilutive effect on EPS for 2010 would be about $0.08, which would represent about $0.02 per quarter.
- The level of EPS dilution will depend on the Company's earnings, the price per common share and the number of convertible instruments outstanding.

Employee benefits

- There are different ways to account for actuarial gains or losses on employee future benefits under IFRS. A single method is possible under Canadian GAAP, i.e. the corridor method. According to IAS 19, "Employee Benefits," there are three ways to account for actuarial gains or losses: the corridor method (10%; identical to the current method under GAAP), the adjusted corridor method (using a rate between 0% and 10%), or account for everything in the accumulated other comprehensive income ("AOCI").
- The Company is continuing to consider two options, the corridor method and AOCI accounting. The Company will consider all elements surrounding this standard, namely application of the exposure draft, the effect on the solvency ratio and the effect on the Company's earnings.

Goodwill and intangible assets with indefinite life

- Goodwill and intangible assets depreciation tests will cover more detailed items, namely "cash generating units" according to IFRS, rather than operating units according to GAAP. This granularity could lead to more frequent write-offs of goodwill or intangible assets in the future. To determine the cash generating units, the Company primarily uses the manner in which fund entries are made. The depreciation test compares the recoverable amount of the cash-generating unit with the book value. The Company doesn't expect any write-offs in this respect on its opening balance sheet.

Consolidation

- Additional assets and liabilities from an off-balance sheet entity, IA Capital Trust, should be consolidated according to IFRS. The effect of this consolidation will lead to a decrease in the value of the entity's debentures of about $10 million, as well as other Company investments.

Depreciation of available for sale stocks

- According to IFRS, an impairment loss must be recognized for assets classified as available for sale, when the decrease in book value is major or significant, regardless of future recovery expectations. According to GAAP, an impairment loss is not recognized when the decrease in fair value is considered temporary. Eventually, impairment losses could be more frequent.

Hedge accounting

- Certain hedging strategies could be affected by the implementation of IFRS, which include new criteria concerning the application of hedge accounting, the application of effectiveness tests and hedging relationship measurement.
- The Company does not expect to modify its hedging strategies under IFRS.

Reporting Differences

Net income

- Under IFRS, net income will include earnings attributable to participating contracts, income attributable to common shareholders and income attributable to non-controlling interests.
- There is currently no impact for the Company, since it does not have any non-controlling interests.

Segregated fund assets and liabilities

- While segregated fund assets and liabilities are currently reported separately from general fund assets and liabilities, under IFRS they will be included in the total general fund, but presented on a separate line. This will add about $11 billion to the general fund assets and liabilities as at January 1, 2010.

Reinsurance

- Reinsurance amounts are currently presented on a net basis. Under IFRS, they will have to be presented on a gross basis. Consequently, the provision for future policy benefits will be increased by the value of the reinsurance assets and reinsurance assets will be presented on the balance sheet for an amount of approximately $262 million as at January 1, 2010. Certain items in the results will be presented at gross, but will not have an impact on the net income.

Pension fund assets

- According to GAAP, the pension fund is presented in the financial statements at its net value (liabilities minus assets). According to IFRS, since the Company's pension fund assets do not meet the eligibility criteria to continue this presentation, the Company will have to report these assets directly in the asset section, without offsetting the liabilities. This will increase the general fund assets and liabilities by about $470 million.

Investment income and general expenses

- For purposes of presentation on the income statement, investment expenses are currently presented as a deduction from investment income in order to determine the net investment income. This offsetting will no longer be allowed under IFRS, which will result in an increase in investment income and an increase in general expenses, but will have no impact on net income.

Other income and commission expenses

- Commissions paid to fund brokers can no longer be offset against commission income, which will increase other income and automatically increase the commission expense. This will have no impact on net income.

Business combinations

- The Company acquired businesses during the year. The transaction fees on these acquisitions, which amount to $2 million, will have to be restated as expenses for 2010.

Derivatives

- While it was possible to offset assets and liabilities resulting from derivative products under GAAP, under IFRS the Company will have to present them separately. This will have no impact on net income.

The analyses performed as part of the transition to IFRS also take into account the tax aspects and incidence on the Company's regulatory capital. In this respect, the regulatory authorities will allow companies to take advantage of an option to gradually amortize the impact resulting from linear conversion over a period of two years, from the January 1, 2011 conversion date to December 31, 2012. Companies that take advantage of this option will have to do so on the conversion date and the choice will be irrevocable. Companies will also have to indicate in the notes to the financial statements that they made this choice and specify what their regulatory capital would correspond to without this choice.

The Company is currently analyzing the possibility of amortizing the transition effect over the period of 8 quarters.

Future Change in Accounting

The Company also monitors and analyzes changes made to IFRS given that these changes could influence the preliminary decisions. Changes are expected for financial instruments, among others. Phase I of IFRS 9, "Financial Instruments," was published in November 2009 and is scheduled to take effect on January 1, 2013. Early adoption is possible, but is not authorized by the regulatory authorities.

Among the recently published Exposure Drafts, note the publication on July 30, 2010 of the Exposure Draft on phase II of IFRS 4, "Insurance Contracts," which covers the valuation and recognition of insurance contracts. The comments period ended on November 30. Phase II of the standard should not take effect prior to 2013. The International Accounting Standards Board's ("IASB") proposed accounting method for recognizing insurance contracts separates the evaluation of insurance liabilities from the assets that they are matched to. Consequently, these proposals could lead to a strong increase in insurance liabilities and required equity on initial adoption and major volatility in the results.

Among other published Exposure Drafts, the following are also of note: "Employee Benefits" (Exposure Draft published in April, dealing more specifically with defined benefit pension plans), "Provisions, Contingent Liabilities and Contingent Assets," "Leases," "Revenue Recognition" and phase II of IFRS 9, "Classification and Measurement of Financial Liabilities." The Company is currently analyzing these Exposure Drafts and their impact on the Company. These Exposure Drafts should not take effect before 2013.

Also note that the IASB has sent an invitation to comment on the effective dates of these new standards. Most of these standards would have a transition method with retroactive, sometimes limited application. IASB has also invited comments on the effective dates according to a unique, sequential approach. It is desirable that standards with very strong complementarities be applied simultaneously, such as IFRS 9 and IFRS 4 phase II.

RECONCILIATION OF CERTAIN NON-GAAP MEASURES WITH GAAP

The following table reconciliates the operating profit and income taxes in the Sources of Earnings table of the Profitability section of this annual report with GAAP.

Reconciliation of the Sources of Earnings with GAAP	(In millions of dollars) 2010	2009
Components of earnings before taxes:		
Operating profit (according to the sources of earnings)	256.7	227.7
Income on capital (according to sources of earnings)	98.1	79.7
Gain (loss) resulting from asymmetry of debt instruments (according to sources of earnings)	0.5	(5.4)
Income attributable to participating contracts and other items[1]	(7.5)	(17.6)
Earnings before taxes according to the financial statements	347.9	282.3
Income taxes:		
On the operating profit and on income on capital	81.6	82.4
On the gain (loss) resulting from asymmetry of debt instruments	0.1	(2.1)
Amount for participating contracts and other items[1]	(8.5)	(16.3)
Income taxes according to financial statements	73.2	64.0
Net income according to financial statements	274.7	218.3

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, 2010, 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, 2010, 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) 2010	2009	2008
Debentures	526.4	519.8	385.9
Preferred shares	425.0	325.0	223.7
Total	951.4	844.8	609.6

ACQUISITIONS IN 2010

Industrial Alliance announced the conclusion of five acquisitions in 2010, all of them through its subsidiaries.

The Company made the following acquisitions through its IA American Life Insurance Company subsidiary in 2010: 100% of the common shares of American-Amicable Holding Inc. on July 19, 2010; the individual life insurance portfolio of Golden State Mutual Life Insurance Company on September 2, 2010; the life insurance policy administration operations of Dream Life Administration LLC on September 30, 2010.

On October 1, 2010, through its wholly-owned subsidiary Industrial Alliance Pacific Insurance and Financial Services Inc., Industrial Alliance acquired all outstanding shares of privately-owned National Warranties MRWV Limited.

In addition, through Corporation Financière L'Excellence Ltée, the Company purchased the remaining 2% of the shares held by third parties, bringing its ownership of the shares in The Excellence Life Insurance Company to 100%.

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

On February 14, 2011, the Company acquired the operations of Protection V.A.G. Inc., Communications & Références Multi Assurance Direct inc. and Produits récréatifs Accès Inc. These companies operate in the creditor insurance and replacement warranty products sectors primarily through automobile dealers. The acquisition will be financed from the company's general funds.

DISPOSITIONS DURING THE PERIOD

No dispositions were made during the period.

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.

1 Other items include tax adjustments.

As at December 31, 2010, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period	(In millions of dollars) Total (As at 31-12-10)	Less than 1 year	1 year to 3 years	4 years to 5 years	More than 5 years
Debentures[1]	526.4	--	--	--	526.4
Capital lease	--	--	--	--	--
Operating lease	63.6	24.2	25.8	9.3	4.3
Purchasing commitments	154.6	10.8	32.0	30.5	81.3
Other long-term commitments	268.4	191.7	44.0	18.6	14.1
Total of contractual obligations	1,013.0	226.7	101.8	58.4	626.1

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2010, these investment commitments totalled $180.2 million ($74.1 million in 2009), including $147.4 million that will be maturing in the next year ($52.4 million in 2009), and $32.8 million that will be maturing in more than one year ($21.7 million in 2009).

OUTSTANDING SHARES

As at February 17, 2011, Industrial Alliance had 83,988,771 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 17 of Industrial Alliance's consolidated financial statements for more information on debentures.

EMBEDDED VALUE

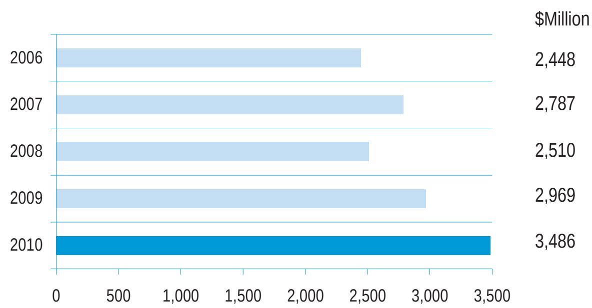
2010 HIGHLIGHTS

- Embedded value of $3.5 billion as at December 31, 2010 ($41.56 per common share), up 17.4% compared to December 31, 2009 after the payment of dividends (up 20.1% before the payment of dividends)
- Embedded value/book value ratio: 1.63x as at December 31, 2010
- Addition of new business to embedded value in 2010: $2.02 per common share, $0.51 higher than in 2009
- Contribution of recurring items to growth in embedded value: 12.2% in 2010

Embedded value is one of the tools life insurance companies use to measure their economic worth. It includes only the value of a life insurance company's in-force business, and does not take into account the Company's distribution capacity and future sales. In this way, embedded value differs from book value and market value. It should be noted that embedded value is not a measurement defined under generally accepted accounting principles (GAAP).

As at December 31, 2010, Industrial Alliance's embedded value reached $3.5 billion, or $41.56 per common share. This is up 20.1% from the value calculated as at December 31, 2009, before the payment of dividends to common shareholders, and 17.4% after the payment of these dividends.

Embedded Value
As at December 31

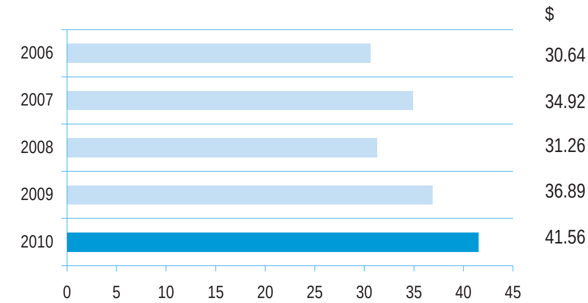


Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 12.2% in 2010 (11.0% in 2009). The recurring items are composed of the value added by new business and anticipated normal growth. Since the Company began calculating its embedded value, recurring items have always grown embedded value by more than 10%.

Certain non-recurring items also affect the growth of embedded value. These items had a notable impact on the Company's embedded value in 2010, causing it to increase by $128 million (4.3%).

Embedded Value Per Common Share
As at December 31



One of the major non-recurring items in 2010 was the stock market performance, which increased shareholders' equity and the Company's future profits, primarily due to the increase in management fees collected on segregated funds, mutual funds and Universal Life policy funds. This led to a $69 million increase in embedded value (2.3%). In 2009, the stock market recovery resulted in a $215 million (8.6%) increase in embedded value.

Other experience gains and losses increased the embedded value by $93 million (3.1%). These gains include better business retention in wealth management products and a higher than expected return on surplus.

The year-end changes in assumptions regarding the provisions for future policy benefits, combined with a decrease in the discount rate and the return on shareholders' equity used to calculate embedded value, led to a $3 million decrease in embedded value (-0.1%).

There were no changes to the capital adequacy requirements by the regulatory authorities that had an impact on in-force business in 2010.

The acquisition of American-Amicable and National Warranty, as well as the in-force life insurance policies of Golden State Mutual and Dream Life, reduced embedded value by $31 million in 2010 (-1.0%).

Changes to the capital structure in 2010, in particular the issuance of common shares in February 2010, increased embedded value by $106 million (3.6%) in 2010.

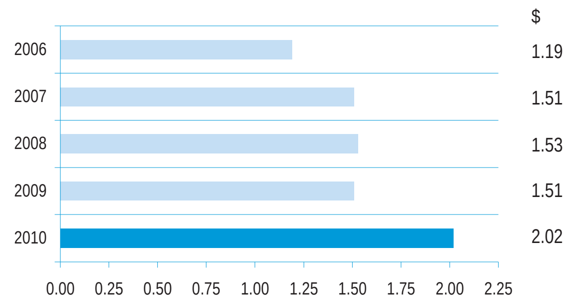
The Company also paid $81 million in dividends to its shareholders in 2010, which represented a 2.7% decrease in embedded value.

EMBEDDED VALUE OF NEW SALES

The embedded value of new sales indicates the proportion in which new contracts sold during the year contribute to the increase in the embedded value. This is important because it enables a judgment to be made about the profitability of the products and services offered by a life insurance company and the productivity of its distribution networks.

In 2010, the contribution of new sales to the increase in Industrial Alliance's embedded value was $169.8 million, or $2.02 per common share. This is 39.9% (or $48.4 million) higher than in 2009. Sales growth is the key driver of growth in the value of new business.

