

# A Long-Term Approach

Focused | Balanced | Realistic



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 wellbeing 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 and 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 17,500 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, 2011, the Company's market capitalization was \$2.4 billion, placing us among the largest public companies in Canada.

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## FINANCIAL HIGHLIGHTS (Consolidated Financial Data<sup>1</sup>)

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010	Variation
<b>Profitability</b>			
Net income available to common shareholders	103.3	253.4	(59%)
Earnings per common share (diluted)	\$1.18	\$2.93	(\$1.75)
Earnings per common share (diluted - adjusted for IATS)	\$1.19	\$3.01	(\$1.82)
Return on common shareholders' equity	4.7%	12.8%	---
<b>Business Growth</b>			
Net premiums, premium equivalents and deposits by line of business			
Individual Insurance	1,246.9	1,111.6	12%
Individual Wealth Management	3,543.6	3,676.3	(4%)
Group Insurance	1,305.6	1,151.4	13%
Group Savings and Retirement	708.6	657.1	8%
General Insurance	203.8	154.8	32%
Total	7,008.5	6,751.2	4%
Sales by line of business			
Individual Insurance	209.4	186.6	12%
Individual Wealth Management			
General fund	403.6	441.1	(9%)
Segregated funds	1,362.3	1,488.0	(8%)
Mutual funds	1,777.7	1,747.2	2%
Total	3,543.6	3,676.3	(4%)
Group Insurance			
Employee Plans	131.9	72.2	83%
Creditor Insurance	265.9	183.3	45%
Special Markets Group (SMG)	133.0	133.2	0%
Group Savings and Retirement	728.7	720.0	1%
Assets under management and administration			
Assets under management	52,117.1	47,254.6	10%
Assets under administration	21,233.6	21,654.1	(2%)
Total	73,350.7	68,908.7	6%
<b>Financial Position</b>			
Book value per common share	\$25.54	\$24.75	3%
Capitalization	3,522.7	3,027.6	16%
Solvency ratio	189%	202%	---
Debt measures			
Debentures/capital structure	21.2%	16.5%	---
Debentures and preferred shares/capital structure	33.3%	30.5%	---
<b>Quality of Investments</b>			
Net impaired investments as a % of total investments	0.06%	0.12%	---
Bonds: BB and lower as a % of the portfolio	0.12%	0.12%	---
Mortgages: delinquency rate	0.25%	0.47%	---
Real estate: occupancy rate	94.6%	92.9%	---
<b>Share information (as at December 31)</b>			
Number of common shares outstanding (in millions)	90.4	83.9	8%
Weighted average number of common shares - diluted (in millions)	92.5	88.3	5%
Weighted average number of common shares - diluted, adjusted for IATS (in millions)	86.5	83.9	3%
Share price	\$26.29	\$36.81	(29%)
Market capitalization	2,376.2	3,087.9	(23%)
<b>Human Resources</b>			
Number of employees	4,109	3,777	332

<sup>1</sup> Refer to the *Ten-Year History* for further detailed financial information and definitions.



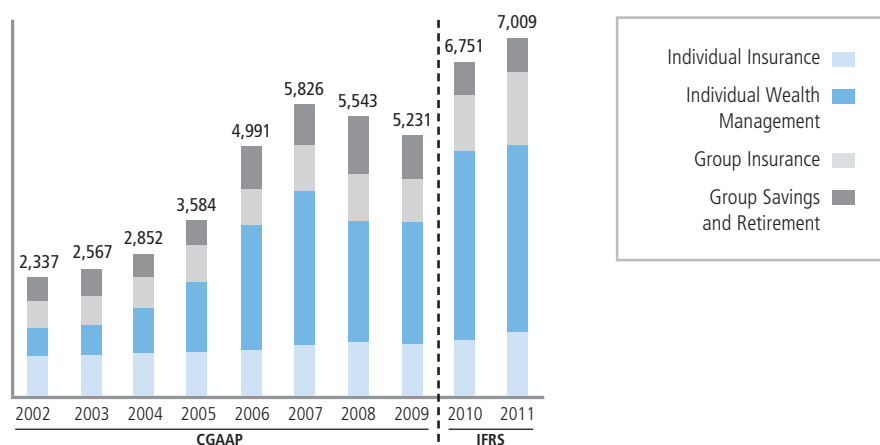
## 2011 IN REVIEW

In a year of weak financial markets, Industrial Alliance maintained its year-over-year growth in premiums, deposits and assets under management, buoyed by healthy momentum in virtually all lines of business. Core profitability was in line with our record year in 2010, and our solvency ratio at year-end was well within our target range. Our investment portfolio continued to score highly on all quality criteria and even demonstrated further improvement. These results speak to the strength of our organization and our long-term commitment to our partners in success: our policyholders, our distribution networks, our shareholders and our employees.

### CONTINUED BUSINESS GROWTH

Our top-line results continued to break through new levels in 2011. Premiums and deposits passed the \$7 billion mark, proving that our franchise is strong. An excellent performance was delivered by Individual Insurance, Creditor Insurance and Group Insurance Employee Plan, which all exceeded prior-year sales. Individual Wealth Management continued to excel in terms of net investment fund sales, in spite of the decline in equity markets during the year.

### Net Premiums, Premium Equivalents and Deposits by Line of Business



### 2011 HIGHLIGHTS

- › Premiums and deposits reached a new high of \$7.0 billion
- › Assets under management and administration increased to \$73.4 billion
- › Individual Insurance sales in Canada and the U.S. progressed to \$209.4 million
- › Creditor Insurance achieved sales of \$265.9 million, reflecting organic growth and the contribution from an acquisition in 2011
- › Sales of Employee Plans reached \$131.9 million with the addition of significant new groups
- › 1st in Canada for net sales of segregated funds for a second consecutive year
- › Net investment fund sales of \$1.5 billion despite weak equity markets

## 2012 GUIDANCE

	2010 Guidance	2010 Results	2011 Guidance	2011 Results		2012 Guidance
EPS (diluted and adjusted for IATS)	\$2.75 to \$3.25	\$3.01	\$3.05 to \$3.60	\$1.19	\$2.95*	<b>\$2.50 to \$3.10</b>
ROE	12% to 14%	12.8%	12% to 14%	4.7%	11.3%*	<b>9% to 11%</b>
Solvency	175% to 200%	202%	175% to 200%	189%	205%*	<b>175% to 200%</b>
Dividend Payout	25% to 35%	32%	25% to 35%	82%	33%*	<b>25% to 35%</b>

\*Excludes reserve strengthening

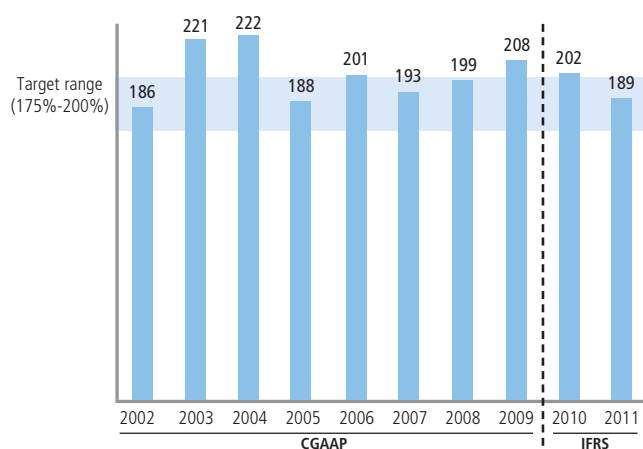
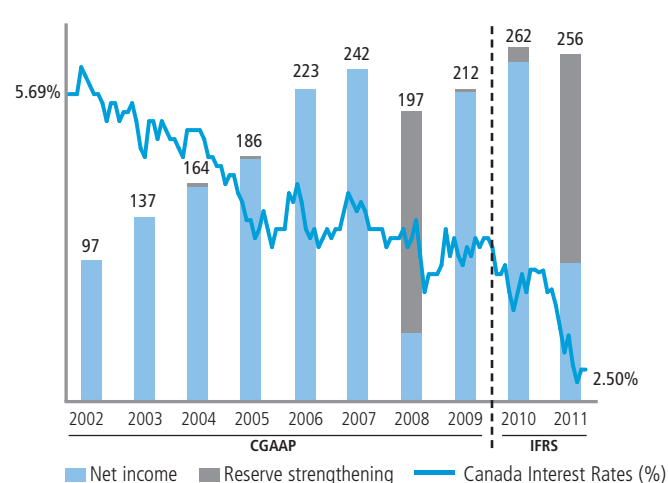
## FINANCIAL STRENGTH FOR THE LONG TERM

At the end of 2011, Industrial Alliance had capital in excess of \$3.5 billion, including issuances of \$450 million during the year. Our solvency ratio at December 31 was 189%, which is within our target range and reflects our conservative reserving practices for both interest rate and equity market exposures. During 2011, the Company's financial strength was re-confirmed by its credit rating agencies as follows: Standard and Poor's: A+ (Strong); A.M. Best: A (Excellent); and DBRS: IC-2—all with a stable outlook.

## PRUDENT RISK MANAGEMENT

Our excellent results in 2011 were obscured by long-term interest rates that declined by almost 100 basis points during the year. Accordingly, a significant strengthening of reserves—only the second time since becoming public in 2000—was necessary to reflect the deterioration in macroeconomic conditions. Adjusted for the reserve strengthening, our core profitability in 2011 compared favourably to that of our record year in 2010, confirming the continued success of the Company's business model.

## Solvency Ratio

Net Income<sup>1</sup> (\$M) and Long-Term Interest Rates (%)<sup>1</sup>Excluding Norshield in 2005 and debt asymmetry between 2007 and 2009.

## 2011 HIGHLIGHTS

- Available capital of \$3.05 billion at December 31, including 81% Tier I capital
- Capital issuances of \$450 million in 2011: \$200 million in common equity and \$250 million in subordinated debt
- Solvency ratio of 189% at December 31 within the Company's target range
- Book value of \$25.54 at December 31, up from \$24.75 at previous year-end
- Debt and coverage ratios in line with credit agency requirements

## 2011 HIGHLIGHTS

- Net income to common shareholders of \$103.3 million reflects reserve strengthening of \$152.3 million
- Core profitability, adjusted for reserve strengthening, was \$255.6 million compared with \$261.8 million in 2010
- Dividend to common shareholders of \$0.245 per quarter maintained in 2011
- Investment portfolio continued to be of highest quality at December 31:
  - net impaired investments represented only 0.06% of total investments
  - the real estate occupancy rate was 94.6%
  - bonds rated BB or lower accounted for only 0.12% of the total bond portfolio

John LeBoutillier  
Chairman of the Board



## MESSAGE FROM THE CHAIRMAN OF THE BOARD

**"The foundation of the Company's business development strategy has been and continues to be a solid, realistic and well-executed approach."**

The Canadian life and health insurance industry faced some major challenges in 2011, a direct result of the macroeconomic turmoil that persisted throughout the year. Like all life insurers, Industrial Alliance felt the effects of this challenging environment.

Nevertheless, the Board of Directors saw Company management skilfully navigate through this environment by putting appropriate measures in place, exercising sound risk management practices and using a prudent, disciplined approach with an emphasis on stability.

### IMPORTANT HIGHLIGHTS

I'd like to share four key observations with you about Industrial Alliance's progress in 2011.

The first is that, without a doubt, the foundation of the Company's business development strategy has been and continues to be a solid, realistic and well-executed approach. This is even more important in times of economic uncertainty. Backed by a solid business plan, management did not lose sight of its long-term vision, a true measure of the Company's success.

The second observation pertains to the Company's good business growth in 2011. The Board is pleased to see that good growth was generated not only in the Company's core life insurance business but in all sectors, including new niche markets. Having diverse operations has already proven to be a successful strategy, and one that bodes well for the future.

Thirdly, it's important to emphasize that Industrial Alliance is an extremely solid company. The very good credit ratings assigned to it by the rating agencies were maintained in 2011. Moreover, the Company is well capitalized and all of the financial ratios for the year were in line with Company expectations. All of these factors testify to the strength and stability of Industrial Alliance.

We cannot ignore the sound and prudent leadership of the Company's senior management, who did what was needed to respond to the challenging environment in 2011. The Board of Directors reiterates its endorsement of Industrial Alliance's plan and its steadfast support of the management team.

The fourth and final observation pertains to the Company's sound governance. Industrial Alliance has an excellent reputation Canada-wide for its corporate governance practices. In fact, according to the rankings assigned each year by reputable organizations, Industrial Alliance is one of the top-ranked companies in Canada. The Board is obviously very proud of this achievement. The Company follows the strictest corporate governance practices and will continue to do so with strength, consistency and determination.

### BOARD ACTIVITIES

The Board of Directors met nine times in 2011, and the Board's various committees held a total of 18 meetings. The participation rate in Board meetings was 99%, and 94% in Board committee meetings.

In January 2011, Jacques Martin joined the Company's Board of Directors and became a member of the Investment Committee. Mr. Martin has held executive positions in renowned financial corporations in the United States and England.

I can assure you that all Industrial Alliance directors are wholly committed to ensuring the Company's success and longevity, and will continue to work relentlessly and enthusiastically in this regard.

### CONCLUSION

In a year fraught with considerable challenges amid a difficult economic environment, Industrial Alliance faced these challenges, and faced them well.

On behalf of the directors, I make it a practice to congratulate the Company's senior management and all employees for their outstanding and steadfast commitment to the Company's operations. This kind of commitment will always be the cornerstone of the Company's strength and future success.

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

Chairman of the Board,

**Yvon Charest**  
President and Chief Executive Officer



## PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

**"Industrial Alliance has clearly proven its ability to sustain its momentum through consistent performance in all sectors, regular business growth, solid risk management and recurring revenues. Our actions in 2012 will be guided by a keen desire to continue in this direction."**

It's no secret that in the wake of declining long-term interest rates and a pullback in the equity markets, 2011 posed its fair share of challenges. Despite the impact these unfavourable macroeconomic conditions had on Industrial Alliance's year-end results, we were able to stay the course by continuing to grow our business and reinforce the Company's long-term financial strength.

In 2011, interest rates lost nearly 100 basis points, putting pressure on our investment returns and our actuarial reserves. The year was further dampened by volatile equity markets, with our benchmark index, the S&P/TSX, losing 11% of its value during the period.

### PROFITABILITY

Industrial Alliance's net income to common shareholders amounted to \$103.3 million in 2011 compared with \$253.4 million in 2010. This decrease is almost entirely due to the rapid drop in interest rates during the second half of the year. In light of this situation, we were forced to strengthen our provisions for future policy benefits by \$152.3 million after tax. Had we not strengthened these provisions, the Company would have ended the year with net income comparable to 2010, our most profitable year to date.

In the face of a difficult economic environment, Industrial Alliance continued to introduce initiatives to enhance the quality and increase the returns of its investment portfolio. The Company continued to develop its inter-segment note program to reduce reinvestment risk, reposition its long-term investments to improve their returns and use its dynamic hedging program to mitigate the risks related to the guarantees on some of its segregated fund products.

Our dynamic hedging program, which was introduced in October 2010, achieved a 95% effectiveness rate in 2011, an excellent result that even exceeded our expectations.

### BUSINESS GROWTH

2011 also had its share of good news, with almost all of our business lines experiencing strong growth. Premiums and deposits continued to grow to over \$7.0 billion, surpassing their record from the previous year. Despite the drop in the equity markets, assets under management and under administration reached a new high of \$73.4 billion.

The Individual Insurance sector had another record year in 2011 with sales of \$209.4 million, up 12% over 2010. This was due in part to the contribution of our US subsidiary and the sales outside Quebec for our Excellence subsidiary.

In the Individual Wealth Management sector, sales of mutual funds continued to generate impressive net fund entries. Also, for the second year in a row, Industrial Alliance was ranked first in Canada for net segregated fund sales, with 35.2% of the market. These achievements are largely due to the diversity of both our product offering and our distribution networks.

We also posted record sales in Group Insurance Employee Plans, mainly on account of agreements signed with two large groups. 2011 was an excellent year in this regard, with employee plan sales up 83% compared to 2010.

Group Creditor Insurance also experienced strong growth, with sales up 45%. Thanks to acquisitions realized in early 2011, we were able to grow our distribution network and penetrate new market niches.

On February 14, 2011, Industrial Alliance 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. We intend to continue growing our business in this sector with an expanded product offering in 2012.

### FINANCIAL STRENGTH

At the end of 2011, the Company's solvency ratio was 189%, which is within its target range of 175% to 200% and in line with its conservative balance sheet. As at December 31, 2011, the Company was well positioned, with an ability to absorb a 32% drop in the S&P/TSX index before its solvency ratio decreases to 150%, the minimum level authorized by the regulatory authorities.

The Company successfully carried out two capital issuances in 2011, for total proceeds of close to \$450 million. This represents a clear vote of confidence from the investment community.

The book value per common share continued to grow, which has virtually always been the case since Industrial Alliance became a publicly-listed company, and the Company's capital totalled \$3.5 billion as at December 31, 2011. In addition, the rating agencies confirmed Industrial Alliance's excellent credit ratings of A+ from Standard & Poor's, IC-2 from DBRS and A from A.M. Best. All of these ratings were assigned with a stable outlook.

## OUTLOOK FOR 2012

Industrial Alliance has successfully navigated through an environment of ever-decreasing interest rates over the last ten years and extremely volatile stock markets. On only two occasions, in 2008 and 2011, we've had to strengthen our provisions for future policy benefits following significant macroeconomic downturns. Industrial Alliance has clearly proven its ability to sustain its momentum through consistent performance in all sectors, regular business growth, solid risk management and recurring revenues.

Our actions in 2012 will be guided by a keen desire to continue in this direction. We will be reviewing the pricing and features of some of our insurance and wealth management products with a view to optimizing profitability and capital requirements. We will also be continuing our efforts to reduce our sensitivity to long-term interest rates, and examining our asset allocation to optimize the balance between long-term returns and required capital.

## CONCLUSION

There's no doubt that 2011 presented some major challenges. It also led us to question how we could most effectively balance the products we offer with our investment strategies and our risk management approach. There is no simple answer to how much risk a company should assume in a turbulent economic environment.

Nevertheless, we can assure you that we will spare no effort to achieve the optimal balance in this regard by using a long-term, targeted, balanced and realistic approach.

We are fortunate to be supported by a solid management team and a hard-working group of dedicated, motivated and enthusiastic employees. I would like to thank each and every one of them for their considerable contribution to the Company's operations.

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.

President and Chief Executive Officer,





## INDUSTRIAL ALLIANCE PLANNING COMMITTEE

**Gerald Bouwers**

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

President and Chief  
Operating Officer  
Industrial Alliance Pacific**Michel Tremblay**

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

Executive Vice-President  
Investments  
Industrial Alliance**Yvon Charest**

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

President and Chief  
Executive Officer  
Industrial Alliance**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

## 2011 MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2011 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 International Financial Reporting Standards, 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 17, 2012.

### NON-IFRS FINANCIAL MEASURES

Industrial Alliance Insurance and Financial Services Inc. reports its financial results in accordance with International Financial Reporting Standards (IFRS). It also publishes certain non-IFRS financial measures that do not have an IFRS equivalent, including sales, value of new business, embedded value and solvency ratio, or which have an IFRS equivalent such as data on operating profit and income taxes on earnings presented in the sources of earnings table. The Company also uses non-IFRS adjusted data in relation to net income, earnings per share and return on equity. These non-IFRS financial measures are always accompanied by and reconciled with IFRS financial measures.

The Company believes that these non-IFRS financial measures provide investors and analysts with additional information to better understand the Company's financial results as well as assess its growth and earnings potential. Since non-IFRS financial measures do not have a standardized definition, they may differ from the non-IFRS 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," "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; 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.

Additional information about the 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](http://www.sedar.com).

The forward-looking statements in this Management's Discussion and Analysis reflect the Company's expectations as of the date of this document. 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 document 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](http://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](http://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 3 million Canadians, employs more than 4,100 people, has a network of over 17,500 agents, and manages and administers over \$73 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. In 2011, Industrial Alliance stock closed the year at \$26.29. As at December 31, 2011, the Company had 90.4 million issued and outstanding common shares. With a market capitalization of \$2.4 billion (as at December 31, 2011), Industrial Alliance is among the 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 Savings and Retirement, 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 Savings and Retirement).

#### Activity Sectors

	Retail Clients	Businesses and Group Clients
Insurance	Individual Insurance	Group Insurance
Savings, investment and retirement	Individual Wealth Management	Group Savings and Retirement

### 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

From a profitability standpoint, Industrial Alliance ended the year with net income to common shareholders of \$103.3 million. Without a \$152.3 million after-tax increase in provisions for future policy benefits at year-end, net income to common shareholders would have been \$255.6 million, comparable to record earnings of \$261.8 million in 2010.

In terms of business growth, 18% of the Company's premiums, premium equivalents and deposits in 2011 came from Individual Insurance, 50% from Individual Wealth Management, 19% from Group Insurance, 10% from Group Savings and Retirement and 3% from general insurance operations.

By region, 4% of premiums, premium equivalents and deposits in 2011 came from the Atlantic provinces, 41% from Quebec, 30% from Ontario, 22% from the Western provinces, and 3% from the United States.

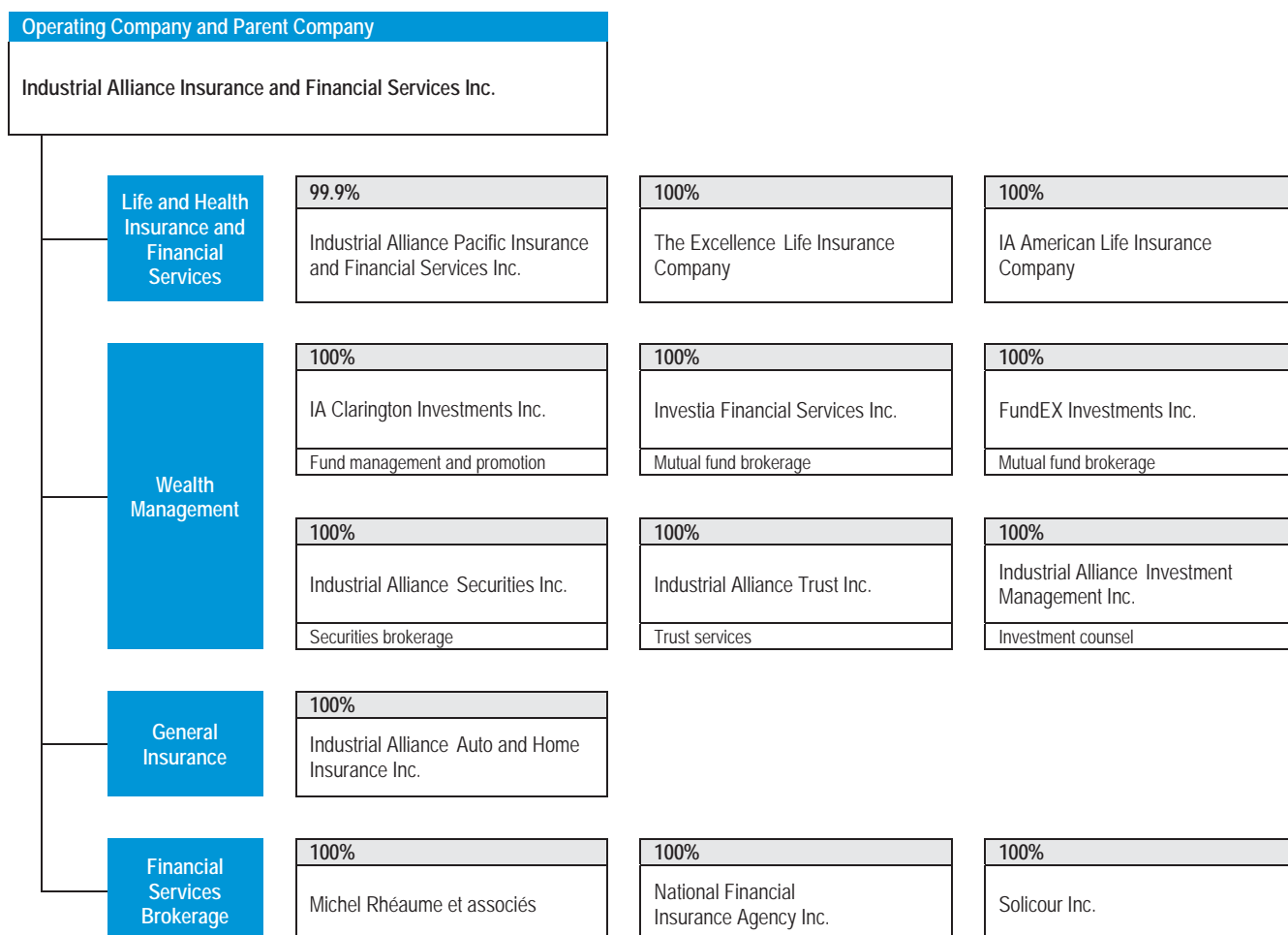
Note that the financial results of the Company's general insurance operations, which are provided through its subsidiary Industrial Alliance Auto and Home Insurance Inc., are presented as part of the parent company's income on capital and subsequently allocated among the four business lines as its operations 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.