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



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 2010, the embedded value represented 1.63x 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 2010	2009
Discount rate	6.50%	7.25%
Risk premium	3.00%	3.00%
Return on shareholders' equity	3.50%	4.25%
Inflation rate	1.50%	1.50%
Solvency ratio	150%	150%

Other assumptions are used to calculate the embedded value as well, including the future mortality rate assumption. Given that Industrial Alliance retains a larger portion of the mortality risk than other insurers, relatively speaking, 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, 2010
1% increase in risk premium	(11%)
3% increase in risk premium	(31%)
Increase in the solvency ratio from 150% to 175%	(4%)
1% decrease in the tax rate	1%
No improvement in mortality	(9%)
1% increase in economic assumptions (no change to risk premium)	11%
10% drop in the stock markets	(5%)

Embedded Value	Embedded Value ($Million)	Contribution to Embedded Value (%)	Embedded Value Per Common Share ($)
Embedded value as at December 31, 2009	2,969	--	36.89
Recurring items			
Expected growth of embedded value	194	6.5	2.41
New sales	170	5.7	2.02
Subtotal	364	12.2	4.43
Non-recurring items			
Experience gains (losses) – related to the equity markets	69	2.3	0.86
Experience gains (losses) – other	93	3.1	1.15
Changes in assumptions (including the discount rate and return on shareholders' equity)	(3)	(0.1)	(0.04)
Acquisitions	(31)	(1.0)	(0.38)
Subtotal	128	4.3	1.59
Changes in capital structure	106	3.6	(0.43)
Embedded value as at December 31, 2010, before dividends	3,567	20.1	42.48
Dividends paid to common shareholders	(81)	(2.7)	(0.92)
Embedded value as at December 31, 2010	3,486	17.4	41.56

TEN-YEAR HISTORY

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
PROFITABILITY										
Net income										
Net income	274.7	218.3	74.8	249.2	231.3	134.6	159.2	140.3	103.5	106.6
Less: net income (loss) attributed to participating policyholders	1.0	(1.3)	2.9	1.2	3.4	2.4	4.1	3.4	6.1	2.7
Net income attributed to shareholders	273.7	219.6	71.9	248.0	227.9	132.2	155.1	136.9	97.4	103.9
Less: preferred share dividends	22.9	13.8	5.8	5.8	4.9	---	0.1	0.3	0.7	0.7
Net income available to common shareholders	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7	103.2
Earnings per common share[4]										
Basic	$3.02	$2.56	$0.82	$3.02	$2.77	$1.66	$1.96	$1.76	$1.29	$1.38
Diluted	$2.99	$2.55	$0.82	$2.99	$2.74	$1.65	$1.95	$1.74	$1.29	$1.38
Return on common shareholders' equity	12.6%	11.9%	4.0%	15.1%	15.7%	10.3%	13.6%	13.9%	11.8%	14.0%
Net income (loss) available to common shareholders by line of business										
Individual Insurance	123.7	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2	55.3
Individual Wealth Management	68.9	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9
Group Insurance	40.7	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3	11.8
Group Pensions	17.5	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1	15.2
Total	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7	103.2
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	2.2	3.8	(9.8)	---	---	---	---	---	---	---
Higher (lower) than expected management fees	(1.0)	8.7	(23.9)	---	---	---	---	---	---	---
Higher (lower) than expected income on capital	0.2	0.8	(4.6)	---	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	0.5	(5.4)	7.6	0.6	---	---	---	---	---	---
Changes in assumptions and management actions	(8.4)	(0.8)	(138.2)	(0.7)	0.4	(1.5)	(2.6)	2.5	1.4	0.6
Restructuring charges[9]	---	---	---	---	(3.0)	(4.1)	(6.1)	---	---	---
Impact of the tax reduction on the future income tax liability	---	---	---	---	11.5	---	---	(3.1)	---	---
Change of reinsurer	---	---	---	---	---	4.2	---	---	---	---
Goodwill expense[10]	---	---	---	---	---	---	---	---	---	(3.4)

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
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	$0.03	$0.05	($0.12)	---	---	---	---	---	---	---
Higher (lower) than expected management fees	($0.01)	$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	($0.01)	($0.07)	$0.09	$0.01	---	---	---	---	---	---
Changes in assumptions and management actions	($0.10)	($0.01)	($1.71)	($0.01)	$0.01	($0.02)	($0.03)	$0.03	$0.02	$0.01
Restructuring charges[9]	---	---	---	---	($0.04)	($0.05)	($0.08)	---	---	---
Impact of the tax reduction on the future income tax liability	---	---	---	---	$0.14	---	---	($0.04)	---	---
Change of reinsurer	---	---	---	---	---	$0.05	---	---	---	---
Goodwill expense[10]	---	---	---	---	---	---	---	---	---	($0.05)
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit (loss)										
Expected profit on in-force	209.6	197.4	200.4	184.5	172.5	156.0	146.6	126.7	108.0	95.9
Experience gain (loss)	(2.2)	17.4	(34.2)	(8.9)	2.6	5.7	0.1	9.7	(7.5)	(2.1)
Gain (strain) on sales	(105.4)	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)	(70.3)	(57.7)	(52.9)	(41.3)
Changes in assumptions and management actions	(2.2)	68.6	(175.6)	(1.6)	(1.7)	(1.5)	(0.5)	(4.3)	2.9	2.4
Total	99.8	194.4	(91.0)	91.0	70.7	77.3	75.9	74.4	50.5	54.9
Income on capital	77.7	51.3	41.5	57.2	50.6	41.4	36.5	28.2	17.9	22.1
Income taxes	(38.0)	(68.1)	17.8	(42.2)	(40.6)	(37.4)	(34.2)	(30.5)	(17.8)	(21.3)
Net income (loss) attributed to shareholders, before other items	139.5	177.6	(31.7)	106.0	80.7	81.3	78.2	72.1	0.1	55.7
Less: preferred share dividends	16.1	8.0	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.4
Net income (loss) available to common shareholders, before other items	123.4	169.6	(31.7)	106.0	80.7	81.3	78.2	71.9	50.2	55.3
Other items[11]	0.3	(3.4)	4.8	0.3	5.1	(0.9)	(4.8)	0.9	0.0	0.0
Net income (loss) available to common shareholders	123.7	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2	55.3

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Individual Wealth Management										
Operating profit										
Expected profit on in-force	102.8	59.2	117.9	106.0	92.9	55.8	46.7	41.9	42.1	45.3
Experience gain (loss)	4.5	(4.4)	(32.1)	6.1	9.4	13.6	2.5	(0.9)	(18.2)	(11.5)
Gain (strain) on sales	(7.7)	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)	(11.9)	(10.8)	(5.8)	(8.7)
Changes in assumptions and management actions	(6.8)	(16.9)	(1.9)	(0.9)	1.4	(1.6)	(1.9)	0.3	0.1	(0.8)
Total	92.8	32.4	80.2	106.6	98.3	59.5	35.4	30.5	18.2	25.1
Income on capital	2.2	8.4	5.9	5.4	4.8	11.7	14.6	12.1	6.9	8.1
Income taxes	(22.1)	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)	(15.7)	(13.1)	(6.9)	(11.4)
Net income attributed to shareholders, before other items	72.9	29.1	62.5	77.8	76.9	49.0	34.3	29.5	18.2	21.8
Less: preferred share dividends	4.0	5.8	5.8	5.8	4.9	0.0	0.0	0.1	0.1	0.1
Net income available to common shareholders, before other items	68.9	23.3	56.7	72.0	72.0	49.0	34.3	29.4	18.1	20.9
Other items[11]	0.0	(0.4)	0.6	0.1	0.9	(50.4)	(1.0)	0.6	0.0	0.0
Net income (loss) available to common shareholders	68.9	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1	20.9
Group Insurance										
Operating profit										
Expected profit on in-force	38.0	48.1	53.4	46.0	40.5	44.0	27.9	21.2	14.4	10.7
Experience gain (loss)	11.1	(10.4)	(8.3)	0.4	5.3	(0.3)	16.3	1.3	9.3	5.1
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	(2.3)	(0.9)	(1.0)	1.5	1.3	(1.1)	(1.3)	0.3	(0.4)	(0.8)
Total	46.8	36.8	44.1	47.9	47.1	42.6	42.9	22.8	23.3	15.8
Income on capital	10.5	12.6	9.0	15.1	13.2	10.1	8.0	5.4	3.7	4.0
Income taxes	(15.1)	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)	(17.0)	(9.3)	(8.6)	(7.1)
Net income attributed to shareholders, before other items	42.2	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.4	12.7
Less: preferred share dividends	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Net income available to common shareholders, before other items	40.6	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.3	11.8
Other items[11]	0.1	(1.0)	1.4	0.1	2.6	(0.6)	(0.3)	0.9	0.0	0.0
Net income available to common shareholders	40.7	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3	11.8
Group Pensions										
Operating profit (loss)										
Expected profit on in-force	14.0	15.8	19.7	16.2	15.3	12.5	10.5	9.4	15.4	18.9
Experience gain (loss)	3.5	1.3	(17.8)	1.7	1.4	0.0	(0.8)	2.9	(8.2)	(3.3)
Gain (strain) on sales	(0.2)	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)	(0.2)	(0.9)	(0.9)	(1.4)
Changes in assumptions and management actions	0.0	(51.9)	(16.7)	0.0	(0.4)	2.1	0.0	(1.0)	(0.6)	0.0
Total	17.3	(35.9)	(17.5)	15.8	15.0	13.4	9.5	10.4	5.7	14.2
Income on capital	7.7	7.4	6.0	9.2	9.4	11.3	10.7	9.0	6.6	7.8
Income taxes	(6.4)	11.0	3.8	(6.6)	(6.8)	(6.5)	(5.5)	(4.7)	(2.1)	(6.7)
Net income (loss) attributed to shareholders, before other items	18.6	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.2	15.3
Less: preferred share dividends	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Net income (loss) available to common shareholders, before other items	17.4	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.1	15.2
Other items[11]	0.1	(0.6)	0.8	0.1	(0.1)	(0.1)	0.0	(0.7)	0.0	0.0
Net income (loss) available to common shareholders	17.5	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1	15.2

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Total company										
Operating profit										
Expected profit on in-force	364.4	320.5	391.4	352.7	321.2	268.3	231.7	199.2	179.9	170.8
Experience gain (loss)	16.9	3.9	(92.4)	(0.7)	18.7	19.0	18.1	13.0	(24.6)	(11.8)
Gain (strain) on sales	(113.3)	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)	(82.4)	(69.4)	(59.6)	(51.4)
Changes in assumptions and management actions	(11.3)	(1.1)	(195.2)	(1.0)	0.6	(2.1)	(3.7)	(4.7)	2.0	0.8
Total	256.7	227.7	15.8	261.3	231.1	192.8	163.7	138.1	97.7	108.4
Income on capital										
Investment income	84.2	73.3	58.8	78.0	---	---	---	---	---	---
Realized gains (losses) on assets available for sale	13.9	6.4	3.6	8.9	---	---	---	---	---	---
Total	98.1	79.7	62.4	86.9	78.0	74.5	69.8	54.7	35.1	42.0
Income taxes	(81.6)	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)	(72.4)	(57.6)	(35.4)	(46.5)
Net income attributed to shareholders, before other items	273.2	225.0	64.3	247.4	219.4	184.2	161.1	135.2	97.4	103.9
Less: preferred share dividends	22.9	13.8	5.8	5.8	4.9	0.0	0.0	0.3	0.7	0.7
Net income available to common shareholders, before other items	250.3	211.2	58.5	241.6	214.5	184.2	161.1	134.9	96.7	103.2
Other items[11]	0.5	(5.4)	7.6	0.6	8.5	(52.0)	(6.1)	1.7	0.0	0.0
Net income available to common shareholders	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7	103.2
BUSINESS GROWTH										
Revenues										
Premiums										
General fund	2,784.4	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
Segregated funds	2,089.6	1,552.0	1,661.6	1,565.6	1,554.0	1,189.9	981.5	842.0	756.7	572.8
Total	4,874.0	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
Net investment income										
Investment income	598.2	587.6	393.3	433.4	643.3	610.6	596.0	574.5	557.4	561.1
Amortization of realized and unrealized gains (losses)	18.3	19.6	16.3	10.4	214.7	156.6	100.1	102.9	(78.3)	(16.6)
Realized gains (losses) on assets available for sale	14.8	6.4	3.6	8.9	---	---	---	---	---	---
Variations in the market value of assets held for trading	813.7	691.8	(596.0)	125.9	---	---	---	---	---	---
Change in provision for losses	(0.5)	(3.1)	(5.2)	0.2	2.0	(76.3)	0.8	(0.1)	(28.9)	(2.2)
Total	1,444.5	1,302.3	(188.0)	578.8	860.0	690.9	696.9	677.3	450.2	542.3
Fees and other income	450.5	360.3	371.4	363.5	314.9	167.4	128.9	99.5	90.8	92.0
Total revenues	6,769.0	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
Premiums and deposits by category										
Premiums	4,874.0	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
Deposits (mutual funds)	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---	---	---
Total	6,621.2	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
Premiums and deposits by line of business										
Individual Insurance	1,125.6	938.4	920.7	897.3	838.6	768.7	763.1	683.4	663.9	658.8
Individual Wealth Management	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8	658.7	590.7	529.1
Group Insurance	1,035.2	962.4	956.5	860.5	749.6	694.9	637.9	603.0	543.0	449.8
Group Pensions	622.5	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4	407.0
General Insurance	161.6	140.6	128.4	118.2	107.2	95.1	83.5	65.2	48.2	32.3
Total	6,621.2	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

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
BUSINESS GROWTH (continued)										
Distribution of premiums and deposits by region										
Atlantic provinces	4.6%	4.6%	4.7%	5.8%	4.7%	3.6%	3.6%	3.4%	3.7%	4.9%
Quebec	39.8%	44.9%	42.8%	43.1%	43.3%	51.5%	50.1%	53.1%	54.9%	47.4%
Ontario	29.4%	29.4%	31.8%	30.9%	31.6%	26.3%	25.0%	23.7%	21.9%	21.8%
Western provinces	23.1%	19.5%	19.6%	19.1%	18.9%	16.7%	18.6%	17.2%	17.3%	23.9%
Outside Canada	3.1%	1.6%	1.1%	1.1%	1.5%	1.9%	2.7%	2.6%	2.2%	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]	186.6	147.1	146.9	159.0	153.6	141.3	139.9	128.7	133.3	145.0[13]
Premiums	1,125.6	938.4	920.7	897.3	838.6	768.7	763.1	683.4	663.9	658.8
Individual Wealth Management										
Sales[12]										
General fund	441.1	404.3	345.5	334.4	289.2	242.4	237.5	227.9	198.7	147.4
Segregated funds	1,488.0	866.2	815.7	990.6	958.3	805.2	669.3	430.8	392.0	381.7
Mutual funds	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---	---	---
Total	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8	658.7	590.7	529.1
Net investment fund sales										
Segregated funds	925.0	476.4	322.9	578.7	607.6	547.4	332.7	117.5	152.1	199.0
Mutual funds	797.1	281.4	289.5	799.2	267.0	148.7	---	---	---	---
Total	1,722.1	757.8	612.4	1,377.9	874.6	696.1	332.7	117.5	152.1	199.0
Funds under management										
General fund	1,751.4	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
Segregated funds	8,794.6	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
Mutual funds	8,124.1	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5	94.1	---	---
Total	18,670.1	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
Group Insurance										
Sales[12]										
Employee Plans	72.2	75.0	92.9	72.0	70.8	52.3	55.7	53.3	92.4	59.1
Creditor Insurance	183.3	152.4	194.2	192.0	176.4	158.8	132.6	130.1	124.5	108.0
Special Markets Group (SMG)	124.2	113.2	112.9	104.4	92.6	87.4	79.7	71.5	65.7	32.3
Premiums and premium equivalents										
Employee Plans	762.2	727.7	684.1	594.8	509.2	475.4	448.4	426.0	378.6	331.6
Creditor Insurance	148.8	121.5	159.5	161.3	147.8	132.1	109.8	105.5	98.7	85.9
Special Markets Group (SMG)	124.2	113.2	112.9	104.4	92.6	87.4	79.7	71.5	65.7	32.3
Total premiums	1,035.2	962.4	956.5	860.5	749.6	694.9	637.9	603.0	543.0	449.8
Premium equivalents	116.2	115.9	101.9	94.7	124.1	102.9	96.1	99.2	43.9	33.5
Total	1,151.4	1,078.3	1,058.4	955.2	873.7	797.8	734.0	702.2	586.9	483.3
Group Pensions										
Sales[12]										
Accumulation contracts										
General fund	34.0	33.9	18.1	20.9	29.2	25.8	49.1	35.3	40.7	82.0
Segregated funds	601.7	685.8	845.9	575.0	595.7	384.7	312.2	411.2	364.7	191.1
Total	635.7	719.7	864.0	595.9	624.9	410.5	361.3	446.5	405.4	273.1
Insured annuities (general fund)	49.7	120.1	250.9	232.4	195.2	154.3	99.8	109.9	86.0	133.9
Total	685.4	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4	407.0[13]

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
BUSINESS GROWTH (continued)										
Group Pensions (continued)										
Funds under management										
Accumulation contracts										
General fund	198.0	173.2	144.8	147.0	142.4	150.4	158.8	162.5	153.7	147.5
Segregated funds	4,646.3	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
Other	38.8	39.6	36.9	34.1	36.4	34.7	33.3	36.8	35.1	5.3
Total	4,883.1	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
Insured annuities (general fund)	2,941.8	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
Total	7,824.9	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
Assets under management/administration										
Assets under management										
General fund	20,101.1	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
Segregated funds	13,572.5	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
Mutual funds	8,135.7	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7	1,018.5	94.1	---	---
Other	498.0	563.3	596.7	630.6	501.3	785.9	872.0	---	---	---
Total	42,307.3	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
Assets under administration	24,571.7	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
Total	66,879.0	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
INVESTED ASSETS										
Value and distribution of investments										
Book value of investment portfolio	18,828.7	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
Market value of investment portfolio	---	---	---	---	13,759.8	12,809.6	11,720.6	10,893.7	9,751.8	9,173.7
Market value/book value	---	---	---	---	112.3%	114.1%	110.7%	109.8%	109.1%	107.0%
Distribution of investments by financial instrument category										
Available for sale	11.0%	11.6%	10.0%	8.7%	---	---	---	---	---	---
Held for trading	58.2%	53.9%	51.3%	58.6%	---	---	---	---	---	---
Loans and receivables	26.9%	30.5%	34.2%	27.8%	---	---	---	---	---	---
Real estate	3.8%	3.9%	4.4%	3.4%	---	---	---	---	---	---
Other	0.1%	0.1%	0.1%	1.5%	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---	---
Distribution of investments by asset category										
Bonds	59.1%	57.1%	55.2%	57.2%	58.6%	58.9%	57.4%	55.7%	52.5%	48.9%
Mortgages	17.7%	20.6%	24.3%	20.5%	20.1%	21.6%	23.5%	25.1%	28.3%	31.0%
Stocks	12.3%	11.5%	9.3%	12.4%	11.9%	10.4%	10.2%	9.4%	8.1%	8.2%
Real estate	3.8%	3.9%	4.4%	3.4%	3.7%	4.0%	4.2%	4.3%	4.9%	5.0%
Other	7.1%	6.9%	6.8%	6.5%	5.7%	5.1%	4.7%	5.5%	6.2%	6.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region										
Atlantic provinces	4.0%	4.2%	3.9%	4.1%	3.9%	4.8%	5.1%	4.6%	5.3%	4.4%
Quebec	45.6%	46.9%	48.6%	48.1%	48.0%	49.5%	49.6%	50.1%	50.5%	49.3%
Ontario	20.9%	21.5%	20.5%	20.6%	20.6%	20.3%	20.7%	20.5%	20.3%	20.5%
Western provinces	16.9%	18.1%	17.5%	16.8%	16.6%	16.9%	17.3%	17.9%	18.1%	18.5%
Outside Canada	12.6%	9.3%	9.5%	10.4%	10.9%	8.5%	7.3%	6.9%	5.8%	7.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
INVESTED ASSETS (continued)										
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	26.9	16.7	14.0	20.7	95.2	96.8	47.6	60.5	60.4	39.8
Net impaired investments (excluding insured loans)										
Bonds	8.4	4.5	0.5	1.2	1.2	1.2	1.2	1.2	1.4	1.4
Mortgages	13.1	6.9	7.8	2.8	0.2	0.5	1.4	11.1	8.9	9.1
Real estate acquired to settle loans	1.3	1.6	0.5	7.7	6.5	5.9	5.9	7.5	9.0	13.6
Total	22.8	13.0	8.8	11.7	7.9	7.6	8.5	19.8	19.3	24.1
Provisions for losses										
At beginning of period	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7	14.3
Increase for the period	2.7	3.6	5.3	0.3	0.3	78.2	0.0	0.1	29.4	1.9
Decrease for the period	(2.3)	(5.1)	(7.3)	0.0	(2.2)	(28.1)	(1.6)	(0.5)	(4.0)	(0.5)
Impact of financial instrument as at January 1, 2007	---	---	---	(78.6)	---	---	---	---	---	---
Transfer of provisions to investments	---	---	(1.8)	---	---	---	---	---	---	---
At end of period	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7
Provisions for losses by type of investments										
Bonds	2.9	3.0	5.0	5.2	4.8	4.6	32.4	30.5	30.5	2.8
Mortgages	1.2	0.7	0.2	0.1	0.8	3.0	3.0	4.5	2.3	2.5
Real estate acquired to settle loans	0.0	0.0	0.0	3.7	3.7	3.7	3.7	3.8	4.0	6.1
Other	0.0	0.0	0.0	0.0	78.0	77.9	0.0	1.9	4.3	4.3
Total	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7
Net impaired investments as a % of total investments	0.12%	0.08%	0.06%	0.08%	0.06%	0.07%	0.08%	0.20%	0.22%	0.28%
Provisions as a % of gross impaired investments	15.2%	22.2%	37.5%	43.6%	91.7%	92.1%	82.0%	67.3%	68.0%	39.1%
Bonds										
Book value of the bond portfolio	11,119.8	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
Market value of the bond portfolio	---	---	---	---	8,409.3	7,997.0	7,046.8	6,368.7	5,423.1	4,691.6
Market value/book value	---	---	---	---	117.0%	120.8%	116.0%	115.2%	115.7%	111.9%
Distribution by financial instrument category										
Available for sale	15.3%	16.9%	14.7%	11.8%	---	---	---	---	---	---
Held for trading	75.8%	73.1%	74.7%	78.8%	---	---	---	---	---	---
Loans and receivables	8.9%	10.0%	10.6%	9.4%	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---	---
Distribution by credit rating										
Rating – AAA	10.83%	11.30%	11.80%	13.70%	17.40%	12.28%	9.81%	11.30%	12.20%	12.43%
Rating – AA	16.68%	15.83%	18.24%	19.80%	17.93%	16.31%	17.09%	15.67%	14.98%	13.07%
Rating – A	65.37%	66.36%	63.06%	60.53%	58.25%	63.77%	65.64%	66.64%	65.04%	65.85%
Rating – BBB	7.00%	6.44%	6.67%	5.86%	6.11%	7.28%	7.22%	6.25%	7.67%	8.62%
Rating – BB and lower	0.12%	0.07%	0.23%	0.11%	0.31%	0.36%	0.24%	0.14%	0.11%	0.03%
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	63.2%	63.3%	61.1%	59.7%	56.9%	60.4%	64.5%	59.2%	55.1%	52.4%
Municipalities	1.5%	1.3%	1.4%	1.8%	1.7%	1.6%	1.7%	1.8%	2.5%	1.2%
Corporates – Public issues	21.1%	20.8%	21.6%	23.4%	26.1%	25.1%	22.4%	26.0%	28.2%	32.9%
Corporates – Private issues	14.2%	14.6%	15.9%	15.1%	15.3%	12.9%	11.4%	13.0%	14.2%	13.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate	0.01%	0.00%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.03%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
INVESTED ASSETS (continued)										
Mortgages										
Book value of the mortgage portfolio	3,334.5	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
Market value of the mortgage portfolio	---	---	---	---	2,516.0	2,469.8	2,562.7	2,570.1	2,615.5	2,750.6
Market value/book value	---	---	---	---	102.4%	102.0%	102.8%	103.2%	103.5%	103.4%
Distribution by financial instrument category										
Loans and receivables	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---	---
Distribution by type of property										
Residential	19.3%	19.0%	19.4%	21.6%	20.4%	16.3%	16.4%	17.1%	18.4%	18.7%
Multi-residential	63.3%	65.2%	66.5%	60.2%	59.5%	58.9%	59.5%	55.6%	52.5%	51.3%
Non-residential	17.4%	15.8%	14.1%	18.2%	20.1%	24.8%	24.1%	27.3%	29.1%	30.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of loan										
Insured	68.4%	71.8%	71.3%	65.0%	60.2%	55.6%	52.8%	48.6%	45.3%	40.9%
Conventional	31.6%	28.2%	28.7%	35.0%	39.8%	44.4%	47.2%	51.4%	54.7%	59.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate										
Insured loans	0.06%	0.21%	0.08%	0.10%	0.09%	0.50%	0.50%	0.75%	0.80%	0.27%
Conventional loans	1.36%	0.72%	0.72%	0.27%	0.02%	0.05%	0.13%	0.97%	0.69%	0.62%
Total	0.47%	0.36%	0.26%	0.16%	0.06%	0.30%	0.32%	0.86%	0.74%	0.48%
Proportion of delinquent loans that are insured	9.0%	43.0%	20.7%	41.0%	88.0%	93.0%	81.0%	42.2%	49.0%	23.3%
Delinquency rate, including real estate acquired to settle loans	0.51%	0.40%	0.28%	0.55%	0.48%	0.69%	0.70%	1.31%	1.25%	1.21%
Proportion of conventional restructured loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.03%
Stocks										
Book value of the stock portfolio	2,318.7	1,896.4	1,340.2	1,764.2	1,453.5	1,162.4	1,081.1	930.3	720.1	703.2
Market value of the stock portfolio	---	---	---	---	1,599.7	1,255.1	1,130.5	957.3	691.7	690.7
Market value/book value	---	---	---	---	110.1%	108.0%	104.6%	102.9%	96.1%	98.2%
Distribution by financial instrument category										
Available for sale	16.1%	17.5%	19.2%	15.6%	---	---	---	---	---	---
Held for trading	83.9%	82.5%	80.8%	84.4%	---	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---	---
Distribution by category										
Common	21.2%	13.5%	18.8%[14]	5.7%	5.0%	4.9%	4.1%	4.1%	6.1%	7.4%
Preferred	8.0%	8.8%	10.3%	8.1%	10.9%	12.8%	21.6%	24.8%	32.4%	29.8%
Market indices	39.1%	43.2%	26.0%	25.6%	23.6%	18.2%	12.0%	11.1%	15.3%	19.3%
Investment fund units and other	31.7%	34.5%	44.9%[14]	60.6%	60.5%	64.1%	62.3%	60.0%	46.2%	43.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Real estate										
Book value of the real estate portfolio	711.9	649.0	629.5	481.6	451.8	446.3	444.5	425.7	436.0	424.9
Market value of the real estate portfolio	872.5	823.5	814.6	623.7	530.5	509.9	482.9	446.4	455.6	451.8
Market value/book value	122.6%	126.9%	129.4%	129.5%	117.4%	114.2%	108.6%	104.9%	104.5%	106.3%
Occupancy rate	93.8%	94.4%	94.0%	95.5%	95.5%	96.8%	95.2%	93.9%	92.1%	96.3%
Other										
Provision for potential loss on fixed-income securities	138.0	95.8	83.4	78.3	73.1	77.7	97.5	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
CAPITALIZATION AND SOLVENCY										
Capital structure										
Debentures[15]	526.4	519.8	385.9	309.8	310.1	373.0	150.0	135.0	185.0	185.0
Other debt (IATS[16])[15]	---	---	---	---	---	---	150.0	150.0	---	---
Participating policyholders' account	26.9	25.7	27.0	24.1	23.1	19.7	17.3	13.2	59.5	53.4
Equity										
Common shares	652.5	545.7	541.0	513.1	507.7	510.6	458.1	438.3	382.0	382.0
Preferred shares	425.0	325.0	223.7	125.0	125.0	---	---	18.7	75.0	75.0
Contributed surplus	23.3	21.6	19.8	17.1	14.6	12.3	9.5	6.5	3.3	---
Retained earnings	1,422.0	1,254.8	1,127.7	1,148.3	971.3	845.4	751.7	627.5	470.2	397.6
Accumulated other comprehensive income	38.3	10.5	(54.3)	(3.8)	---	---	---	---	---	---
Currency translation account	---	---	---	---	(6.8)	(7.1)	(5.8)	(2.5)	7.5	10.2
Total	2,561.1	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
Total capital structure	3,114.4	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
Solvency ratio										
Available capital										
Tier 1 (net)	2,303.8	1,961.9	1,726.0	1,685.6	1,498.9	1,187.5	1,246.2	996.1	695.0	681.0
Tier 2 (net)	348.3	343.1	195.4	120.6	128.6	134.9	136.1	295.8	342.4	317.8
Total	2,652.1	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
Required capital	1,296.2	1,107.2	967.1	934.6	809.9	704.5	624.0	583.7	556.5	534.3
Solvency ratio	205%	208%	199%	193%	201%	188%	222%	221%	186%	187%
Debt measures										
Debt[17]/capital structure	16.9%	19.2%	17.0%	14.5%	15.9%	21.3%	19.6%	20.6%	15.6%	16.8%
Debt[17] and preferred shares/capital structure	30.5%	31.3%	26.8%	20.4%	22.4%	21.3%	19.6%	21.9%	22.0%	23.6%
Coverage ratio (in number of times)[18]	6.1	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	$37.40	$32.70	$42.64	$43.75	$37.28	$29.82	$27.93	$22.08	$23.80	$23.50
Low	$29.69	$13.75	$19.50	$34.25	$29.14	$26.55	$21.01	$17.25	$16.00	$17.00
Share price at end of period	$36.81	$32.20	$23.31	$42.58	$36.14	$29.07	$27.50	$21.90	$19.75	$23.33
Average share price	$33.73	$24.63	$32.11	$38.28	$32.42	$28.49	$23.44	$18.69	$20.18	$21.16
Number of common shares outstanding (in millions)	83.9	80.5	80.3	79.8	79.9	81.4	79.5	78.6	75.4	75.4
Weighted average number of common shares (in millions)										
Basic	83.1	80.3	80.2	80.1	80.5	79.6	79.2	77.6	75.1	74.9
Diluted	83.9	80.7	81.0	81.1	81.3	80.2	79.7	79.6	75.1	75.0
Dividends										
Dividends paid per common share	$0.98	$0.98	$0.94	$0.76	$0.60	$0.50	$0.41	$0.35	$0.32	$0.30
Dividend payout ratio	33%	38%	115%	25%	22%	30%	21%	20%	25%	22%
Company's worth										
Market capitalization	3,087.9	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
Book value per common share	$25.49	$22.77	$20.35	$20.98	$18.61	$16.72	$15.27	$13.61	$11.46	$10.49
Embedded value	3,486	2,969	2,510	2,787	2,448	2,133	2,138	1,899	1,643	1,542
Embedded value per common share	$41.56	$36.89	$31.26	$34.92	$30.64	$26.78	$26.90	$24.17	$21.89	$20.56
General expenses	448.0	399.9	358.4	333.5	314.0	273.1	257.8	237.4	229.9	212.0

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])	2002 (restated[3])	2001
MISCELLANEOUS INFORMATION (continued)										
Human resources										
Number of employees										
Life insurance companies	2,861	2,623	2,644	2,318	2,192	2,115	2,159	2,138	2,110	2,035
General insurance company	453	432	379	367	386	367	346	329	305	237
Other	442	423	404	262	241	264	121	36	19	9
Total	3,756	3,478	3,427	2,947	2,819	2,746	2,626	2,503	2,434	2,281
Number of Career representatives	1,761	1,688	1,597	1,608	1,550	1,445	1,379	1,309	1,310	1,270

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 2001 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, would respectively be $135.6 million in Individual Insurance and $235.0 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.