## INDUSTRIAL ALLIANCE ORGANIZATION CHART



### INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

**Assets under management and under administration:**  
**\$73.4 billion (consolidated data)**

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance", "the Company" or "Industrial Alliance group") is a life and health insurance company that offers a wide range of insurance products and financial services. The fourth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, which has operations in all regions of the country, as well as in the United States. Its head office is located in Quebec City, Quebec.

### INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES INC.

**Assets under management: \$6.1 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 2011, IA Pacific acquired the operations of Protection V.A.G. Inc., Communications & Références Multi Assurance Direct inc. and Produits récréatifs Accès Inc., three entities for distributing creditor insurance and replacement warranty products. The head office of IA Pacific is located in Vancouver, British Columbia.

### THE EXCELLENCE LIFE INSURANCE COMPANY

**Direct written premiums: \$93.1 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 acquired 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\$1.0 billion**

**Direct written premiums: US\$136.4 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: \$10.4 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: \$9.4 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 2,400 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 640 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: \$2.7 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 over 22,000 clients and distributes its products in Canada through over 180 representatives. Its head office is located in Montreal, Quebec.

#### INDUSTRIAL ALLIANCE TRUST INC.

**Assets under administration: \$4.3 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: \$52.1 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: \$175.2 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: \$14.4 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: \$11.5 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 780 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: \$4.9 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 2011, MARKET GUIDANCE FOR 2012 AND SENSITIVITY ANALYSIS

### 2011 HIGHLIGHTS

- › Business Growth
  - › Assets under management and under administration of \$73.4 billion, up 6% despite a stock market downturn
  - › \$7.0 billion in premiums and deposits; a new high
- › Acquisition of three companies operating in the creditor insurance and replacement warranty products sectors
- › Profitability
  - › Provisions for future policy benefits strengthened by \$152.3 million after tax
  - › Net income to common shareholders of \$103.3 million
  - › Diluted, adjusted earnings per common share of \$1.19 for IATS
  - › Return on common shareholders' equity of 4.7%
- › Dividend
  - › Quarterly dividend maintained at \$0.2450 per common share in 2011
- › Financial Strength
  - › Solvency ratio of 189%, within the 175% to 200% target range
  - › Book value per common share of \$25.54, up 3% from 2010
- › Quality of Investments
  - › Excellent quality of investments for all asset categories
  - › Net impaired investments very low: 0.06% of investments
- › Embedded Value
  - › Embedded value of \$3.6 billion at the end of 2011; a new high

Despite a challenging macroeconomic environment, the Company successfully maintained its momentum in 2011. Virtually all sectors of activity delivered year-over-year business growth. In addition, the Company's balance sheet continued to be solid with a solvency ratio within its target range of 175% to 200% and an investment portfolio of the highest quality. Our financial strength was also confirmed by all our credit rating agencies during 2011. This success was overshadowed by the precipitous drop in long-term interest rates that reached historically low levels in the fourth quarter of the year and reduced the Company's profitability.

### BUSINESS GROWTH

Industrial Alliance generated good business growth in 2011. Premiums and deposits reached a new high, and assets under management and under administration set a new record despite a downturn in the financial markets. In terms of sales, the Company did very well in nearly all individual and group sectors with the exception of Individual Wealth Management which, due to the stock market volatility during the year, was not able to repeat its exceptional performance of 2010.

#### Premiums and Deposits<sup>1</sup>

(In millions of dollars, unless otherwise indicated)	2011	2010	Variation
Individual Insurance	1,246.9	1,111.6	12%
Individual Wealth Management	3,543.6	3,676.3	(4%)
Group Insurance	1,305.6	1,151.4	13%
Group Savings and Retirement	708.6	657.1	8%
General Insurance	203.8	154.8	32%
<b>Total</b>	<b>7,008.5</b>	<b>6,751.2</b>	<b>4%</b>

### Assets Under Management and Under Administration

(In millions of dollars, unless otherwise indicated)	As at December 31		
	2011	2010	Variation
Assets under management	52,117.1	47,254.6	10%
Assets under administration	21,233.6	21,654.1	(2%)
<b>Total</b>	<b>73,350.7</b>	<b>68,908.7</b>	<b>6%</b>

### Sales by Line of Business<sup>2</sup>

(In millions of dollars, unless otherwise indicated)	2011	2010	Variation
Individual Insurance			
Minimum premiums	174.4	150.9	16%
Excess premiums	35.0	35.7	(2%)
<b>Total</b>	<b>209.4</b>	<b>186.6</b>	<b>12%</b>
Individual Wealth Management			
General fund	403.6	441.1	(9%)
Segregated funds	1,362.3	1,488.0	(8%)
Mutual funds	1,777.7	1,747.2	2%
<b>Total</b>	<b>3,543.6</b>	<b>3,676.3</b>	<b>(4%)</b>
Group Insurance			
Employee Plans	131.9	72.2	83%
Group Creditor Insurance	265.9	183.3	45%
Special Markets Group (SMG)	133.0	133.2	0%
Group Savings and Retirement	728.7	713.5	1%

### PROFITABILITY

The Company's good sales and a number of initiatives introduced throughout the year were not enough to offset the negative impact of the very difficult economic environment in 2011. The significant decrease in interest rates during the year had a major impact on annual results. The Company strengthened its provisions for future policy benefits by \$152.3 million after taxes to take into account the impact of this decrease on its initial and ultimate reinvestment rates. Excluding these basic changes, the Company would have ended the year with net income of \$255.6 million.

#### Profitability

(In millions of dollars, unless otherwise indicated)	2011	2010
Net income to common shareholders	103.3	253.4
Earnings per common share (diluted and adjusted)	\$1.19	\$3.01
Return on common shareholders' equity	4.7%	12.8%
Strengthening of provisions for future policy benefits, after taxes	152.3	8.4
Strengthening of provisions for future policy benefits per common share (diluted and adjusted)	\$1.68 <sup>3</sup>	\$0.10

### ACQUISITIONS

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.

<sup>1</sup> 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.

<sup>2</sup> Refer to the sections on the Company's different business lines for a definition of sales.

<sup>3</sup> According to the weighted average number of shares in the fourth quarter.

## FINANCIAL STRENGTH

The Company successfully carried out two capital issuances in 2011. On September 12, the Company issued \$192 million in common shares. Then, on December 14, the Company issued \$250 million in subordinated debentures.

These issuances helped to keep the solvency ratio within our 175% to 200% target range. Nevertheless, the year-end ratio is lower than in 2010, primarily due to the increase in required capital related to the increase in the market value of bonds (a result of the decrease in long-term interest rates), the increase in required capital related to the Company's normal operations, and more restrictive capital requirements for segregated fund contracts. The contribution of net income to the available capital was lower in 2011 due to the year-end strengthening of provisions for future policy benefits.

The book value per common share continued to grow, increasing by 3% in 2011. In addition, debt and coverage ratios continue to correspond to rating agency criteria for assigning credit ratings at the level obtained by the Company.

### Solvency and Capitalization

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2011	2010
Solvency ratio	189%	202%
Capitalization <sup>1</sup>	3,522.7	3,027.6
Book value per common share	\$25.54	\$24.75
Debt ratio		
Debentures/capital	21.2%	16.5%
Debentures and preferred shares/capital	33.3%	30.5%
Coverage ratio <sup>2</sup>	2.8x	6.2x

### DIVIDEND

The quarterly dividend is maintained at \$0.2450, for a total dividend of \$0.98 per common share in 2011

## QUALITY OF INVESTMENTS

The quality of investments remained excellent in 2011, with the Company maintaining very little exposure to securities that have received the most media attention over the past few years (Greece, Spain, UK financial institutions, etc.).

In addition, 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 to reduce investment risk, to reposition its long-term investments to improve returns and to roll-out its hedging program to mitigate the risks related to the guarantees on certain segregated fund products offered by the Individual Wealth Management sector.

## Investment Quality Indices

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2011	2010
Net impaired investments	13.1	21.5
Net impaired investments as a % of total investments	0.06%	0.12%
Bonds – Proportion rated BB and lower	0.12%	0.12%
Mortgage loans – Delinquency rate	0.25%	0.47%
Real estate held for investment – Occupancy rate	94.6%	92.9%

## SENSITIVITY ANALYSIS

The Company took advantage of the publication of its 2011 results to update its sensitivity analyses as at December 31, 2011.

Explanations on the results of these analyses are given in the Investment Risk sub-section of the Risk Management section of this management's discussion and analysis.

(In millions of dollars, unless otherwise indicated)	Dec. 31, 2011	Dec. 31, 2010
Level of S&P/TSX index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities	10,500 points	10,600 points
Level of S&P/TSX index for the solvency ratio to be at 175%	9,900 points	9,300 points
Level of S&P/TSX index for the solvency ratio to be at 150%	8,100 points	7,700 points
Impact on the net income of a sudden 10% decrease in the stock markets (impact for a complete year)	(22)	(20)
Impact on the net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	(33)	(28)
Impact on the net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(62)	(49)

## EMBEDDED VALUE AND VALUE OF NEW BUSINESS

Embedded value reached a new high for the Company as at December 31, 2011, totalling \$3.6 billion, an increase of 6.7% before the payment of dividends. The contribution of new sales to the increase in the Company's embedded value was \$163.6 million in 2011, down slightly from 2010.

### Embedded Value

	2011	2010
Embedded value (in billions of dollars)	\$3.6	\$3.5
Embedded value per common share <sup>3</sup>	\$40.23	\$41.56
Embedded value/book value ratio	1.57x	1.63x
Increase in embedded value in 2011, before the payment of dividends to common shareholders		6.7%
Increase in embedded value in 2011, after the payment of dividends to common shareholders		4.3%

<sup>1</sup> Capitalization includes equity, debt securities and the participating policyholders' account.

<sup>2</sup> Calculated by dividing the earnings for the past twelve months (before taxes and financing expenses) by the financing expenses.

<sup>3</sup> The decrease in embedded value per share reflects the issue of 6 million common shares in September 2011.



**Value of New Business by Component**

(In millions of dollars)	2011
Value of new business in 2010	169.8
Sales growth	14.0
Change in profit margins	(14.2)
Reduction in the discount rate, net of the impact of the drop in interest rates and market returns	(6.0)
Value of new business in 2011	163.6

**MARKET GUIDANCE FOR 2012**

- › **Return on common shareholders' equity** – New target range of 9% to 11%
- › **Earnings per common share** – New target of \$2.50 to \$3.10 for 2012
- › **Solvency ratio** – Maintain the 175% to 200% target range
- › **Dividend payout ratio** – Maintain the 25% to 35% target range in the medium term. However, the Company expects the ratio to be in the upper end of this range in 2012.
- › **Effective tax rate** – Maintain an expected effective tax rate of about 22% to 24%

The guidance for the return on equity and earnings per share exclude any change that could result from a review of actuarial assumptions in 2012.

## PROFITABILITY

### 2011 HIGHLIGHTS

- › Net income available to common shareholders of \$103.3 million
- › Diluted net earnings per common share of \$1.18
- › Return on common shareholders' equity of 4.7%
- › Main factors that affected profit:
  - › Strengthening of provisions for future policy benefits attributable to the decrease in long-term interest rates
  - › Stock market volatility

Recent changes in long-term interest rates have become a key challenge for Industrial Alliance. The Company has been relatively successful in absorbing the interest rate cuts that have occurred over the past decade. However, the sudden major drop in rates over the last four months of 2011 had a major impact on the Company's year-end results.

The Company strengthened its provisions for future policy benefits by \$152.3 million after taxes to account for the decrease in interest rates in 2011 and the trend impact that this decline will have on the ultimate reinvestment rate over the next year.

Nevertheless, the Company still ended the year with positive income, with net income available to common shareholders of \$103.3 million in 2011, compared to \$253.4 million the previous year. This income translates into diluted earnings per common share of \$1.18 (\$2.93 in 2010) and a return on common shareholders' equity of 4.7% (12.8% in 2010).

### Profitability

(In millions of dollars, unless otherwise indicated)	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Net income available to shareholders	127.2	276.3	219.6	71.9	248.0
Less: dividends to preferred shareholders	23.9	22.9	13.8	5.8	5.8
<b>Net income available to common shareholders</b>	<b>103.3</b>	<b>253.4</b>	<b>205.8</b>	<b>66.1</b>	<b>242.2</b>
Net earnings per common share					
Basic	\$1.20	\$3.04	\$2.56	\$0.82	\$3.02
Diluted	\$1.18	\$2.93	\$2.55	\$0.82	\$2.99
Return on common shareholders' equity	4.7%	12.8%	11.9%	4.0%	15.1%

Following is a more detailed explanation of the main factors that influenced the results for 2011:

- › *Decrease in interest rates* – Long-term interest rates reached historic lows in December, prompting the Company to considerably strengthen its provisions for future policy benefits when the valuation assumptions were reviewed (refer to the description of the assumption changes below).
- › *Changes in assumptions* – At the end of 2011, Industrial Alliance reviewed the valuation assumptions used to calculate the provisions for future policy benefits. This review resulted in a strengthening of the provisions for future policy benefits of \$219.7 million before taxes (\$152.3 million after taxes). The considerations that led to this decision were as follows:
  - › The initial reinvestment rate (IRR) used to calculate the provisions for future policy benefits was lowered to account for the decrease in long-term interest rates on Quebec government bonds in 2011.

- › The ultimate reinvestment rate (URR) used to calculate the provisions for future policy benefits was lowered from 3.7% at the end of 2010 to 3.4% at the end of 2011 to reflect the downward trend in long-term interest rates. This rate of 3.4% is lower than the maximum rate of 3.8% that the Company was allowed to use at the end of 2011 based on the formula prescribed by the Canadian Institute of Actuaries, and in fact corresponds to the maximum rate that is expected to apply at the end of 2012 if the long-term interest rates used to calculate the URR remain at their 2011 year-end level. Note that the recent interest rate changes will continue to affect the Company in the coming years. If long-term interest rates remain where they were at the end of 2011 for a few more years, the maximum URR would be 3.4% at the end of 2012, and would then drop to 2.7% by the end of 2015.
- › The Company updated the mortality valuation assumption to reflect the observed improvement in mortality trends based on the moving average of the last five years. Also, this was the first year that the Company's calculation of provisions for future policy benefits for the Individual Insurance sector included expected future mortality rate improvements, in accordance with actuarial standards. However, the Company only partially reflected the maximum improvement allowed under the standards set out by the Canadian Institute of Actuaries.
- › Other valuation assumptions were updated as well, including those related to morbidity, unit costs and policy lapses. Overall, these changes had very little impact on the provisions for future policy benefits.

As it did in 2010, the Company continued to introduce several initiatives in 2011 to mitigate the impact of low interest rates. These initiatives involved assets totalling over \$1.0 billion, and include long-term investments that deliver higher returns and the ongoing development of the inter-segment note program.

- › *Stock market volatility and decline* – In addition to being extremely volatile, stock markets were down in 2011, decreasing net income available to common shareholders by \$28.1 million (\$0.32 per common share) compared to the expected result. Market behaviour during the year affected discounted future revenues on Universal Life policy funds, investment fund management fees and the costs of hedging the risk related to the segregated funds' capital guarantee. In 2011, the S&P/TSX index of the Toronto Stock Exchange reached a high of 14,329 points in March and a low of 10,848 points in October, to finally close the year at 11,955 points, down 11.1% for the year.
- › *Income taxes* – The year-end analysis of the future income tax liability and other tax items resulted in a favourable variance of \$8.5 million (\$0.09 per share) compared to plan. This variance is primarily due to the following items:
  - › Like every year, the Company carried out a detailed examination of its tax situation, particularly with respect to future income taxes. This year's analysis confirmed that a portion of the Company's future revenues will become taxable later than expected and that the Company will benefit from a more favourable tax rate at that time (given that the tax rates prescribed by the fiscal authorities will be decreasing in the years to come). A decrease in the future income tax liability was therefore posted, resulting in a tax bill that is \$2.7 million lower than expected.

- › \$5.1 million in tax expenses were recovered due to adjustments arising from audits by the tax authorities and changes resulting from the application of the new accounting standards for real estate held for investment (which is now measured at fair value). The income tax on the appreciation in value of these properties decreased given that they are now measured at fair value and only 50% of the capital gain is taxed.

## ANALYSIS OF INCOME BY SOURCES OF EARNINGS

Analyzing profitability 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 net income available to shareholders. 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 2010 and 2011 are indicated below. The table also provides additional information according to the financial statements.

### Sources of Earnings<sup>1</sup>

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		Total	
(In millions of dollars)	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Expected profit on in-force	233.5	211.0	128.5	103.3	45.7	39.1	17.0	14.4	424.7	367.8
Experience gains (losses)	(27.4)	(4.7)	(15.9)	4.5	(15.0)	11.1	1.4	3.5	(56.9)	14.4
Gain (strain) on sales	(111.4)	(104.3)	(8.3)	(7.7)	0.0	0.0	(1.2)	(0.2)	(120.9)	(112.2)
Changes in assumptions	(194.1)	(2.2)	(16.5)	(6.8)	(8.2)	(2.3)	(0.9)	0.0	(219.7)	(11.3)
Operating profit	(99.4)	99.8	87.8	93.3	22.5	47.9	16.3	17.7	27.2	258.7
Income on capital	89.3	80.5	0.2	2.4	10.8	11.4	5.9	8.2	106.2	102.5
Income taxes	23.5	(40.7)	(16.5)	(22.3)	(8.8)	(15.3)	(4.4)	(6.6)	(6.2)	(84.9)
Net income attributed to shareholders	13.4	139.6	71.5	73.4	24.5	44.0	17.8	19.3	127.2	276.3
Less: preferred share dividends	18.5	16.1	2.0	4.0	2.1	1.6	1.3	1.2	23.9	22.9
<b>Net income available to common shareholders</b>	<b>(5.1)</b>	<b>123.5</b>	<b>69.5</b>	<b>69.4</b>	<b>22.4</b>	<b>42.4</b>	<b>16.5</b>	<b>18.1</b>	<b>103.3</b>	<b>253.4</b>
<b>Additional information according to the financial statements:</b>										
Net premiums (excluding general insurance)	1,246.9	1,111.6	1,765.9	1,929.1	1,139.0	984.8	636.8	601.6	4,788.6	4,627.1
Net income attributed to shareholders	13.4	139.6	71.5	73.4	24.5	44.0	17.8	19.3	127.2	276.3
Less: preferred share dividends	18.5	16.1	2.0	4.0	2.1	1.6	1.3	1.2	23.9	22.9
<b>Net income available to common shareholders</b>	<b>(5.1)</b>	<b>123.5</b>	<b>69.5</b>	<b>69.4</b>	<b>22.4</b>	<b>42.4</b>	<b>16.5</b>	<b>18.1</b>	<b>103.3</b>	<b>253.4</b>

<sup>1</sup> The operating profit and income taxes presented in this table are not defined by IFRS. A reconciliation between non-IFRS financial measures and IFRS is presented in the Accounting Matters and Additional Information section of this management's discussion and analysis. Comments for each line of business are also presented in other sections of this management's discussion and analysis which describe each sector's activities 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 losses of \$56.9 million before taxes. These losses are largely due to the volatility of the stock markets (\$39.1 million before taxes), but also reflect the insurance sectors' less favourable experience in 2011, particularly with respect to mortality for Individual Insurance and disability for Group Insurance. Note that the events surrounding issuers' credit had very little impact on the Company's profit.

**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 rate, stock market and expense assumptions deemed the most likely. It also includes the before-tax expected profit from the management and administration of investment funds. The expected profit on in-force business is established by the Company at the very beginning of the year.

Expected profit on in-force totalled \$424.7 million in 2011, a 15% increase compared to 2010. The increase mainly comes from the Individual Wealth Management sector (up \$25.2 million) where it mainly reflects expected sales and growth in assets under management in previous years. The Company's expected profit on in-force was also higher than in 2010 in the Individual Insurance sector (up \$22.5 million). This increase reflects the organic growth expected for the sector and the contribution of American-Amicable, which was acquired in 2010.

**Gain (strain) on sales** – In a life insurance company, sales can produce a gain or strain that can affect profits for a given fiscal year. Strain emerges when the provisions for adverse deviation incorporated into the provisions for future policy benefits are higher than the profit margins incorporated into product prices. Sales of insurance 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 time, the provisions for adverse deviation are recovered in the form of profits as the assumptions used for pricing materialize.

New business strain was \$120.9 million in 2011, which is 8% 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 53% in 2011 compared to 56% in 2010. This decrease is primarily due to the rate increases applied to certain products over the past year.

The Company continues to aim for a strain percentage of around 50% to 55% in the medium term. The Company believes the current product pricing structure and the recent underwriting changes made to certain products will enable it to maintain this target.

**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.

As indicated earlier, the review of the valuation assumptions in 2011 led to an increase of \$219.7 million before taxes (\$152.3 million after taxes) in the provisions for future policy benefits, primarily due to the decrease in interest rates. More details about the year-end assumption changes were provided 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 \$106.2 million in 2011, up \$3.7 million, or 4%, over 2010. The growth in income on capital during the year comes primarily from gains realized on the sale of financial instruments matched to equity.

**Income taxes** – Income taxes represent the value of amounts payable under the tax laws and include tax payable and future income taxes. 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 \$6.2 million in 2011, which translates into an effective tax rate of 4.6%. This is lower than the Company's usual rate and well below its expected range of 24% to 26% for 2011. The difference is due to the fact that the year-end strengthening of the reserves decreased the taxable portion of the income in 2011 (without affecting the non-taxable items) and the fact that certain tax expense adjustments were made in the fourth quarter, as explained earlier. Note that for 2012, the Company expects that its effective tax rate should be around 22% to 24%. This target range is lower than in 2011 (24% to 26%), mainly because of the decrease in federal tax rates in 2012.

## 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 loss of \$99.4 million, primarily due to the strengthening of the provisions for future policy benefits, which had a \$194.1 million impact on this sector before taxes. Note that after two disappointing quarters, mortality experience improved in this sector in the last quarter of the year.

**Individual Wealth Management** – The Individual Wealth Management sector was affected by market volatility, recording an operating profit of \$87.8 million in 2011 compared to \$93.3 million in 2010. This decrease is mainly due to the fact that investment fund management fees were not as high as expected given that growth in assets under management (on which these fees are collected) was slowed by the market pullback. In addition, the volatility of the stock markets increased the cost of the hedging program for the risk related to the segregated funds' capital guarantees. For this sector, the impact of the stock markets in 2011 totalled nearly \$22 million before taxes.

Lastly, the sector was impacted by a strengthening of the provisions for future policy benefits following changes to the valuation assumptions. The assumption changes reflected the decrease in interest rates and the fact that annuitants are living longer.

**Group Insurance** – The Group Insurance sector ended the year with an operating profit of \$22.5 million, compared to \$47.9 million in 2010. Unlike 2010, when experience was favourable for all benefits offered by the sector, experience results were not as good in 2011, particularly for disability insurance. The year-end changes in assumptions also impacted the profitability of the Group Insurance sector.

**Group Savings and Retirement** – The Group Savings and Retirement sector recorded an operating profit of \$16.3 million in 2011, compared to \$17.7 million in 2010. Compared to the previous year, experience gains were down, particularly in terms of annuitant longevity, and strain was up due to higher sales of insured annuities, which doubled from 2010.

## ANALYSIS OF INCOME ACCORDING TO THE FINANCIAL STATEMENTS

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

### Consolidated Income Statement

(In millions of dollars, unless otherwise indicated)	2011 IFRS	2010 IFRS	2010 GAAP	2009 GAAP
Revenues	8,037.7	7,004.5	6,769.0	5,814.3
Policy benefits and expenses	7,903.5	6,650.6	6,421.1	5,532.0
Income before income taxes	134.2	353.9	347.9	282.3
Less: income taxes	(7.4)	76.6	73.2	64.0
Net income	141.6	277.3	274.7	218.3
Less: net income attributed to participating policyholders	14.4	1.0	(1.0)	(1.3)
Net income attributed to shareholders	127.2	276.3	273.7	219.6
Less: dividends to preferred shareholders	23.9	22.9	22.9	13.8
Net income available to common shareholders	103.3	253.4	250.8	205.8
Net earnings per common share				
Basic	\$1.20	\$3.04	\$3.02	\$2.56
Diluted	\$1.18	\$2.93	\$2.99	\$2.55

## Revenues

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

Revenues for 2011 totalled \$8.0 billion, which represents a 15% increase over 2010. This was primarily due to the increase in net premiums, as explained below.

### Revenues

(In millions of dollars)	2011 IFRS	2010 IFRS	2010 GAAP	2009 GAAP
Net premiums	4,992.4	4,781.9	4,874.0	4,151.7
Investment revenues	2,251.1	1,518.7	1,444.5	1,302.3
Fees and other revenues	794.2	703.9	450.5	360.3
<b>Total</b>	<b>8,037.7</b>	<b>7,004.5</b>	<b>6,769.0</b>	<b>5,814.3</b>

Net premiums totalled \$5.0 billion in 2011, which represents a 4% increase over 2010. This increase comes mainly from the general fund, arising from growth in in-force business, good sales growth in the insurance sectors and the fact that the premiums from American-Amicable, an insurance company acquired in the middle of 2010, were posted for a full year in 2011. Impacted by the stock market pullback, segregated fund premiums declined somewhat in 2011 after experiencing exceptional growth in 2010.