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

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

On behalf of Management,

Yvon Charest
President and Chief Executive Officer
Quebec, February 18, 2011

APPOINTED ACTUARY'S REPORT

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

We have valued the policy liabilities of Industrial Alliance Insurance and Financial Services Inc. for its consolidated balance sheets as at December 31, 2010 and 2009 and their change in the policy liabilities in its consolidated income statements for the years then ended, in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

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

René Chabot
Fellow of the Canadian Institute of Actuaries
(for the year ended December 31, 2010)

Denis Ricard
Fellow of the Canadian Institute of Actuaries
(for the year ended December 31, 2009)

Quebec, February 18, 2011

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries, which comprise the consolidated balance sheets and the consolidated statements of net assets of segregated funds as at December 31, 2010 and 2009, and the consolidated income statements, the consolidated participating policyholders' account, the consolidated contributed surplus, the consolidated shareholders' retained earnings and consolidated accumulated other comprehensive income, the consolidated comprehensive income statement, the cash flows statement and the consolidated statements of changes in net assets of its segregated funds for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.[1]
Quebec, February 18, 2011

[1] Chartered Accountant Auditor permit no 18527

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2010	2009
	$	$
Revenues		
Premiums (Note 25)	4,874	4,152
Net investment income (Note 5)	1,445	1,302
Fees and other revenues	450	361
	6,769	5,815
Policy benefits and expenses		
Payments to policyholders and beneficiaries	2,102	1,928
Net transfer to segregated funds	1,779	1,299
Dividends, experience rating refunds and interest on amounts on deposit	66	56
Change in provisions for future policy benefits	1,257	1,194
	5,204	4,477
Commissions	661	528
Premium and other taxes	71	63
General expenses (Notes 6, 11 and 12)	448	400
Financing expenses (Note 17)	37	64
	6,421	5,532
Income before income taxes	348	283
Less: income taxes (Note 7)	73	64
Net income	275	219
Less: net income (loss) attributed to participating policyholders	1	(1)
Net income attributed to shareholders	274	220
Less: preferred share dividends	23	14
Net income available to common shareholders	251	206
Earnings per common share (in dollars) (Note 20)		
basic	3.02	2.56
diluted	2.99	2.55

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

CONSOLIDATED BALANCE SHEETS

As at December 31 (in millions of dollars)	2010	2009
	$	$
Assets		
Invested assets (Note 9)		
Bonds	11,120	9,410
Mortgages	3,334	3,405
Stocks	2,319	1,896
Real estate	712	649
Policy loans	469	381
Cash and cash equivalents	527	382
Other invested assets	348	367
	18,829	16,490
Other assets (Note 11)	735	658
Intangible assets (Note 12)	385	375
Goodwill (Note 13)	153	116
Total general fund assets	20,102	17,639
Segregated funds net assets	13,573	11,450
Liabilities		
Policy liabilities (Note 14)		
Provisions for future policy benefits	15,222	13,392
Provisions for dividends to policyholders and experience rating refunds	56	60
Benefits payable and provision for unreported claims	152	139
Policyholders' amounts on deposit	245	212
	15,675	13,803
Other liabilities (Note 15)	946	784
Future income taxes (Note 7)	358	339
Net deferred gains (Note 16)	8	9
Debentures (Note 17)	526	520
Participating policyholders' account	27	26
	17,540	15,481
Equity		
Share capital (Note 19)	1,078	871
Contributed surplus	23	22
Retained earnings and accumulated other comprehensive income	1,461	1,265
	2,562	2,158
Total general fund liabilities and equity	20,102	17,639
Segregated funds liabilities	13,573	11,450

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)	2010	2009
	$	$
Balance at beginning	26	27
Net income for the year	4	2
Dividends	(3)	(3)
Net income (loss) attributed to participating policyholders	1	(1)
Balance at end	27	26

CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 31 (in millions of dollars)	2010	2009
	$	$
Balance at beginning	22	19
Current year contribution for the stock option plan (Note 21)	2	3
Stock options exercised	(1)	---
Balance at end	23	22

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

Years ended December 31 (in millions of dollars)	2010	2009
	$	$
Consolidated shareholders' retained earnings		
Balance at beginning	1,255	1,128
Net income attributed to shareholders	274	220
Common share dividends	(81)	(79)
Preferred share dividends	(23)	(14)
Issue cost of preferred shares, net of $1 of taxes ($1 in 2009)	(2)	(2)
Adjustment relating to the transaction with the entity subject to significant influence (Note 27)	---	2
Balance at end	1,423	1,255
Consolidated accumulated other comprehensive income (loss), net of income taxes		
Balance at beginning	10	(54)
Total other comprehensive income	28	64
Balance at end	38	10
Total	1,461	1,265
Balance at end of consolidated accumulated other comprehensive income, net of income taxes:		
Unrealized gains (losses) on bonds available for sale	23	---
Unrealized gains (losses) on stocks available for sale	22	14
Currency translation gains (losses) in a self-sustaining foreign operation, net of hedging activities	(7)	(4)
Consolidated accumulated other comprehensive income, net of income taxes	38	10

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	2010	2009
	$	$
Net income	275	219
Other comprehensive income, net of income taxes		
Unrealized gains (losses) arising during the year on available for sale financial assets:		
Bonds	30	43
Stocks	12	29
Reclassification of losses (gains) on available for sale financial assets included in the net income:		
Bonds	(7)	(6)
Stocks	(4)	1
Change in unrealized gains (losses) on available for sale financial assets	31	67
Comprehensive income from the entity subject to significant influence	---	1
Change in unrealized currency translation gains (losses) in a self-sustaining foreign operation	(12)	(13)
Hedges of net investment in a self-sustaining foreign operation	9	9
Total other comprehensive income	28	64
Comprehensive income	303	283
Comprehensive income attributed to shareholders	302	284
Comprehensive income attributed to participating policyholders	1	(1)
Income taxes included in other comprehensive income		
Unrealized gains (losses) arising during the year on available for sale financial assets:		
Bonds	(11)	(17)
Stocks	---	(8)
Reclassification of losses (gains) on available for sale financial assets included in the net income:		
Bonds	3	2
Stocks	1	---
Hedges of net investment in a self-sustaining foreign operation	(3)	(3)
Total of income taxes included in other comprehensive income	(10)	(26)

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

CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars)	2010	2009
	$	$
Cash flows from operating activities		
Net income	275	219
Items not affecting cash and cash equivalents:		
Change in provisions for future policy benefits	1,257	1,194
Share of results of the entity subject to significant influence	(3)	(2)
Amortization of realized and unrealized gains	(18)	(19)
Amortization of premiums and discounts	10	6
Change in fair value on designated held for trading financial assets and liabilities	(808)	(657)
Realized losses (gains) on available for sale financial assets	(15)	(7)
Realized losses (gains) on loan and receivable financial assets	(8)	(6)
Future income taxes	21	83
Stock option plan	2	3
Amortization of deferred sales commissions, depreciation of fixed assets and depreciation of intangible assets	57	56
Provision for loss	---	3
Other	49	31
	819	904
Recapture of reinsurance	19	---
Disposal of reinsurance assumed	(57)	---
Changes in other assets and liabilities	17	(13)
Cash flows from operating activities	798	891
Cash flows from investing activities		
Sales, maturities and repayments of the following items:		
Bonds	4,302	2,804
Mortgages	454	391
Stocks	1,428	739
Real estate	2	2
Policy loans	128	116
Other invested assets	42	3
Dividend from an entity subject to significant influence	8	---
	6,364	4,055
Purchases of the following items:		
Bonds	(5,133)	(3,544)
Mortgages	(374)	(317)
Stocks	(1,660)	(901)
Real estate	(37)	(2)
Policy loans	(176)	(179)
Other invested assets	(209)	(76)
Acquisition of cash and cash equivalents (Note 4)	492	99
	(7,097)	(4,920)
Cash flows from investing activities	(733)	(865)
Cash flows from financing activities		
Issue of common shares	105	4
Issue of preferred shares (less cost of issuance of $3 ($3 in 2009))	97	97
Issue of debenture	---	99
Dividends paid to preferred shareholders	(23)	(14)
Dividends paid to common shareholders	(81)	(79)
Increase (decrease) in mortgage debt	12	(2)
Cash flows from financing activities	110	105
Foreign currency gain (loss) on cash and cash equivalents	(30)	(8)
Increase (decrease) in cash and cash equivalents	145	123
Cash and cash equivalents at beginning	382	259
Cash and cash equivalents at end	527	382
Supplementary information:		
Cash	80	29
Cash equivalents	447	353
Total cash and cash equivalents	527	382
Interest paid	33	29
Income taxes paid, net of refunds	36	(9)

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)	2010	2009
	$	$
Assets		
Bonds	3,689	3,357
Stocks	3,675	3,116
Fund units	5,476	4,373
Cash, short-term investments and other invested assets	729	594
Other assets	74	62
	13,643	11,502
Liabilities		
Accounts payable and accrued expenses	70	52
Net assets	13,573	11,450

Consolidated statements of changes in net assets

Years ended December 31 (in millions of dollars)	2010	2009
	$	$
Balance at beginning	11,450	8,924
Additions:		
Amounts received from policyholders	2,315	2,216
Interest and dividends	299	322
Net realized gains (losses)	303	20
Net increase (decrease) in fair value	682	1,609
	15,049	13,091
Deductions:		
Amounts withdrawn by policyholders	1,258	1,468
Operating expenses	218	173
	1,476	1,641
Balance at end	13,573	11,450

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009 (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 assumptions used in 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.

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.

2 › Accounting Policies (continued)

Fair Value

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair value is based on active quoted market rates (bid/ask) prices. If there is no active market, 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 impairment of bonds the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. A significant or prolonged decline in fair value of financial instrument below its cost is also objective evidence of impairment. 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 impairment the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. When there is evidence of impairment 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 and presented 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 impairment of mortgages the issuer's financial difficulty, a bankruptcy or a default of payment of interest or principal. When there is evidence of impairment 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.

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 impairment 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. The fair value of real estate is estimated using the valuations made by chartered appraisers. 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%.

2 › Accounting Policies (continued)

Real Estate (continued)

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 and cash in trust. Notes receivable are classified as loans and receivables and accounted at the amortized cost using the effective interest rate. Cash in trust 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.

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 of exchange rate of a hedged item against variations in fair value of the derivative financial instruments considered as a hedging 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, market index contracts and bond forwards 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.

2 › Accounting Policies (continued)

Derivative Financial Instruments (continued)

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 when positive and other liabilities when negative.

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 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.

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 general 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.

Software applications have a useful life which ranges from 2 to 10 years. Therefore, software applications in development are unamortized because they are still not being used.

2 › Accounting Policies (continued)

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.

Other Liabilities
The financial liabilities included in other 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 income for the year. Future income taxes are recorded based on the expected 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 method.

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 when services are rendered. These revenues are reported net of related expenses.

2 › Accounting Policies (continued)

Net Transfer to Segregated Funds

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

Employee Future Benefits

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

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

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

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

Stock Option Plan

The cost of stock options granted is recorded, using the fair value method, as a remuneration expense included in general expenses. The corresponding amount is recorded in the Company's contributed surplus. For options that are forfeited before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital. Stock-based compensation is recognized at the grant date for grants to directors or management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to directors or management personnel who will become eligible to retire during the vesting period.

Share Purchase Plan for Employees

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

Deferred Share Units

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

3 › Change in Accounting Policies

Future Changes in Accounting

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.

4 › Acquisitions of Businesses

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 was $3.

Individual life and health insurance

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 was $9.

On December 2, 2010, La Corporation Financière L'Excellence Ltée (CFE), a subsidiary of the company, which held 98% of the common shares of The Excellence Life Insurance Company, completed the buyback from minority shareholders, in return for a cash amount of less than $1.

4 › Acquisitions of Businesses (continued)

Acquisitions in United States

On December 7, 2009, IA American Life Insurance Company (IA American), a life insurance subsidiary of the company, acquired 100% of common shares of World Service Life Insurance Company, a life insurance company in Colorado, for a cash consideration of $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 $11. The total payments for these transactions represent $15. Preliminary goodwill related to these transactions was less than $1.

On July 19, 2010, IA American, acquired 100% of the shares of American-Amicable Holding Inc. (American-Amicable) in consideration of a $154 cash payment and transaction costs of $2. American-Amicable operates in the field of life insurance in 49 US states and territories through four subsidiaries located in Texas: Pioneer Security Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer American Insurance Company and Occidental Life Insurance Company of North Carolina. Preliminary goodwill related to this transaction is $33.

On September 2, 2010, IA American acquired the individual life insurance portfolio of Golden State Mutual Life Insurance Company (GSM) for a consideration of $12. GSM operates in the field of life insurance in 17 US states. Preliminary goodwill related to this transaction is less than $1.

On September 30, 2010, IA American acquired the business of administering life insurance policies of Dream Life Administration LLC in consideration of $2 in cash payments. Preliminary goodwill related to these transactions is $1.

General Insurance

On October 1, 2010, through a wholly-owned subsidiary of Industrial Alliance Pacific Insurance and Financial Services Inc. (IAP), the company acquired 100% of outstanding shares of National Warranties MRWV Limited (National Warranties). National Warranties sells extended warranties primarily through independent used car dealers in the province of Quebec. Preliminary goodwill on this transaction is $15.