The adjustment made to net premiums in 2010 for IFRS reporting purposes resulted in a \$92.1 million decrease due to the classification of certain contracts as investment contracts or service contracts given that they no longer met the definition of insurance contracts under the new accounting framework.

Net premiums, deposits and premium equivalents totalled \$7.0 billion in 2011, a 4% increase over 2010. Note that mutual fund deposits were up slightly in 2011 despite a difficult year for the markets.

### Net Premiums, Deposits and Premium Equivalents

(In millions of dollars)	2011 IFRS	2010 IFRS	2010 GAAP	2009 GAAP
Net premiums				
General fund	3,114.2	2,719.7	2,784.4	2,599.7
Segregated funds	1,878.2	2,062.2	2,089.6	1,552.0
Subtotal	4,992.4	4,781.9	4,874.0	4,151.7
Deposits – Mutual funds	1,777.7	1,747.2	1,747.2	1,079.5
Other deposits and premium equivalents <sup>7</sup>	238.4	222.1	144.3	190.7
<b>Total</b>	<b>7,008.5</b>	<b>6,751.2</b>	<b>6,765.5</b>	<b>5,421.9</b>

The main items that make up investment revenues are: investment revenues as such (including interest income, dividends and property rental income), realized profits and losses on the disposition of assets available for sale and variations in the fair value of assets designated as held at fair value through profit or loss.

Investment revenues amounted to \$2.3 billion in 2011, compared to \$1.5 billion in 2010. This increase primarily comes from the increase in the bond portfolio, a result of lower interest rates in 2011. It is important to note that the majority of bonds are classified as "held at fair value through profit or loss" and are matched to the provisions for future policy benefits. For this reason, the impact of the increase in investment revenues on the results is largely neutralized by a corresponding increase in the provisions for future policy benefits.

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

### Investment Revenues

(In millions of dollars)	2011 IFRS	2010 IFRS	2010 GAAP	2009 GAAP
Investment Revenues	957.8	682.2	598.2	587.6
Variation in the fair value of real estate held for investment	12.4	3.1	--	--
Amortization of realized and unrealized gains (losses) on real estate	--	--	18.3	19.6
Realized profits (losses) on assets available for sale	38.4	24.5	14.8	6.4
Variation in the fair value of assets held for trading	1,244.2	809.4	813.7	691.8
Change in provisions for losses	(1.7)	(0.5)	(0.5)	(3.1)
<b>Total</b>	<b>2,251.1</b>	<b>1,518.7</b>	<b>1,445.5</b>	<b>1,302.3</b>

Fees and other revenues amounted to \$794.2 million in 2011, up 13% from 2010. This increase is primarily driven by the increase in average investment fund assets under management compared to 2010, and higher income from the brokerage subsidiaries. Fees and other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries.

The restatement of fees and other revenues from 2010 for IFRS reporting purposes led to an increase of \$253.4 million. This increase is mainly due to the fact that commissions totalling \$192.1 million were reclassified as commission expenses rather than being deducted from the amounts posted as commission income by certain entities in the group. In addition, management expenses for segregated funds and mutual funds, which amounted to \$25.3 million, were reclassified under general expenses. Recoveries from third parties and government assistance in the amount of \$34.0 million and \$11.6 million respectively were reclassified from general expenses to "Other Income".

### Policy benefits and expenses

Policy benefits and expenses totalled \$7.9 billion in 2011, which represents a \$1.3 billion increase over 2010. Policy benefits and expenses are made up of the items shown in the table below.

<sup>7</sup> Amounts paid for investment contracts and administrative services only contracts

## Policy Benefits and Expenses

(In millions of dollars)	2011 IFRS	2010 IFRS	2010 GAAP	2009 GAAP
Change in provisions for future policy benefits	2,169.2	1,474.1	1,256.6	1,194.5
Net benefits to policyholders and beneficiaries	2,180.1	2,018.0	2,102.0	1,928.5
Change in reinsurance assets	106.6	(252.6)	--	--
Net transfer to segregated funds	1,626.0	1,795.4	1,779.2	1,298.9
Commissions	947.3	825.0	661.0	527.8
General expenses	663.3	611.6	448.0	399.9
Other	211.0	179.1	174.3	182.4
<b>Total</b>	<b>7,903.5</b>	<b>6,650.6</b>	<b>6,421.1</b>	<b>5,532.0</b>

The change in provisions for future policy benefits amounted to \$2.2 billion in 2011 compared to \$1.5 billion in 2010, which represents a \$695.1 million increase for this item on the income statement. The provisions for future policy benefits vary based on several factors, including the increase in premiums (upward impact), the return and variation in the fair value of assets matched to them (increase or decrease), the increase in benefits (decrease), the net transfer to segregated funds (increase or decrease), and the strengthening (increase) or release (decrease) of provisions for future policy benefits.

Net benefits to policyholders and beneficiaries in 2011 were slightly higher than in 2010 (by \$162.1 million), which reflects the normal course of operations. Net benefits to policyholders and beneficiaries include benefits paid due to death, disability, illness or contract terminations, as well as annuity payments.

The restatement of net benefits to policyholders and beneficiaries of \$84.0 million for 2010 (for IFRS reporting purposes) is mainly due to the reclassification of certain contracts into the "service contract" category and the reclassification of others into the "investment contracts" category.

In 2011, an amount of \$106.6 million was posted as the change in reinsurance assets and a corresponding amount was deducted from the change in provisions for future policy benefits. For 2010, on a restated basis for IFRS reporting purposes, this change was negative, for an amount of \$252.6 million. The difference between the change for 2011 and the change for 2010 arises from various factors that are similar to those that had an impact on the change in provisions for future policy benefits.

Net transfers to segregated funds totalled \$1.6 billion in 2011, which represents a decrease of \$169.4 million over 2010. This decrease can primarily be explained by lower segregated fund sales in the Individual Wealth Management sector compared to 2010, which was an exceptional year in this regard. The uncertain economic environment and volatile stock markets in 2011 created unease among investors, making them less inclined to move their savings into segregated funds.

Funds from contracts issued by the Company may be invested in segregated portfolios at the option of the policyholders. As a result, net transfers to segregated funds are made up of amounts invested in segregated portfolios, less any amounts withdrawn from these portfolios. Net transfers to segregated funds can vary from one period to another depending on the demand from clients, who at times favour products that generally offer guaranteed returns, and at other times are more attracted by segregated fund

products, whose return fluctuates with the markets. Also, in a sector like Group Savings and Retirement, segregated fund deposits can fluctuate substantially from one quarter to another according to the size of the mandates granted by certain groups.

It should be noted that the restatement of net transfers to segregated funds in 2010 for IFRS reporting purposes led to an increase of \$16.2 million. This increase arises from the reclassification of certain contracts into the "investment contracts" category.

Commissions increased by \$122.3 million in 2011, which primarily reflects the growth of the in-force block of business and the increase in insurance sector sales in 2011. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.

General expenses increased by \$51.7 million compared to 2010, totalling \$663.3 million in 2011. This increase is primarily explained by business growth. The restatement of general expenses in 2010 for IFRS reporting purposes led to an increase of \$163.6 million. This increase is primarily due to the fact that real estate operating costs, investment expenses and management expenses for segregated funds and mutual funds are no longer deducted from investment revenues and fees and other revenues, but are included under general expenses.

## Income Taxes

The consolidated financial statements indicate an income tax recovery of \$7.4 million in 2011 compared to an expense of \$76.6 million in 2010. This difference is primarily due to the decrease in income generated by the \$219.7 million (before tax) strengthening of the provisions for future policy benefits that was posted at the end of 2011, and also reflects certain adjustments related to future income taxes.



## CAPITALIZATION AND SOLVENCY

### 2011 HIGHLIGHTS

- › Solvency ratio of 189% as at December 31, 2011
- › Credit rates unchanged in 2011
  - › A+ at S&P, IC-2 at DBRS and A at A.M. Best
- › Quarterly dividend of \$0.2450 per common share maintained in 2011
- › Issuance of \$192 million in common shares
- › Issuance of \$250 million in subordinated debentures
- › Capital totalling \$3.5 billion, a 16% increase
- › Industrial Alliance stock trading at \$26.29 at year-end
- › Market capitalization of \$2.4 billion as at December 31, 2011
- › Debt and coverage ratios in line with rating agency expectations based on the credit ratings assigned to the Company

### CAPITALIZATION

Industrial Alliance's capital structure can be divided into three main categories of capital: equity, debentures and the participating policyholders' account.

As at December 31, 2011, the Company's capital totalled \$3.5 billion, a year-over-year increase of 16%, and equity accounted for 78% of total capital.

The two main factors that increased capital in 2011 were the issuance of \$192 million in common shares on September 12, 2011, and the issuance of \$250 million in subordinated debentures on December 14, 2011. There was also a slight increase in other comprehensive income (AOCI) as well as an increase in retained earnings (resulting from the net profits realized during the year, net of dividends paid to common shareholders), which was much lower than in 2010 due to the strengthening of provisions for future policy benefits that resulted from year-end changes in assumptions.

#### Capital Structure

(In millions of dollars)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Equity					
Common shares	860.7	652.5	545.7	541.0	513.1
Preferred shares	425.0	425.0	325.0	223.7	125.0
Retained earnings	1,360.0	1,341.5	1,254.8	1,127.7	1,148.3
Contributed surplus	23.6	23.3	21.6	19.8	17.1
AOCI <sup>1</sup>	64.4	59.3	10.5	(54.3)	(3.8)
Subtotal	2,733.7	2,501.6	2,157.6	1,857.9	1,799.7
Debentures <sup>2</sup>	747.7	499.1	519.8	385.9	309.8
Participating policyholders' account	41.3	26.9	25.7	27.0	24.1
<b>Total</b>	<b>3,522.7</b>	<b>3,027.6</b>	<b>2,703.1</b>	<b>2,270.8</b>	<b>2,133.6</b>

### FINANCIAL LEVERAGE AND COVERAGE RATIO

The debt ratio, measured by debentures compared to the capital structure, was 21.2% as at December 31, 2011, or 33.3% if the preferred shares are added to the debentures. The issuance of subordinated debentures in December contributed to an increase in these ratios in 2011. However, they are still below the maximum levels accepted by the rating agencies based on the credit ratings assigned to the Company.

The coverage ratio, i.e. the pre-tax income and interest financing expenses compared to the interest financing expenses and dividends, was 2.8x as at December 31, 2011. This decrease was primarily due to the loss posted in the financial statements for the fourth quarter of 2011, which was largely generated by the strengthening of provisions for future policy benefits that resulted from year-end changes in assumptions. Excluding this last item, the coverage ratio would have been 5.7x.

#### Debt Ratios and Coverage Ratio

	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Debt ratios					
Debentures/capital structure	21.2%	16.5%	19.2%	17.0%	14.5%
Debentures and preferred shares/capital structure	33.3%	30.5%	31.3%	26.8%	20.4%
Coverage ratio (number of times)	2.8	6.2	6.3	3.9	12.2

### SOLVENCY

The solvency ratio amounted to 189% as at December 31, 2011, which is lower than at December 31, 2010. However, this ratio is within the Company's 175% to 200% target range.

The solvency ratio is impacted by a number of factors that cause it to increase or decrease. Following are some of the main factors that had a positive impact on the solvency ratio in 2011:

- › The issuance of \$192 million in common shares on September 12, 2011 (addition of 14 percentage points to the solvency ratio).
- › The issuance of \$250 million in subordinated debentures on December 14, 2011 (addition of 17 percentage points to the solvency ratio).
- › The usual contribution of net income to the available capital, which was lower in 2011, in part due to the fourth quarter loss.

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

- › The increase in required capital related to the increase in the market value of bonds (resulting from the drop in long-term interest rates) (decrease of 13 percentage points in the solvency ratio).
- › New, more restrictive capital requirements for segregated fund contracts since the beginning of 2011 (decrease of 8 percentage points in the solvency ratio).
- › The acquisition of VAG, Accès and MAD on February 14, 2011 (decrease of 4 percentage points in the solvency ratio).
- › The impact on available capital of the adoption of IFRS accounting standards on January 1, 2011, which will cost the solvency ratio 5 percentage points over 8 quarters (until December 31, 2012), half of which was amortized in 2011.
- › The impact on required capital of the year-end changes in assumptions (decrease of 6 percentage points in the solvency ratio).
- › The normal increase in required capital related to business growth.

<sup>1</sup> AOCI: Accumulated other comprehensive income.

<sup>2</sup> 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 and a Trust financing debenture were reclassified as debentures.