Goodwill

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 from the date of acquisition.

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

The assets acquired and liabilities assumed are summarized as follows:

	2010			2009	
	Acquisitions in United States $	General Insurance $	Individual life and health Insurance $	Acquisitions in United States $	Individual Wealth Management $
Assets acquired					
Invested assets					
Cash and cash equivalents	491	1	83	16	---
Bonds	224	4	243	6	---
Stocks	4	1	75	---	---
Mortgages	21	---	13	---	---
Real Estate	11	---	---	---	---
Policy loans	41	---	3	---	---
	792	6	417	22	---
Other assets	26	1	2	---	---
	818	7	419	22	---
Liabilities assumed					
Policy liabilities					
Provisions for future policy benefits	650	---	414	6	---
Payments to policyholders and provisions for unreported claims	12	---	---	---	---
Amounts of contracts on deposit	19	---	1	1	---
	681	---	415	7	---
Other liabilities	13	12	4	---	---
	694	12	419	7	---
Net assets acquired	124	(5)	---	15	---
Preliminary goodwill	34	15	9	---	3
	158	10	9	15	3
Transaction amount	156	10	9	15	2
Transaction fees	2	---	---	---	1
Purchase price	158	10	9	15	3

5 › Net Investment Income

Net investment income was derived from the following sources:

	2010					
	Held for trading $	Designated Held for trading $	Available for sale $	Loans and receivables $	Other $	Total $
Bonds						
Interest	---	172	56	61	---	289
Change in fair value	---	643	---	---	---	643
Change in provisions for loss	---	---	---	---	---	---
Gains (losses) realized	---	---	10	1	---	11
Mortgages						
Interest	---	---	---	174	---	174
Change in provisions for loss	---	---	---	---	---	---
Gains (losses) realized	---	---	---	7	---	7
Stocks						
Dividends	---	26	15	---	---	41
Change in fair value	---	171	---	---	---	171
Gains (losses) realized	---	---	5	---	---	5
Real estate						
Rental income (net of $64 of operating expenses)	---	---	---	---	40	40
Amortization of realized gains (losses)	---	---	---	---	1	1
Amortization of unrealized gains (losses)	---	---	---	---	17	17
Cash and cash equivalents						
Interest	5	---	---	---	---	5
Derivative income	11	---	---	---	---	11
Entity subject to significant influence	---	---	---	---	3	3
Other	---	---	---	44	---	44
	16	1,012	86	287	61	1,462
Investment expenses	---	---	---	---	(17)	(17)
Total	16	1,012	86	287	44	1,445

	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

6 › Government Assistance

The Company has qualified for the major investment project of the Quebec government, for which government assistance is 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 ($8 after tax) in 2010 ($12 in 2009 ($9 after tax)), based upon receipt of formal confirmation in 2010 and 2009 from the Quebec government.

7 › 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:

	2010		2009	
	$	%	$	%
Income before income taxes	348	---	283	---
Provision for income tax at statutory rates	96	28	81	28
Non-taxable income	(4)	(1)	(2)	(1)
Adjustments of prior years	(1)	(1)	(1)	---
Minimum tax to recover	---	---	(1)	---
Change in tax rate	(18)	(5)	(13)	(4)
Income taxes and effective income tax rates	73	21	64	23

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

	2010	2009
	$	$
Current income taxes	52	(19)
Future income taxes	21	83
Total	73	64

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

	2010	2009
	$	$
Future income tax liabilities		
Policy liabilities	379	342
Real estate	78	75
Other	(99)	(78)
Total	358	339

8 › 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 51 and 52.

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, interest 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.

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 14, Policy Liabilities, 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.

Dynamic hedging program

During the year, the Company implemented a dynamic hedging program for all minimum withdrawal guarantees for the Individual wealth management operations. The value of the assets underlying the hedged guarantees was $1,709 as at December 31, 2010.

More information about the Company's dynamic hedging program is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on page 56.

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, 2010 and 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 $226 ($75 in 2009), a fair value of $3 (lower than $1 in 2009) 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 $17 ($10 in 2009), a fair value lower than $1 (lower than $1 in 2009) and maturities of less than 1 year. The fair value is accounted in the net investment income is 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, 2010 and 2009, 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 54 to 57.

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

a) Risk Management Principles and Responsibilities (continued)

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 57.

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 risk rating and the amount of the financial instrument. The Company establishes investment policies that are reviewed regularly, 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 53.

Maximum Credit Risk

The maximum credit risk associated with financial instruments corresponds to the carrying value of financial assets net of provision for losses. Consequently, the carrying value of financial instruments presented on the balance sheet, except for the entity subject to significant influence, correspond to the maximum 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 securities 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.

Collateral held and transferred

The Company transacts derivatives financial instruments in accordance with the Credit Support Annex (CSA), which forms part of the International Swaps and Derivatives Association's (ISDA) Master Agreement. This agreement required guarantees by the counterparty or by the Company. The amount of assets to pledge is based on change in fair value of derivatives financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of cash, Canadian and American Treasury bills and government of Canada bonds.

The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. As at December 31, 2010 and 2009, the Company has not received any assets as collateral.

The Company may also pledge assets as collateral to the counterparty. The fair value of assets pledged as collateral is $8 as at December 31, 2010 and no collateral was pledged as at December 31, 2009.

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.

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

a) Risk Management Principles and Responsibilities (continued)

Liquidity Risk (continued)
Maturity Dates of Financial Liabilities

	2010				
	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 $
Benefits payable	69	---	---	---	69
Other policy liabilities	20	5	1	---	26
Mortgage debt	2	27	12	---	41
Derivative financial instruments	8	7	---	14	29
Amounts on deposit related to products other than insurance	181	10	7	---	198
Other financial liabilities	340	---	---	---	340
Debentures	---	---	---	526	526
Total	620	49	20	540	1,229

	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 $
Benefits payable	58	---	---	---	58
Other policiy liabilities	21	4	1	---	26
Mortgage debt	1	28	---	---	29
Derivative financial instruments	6	4	3	1	14
Amounts on deposit related to products other than insurance	138	13	3	---	154
Other financial liabilities	339	1	1	1	342
Debentures	---	---	---	520	520
Total	563	50	8	522	1,143

Other financial liabilities include accounts payable and amounts due to reinsurers as presented in Note 15 Other Liabilities.

Other policy liabilities presented in Note 15 Other Liabilities include $6 ($5 in 2009) which does not meet the definition of financial liabilities.

Annual interest payments will amount to $3 for 2011, $2 for 2012 and $1 for 2013 on mortgage debts and $31 for the next 3 years on debentures.

Information on off balance sheet commitments is presented in Note 26 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 57 and 58.

b) Temporary or Other than Temporary Decline in Fair Value

Temporary decline in fair value
Available for sale financial assets are considered as presenting a temporary decrease in value if the cost after amortization at the end of the period is higher than the fair value, but the company is still able to conclude that the contractual terms of investments should be respected and that the financial assets will be recovered. Unrealized losses could occur as a result of interest rate fluctuations, an increase in interest rate spreads, a general decline in market prices or a reduction in fair values in sectors that are affected by particularly strong negative reactions by the markets.

The following table shows unrealized losses and gains on financial assets classified as available for sale.

	2010			2009		
	Fair value $	Unrealized losses $	Unrealized gains $	Fair value $	Unrealized losses $	Unrealized gains $
Bonds						
Governments	1,076	(1)	16	1,025	(7)	5
Municipalities	8	---	---	15	---	---
Corporate and other	617	(3)	20	550	(15)	16
	1,701	(4)	36	1,590	(22)	21
Stocks	373	(2)	25	331	(3)	20
Total	2,074	(6)	61	1,921	(25)	41

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

b) Temporary or Other than Temporary Decline in Fair Value (continued)

Temporary decline in fair value (continued)
The following tables show unrealized losses on financial assets classified as available for sale.

	2010					
	Less than 12 months		12 months or over		Total	
	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $
Bonds						
Governments	305	(1)	---	---	305	(1)
Municipalities	2	---	---	---	2	---
Corporate and other	169	(2)	14	(1)	183	(3)
	476	(3)	14	(1)	490	(4)
Stocks	50	(1)	13	(1)	63	(2)
Total	526	(4)	27	(2)	553	(6)

	2009					
	Less than 12 months		12 months or over		Total	
	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $
Bonds						
Governments	619	(7)	---	---	619	(7)
Municipalities	3	---	---	---	3	---
Corporate and other	76	(2)	96	(13)	172	(15)
	698	(9)	96	(13)	794	(22)
Stocks	16	(1)	22	(2)	38	(3)
Total	714	(10)	118	(15)	832	(25)

Other than temporary decline in fair value
At each period end, the Company must determine if there is any objective evidence of impairment of any financial asset not classified as held for trading or designated held for trading. Objective evidence of impairment 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. A significant or prolonged decline in fair value of financial instrument below its cost is also objective evidence of impairment.

Given that these other than temporary 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.

	2010 $	2009 $
Bonds	4	1
Stocks	---	---
Total	4	1

Since the assets designed held for trading are fully matched, variations of fair value, other than those related to credit risk, are directly reflected in the change in provisions for future policy benefits, which prevents a disparity of the treatment in the income statement. Only variations in the fair value related to credit events regarding future cash flows would have an impact on the Company's net results.

c) 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 55 and 57.

9 › 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 10, Fair Value of Financial Instruments.

	2010						
	Held for trading $	Designated Held for trading $	Available for sale $	Loans and receivables $	Other $	Total $	Fair value $
Bonds							
Governments	---	5,892	1,076	58	---	7,026	
Municipalities	---	157	8	3	---	168	
Corporate and other	---	2,376	617	933	---	3,926	
	---	8,425	1,701	994	---	11,120	11,169
Mortgages							
Insured							
Residential	---	---	---	554	---	554	
Multi-residential	---	---	---	1,691	---	1,691	
Non-residential	---	---	---	36	---	36	
	---	---	---	2,281	---	2,281	
Conventional							
Residential	---	---	---	89	---	89	
Multi-residential	---	---	---	421	---	421	
Non-residential	---	---	---	543	---	543	
	---	---	---	1,053	---	1,053	
	---	---	---	3,334	---	3,334	3,480
Stocks							
Common stocks	---	420	70	---	---	490	
Preferred stocks	---	1	185	---	---	186	
Stock indexes	---	809	99	---	---	908	
Investment fund units	---	716	19	---	---	735	
	---	1,946	373	---	---	2,319	2,319
Real estate							
Held for investment	---	---	---	---	710	710	
Held for resale	---	---	---	---	2	2	
	---	---	---	---	712	712	872
Policy loans	---	---	---	469	---	469	469
Cash and cash equivalents	527	---	---	---	---	527	527
Other invested assets	66	---	---	268	14	348	357
Total	593	10,371	2,074	5,065	726	18,829	19,193

9 › Invested Assets (continued)

a) Carrying Value and Fair Value (continued)

-	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	9,401
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	1,893
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	378
Total	431	8,445	1,921	5,022	671	16,490	16,717

Stocks available for sale include investments in limited partnerships and private share entities. These investments are carried at cost because the assets are not traded publicly. As at December 31, 2010, the cost of these stocks was $71 ($58 in 2009). The Company does not intend to dispose of its investments in limited partnerships and private entities.

Other Invested Assets

	2010 $	2009 $
Entity subject to significant influence	14	22
Cash in trust	66	49
Notes receivable	268	277
Lease contract	---	19
Total	348	367

9 › 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

	2010			
	Designated Held for trading $	Available for sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	1,047	404	202	1,653
Asset backed securities	207	52	20	279
Utilities and energy	454	73	380	907
Industrial products	273	13	115	401
Consumer cyclical and non-cyclical	184	42	57	283
Health	145	1	157	303
Other	66	32	2	100
	2,376	617	933	3,926

	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

Bonds by investment grade

	2010	2009
	Carrying value	
	$	$
AAA	1,204	1,063
AA	1,855	1,490
A	7,269	6,244
BBB	779	607
BB and lower	13	6
Total	11,120	9,410

In 2009, the investment grades of bonds took into account the characteristics of issuers of derivative financial instruments (Note 9 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 $766 ($738 in 2009).

9 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Mortgages by region and type

2010	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgage loans						
Residential	---	526	26	2	---	554
Multi-residential	45	838	306	502	---	1,691
Non-residential	1	2	8	25	---	36
	46	1,366	340	529	---	2,281
Conventional mortgage loans						
Residential	---	84	2	2	1	89
Multi-residential	---	44	17	92	268	421
Non-residential	36	195	98	166	48	543
	36	323	117	260	317	1,053
Total	82	1,689	457	789	317	3,334

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

Real estate by type of property

	2010 Carrying value $	2009 Carrying value $
Residential and multi-residential	11	11
Office	577	519
Retail	105	101
Industrial	14	13
Land and other	5	5
Total	712	649

Unimpaired Past Due Invested Assets

An investment is considered to be in arrears when the counterparty did not make a payment on the due date under the contract terms.

The following table presents the carrying value of invested assets in arrears that are not classified as impaired investments. The Company considers mortgage loans 90 days in arrears and more which are not insured and fully guaranteed as impaired investments.

2010	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	2	6	1	9
Conventional mortgage loans	16	3	---	19
Total	18	9	1	28

9 › Invested Assets (continued)

b) Credit Risk and Concentration Risk (continued)

Unimpaired Past Due Invested Assets (continued)

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

As at December 31, 2010 and 2009, the Company did not hold any past due bonds.

Allowances for losses

2010	Bonds $	Mortgages $	Total $
Balance at beginning	3	1	4
Increase of allowances for losses	2	---	2
Decrease of allowances for losses	(2)	---	(2)
Balance at end	3	1	4

2009	Bonds $	Mortgages $	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

Impaired Investments

2010	Gross $	Provisions $	Total $
Bonds	11	3	8
Mortgage loans	14	1	13
Real estate held for resale	2	---	2
Balance at end	27	4	23

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

Foreclosed Properties

During the year ended December 31, 2010, the Company foreclosed properties for $6 ($1 in 2009) which it held as collateral on mortgage loans. No allowance for loan impairment was recognized on these foreclosed loans. Foreclosed properties that the Company still held at year-end are presented as real estate held for resale.

9 › Invested Assets (continued)

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.

	2010		2009	
	Bonds	Mortgages	Bonds	Mortgages
	Carrying value		Carrying value	
	$	$	$	$
Due in 1 year or less	478	265	530	274
Due after 1 year through 5 years	2,038	1,544	1,922	1,443
Due after 5 years through 10 years	2,022	750	1,680	859
Due after 10 years	6,582	775	5,278	829
Total	11,120	3,334	9,410	3,405

The effective yield is between 0.19% and 11.80% (0.06% and 11.77% in 2009) for bonds, between 1.23% and 12.25% (1.25% and 12.25% in 2009) for mortgages and between 3.00% and 10.00% (3.00% and 10.00% in 2009) 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 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 risk exposure quantifies the potential for future losses which may result from 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, 2010 and 2009, the counterparties of derivative financial instruments contracts, except for other derivative contracts, have a credit rating of A and higher.