## Solvency

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Available capital					
Tier 1 (net)	2,461.7	2,303.8	1,961.9	1,726.0	1,685.6
Tier 2 (net)	587.4	340.9	343.1	195.4	120.6
Total	3,049.1	2,644.7	2,305.0	1,921.4	1,806.2
Required capital	1,613.8	1,306.8	1,107.2	967.1	934.6
<b>Solvency ratio</b>	<b>189%</b>	<b>202%</b>	<b>208%</b>	<b>199%</b>	<b>193%</b>

## DIVIDENDS

The Company maintained its dividend in 2011, paying out \$0.2450 per common share in each of the four quarters, for a total annual 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 \$83.9 million in dividends to common shareholders in 2011. Due to the significant decrease in annual earnings, the dividend payout ratio for 2011 was 82% of the net income available to common shareholders.

At the beginning of 2012, 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 towards the upper end of this range in 2012.

## Dividends

	2011	2010	2009	2008	2007
Dividends paid per common share	\$0.98	\$0.98	\$0.98	\$0.94	\$0.76
Dividend payout ratio	82%	33%	38%	115%	25%

## 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, 2011 was 90,383,021, an increase of 6,495,250 compared to December 31, 2010. This increase is due to the issuance of 6 million common shares in September 2011 and nearly half a million 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 2011 (refer to the "Buy-Back of Shares" subsection below).

## Common Shares

(In millions)	As at December 31				
	2011	2010	2009	2008	2007
Number of common shares outstanding	90.4	83.9	80.5	80.3	79.8

## STOCK PRICE AND MARKET CAPITALIZATION

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.

Industrial Alliance stock closed 2011 at \$26.29, down from the previous year, with a market capitalization of \$2.4 billion.

## Stock Price and Market Capitalization

(In millions of dollars, unless otherwise indicated)	End of period				
	2011	2010	2009	2008	2007
Stock price	\$26.29	\$36.81	\$32.20	\$23.31	\$42.58
Market capitalization	2,376.2	3,087.9	2,592.5	1,872.5	3,399.6

## BOOK VALUE PER COMMON SHARE

The book value per common share amounted to \$25.54 at the end of 2011, up 3% during the year. This growth is due to the increase in the Company's common shareholders' equity, the increase in the value of the debentures generated by the December issue and, to a lesser degree, the increase in the participating policyholders' account (refer to the "Capitalization" subsection above).

## Book Value Per Common Share

	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Book value per common share	\$25.54	\$24.75	\$22.77	\$20.35	\$20.98

## 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 preferred shares issued and outstanding, for a nominal value of \$100 million. These preferred shares are accounted for at their acquisition value.

The preferred shares in each of these series (B, C, 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 \$23.9 million in dividends to preferred shareholders in 2011.

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.

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, 2011, with a total book value of \$747.7 million:

- › A series A debenture with a book value of \$150.0 million (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 subordinated debenture with a book value of \$150.0 million (nominal value of \$150.0 million). This debenture matures on June 30, 2019. It bears interest of 5.13%, payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1%, payable quarterly. This debenture is redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the 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.
- › A subordinated debenture with a book value of \$99.9 million (nominal value of \$100.0 million). This debenture matures on August 1, 2023. It is made up of a principal debenture of \$88.0 million, bearing interest of 5.63% payable semi-annually until August 1, 2018, and a secondary debenture of \$12.0 million, bearing interest of 7.00% payable quarterly until August 1, 2013, and interest of 5.63% payable semi-annually until August 1, 2018. After that date, the interest rate on the principal and secondary debentures will be equal to the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of the quarter, and payable semi-annually. These debentures are redeemable at 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 special circumstances and subject to approval by the AMF, which allows the Company to qualify the debentures as Tier 2 capital.
- › A subordinated debenture with a book value of \$99.3 million (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 carrying value of the debenture includes transaction costs and issue discount for a total of \$0.7 million.
- › A subordinated debenture with a book value of \$248.5 million (nominal value of \$250.0 million). This debenture matures on December 14, 2021. It was issued on December 14, 2011 and bears interest of 4.75% payable semi-annually until December 14, 2016. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 3.20% for the last five years, payable quarterly. This subordinated debenture is redeemable by the Company on or after December 14, 2016, in whole or in part, subject to prior approval by the regulatory bodies. The book value of this debenture includes the transaction costs and the premium at issue for a total of \$1.5 million.

The five debentures described above were classified as "other financial liabilities," and are accounted for at their amortized acquisition value based on their effective interest rate.

The financing expense on the debentures is made up of an interest expense totalling \$31.0 million in 2011 (\$30.4 million in 2010).

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 2011 the Human Resources and Corporate Governance Committee issued 505,000 new stock options. These new options, which will expire in 2021, were granted at an average weighted exercise price of \$38.48. The issue, net of the options exercised and cancelled during the year, brings the number of stock options outstanding to 3,942,000, or 4.4% of the number of issued and outstanding shares as at December 31, 2011.

### BUY-BACK OF SHARES

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. The Company did not buy back any shares under this normal course issuer bid. The Company has not renewed its normal course issuer bid with the Toronto Stock Exchange.

### CREDIT RATINGS

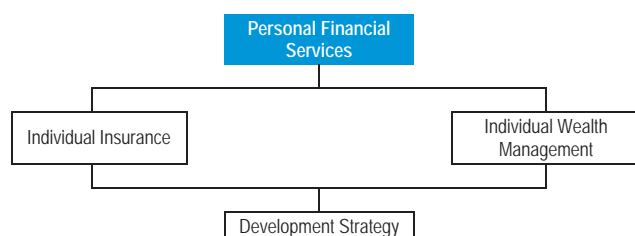
In 2011, the three independent credit agencies that rate Industrial Alliance maintained all of their ratings for the Company at the same level as the previous year. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

#### Credit Ratings

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

## 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 1,860 dedicated Industrial Alliance agents, primarily in Quebec.
- › The General Agents and National Accounts network, which has over 13,000 insurance, mutual fund and securities brokers.

The savings products associated with the mutual funds are distributed Canada-wide through over 10,500 mutual fund and securities brokers associated with independent or affiliated networks.

In Canada, the Individual Insurance and Individual Wealth Management sectors have more than 930 employees and administer over 1.4 million insurance contracts and almost 1 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 5% of premiums and deposits in the Individual Insurance and Individual Wealth Management sectors.

## INDIVIDUAL INSURANCE

### 2011 HIGHLIGHTS

- › Business Growth
  - › Record sales of \$209.4 million
  - › Sales up 12% thanks to new sales from American-Amicable, acquired in July 2010, and strong growth in the high net-worth market
  - › Fourth in Canada for individual insurance sales for the first nine months of 2011, and third for Universal Life sales
- › Main Achievements
  - › Rate increases on level cost Universal Life products and permanent life insurance products made necessary by historically low interest rates in 2011
  - › Strengthening of our relationship with the distribution networks operating in the high net-worth market and issue of a new version of the high-end Universal Life product
  - › Significant growth in Excellence sales outside Quebec
  - › 6% increase in the number of Career network agents

### BUSINESS GROWTH

Long-term interest rates hit a historical low in 2011. Permanent insurance products are especially sensitive to a low interest rate environment given the very long-term nature of their commitments. Like the industry, the Company responded by raising rates on its permanent insurance products to reduce the impact on new business strain and remain profitable. Two increases were carried out in 2011: one in January and one in December. These increases are directly reflected in the "minimum premiums", which increased by 16% in 2011 to reach a high of \$174.4 million. Premiums from American-Amicable and premiums on high face amount policies from our high-end market also contributed to this strong growth in minimum premiums.

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.

The strong volatility of the financial markets in 2011 had an impact on investor behaviour in 2011, and in turn on "excess premiums", which were down 2% in 2011 to reach \$35.0 million. 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.

In total, the sector ended the year with sales of \$209.4 million, up 12% 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 2011, with a market share of 10.2%<sup>1</sup> (the same ranking as in 2010), and ranking third for Universal Life sales, with a market share of 16.0%.

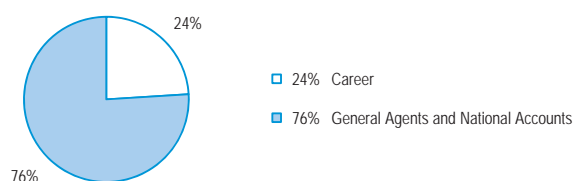
#### Individual Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Sales <sup>2</sup>					
Minimum premiums	174.4	150.9	126.4	118.6	111.0
Excess premiums	35.0	35.7	20.7	28.3	48.0
<b>Total</b>	<b>209.4</b>	<b>186.6</b>	<b>147.1</b>	<b>146.9</b>	<b>159.0</b>
Growth	12%	--	0%	(8%)	4%
Premiums	1,246.9	1,111.6	938.4	920.7	897.3
Growth	12%	--	2%	3%	7%
Number of policies	114,046	117,091	112,335	107,030	98,369
Growth	(3%)	--	5%	9%	(4%)

By distribution network, 76% of sales in 2011 came from the General Agents and National Accounts network, which is made up of brokers throughout all regions of Canada, and 24% 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 6% in 2011. 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

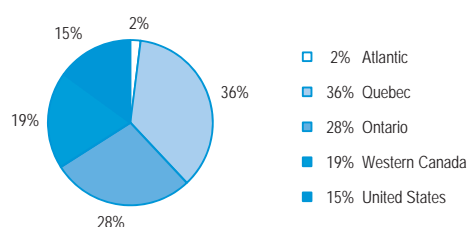
2011



By region, 64% of all sales came from outside Quebec. Quebec accounted for 36% of sales in 2011, compared to 28% for Ontario, 19% in the Western provinces and 2% in the Atlantic provinces. The proportion of sales in the United States nearly doubled with the acquisition of American-Amicable in July 2010, increasing from 8% in 2010 to 15% of total sales in 2011.

#### Sales by Region

2011



<sup>1</sup> Annual data was not available at press time.

<sup>2</sup> In the Individual Insurance sector, sales are defined as first-year annualized premiums.

Universal Life sales remained stable in 2011 following an exceptional year in 2010. Demand for this type of product was dampened by the pricing increases for level cost policies and financial market volatility. This was offset, however, by the Company's growth in the high net-worth market. More specifically, yearly renewable term (YRT) policies were up 3% while level cost insurance policies were down 3%. YRT policies accounted for 40% of sales in 2011, compared to 39% in 2010. These policies are less strain-intensive, which puts less pressure on the business line's profitability.

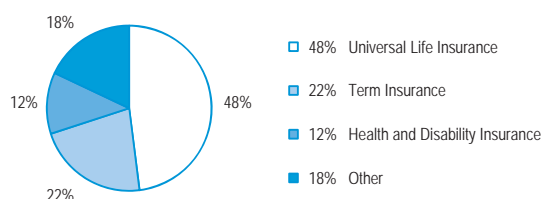
Universal Life policies continue to be the Company's most popular product, accounting for 48% of the sector's sales in 2011, down 6 percentage points from 2010. Traditional products, which are included under the "Other" category, jumped 6 percentage points with the acquisition of American-Amicable given that 70% of its portfolio is made up of traditional insurance products. In comparison, the proportion of Universal Life sales for the industry averaged 36% (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 2011, with a market share of 16.0%.

Term product sales grew by 16% in 2011. This increase is mainly due to the acquisition of American-Amicable in July 2010 and the pricing changes for 20-year term products in the third quarter of 2010.

In terms of health and disability insurance products, sales grew by 8% in 2011. This increase is primarily explained by the strong growth in sales outside Quebec by The Excellence Life Insurance Company, a subsidiary specializing in health and disability insurance, and by the popularity of the critical illness insurance product.

#### Sales by Product

2011



Carried by sales of new policies and good persistency of in-force business, premium income in the Individual Insurance sector grew 12% in 2011 to reach \$1.2 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.

## 2011 ACHIEVEMENTS

Despite the difficult economic environment in 2011, 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 2011:

- › *Product pricing adjustments* – On January 17, 2011 and December 5, 2011, the Company increased rates significantly for its level cost Universal Life policies and its permanent life insurance products. These adjustments were made necessary by the low interest rates that have prevailed over the past several years, which reached a historical low in 2011. The increases will help reduce the strain on these products.
- › *Universal Life insurance* – In order to continue its breakthrough into the high-end market, the Company launched an enhanced version of its Genesis-IRIS product. This product combines a leveraged financing strategy with a Universal Life policy and is very popular with wealthier clients due to its tax benefits. The guarantees offered on guaranteed term accounts were reviewed to adjust the product to the reality of the low interest rate environment. In addition to being used to meet life insurance needs, Universal Life policies are also a very attractive financial planning investment vehicle.
- › *Disability insurance* – In keeping with the Company's strategy to sell all of its products Canada-wide, the products offered by the Excellence subsidiary made a significant breakthrough outside Quebec in 2011. In addition, the launch of Acci-Jet, a new guaranteed issue disability insurance product, enhanced its offering in the disability market.
- › *Mortgage agency* – In an ongoing effort to continually offer better service to its Career network and increase agent retention, the Company set up an Inter-Action mortgage agency whose services are expected to be extended to all Career network agencies in 2012.

## INDIVIDUAL WEALTH MANAGEMENT

### 2011 HIGHLIGHTS

- › Business Growth
  - › Sales totalling \$3.5 billion, down 4% compared to 2010, which was a record year
  - › Assets under management of \$19.4 billion, an increase of 4%
  - › Number one in Canada in terms of net segregated fund sales
- › Main Achievements
  - › Launch of the IAG Savings and Retirement Plan, which offers savings and retirement strategies that adjust to clients' changing needs
  - › Introduction of a hedging program to manage the risk related to products with a guaranteed minimum withdrawal benefit

### BUSINESS GROWTH

Despite the stock market downturn and a general climate of economic uncertainty, the Individual Wealth Management sector realized sales of \$3.5 billion in 2011, down 4% from 2010, which was a record year.

### Individual Wealth Management

#### Sales<sup>1</sup>

(In millions of dollars, unless otherwise indicated)	2011	2010	2009	2008	2007
General fund	403.6	441.1	404.3	345.5	334.4
Segregated funds	1,362.3	1,488.0	866.2	815.7	990.6
Mutual funds	1,777.7	1,747.2	1,079.5	1,261.2	1,796.9
<b>Total</b>	<b>3,543.6</b>	<b>3,676.3</b>	<b>2,350.0</b>	<b>2,422.4</b>	<b>3,121.9</b>
Growth	(4%)	56%	(3%)	(22%)	26%

For guaranteed return products (essentially guaranteed interest products and insured annuities), which are found in the Company's general fund, sales were down 9%.

Given the market volatility and the fact that 2010 was an exceptional year, 2011 was an acceptable year for gross segregated and mutual fund sales. Segregated fund sales were down 8%, while mutual funds were up 2%.

One of the great achievements of the year was that the Company dominated the Canadian market in terms of net segregated fund sales for a second consecutive year, with a market share of 35.2% in 2011. Net segregated fund sales reached \$768.6 million in 2011, 17% lower than in 2010, which was a record year for net sales.

Mutual fund results were down 8% from 2010, with net sales totalling \$729.5 million. The Company continued to do better than its size would suggest, ending the year ranked eleventh in terms of net sales, compared to fourteenth in terms of assets.

### Investment Funds

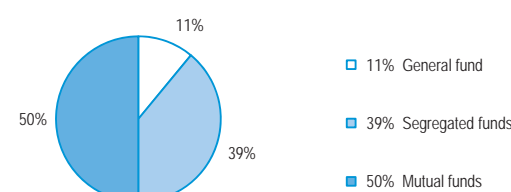
#### Net Sales

(In millions of dollars, unless otherwise indicated)	2011	2010	2009	2008	2007
Segregated funds	768.6	925.0	476.4	322.9	578.7
Mutual funds	729.5	797.1	281.4	289.5	799.2
<b>Total</b>	<b>1,498.1</b>	<b>1,722.1</b>	<b>757.8</b>	<b>612.4</b>	<b>1,377.9</b>
As a percentage of sales	48%	53%	39%	29%	49%

By product, sales of mutual funds accounted for 50% of the year's sales in the Individual Wealth Management sector. Segregated funds and guaranteed return general fund products accounted for 39% and 11%, respectively, of the sector's sales for the year.

### Sales by Product

2011

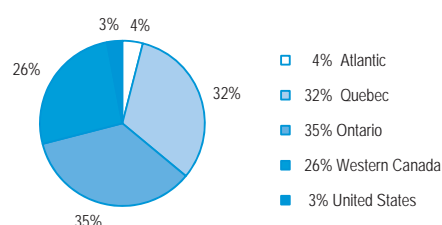


In 2011, 68% of sales were made outside Quebec, which is in line with the Company's goal to distribute its products in all parts of the country. This achievement is a result of the Company's strategy over the past few years to extend its distribution networks Canada-wide.

<sup>1</sup> 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.

## Sales by Region

2011



Funds under management totalled \$19.4 billion as at December 31, 2011, up 4% from the end of the previous year. The Company was ranked fourth in Canada in terms of segregated fund assets as at December 31, 2011, with 10.5% of the market (10.0% as at December 31, 2010), and fourteenth for mutual fund assets (seventeenth in 2010).

#### Individual Wealth Management Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2011	2010	2009	2008	2007
General fund	1,834.8	1,751.4	1,672.8	1,627.9	1,584.4
Segregated funds	9,098.7	8,794.6	7,204.5	5,562.1	6,695.9
Mutual funds	8,463.9	8,124.1	6,601.9	5,264.0	6,834.7
<b>Total</b>	<b>19,397.4</b>	<b>18,670.1</b>	<b>15,479.2</b>	<b>12,454.0</b>	<b>15,115.0</b>
Growth	4%	21%	24%	(18%)	8%

Growth in assets under management is important because it is the key long-term profitability driver for the sector. Assets under management are reliant on gross sales, the persistency rate of in-force business, and the return on assets. Gross sales in turn are dependent on the population's growing need for savings and investment products, the size of the Company's distribution networks and the collective enrichment of the population.

#### 2011 ACHIEVEMENTS

- Despite a difficult stock market environment, the launch of our new savings approach, the IAG Savings and Retirement Plan, was very successful. This program allows clients to meet their accumulation and disbursement needs with one contract.
- In light of historically low interest rates and highly volatile stock markets, we set up a dynamic hedging program to more effectively manage the risk related to products with a guaranteed minimum withdrawal benefit.

## DEVELOPMENT STRATEGY FOR PERSONAL FINANCIAL SERVICES

Industrial Alliance has been a leader in the personal financial services market in Canada for several years. The Company's actions in this market are 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 strategy to develop the US market. The specific short-term strategy is as follows:

- US market** – Establish a strong local presence.

#### DISTRIBUTION NETWORKS

What sets Industrial Alliance apart in the retail sectors 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 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 remains to grow the number of Career network agents by 3% per year (it grew by 6% in 2011).

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, the Company's segregated fund products, including the one offering a guaranteed minimum withdrawal benefit (IAG Savings and Retirement Plan, Ecoflextra series) have 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 in an ongoing effort to maintain a balance between business growth and profitability objectives.

Excellence, a subsidiary of Industrial Alliance that was acquired at the end of 2007, is now responsible for marketing the Company's disability insurance products across the country. As a result, after a successful year in 2011, Excellence will be able to continue capitalizing on Industrial Alliance's various distribution networks Canada-wide to distribute its products.

In the Individual Wealth Management sector, in light of volatile stock markets and the historically low interest rate environment, the Company plans to review its risk management practices for products with a guaranteed minimum withdrawal benefit.

## 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 engagement 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.

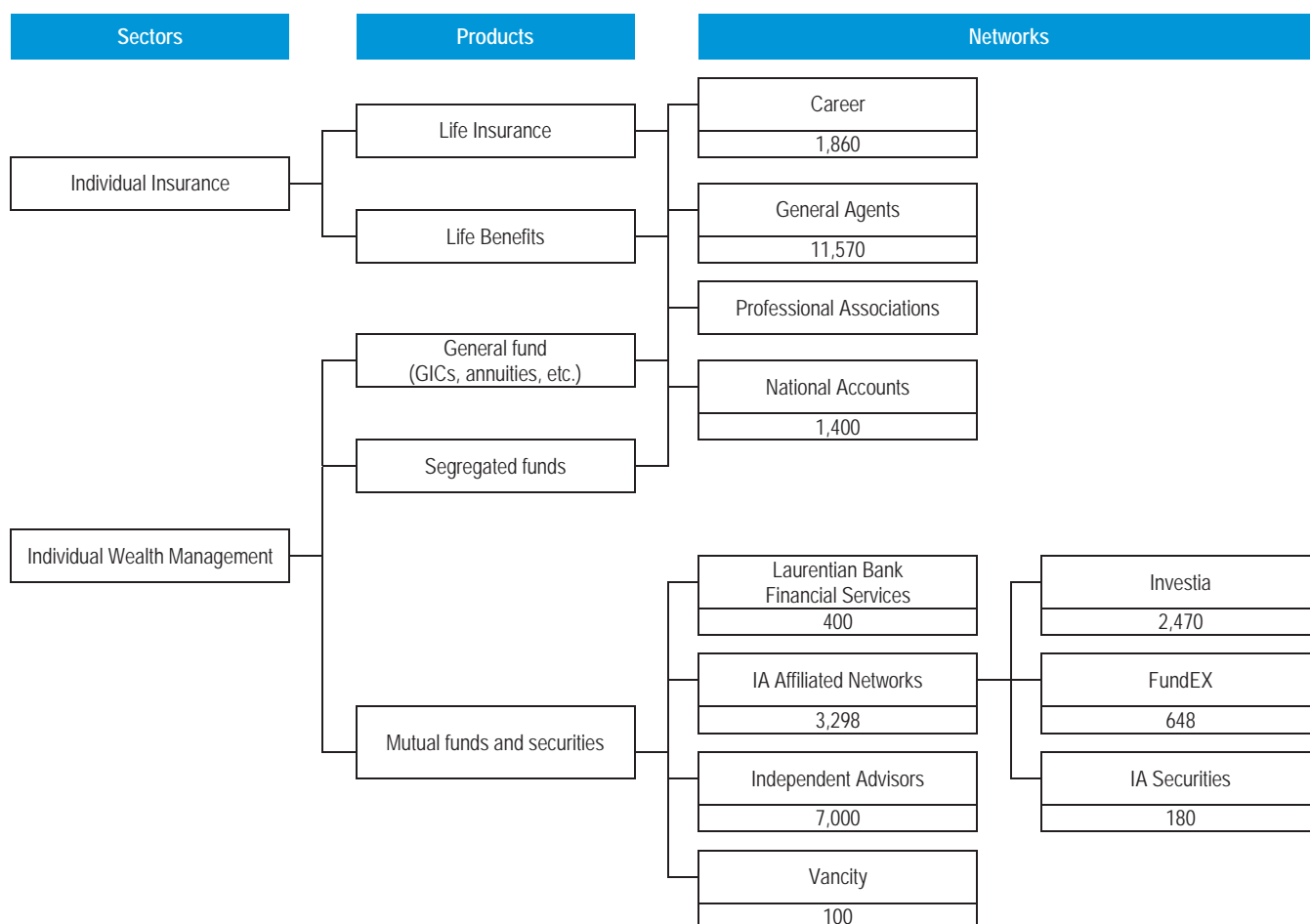
In 2008, the Company also acquired United Family Life Insurance Company, a small US life insurance company that had stopped writing new business. The company has been rebranded IA American Life Insurance Company.

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 American-Amicable, a Texas-based life insurance company, that primarily sells traditional life insurance products. This acquisition provides the scale and presence the Company needs to accelerate its US growth strategy.

In 2011, with an independent local team of over one hundred employees on US soil, the Company continued its business development efforts by expanding its distribution networks, and plans to continue in this regard over the next few years.

## INDUSTRIAL ALLIANCE DISTRIBUTION NETWORKS





## INFORMATION ON AUTO AND HOME INSURANCE OPERATIONS

### 2011 HIGHLIGHTS

- › Growth including replacement insurance (new in 2011)
  - › Direct written premiums up 43%
- › Growth excluding replacement insurance
  - › Direct written premiums up 13%
  - › Number of in-force policies up 12%
- › Main Achievements
  - › Increase in cost per policy below inflation
  - › Net income of \$5.2 million, providing the parent company with a return on equity of 16%
- › Development Strategy
  - › Capitalize on referrals from the group's distribution networks and on a strong media presence
  - › Meet the basic needs of individual general insurance clients: low prices, trustworthy service and prompt payment of claims
  - › 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 successful, because during this 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.

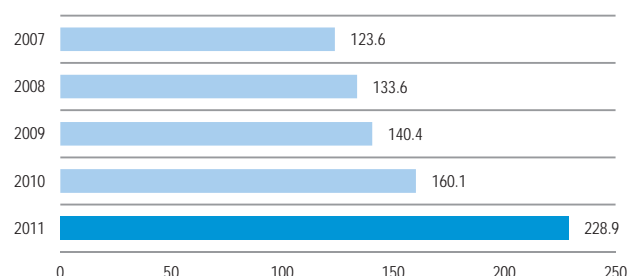
Since the implementation of the national Do Not Call List in September 2008, IAAH has invested considerably in TV advertising campaigns. The goal of this media presence is to attract clients directly so they can then be referred to Industrial Alliance's distribution networks.

In a further effort to fulfil its mission, in October 2010 IAAH began offering replacement insurance, a new automobile insurance product that can be distributed directly through the network of dealers affiliated with Industrial Alliance Pacific (IAP).