The following tables summarize the Company's derivative financial instruments portfolio, the fair value and related credit exposure.

	2010			
	Notional amount $	Maximum credit risk $	Potential future credit risk $	Credit equivalent amount $
Equity contracts				
Equity swaps	443	2	28	30
Future contracts	93	---	---	---
Currency contracts				
Forward contracts	406	7	3	10
Currency swaps	45	7	3	10
Future contracts	23	---	---	---
Interest rate contracts				
Interest rate swaps	602	3	6	9
Bond contracts				
Forward contracts	405	1	---	1
Other derivative contracts	4	---	---	---
Total	2,021	20	40	60

	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	8	4	12
Interest rate contracts				
Interest rate swaps	166	1	---	1
Credit contracts				
Credit swaps	18	---	---	---
Options				
Options on futures contract	1	---	---	---
Written put options	120	---	7	7
Total	1,092	13	42	55

9 › Invested Assets (continued)

d) Derivative Financial Instruments (continued)

	2010					
	Notional amount				Fair Value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Equity swaps	436	7	---	443	2	(3)
Future contracts	93	---	---	93	---	(1)
Currency contracts						
Forward contracts	406	---	---	406	7	---
Currency swaps	---	29	16	45	7	(1)
Future contracts	23	---	---	23	---	---
Interest rate contracts						
Interest rate swaps	54	218	330	602	3	(21)
Bond contracts						
Forward contracts	405	---	---	405	1	(3)
Other derivative contracts	4	---	---	4	2	---
Total	1,421	254	346	2,021	22	(29)

	2009					
	Notional amount				Fair Value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Equity swaps	464	22	---	486	2	(5)
Currency contracts						
Forward contracts	222	---	---	222	2	---
Currency swaps	33	29	17	79	8	(1)
Interest rate contracts						
Interest rate swaps	31	122	13	166	1	(7)
Credit contracts						
Credit swaps	18	---	---	18	---	---
Options						
Options on futures contract	1	---	---	1	---	---
Written put options	120	---	---	120	---	(1)
Total	889	173	30	1,092	13	(14)

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, 2010, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $654 ($672 in 2009).

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 does 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.

9 › Invested Assets (continued)

f) Restructuring of Non-Bank Sponsored Asset-Backed Commercial Paper (continued)

Restructuring Plan (continued)
When the restructuring took place, on January 21, 2009, 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.

During the year ended December 31, 2009, 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.

Fair Value
Management estimates the fair value of its investments according to valuation models that it believes are appropriate under the circumstances. The evaluation of notes is modelled on an individual basis according to the category of underlying assets. Note 10 Fair Value of Financial Instruments provides more detailed information on the valuation models used.

As at December 31, 2010, the fair value of the notes was $33 ($62 as at December 31, 2009). During the period, the variation in the fair value of notes gave rise to a $4 decrease ($5 increase in 2009) in the estimated fair value other than that related to credit events.

There was no variation in the value of the investment in the entity subject to significant influence in 2010 and 2009. This investment appears under other invested assets.

Since the notes are fully matched, variations in fair value, other than related to credit risk, are directly reflected in variations of policy liabilities, which avoids a mismatch in the results. Only fair value variations related to credit events affecting future cash flows could have an impact on the Company's net results.

Investments in notes held by the Company are established as follows:

	2010	2009
	$	$
Traditional assets	10	16
Synthetic assets		
Category A-1	19	42
Category A-2	16	16
Category B	3	3
Category C	---	2
Ineligible assets	6	10
Total	54	89

During the period, the Company received $7 in repayments of principal from the maturity of notes ($25 as at December 31, 2009). The Company also sold notes which had a nominal value of $27 for $18. The Company wrote off its holdings in certain notes that had been entirely devalued and had a nominal value of $1. The underlying assets of these notes were composed exclusively of ineligible assets.

When it acquired the life insurance portfolio of MD Life 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.

10 › Fair Value of Financial Instruments

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuation 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.

Financial instruments are classified as Level 1 when they are 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.

Methods and assumptions used to estimate fair values of financial instruments

Bonds
Bonds are valued based on quoted price (unadjusted), observed in active markets for identical assets obtained through independent evaluation services or brokers who assess the fair value of these financial instruments. If the market is not active, independent valuation services and brokers take into account in their evaluation the return or the market price of financial instruments with comparable terms, such as quality, maturity and type of investment.

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 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. The valuation is modelled on an individual basis according to the category of underlying assets.

10 › Fair Value of Financial Instruments (continued)

Methods and assumptions used to estimate fair values of financial instruments (continued)

Bonds (continued)
For the year ended December 31, 2010, the Company reviewed certain assumptions in its valuation model for bonds to consider new information and changes in market conditions. These bonds are valued according to 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. This discount rate was modified to increase the risk premium.

Certain bonds were devalued to take into account their subordination compared to other bonds with the same underlying assets.

These changes in assumptions reduced the fair value of bonds by $4. Since bonds are fully matched to policy liabilities, there is no impact on the Company's net results.

A 100 basis point increase in the discount rate, which is the critical assumption in the Company's valuation model, would decrease the fair value of bonds classified at level 3 by $29 ($20 in 2009). Bonds classified as level 3 are valued using a valuation model essentially based on inputs that are not observable on the market. A 100 basis point decrease in the discount rate would increase the fair value of bonds classified as level 3 by $33 ($22 in 2009).

The Company evaluates bonds classified as loans and receivables based on a discounted future cash flows model. The discount rate used corresponds to the prevailing rate of return on the market established by the Company for this type of bond.

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.

Investment fund units are valued at the value published by the fund manager.

Cash and cash equivalents and policy loans
The fair value of cash and cash equivalents and policy loans is deemed to approximate their carrying value due to their short-term maturity.

Other Assets
The fair value of the other financial assets, except the derivative financial instruments, approximates their carrying value due to their short-term nature. Derivative financial instruments are classified as held for trading.

Derivative financial instruments
Derivative financial instruments that are traded over the counter (OTC) are valued using standard valuation models. These evaluations are based on data observable in the market, which include interest rates, foreign exchange rates, financial indicators, rate differentials, credit risk and volatility.

Derivative financial instruments that are exchange-traded are valued using the most recently posted bids or asks for their long or short positions respectively, as published on the primary exchanges where they trade.

Among derivative financial instruments, some other derivative contracts are subject to trading restrictions that may apply to this type of instrument. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions that are deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously.

The Company’s use of non-observable data is limited, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

Other Liabilities
The fair value of the other liabilities, except the mortgage debt and the derivative financial instruments, approximates their 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.

Debentures
Debentures designated held for trading are evaluated at market prices through brokers who evaluate the fair value of these financial instruments. In their evaluations, brokers take into consideration the return or market price of financial instruments that have comparable conditions, such as quality, maturity and type of investment.

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 17, Debentures.

The fair value of 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.

10 › Fair Value of Financial Instruments (continued)

Methods and assumptions used to estimate fair values of financial instruments (continued)

Debentures (continued)
The fair value of 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.

	2010			
	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Invested assets				
Bonds				
Designated held for trading	388	7,700	337	8,425
Available for sale	321	1,336	44	1,701
	709	9,036	381	10,126
Stocks				
Designated held for trading	1,946	---	---	1,946
Available for sale	302	---	---	302
	2,248	---	---	2,248
Cash and cash equivalents				
Held for trading	527	---	---	527
Other invested assets				
Held for trading	66	---	---	66
Other assets				
Held for trading	---	22	---	22
Total	3,550	9,058	381	12,989
Liabilities				
Other liabilities				
Held for trading	1	28	---	29
Debentures				
Designated held for trading	---	327	---	327
Total	1	355	---	356

	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
Other assets				
Held for trading	---	13	---	13
Total	2,794	7,633	325	10,752
Liabilities				
Other liabilities				
Held for trading	---	14	---	14
Debentures				
Designated held for trading	---	321	---	321
Total	---	335	---	335

During the years ended December 31, 2010 and 2009, there was no transfer of financial instruments between Levels 1 and 2.

10 › Fair Value of Financial Instruments (continued)

Debentures (continued)
The following table provides financial instruments recognized at fair value and for which Level 3 inputs were used in determining fair value:

	2010							
	Balance as at December 31, 2009 $	Net realized and unrealized gains (losses) included in Income Statement $	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, 2010 $	Total unrealized gains (losses) included in Income Statements on financial instruments still held $
Assets								
Invested assets								
Bonds								
Designated held for trading	255	18	---	117	(48)	(5)	337	16
Available for sale	70	1	4	2	(33)	---	44	---
Total	325	19	4	119	(81)	(5)	381	16

	2009							
	Balance as at December 31, 2008 $	Net realized and unrealized gains (losses) included in Income Statement $	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) included in Income Statements on financial instruments still held $
Assets								
Invested assets								
Bonds								
Designated held for trading	194	13	---	111	(63)	---	255	11
Available for sale	73	---	1	17	(21)	---	70	---
Other invested assets								
Held for trading	65	---	---	---	(65)	---	---	---
Total	332	13	1	128	(149)	---	325	11
Liabilities								
Debentures								
Designated held for trading	286	35	---	---	---	(321)	---	---
Total	286	35	---	---	---	(321)	---	---

Since bonds designated held for trading are fully matched to the provisions for future policy benefits, there is no impact on the net income of the Company.

Transfer from level 3 to level 2

During the year ended December 31, 2010, a more efficient market developed for a bond classified as level 3. The Company evaluated this bond according to a model based on the projecting of discounted cash flows. The discount rate used corresponded to the rate of return of a reference index that has a similar risk profile to that of the underlying assets and a term whose duration coincided with the bond's expected maximum maturity. The Company thus modified its evaluation method and this bond is now evaluated at market prices obtained through independent valuation services that evaluate the fair value of financial instruments.

During the year ended December 31, 2009, the Company modified its method for evaluating debentures designated held for trading. The fair value of debentures was previously established using internal valuation models requiring the use of assumptions, of which one of the main ones was not observable on the market.

11 › Other Assets

Other assets consist of the following:

	2010	2009
	$	$
Systems hardware and operation software, furniture, and equipment, at cost	89	72
Less: accumulated depreciation	69	55
	20	17
Leasehold improvements, at cost	102	95
Less: accumulated depreciation	53	52
	49	43
Investment income due and accrued	77	70
Derivative financial instruments	22	13
Outstanding premiums	54	55
Due from reinsurers	35	46
Due from agents	35	39
Accounts receivable	241	197
Deferred sales commissions	67	75
Prepaid expenses	13	12
Employee future benefits	63	60
Miscellaneous	59	31
Total	735	658

The depreciation and amortization of fixed assets included in the general expenses and the deferred sales commissions included in commissions are respectively $15 ($14 in 2009) and $34 ($34 in 2009).

12 › Intangible Assets

	2010					
	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	344	---	1	345	---	345
Amortized intangible assets with finite life	4	---	10	14	1	13
Software applications	68	10	---	78	55	23
Software applications in development	4	---	---	4	---	4
Total	420	10	11	441	56	385

	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

During the years ended December 31, 2010 and 2009, software applications in development were put into service. Consequently, an amount of $6 ($1 in 2009) 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. Amortized intangible assets with finite life represent principally present value of future profit related to contracts with policyholders.

The amortization expense is lower than $1 in 2010 and 2009 for amortized intangible assets with finite life and $8 ($8 in 2009) for the software applications and are included in general expenses.

13 › Goodwill

The carrying value and changes of goodwill are as follows:

	Preliminary goodwill		Goodwill		Total	
	2010	2009	2010	2009	2010	2009
	$	$	$	$	$	$
Balance at beginning	12	32	104	83	116	115
Acquisition of businesses	49	12	---	---	49	12
Reclassification after allocation of the acquisition price	(1)	(21)	1	21	---	---
Adjustment on previous years transactions	---	5	---	---	---	5
Reclassification to intangible assets	(11)	(16)	---	---	(11)	(16)
Effect of changes in currency exchange rates	(1)	---	---	---	(1)	---
Balance at end	48	12	105	104	153	116

As at December 31, 2009, the amount included in 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, adjustments to restructuring charges $(1) and the adjustment of preliminary goodwill related to the 2008 acquisition for a total of $(2).

14 › Policy Liabilities

Policy liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends, 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:

	2010				
	Individual		Group		
	Life & Health	Wealth Management	Life & Health	Pensions	Total
	$	$	$	$	$
Policy liabilities					
Canada	8,802	1,285	1,339	3,047	14,473
United States	714	469	6	---	1,189
Other countries	13	---	---	---	13
Total	9,529	1,754	1,345	3,047	15,675
Assets backing policy liabilities					
Bonds and other fixed interest securities	5,839	689	846	1,915	9,289
Mortgages	651	841	450	1,082	3,024
Stocks	1,981	3	7	30	2,021
Real estate	604	---	---	---	604
Policy loans	402	52	13	---	467
Other invested assets	52	169	29	20	270
Total	9,529	1,754	1,345	3,047	15,675

	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

14 › Policy Liabilities (continued)

The fair value of assets backing policy liabilities as at December 31, 2010 was estimated at $15,749 ($13,885 in 2009). 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.

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 $118 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. Each year,the Company performs studies on the technical results of morbidity. The morbidity assumptions are based on the results of morbidity tables of the industry, to which the Company make changes based on the results of technical studies of the Company.

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, 2010 is $138 ($96 in 2009).

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, 2010, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to an increase in the policy liabilities of approximately $28 after taxes. A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the policy liabilities of about $49 after taxes.

The Company estimates that a 0.1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets drop 10% at the beginning of the period, to subsequently recover a portion of this loss during the year, net income to common shareholders would be about $20 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.

14 › Policy Liabilities (continued)

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 2010, ceded reinsurance reduced the policy liabilities by $460 ($247 in 2009).

Guarantees on Segregated Funds
A liability for guarantees on segregated funds is maintained in the general fund. The amount of liability is at least as great as the amount determined using the methodology defined by the CIA.

Deferred Acquisition Costs
Deferred acquisition costs (DAC) are being held as a negative policy liability on the balance sheet. Acquisition costs are expenses incurred in the acquisition of individual wealth management and group annuity contracts that will be written off over the period of surrender charges. The liability recognizes the amount of future revenues that are available to recover the unamortized amount of the acquisition costs.

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

	2010	2009
	$	$
Balance at beginning	13,803	12,250
Reclassification of prepaid commissions	3	(5)
Acquisition of portfolios or life insurance companies	681	422
Recapture of reinsurance	19	---
Disposal of reinsurance assumed	(57)	---
Changes in assumptions – provision for future policy benefits	24	24
Normal changes – provision for future policy benefits	1,233	1,170
Changes in other items of policy liabilities	33	12
Foreign currency translation	(64)	(70)
Balance at end	15,675	13,803

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

15 › Other Liabilities

Other liabilities consist of the following:

	2010 $	2009 $
Unearned premiums	232	168
Other policy liabilities	32	31
Mortgage debts	41	29
Derivative financial instruments	29	14
Income tax payable	41	17
Amounts on deposit on products other than insurance	198	154
Accounts payable	307	313
Employee future benefits	33	29
Due to reinsurers	33	29
Total	946	784

Fair value

The fair value of the mortgage debt is $44 ($31 in 2009).

The mortgage debts bear interest between 5.92% and 6.82% (6.82% in 2009) with a maturity between 2012 and 2014. These mortgage debts are secured on real estate with a carrying value of $99 ($70 in 2009). The interest expense on the mortgage debts is $2 ($2 in 2009) and is included in net investment income.

16 › Net Deferred Gains

Net deferred gains of $8 ($9 in 2009) related to real estate are realized gains and losses which have not yet been recognized in income. An amount of $2 ($3 in 2009) is related to policy liabilities and an amount of $6 ($6 in 2009) is related to equity. They are amortized at 3% per quarter on a declining balance basis into future net investment income.

17 › Debentures

Debentures are detailed as follows:

	2010		2009	
	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 Autorité des marchés financiers (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	159	150	157
Funding debenture, Series A, bearing interest of 5.714%, payable semi-annually, redeemable at the option of the Company at any time or repayable on maturity in 2053.	10	10	10	11
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 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	158	150	153
	310	327	310	321

17 › Debentures (continued)

	2010		2009	
	Nominal amount $	Carrying value $	Nominal amount $	Carrying value $
Balances from previous page	310	327	310	321
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	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	200	199
Total	510	526	510	520

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

The fair value of debentures classified as financial liabilities at amortized cost is $217 ($217 in 2009). More information about valuation is provided in Note 10, Fair Value of Financial Instruments.

Debenture financing expenses are detailed as follows:

	2010	2009
	$	$
Debentures designated held for trading		
Increase (decrease) in fair value due to:		
Credit risk	1	42
Market risk	5	(7)
	6	35
Interest expenses	17	17
	23	52
Debentures classified as financial liabilities at amortized cost		
Interest expenses	14	12
Total	37	64

18 › 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.

18 › Capital Management (continued)

Regulatory Requirements and Solvency Ratio (continued)

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. The capital requirements for components of each category of risk 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, 2010 and 2009, 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

	2010	2009
	$	$
Available capital		
Total Tier 1 capital (net)	2,304	1,962
Total Tier 2 capital (net)	348	343
Total	2,652	2,305
Required capital	1,296	1,107
Solvency ratio	205%	208%

Various elements influence the solvency ratio and cause it to increase or decrease. The issuance of $100 in common shares, the issuance of $100 in preferred shares and the usual contribution of the net income to the available capital, net of the normal increase in required capital, led to an increase in the solvency ratio. However, higher capital requirements resulting from the increase in the market value of stocks and bonds, the increased proportion of stocks backing the reserve and acquisitions concluded in 2010, primarily American-Amicable, caused the solvency ratio to decrease.

19 › 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.

19 › Share Capital (continued)

Preferred Shares (continued)

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 whole or in part at the option of the Company after December 31, 2013 and on December 31 every five years thereafter, subject to approval by the AMF, for 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 between December 31, 2013 and December 31, 2018, subject to approval by the AMF, for 25.50 dollars per share and on December 31, 2018 and on December 31 every five years thereafter for 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 F preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.36875 dollars per share, redeemable in whole or in part at the option of the Company on or after March 31, 2015, 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.

	2010		2009	
	Number of shares (in thousands)	Amount $	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	80,511	546	80,330	541
Shares issued on exercise of stock options	426	10	181	5
Shares issued	2,950	97	---	---
Balance at end	83,887	653	80,511	546
Shares held in treasury	(22)	---	(22)	---
	83,865	653	80,489	546
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 and at end	4,000	100	4,000	100
Preferred shares, class A – Series E				
Balance at beginning and at end	4,000	100	4,000	100
Preferred shares, class A – Series F				
Balance at beginning	---	---	---	---
Shares issued	4,000	100	---	---
Balance at end	4,000	100	---	---
Total share capital		1,078		871

On February 19, 2010, the Company issued 2,950,000 common shares for a net cash amount of $97 and 4,000,000 class A – Series F preferred shares for a cash amount of $100.

On October 15, 2009 the Company issued 4,000,000 class A – Series E preferred shares for a cash amount of $100.

19 › Share Capital (continued)

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, 2010 to February 17, 2011, up to 2,415,353 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.

20 › Earnings Per Common Share

	2010	2009
	$	$
Net income available to common shareholders	251	206
Weighted daily average number of shares outstanding	83,126,815	80,325,684
Add: diluted effect of stock options granted and outstanding	791,722	384,643
Weighted average number of shares outstanding on a diluted basis	83,918,537	80,710,327
Earnings per common share (in dollars)		
basic	3.02	2.56
diluted	2.99	2.55

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 150,279 (798,004 in 2009) anti-dilutive stock options was excluded from the calculation.

21 › 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:

	2010		2009	
	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	3,897	26.88	3,622	27.73
Options granted	497	32.08	499	19.23
Options exercised	(426)	20.23	(181)	22.26
Options forfeited	(24)	33.68	(43)	28.96
At end	3,944	28.22	3,897	26.88
Exercisable at end	2,717	27.59	2,678	25.92

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The weighted average fair value of the option granted in 2010 is $6.46 ($2.92 in 2009). The pricing model assumes the following information:

	2010	2009
Risk free interest rate	2.94%	2.54%
Expected volatility	25%	25%
Expected life	7 years	7 years
Expected dividends	3.07%	4.93%

21 › 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	72	0.12	72
22.81	395	0.95	395
18.63	240	1.86	240
19.00	10	2.82	10
23.44	356	2.76	356
28.72	425	3.55	425
30.22	486	4.62	486
35.64	476	5.72	365
36.03	10	6.33	7
37.37	490	7.09	245
38.25	4	7.32	2
19.23	485	8.10	114
32.08	495	9.10	---
Total	3,944	5.15	2,717

The charge related to stock option plan during the year is $2 ($3 in 2009) and an equivalent amount is recorded as a contribution in contributed surplus for the stock option plan.

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 240,449 (215,183 in 2009) units and the remuneration expense for the plan is $1 ($3 in 2009).

22 › 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, 2009 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.

22 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

	2010		2009	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning	471	---	323	---
Actual return on assets	48	---	80	---
Company contributions	21	---	78	---
Employee contributions	7	---	7	---
Benefits paid	(20)	---	(17)	---
Acquisitions	---	---	---	---
Fair value at end	527	---	471	---
Accrued benefit plan obligations				
Balance at beginning	514	32	348	22
Current service cost	22	1	10	1
Interest cost	26	2	26	1
Employee contributions	7	---	7	---
Benefits paid	(20)	(1)	(17)	(1)
Actuarial losses (gains)	(13)	(1)	140	9
Acquisitions	---	---	---	---
Balance at end	536	33	514	32
Accrued plan obligations are composed of:				
Funded plans	476	---	454	---
Unfunded plans	60	33	60	32
	536	33	514	32
Reconciliation of funded status to the amounts recorded in financial statements				
Fair value of plan assets	527	---	471	---
Accrued benefit plan obligations	536	33	514	32
Funded status of plans–deficit	(9)	(33)	(43)	(32)
Unamortized net actuarial (gains) losses	67	3	99	5
Unamortized past service costs	3	1	4	1
Unamortized transitional obligation	(2)	---	(3)	---
Accrued benefit asset (liability), net of valuation allowance	59	(29)	57	(26)
The amounts in the balance sheet are:				
Other assets (Note 11)	63	---	60	---
Other liabilities (Note 15)	4	29	3	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.

	2010		2009	
	Pension plans $	Other plans $	Pension plans $	Other plans $
Funded status – plan deficit				
Accrued benefit plan obligations	---	---	18	---
Fair value of plan assets	---	---	17	---
Funded status – plan deficit	---	---	(1)	---
Benefit plan expenses				
Current service cost	22	1	10	1
Interest cost	26	2	26	1
Actual return on plan assets	(48)	---	(80)	---
Actuarial loss (gain) on plan	(13)	(1)	140	9
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(13)	2	96	11
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between actual return and expected return	15	---	57	---
Difference between actuarial gains (loss) recognized for the year and actuarial gains (loss) on accrued benefit plan obligations for the year	16	2	(140)	(10)
Difference between amortization of past service costs for the year and actual plan amendments for the year	1	---	---	---
Amortization of the transitional obligation	---	---	---	---
Defined benefit costs recognized	19	4	13	1

22 › Employee Future Benefits (continued)

Defined Benefit Plans (continued)

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

	2010	2009
	%	%
Asset categories		
Bonds	38	40
Stocks	62	58
Other	---	2
Total	100	100

The pension plan assets did not contain any common shares of the Company in 2010 and 2009.

Significant Assumptions

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit plan obligations				
Discount rate	5.40%	5.40%	5.10%	5.10%
Rate of compensation increase	3.50%	---	3.50%	---
Benefit plan expenses				
Discount rate	5.10%	5.10%	7.40%	7.40%
Expected long-term rate of return on plan assets	7.00%	---	7.00%	---
Rate of compensation increase	3.50%	---	3.50%	---

	2010			
	Other plans			
Assumed health care cost trend rates	Drugs	Medical	Dental	Other
Initial health care cost trend rates	8.00%	9.15%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.25%	4.50%	4.75%
Number of years required to stabilize the rate	15	15	---	---

	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	---	---

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 2010.

	Increase	Decrease
	$	$
Total of service and interest cost	1	---
Accrued benefit obligations	5	4

The total of service and interest cost for 2010 and 2009 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 2009). The liability related to this plan is presented in other liabilities (Note 15 included in Accounts payable) for an amount of $2 ($2 in 2009).

23 › Participating Business

The net income attributed to the shareholders includes a portion of the net income of the participating policyholders' account that has been allocated during the year. There are regulatory restrictions on amounts of profit that can be transferred to shareholders. These restrictions generally take the form of a fixed percentage of the dividends paid to policyholders. In 2010 and 2009, this transfer to shareholders is less than $1.

24 › Segmented Information

The Company operates principally in one dominant industry segment, the life and health insurance industry, and offers individual and group life and health insurance products, savings and retirement plans, and segregated funds. The Company also operates mutual fund, securities brokerage and trust businesses. These businesses are principally related to the Individual wealth management segment and are included in that segment with the Individual Annuities. The Company operates in Canada and United States. The activities in United States represent less than 10% of the activities of the Company.

The accounting policies used by segment are the same as the one described in Note 2, Accounting Policies.

Segmented Income Statements

	2010					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Revenues						
Premiums	1,126	1,929	1,035	622	162	4,874
Net investment income	1,002	96	89	255	3	1,445
Fees and other revenues	18	381	11	35	5	450
	2,146	2,406	1,135	912	170	6,769
Operating expenses						
Cost of commitments to policyholders	1,506	321	786	708	104	3,425
Net transfer to segregated funds	---	1,633	---	146	---	1,779
Commissions, general and other expenses	479	357	296	35	50	1,217
	1,985	2,311	1,082	889	154	6,421
Income before income taxes	161	95	53	23	16	348
Less: income taxes	29	22	12	5	5	73
Net income before allocation of other activities	132	73	41	18	11	275
Allocation of other activities	9	---	1	1	(11)	---
Net income	141	73	42	19	---	275
Attributed to shareholders	140	73	42	19	---	274
Attributed to participating policyholders	1	---	---	---	---	1

	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)

* Includes other segments and intercompany eliminations.

24 › Segmented Information (continued)

Segmented General Fund Assets

	2010					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	Other activities* $	Total $
Assets						
Invested assets	11,349	2,217	1,665	3,201	397	18,829
Other assets	318	192	93	44	88	735
Intangible assets	62	318	2	2	1	385
Goodwill	79	39	20	---	15	153
Total	11,808	2,766	1,780	3,247	501	20,102

	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	249	179	99	47	84	658
Intangible assets	49	322	3	1	---	375
Goodwill	55	41	20	---	---	116
Total	9,627	2,670	1,729	3,176	437	17,639

* Includes other segments and intercompany eliminations.

25 › Premiums

	2010					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Pensions $	General Insurance $	Total $
Invested in general fund	1,126	441	1,035	20	162	2,784
Invested in segregated funds	---	1,488	---	602	---	2,090
Total	1,126	1,929	1,035	622	162	4,874

	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

26 › Guarantees, Commitments and Contingencies

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

Contracts

The Company currently has contracts covering various products and services, principally leased premises and outsourced computer services, which, due to their nature, are difficult to cancel. The minimum obligations for each of the next 6 years and thereafter are as follows:

2011	2012	2013	2014	2015	2016 and thereafter
$	$	$	$	$	$
35	32	25	22	18	86

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, 2010 is $1 ($1 in 2009).

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	2012 and thereafter
	$	$	$
	34	113	33

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 2009).

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, 2010, the Company had operating lines of credit totalling $67 ($67 in 2009). As at December 31, 2010 and 2009, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

27 › 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, 2010, the balance of loans granted to them was $1 ($1 in 2009).

In the normal course of its operations, the Company concludes operations with an entity subject to significant influence and a variable interest entity, which is not consolidated, Industrial Alliance Capital Trust. The Company is not considered to be the primary beneficiary of the variable interest entity.

27 › Related Party Transactions (continued)

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:

	2010	2009
	$	$
Fees and other revenues	7	8

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

	2010	2009
	$	$
Assets		
Accounts receivable	1	2
Other invested assets	---	4
Liabilities		
Accounts payable	---	9

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.

Variable Interest Entity

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

	2010	2009
	$	$
Financing expenses	10	9

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

	2010	2009
	$	$
Assets		
Notes receivable	10	10
Liabilities		
Debenture – series A	159	157
Funding debenture – series A	10	11

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.

28 › Subsequent Events

On February 14, 2011, the Company acquired the operations of Protection V.A.G. Inc. (“VAG”), Communications & Références Multi Assurance Direct inc. (“MAD”) and Produits récréatifs Accès Inc. (“Accès”). These companies operate in the creditor insurance sector and replacement insurance sector primarily through automobile dealers. The acquisition will be financed from the company's general funds.

29 › Comparative Figures

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

SOCIAL RESPONSIBILITY REPORT

Industrial Alliance knows that an innovative company with progressive social values and genuine respect for the environment is a solid company with great potential for long-term growth. This conviction is an integral part of company culture, a conviction that influences the work of each employee, in every department and every one of its subsidiaries.

And the reason is simple: the Company is committed to act as a responsible corporate citizen and to foster transparent, ethical behaviour. Industrial Alliance places major importance on its interactions with all parties, and on its social and ecological footprint.

Recognition of its social responsibility stems from Industrial Alliance's very philosophy. Teamwork and respect for individuals are two of the Company's fundamental values. Deeply rooted in the daily actions of each employee, these values are also imparted outside the Company, by strong commitment to the community, a commitment based on teamwork and respect.

Industrial Alliance's social responsibility relies on three main pillars: community, the environment and people. For each pillar, the Company sets an overall objective, and that objective determines all its actions. To ensure that social responsibility efforts are directed to the right places and endorsed by everyone, the Company follows strict corporate governance practices and a strong code of business conduct. The code of conduct makes employees and parties doing business with the Company aware of the high standards of behaviour expected of them, as well as the importance of always acting with honesty and integrity.

COMMUNITY

Objective

Contribute to the wellbeing of the community in which employees of Industrial Alliance and its subsidiaries live and work.

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.

Through an internal donation policy, Industrial Alliance supports employees who collect donations from colleagues for humanitarian organizations. 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 registered 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. In 2010, Industrial Alliance helped 147 eligible people with various charitable endeavours. These actions had a positive impact on over 30 organizations. In all, some $30,000 was donated by the Company.

For its part, Industrial Alliance Pacific offers employees a volunteer work incentive program where employees can do up to 18 hours of volunteer work a year during their normal working hours.

Canada-wide contributions

Across Canada, Industrial Alliance group employees collected over $720,000 for the 2010 United Way campaign. At the Company's head office in Quebec City, this outpouring of generosity earned Industrial Alliance a Maestria 4 Star – Major Donor Certificate. To obtain a Maestria 4 Star award, a company with more than 500 employees must have an average donation of more than $52 per employee and a participation rate between 60% and 100%. This is the highest honour granted by the United Way. The "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 2010, 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.

At the beginning of 2010, to mark its ten years on the stock exchange, Industrial Alliance created a million dollar fund for young Canadians to learn or improve a second language. The Industrial Alliance Fund for Learning a Second Language offers 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. Forty scholarships were granted in 2010, through partnerships with two educational institutions.

Contributions by region

In Western Canada, Industrial Alliance and Industrial Alliance Pacific provided financial support to the Vancouver General Hospital and the Children's Hospital Foundation of Manitoba. IAP also supported the Arts Umbrella education program and continued its partnerships in the cultural community through support of the Arts Club Theatre Company, the Calgary Opera and the Vancouver Symphony Orchestra.

In Ontario, Industrial Alliance offered support to the Toronto Rehab Foundation, the Sick Kids Foundation, and several hospital foundations or health centres, such as the Markham Stouffville Hospital Foundation. It also supported teaching establishments, including the University of Ottawa, and cultural organizations such as the Art Gallery of Ontario. In addition, IA Clarington sales representatives volunteered at a building site in Toronto for Habitat for Humanity, a program to make home ownership possible for families in need.

In Quebec and the Atlantic provinces, Industrial Alliance supported the Chair in Leukemia Research at the University of Montreal, and the CHUQ, CHUM and CUSM foundations. For families, the Company gave financial support to the Mondial des cultures de Drummondville, the Granby Zoo and the Quebec Symphony Orchestra. In education, in addition to a major commitment to Laval University, Industrial Alliance helped several postsecondary teaching institutions. The Company continued its partnership with community organizations such as the Fondation de la Maison Dauphine, Portage Montreal and Moncton Youth Residences. 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.

ENVIRONMENT

Objective

Respect the three major principals of its environmental policy: use less, use recycled materials and recycle what is used.

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, and at Industrial Alliance Auto and Home Insurance.

In 2010, efforts by the green committee at Industrial Alliance Pacific resulted in improvements in the Provisioning, Information Technology and Human Resources departments. In Quebec City, the Industrial Alliance green committee stepped up awareness-raising activities. It increased its participation in the Climate Challenge campaign, expanding to include all Quebec employees and sales representatives.

Since 2008, more than 1,000 tonnes of greenhouse gas emissions have been eliminated thanks to the eco-friendly habits adopted by employees as part of the program.

Use less

Industrial Alliance seeks to ensure the sound use of all company buildings and property (for heating, air conditioning, lighting, soil remediation, etc.), as well as the resources it uses.

In November of 2010, two Industrial Alliance properties received BOMA BESt certification—1150 Grande Allée West in Quebec City and the 1611 Crémazie building in Montreal. Sponsored by the Building Owners and Managers Association (BOMA), the BOMA BESt national program sets standards for energy and environmental performance for existing buildings. All certified buildings must meet the highest standards for environmental management. The environmental certification process will continue for all Industrial Alliance properties.

In 2010, Industrial Alliance continued evaluation of its CO2 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.

For transportation, Industrial Alliance promotes mass transit. Through the BUS Pass program, a 10% discount on an annual bus pass from the Greater Quebec City Transit Authority is granted to Industrial Alliance head office employees and their families, along with additional advantages. Moreover, Industrial Alliance Auto and Home covers the cost of a monthly pass for employees who take the bus to work. For Quebec City and Montreal employees of the Company and its subsidiaries, a free carpooling program was implemented in partnership with The Carpooling Network.

In terms of procurement and supplies, Industrial Alliance offered reusable mugs to new employees in most of its Canadian offices. The 5,000 mugs it distributed at the beginning of 2010 considerably reduced use of disposable cups in its offices and agencies. The Company also reduces the quantity of documents it prints by encouraging their consultation on screen. Like the annual report, whose printed copies were greatly reduced over the past few years, in 2010 the Company continued to decrease the print run of numerous internal documents. The number of pages in the 225,000 copies of the 2011 calendar offered to clients was cut in half. To further reduce paper use, the Company’s monthly newsletter will be distributed electronically to Industrial Alliance employees and representatives in 2011.

To lighten its ecological footprint, Industrial Alliance uses organic and/or natural fertilizers for groundskeeping at its head office. Since 1982, the Company has employed a preventive maintenance plan to care for its elms, which are a symbol of the city of Quebec. As part of a long tradition of caring for American Elms, in August 2010 Industrial Alliance planted an additional elm on its head office grounds and informed employees about how to protect this endangered species. Since 2006, Industrial Alliance has also used organic cleaning products at its head office. The products are composed of 100% biodegradable bacterial agents and enzymes.

Use 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 five years, the Company's annual report has been printed on paper made from 100% recycled postconsumer fibres. No new forest was cut down to make this paper, and some 190 trees were saved for each printing. The paper used has an alkaline or neutral base, is produced using biogas energy, with no chlorine, and is EcoLogo certified.

Recycle what is used

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 three buildings owned by Industrial Alliance in Quebec City helped save over 3,000 trees in 2010, about the same number as in 2009. At Industrial Alliance Pacific in Vancouver, a similar program saved the equivalent of 345 trees in 2010.

In September 2010, three-piece recycling and trash bins—one for paper, one for glass/metal/plastic and one for trash—were installed outside of large head office meeting rooms to maximize collection of recycling and trash after meetings. Bins for refundable containers were also installed at the Industrial Alliance head office in Quebec City and the Industrial Alliance Pacific head office in Vancouver. The refund money for these containers is donated to charitable organizations.

At the head office cafetaria, kitchen scraps from the head office cafeteria continued to be converted to compost in 2010. This project helps reduce waste, as 150,000 meals are served every year in the cafeteria. Additionally, grass mown at the Industrial Alliance head office stays on the lawn to decompose, and leaves collected in the fall are taken to a composting site.

In 2010, Industrial Alliance’s paper recycling program allowed the equivalent of one tree per employee to be saved.

PEOPLE

Our employees

Objective

To be recognized as an employer that offers great career opportunities and provides employees with a healthy and stimulating workplace, emphasizing development of their skills and talents for the long term.

As at December 31, 2010, Industrial Alliance and its subsidiaries had 3,756 employees.

Employees are the backbone of the Industrial Alliance group companies. Everything possible is done to ensure a stimulating workplace that encourages personal and professional growth at every stage of their career. Industrial Alliance and its subsidiaries are characterized by fundamental values such as teamwork, a high-performance environment, continuous improvement, respect and a service-oriented mentality.

Remuneration

Companies in the Industrial Alliance group offer their employees comprehensive remuneration policies, with a competitive wage policy based on business line and insurance sector. The companies fully comply with the Quebec Pay Equity Act and all of its obligations.

Additionally, most Industrial Alliance group employees are eligible to receive a bonus. For 2010, a total bonus of 3.66% of the eligible salary was paid, which reflects the target set by the Company. The bonus is calculated using three components: profit, general expenses and business growth by line of business.

A Share Purchase Plan is also 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, 2010, 1,452 eligible employees were enrolled in the plan.

Health, wellbeing and quality of life

As part of its Wellbeing Program, in 2010 Industrial Alliance invited its employees to take part in a health prevention clinic, which was held for the first time in Quebec City, Montreal and Toronto offices. The annual seasonal flu campaign also took place in Montreal, Toronto and Vancouver offices, as well as at the head office in Quebec City.

Industrial Alliance encourages its employees to exercise, and provides them with onsite workout facilities at Industrial Alliance Auto and Home in Quebec City, Industrial Alliance in Toronto and Industrial Alliance Pacific in Vancouver. In 2010, Industrial Alliance completed its healthy eating initiative for all of its cafeterias, which now feature only healthy choices. Industrial Alliance and its subsidiaries also rigorously respect all federal and provincial government laws regarding occupational health and safety.

In a similar vein, Industrial Alliance continued its ergonomic workstation improvement program in partnership with Laval University. At the end of 2010, occupational therapy students from the university met with and adapted the workstations of over 250 employees in order to optimize their ergonomics.

Training

Industrial Alliance and its subsidiaries offer their employees many training and learning assistance programs. In Quebec City, 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.

In 2010, 207 employees of Industrial Alliance and Industrial Alliance Pacific successfully completed courses under the LOMA (Life Office Management Association, Inc.) program. Also in 2010, more than 60 employees took advantage of the university studies program implemented by the Company and 234 employees took English classes held in the workplace.

Recruitment

In 2010, Industrial Alliance expanded its recruitment strategy, particularly by focusing on employee mobility, immigration and diversification of its sources of recruitment, including social networks. The Company was a finalist in the World Company: The Company was a finalist in the World Company—31 employees and more category—10th edition of the Creating a New World recognition gala organized by the Quebec Chamber of Commerce. 31 employees and more category 10th edition of the Creating a New World recognition gala organized by the Quebec Chamber of Commerce. Industrial Alliance is also a member of the Insurance and Financial Services Development Center, an organization that promotes employment in the insurance industry.

Our clients

Objective

Be the company that best meets client needs, in partnership with our distributors

A service-oriented mentality is one of the Company's five fundamental values. This mentality is based on three things: continuing to stand out with distributors by maintaining privileged relationships with them and offering service that reflects the Company's standards of excellence; always acting with courtesy, efficiency and promptness; and ensuring that client needs are met.

To achieve its ambition to be the insurance company that best meets basic client needs with low prices, trustworthy service and prompt compensation, Industrial Alliance Auto and Home Insurance, inspired by LEAN management philosophy, implemented a strategic plan for improvement of their internal efficiency.

Socially responsible funds

To meet client demand for socially responsible investments, IA Clarington Investments, a subsidiary of Industrial Alliance, offers Inhance funds, a series of six socially responsible mutual funds.

Selection of Inhance investment funds is conducted using two studies. The first consists of traditional research to evaluate the financial situation and the potential of the companies. The second bears on the companies' social and environmental balance sheet. On this point, the evaluation of companies is based on relationships with their employees, their environmental commitments, community relations, governance and social responsibility, respect for human rights and sustainable products.

Industrial Alliance believes that investing in companies that are leaders in progressive practices is an effective means to obtain good long-term growth. Moreover, the IA Clarington Inhance SRI monthly income fund earned an award for socially responsible investment funds in 2009 at the Canadian Investment Awards Gala.

AWARDS AND HONOURS

- United Way: Maestria 4 Stars – Major Donor Certificate for 2010 campaign at the head office
- Finalist for the Creating a New World award (immigrant integration and orientation)
- 22nd among 187 Canadian public companies with respect to corporate governance (The Globe and Mail)
- IAAH Finalist for the Mercuriades Awards (Productivity improvement – Large Business)
- BOMA BESt certification for two buildings
- Ranked first for best stock market and economic performance in 2010 among all publicly-listed firms in the greater Quebec and Chaudière-Appalaches region

FIVE FUNDAMENTAL VALUES

- Teamwork
- High-performance environment
- Continuous improvement
- Respect for individuals and distributors
- Service-oriented mentality

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

●

Claude Lamoureux
B.A., B. Comm., F.S.A., F.C.I.A.

Board member since 2010

Corporate Director

▼

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., O.Ont., 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

Secretary of the Board
Douglas A. Carrothers
LL.B., M.B.A.

Assistant Secretary
Jennifer Dibblee
B.Sc., B.C.L., LL.B.

Assistant Secretary
France Beaudry
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 and Chief Actuary

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
Business Development

Jean-François Boulet – B.R.I., CHRP
Vice-President, Human Resources

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

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Individual Insurance and Annuities

Scott Heard – B.A., CEBS
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Renée Laflamme – CA, CFA
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Portfolio Management

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Financial Services

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Individual Insurance and Annuities
Toronto Service Centre

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Vice-President
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Vice-President, Legal Affairs

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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

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Vice-President, Administrative Services

Mario Champagne – ASA
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Quebec and Atlantic Provinces

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Private Wealth Management

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Chief Legal Counsel and
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Senior Director of Operations, Toronto

Andrew Norris
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Karen Woodman
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Michel Rhéaume et associés

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Sylvie Racine – FPAA
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Industrial Alliance Trust Inc.

Denis Ricard – F.S.A., F.C.I.A.
President

Daniel Marceau – F.S.A., F.C.I.A.
General Manager

- Member of the Planning Committee

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Montreal
2200 McGill College Avenue
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Montreal, QC H3A 3P8
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INDUSTRIAL ALLIANCE AUTO
AND HOME INSURANCE INC.
Head Office – Quebec City
925 Grande Allée West
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418 650-4600
1 800 463-4382
www.industrielleallianceauto.com

INDUSTRIAL ALLIANCE
TRUST INC.
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1080 Grande Allée West
PO Box 1907, Station Terminus
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NATIONAL FINANCIAL
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Shareholder Information

Head Office

Industrial Alliance Insurance and Financial Services Inc.

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Telephone: 418 684-5000
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Stock Exchange Listing

Industrial Alliance's common shares are listed on the Toronto Stock Exchange under the stock symbol IAG.

Annual Meeting of Shareholders

Wednesday, May 4, 2011 at 2:00 PM
1080 Grande Allée West
Quebec City, Quebec.

Shareholder Services

For questions regarding share accounts, dividends, changes of address and ownership and other related matters, contact our transfer agent:

Computershare Investor Services Inc.

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Toll-free: 1 877 684-5000
inalco@computershare.com

Investor Relations

For analysts, portfolio managers and other investors requesting financial information, contact our Investor Relations Department:

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General Information

For information on upcoming earnings releases, investor conference calls and related disclosure documents, consult the Investor Relations section of our website at www.inalco.com.

For questions regarding Industrial Alliance products and services, contact your agent or consult pages 135 and 136 of this annual report to find the office nearest you.

This annual report was jointly produced by the Industrial Alliance Actuarial, Accounting, Investor Relations, Communications and Public Relations departments.

Legal deposit: March 2011
ISSN 1711-8883
Bibliothèque nationale du Québec
National Library of Canada

Ce rapport est également disponible en français.

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.

The elephant, symbol of our 100 years of strength and longevity.

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.