### BUSINESS GROWTH

In 2011, this unique business model once again yielded excellent results. Direct written premiums grew by 43%, primarily due to the strong success of replacement insurance, with sales of over \$53 million. Even excluding the impact of introducing this new product, premiums grew by 13%, compared to 3% for the industry. At the same time, the number of policies in force increased 12% to 270,000 at the end of 2011. IAAH's business volume now amounts to \$228.9 million.

Direct Written Premiums (Including Replacement Insurance) (\$Million)

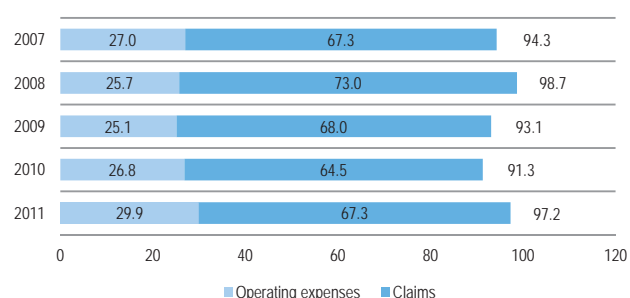


### PROFITABILITY

From a profitability standpoint, results were in line with expectations. The claims rate was higher than in 2010, primarily due to weather conditions in the summer of 2011. First, a wind storm accompanied by heavy rains hit the Outaouais region at the end of June. This was followed by Tropical Storm Irene, which swept through southern Quebec at the end of August. These two events alone impacted IAAH claims by more than 2 percentage points in 2011.

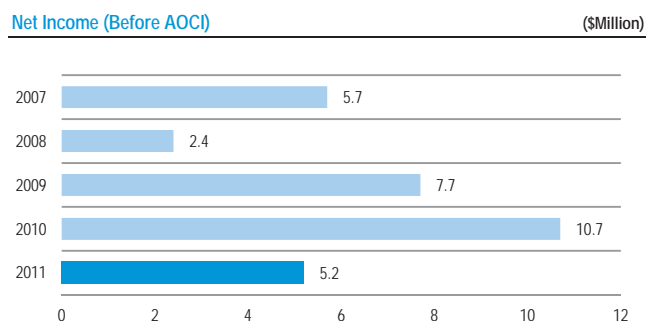
Still excluding replacement insurance, IAAH's operating expense to premium ratio was 30% in 2011. With a claims rate of 67%, the combined rate (claims and operating expenses) was 97%. It is interesting to note that the Company's combined rate was below 100% for the ninth year in a row.

Combined Rate (Excluding Replacement Insurance) (%)



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 2011, IAAH's investment income was similar to the previous year.

This enabled IAAH to earn net income (before AOCI) of \$5.2 million. Although below last year's figure, this income provides the parent company with return on equity of 16%.



## 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 the mid-2000s that extends over a number of years and aims to significantly improve its internal efficiency.

At the heart of this initiative is an operating approach inspired by the Lean philosophy, which ensures that employee engagement remains strong while focusing on a client-based approach.

IAAH is implementing innovative solutions drawn from an 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.

Four key indicators have been identified to measure IAAH's success in achieving its vision:

- › The number of in-force policies, which measures client growth
- › The Client Recommendation Index (CRI), which measures client satisfaction
- › The "cost per policy", which measure IAAH's operational efficiency
- › Return on equity, which measures IAAH's profitability for its shareholder

As it enters the last year of its 2010-2012 three-year plan, IAAH will continue to focus on implementing a culture of ongoing improvement based on the Lean philosophy while strengthening its partnership with the Career network and with the network of automobile dealers affiliated with IAP. In light of the results achieved to date in terms of efficiency gains, client satisfaction and employee engagement, it would appear that IAAH is on the right track.

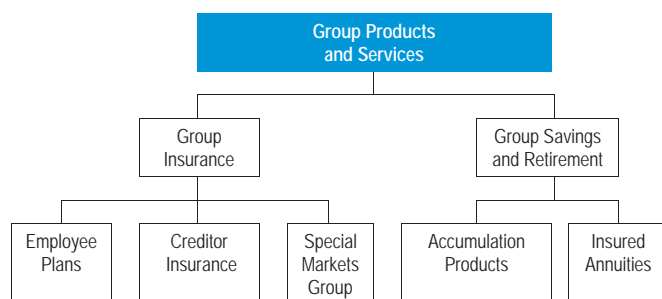


## GROUP PRODUCTS AND SERVICES

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 Savings and Retirement sectors.

In the Group Insurance sector, the Company operates in three market segments: employee plans, creditor insurance (primarily with car dealers, but also with financial institutions) and special markets (SMG). In 2011, the sector wrote \$1.3 billion in premiums and premium equivalents. Of this amount, 73% came from employee plans, 18% from creditor insurance and 9% from special markets.

In the Group Savings and Retirement sector, the Company operates in two market segments: accumulation products and insured annuities (disbursement products). As at December 31, 2011, the sector had \$8.5 billion in assets under management. Of this amount, 63% came from accumulation products and 37% from insured annuities.



All of these market segments have their own development strategy.

### GROUP INSURANCE EMPLOYEE PLANS

#### 2011 HIGHLIGHTS

- › Business Growth
  - › A record year for sales, up 83% to reach \$131.9 million
  - › Revenues up 8% from 2010 at \$952.0 million
  - › Sixth in Canada for group plan sales in 2011, with a market share of 7.3%
- › Main Achievements
  - › Introduction of on-line claims for plan members
  - › Addition of new experience reports in Web@dmin for benefits advisors
  - › Improved business processes thanks to the Lean initiative

- › Development Strategy
  - › Focus on medium-sized businesses (50 to 999 employees)
  - › Canada-wide development
  - › Recognition as the best group insurance service provider on the market
  - › 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 (AD&D insurance, dental care insurance, short and long-term disability insurance, critical illness and home care insurance, and out of Canada medical insurance.

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.). Industrial Alliance also offers 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 benefits advisors.

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 500 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.

Industrial Alliance's goal is to be the best group insurance service provider on the market. 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.

#### BUSINESS GROWTH

From a sales standpoint, the Group Insurance Employee Plans sector had an exceptional year in 2011, with sales totalling \$131.9 million, an increase of 83% over 2010. This result is primarily due to the signing of two large groups in Quebec totalling over \$60.0 million. For our target market of groups with 50 to 999 employees, our sales were down from 2010.

## Group Insurance – Employee Plans

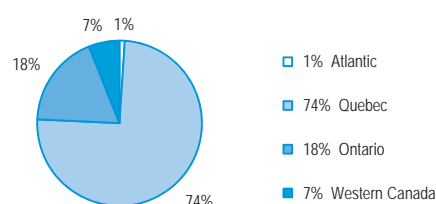
### Business Growth

(In millions of dollars, unless otherwise indicated)	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Sales <sup>1</sup>	131.9	72.2	75.0	92.9	72.0
Growth	83%	(4%)	(19%)	29%	2%
Premiums	785.4	711.8	727.7	684.1	594.8
Premium equivalents <sup>2</sup>	43.9	51.0	115.9	101.9	94.7
Investment contracts <sup>3</sup>	122.7	115.6	--	--	--
<b>Total</b>	<b>952.0</b>	<b>878.4</b>	<b>843.6</b>	<b>786.0</b>	<b>689.5</b>
Growth	8%	--	7%	14%	9%

By region, sales increased in Quebec and Ontario, remained stable in British Columbia but decreased in the Prairies and the Atlantic provinces. Unlike the last few years, sales outside Quebec were lower than those within Quebec due to the signing of two large groups.

### Sales by Region

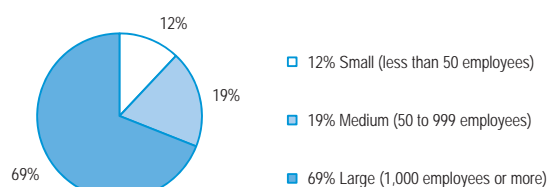
2011



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

2011



In 2011, industry sales were up 7% over 2010. In terms of market share, Industrial Alliance ended the year in sixth position in Canada, with 7.3% of the market (sixth in 2010, with 4.8% of the market).

In our target market of groups with 50 to 999 employees, our sales were down 25% from 2010, while industry sales were down 1%. In terms of market share, we ended the year in seventh position, with 5.5% of the market (fifth in 2010, with 7.9% of the market).

Despite a still fragile economic environment for our clients and lower than expected business persistency, premiums and premium equivalents peaked at \$952.0 million in 2011, an increase of 9% 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 and changes in group experience.

## 2011 ACHIEVEMENTS

Guided by this strategy, we introduced several initiatives in 2011:

- › *Introduction of new functions in Web@dmin* – A number of enhancements were made to our Web@dmin Internet tool for plan administrators and members, the main one being the addition of the online claims function. Plan members can now use this function to submit their claims electronically. The number of plan members who use our electronic services grew by more than 50% in 2011.
- › *Improvement of the business processes* – As part of our Lean vision, we launched an initiative in September to improve the enrolment process for new insureds with one of our big clients. As a result, a brand new process will be implemented in March 2012.
- › *Improved customer service* – We considerably increased the number of customer service representatives. One of our major goals is to resolve 95% or more of inquiries during the first call.

## DEVELOPMENT STRATEGY

Despite the limited number of companies in the industry, the market is very competitive. In fact, the three largest insurance companies hold 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 2012 focuses on the following elements:

- › **Canada-wide development** – In terms of business growth, our goal is for 60% of our sales to come from outside Quebec.
- › **Focus on the medium-sized business market** – Groups with 50 to 999 employees will be the Company's primary source of new business.
- › **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.
- › **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).
- › **Strengthening of relationships** – We are maintaining our growth strategy, which relies on our relationships with our clients, our intermediaries and the actuarial consulting firms. Our goal is to clearly identify their changing needs, through the use of surveys, consultation meetings and other strategies, in order to meet these needs more effectively.

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

<sup>2</sup> Premium equivalents are income from administrative services only (ASO) contracts.

<sup>3</sup> Hold Harmless Premiums

- › **Continued development of Web@dmn** – We will continue the design and development of new functions in order to maintain our competitive position.
- › **Control of plan costs** – Plan sponsors are concerned with growing plan costs. With this in mind, we will continue to promote our drug insurance cost management solutions and our disability prevention solutions, including ViaHealth.
- › **Improved service quality** – We will focus on two main initiatives in 2012: health and dental claims management and the group issue process.

Lastly, one major goal will be to improve the profitability of the portfolio. This will be achieved mainly through the control of operating expenses, improvement of the business processes, sound management of disability cases, and pricing adequacy for each benefit and each market segment. 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"** – Our main focus is on client needs.
- › **By maintaining "superior service"** – We want to be recognized by our clients as the best group insurance service provider on the market.
- › **By being "accessible"** – We have sales and service teams in all regions of Canada.

## GROUP INSURANCE CREDITOR INSURANCE

### 2011 HIGHLIGHTS

- › **Business Growth**
  - › \$265.9 million in creditor insurance sales, up 45% compared to 2010
  - › Creditor sales were \$214.2 million from regular SAL operations, up 17% compared to 2010 and \$51.7 million from the newly integrated VAG operations
  - › \$56.5 million in Complementary P&C warranties and ancillary after-market product sales
- › **Main Achievements**
  - › Acquisition of VAG, a company that distributes creditor insurance and replacement insurance products through a network of new and used car dealers in Quebec
  - › Good performance of the distribution network, which signed new dealers and leveraged its business with existing dealers
- › **Development Strategy**
  - › Position SAL to be a full service provider
  - › Expand into the used vehicle dealer market
  - › Provide value to dealerships
  - › Manage competitive position
  - › Prudently and strategically expand P&C portfolio

### 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.

Finally, SAL also 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.

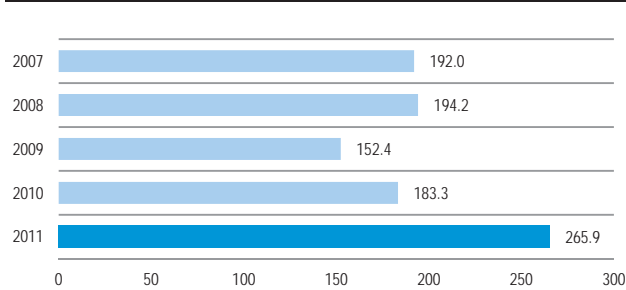
### 2011 ACHIEVEMENTS

In the first quarter of 2011 we acquired, through IA, the operations of Protection V.A.G Inc. (VAG), Communications & Références Multi Assurance Direct inc. (MAD) and Produits récréatifs Accès Inc. (Accès), three privately owned related entities that are located in the province of Quebec. VAG, Accès and MAD collectively distribute creditor insurance and replacement insurance products through a network of new and used car dealers in Quebec. Once integration of VAG business is fully completed, the economies of scale should help manage operating expenses and increase creditor profitability.

Creditor insurance operations have shown very strong recovery in all of the regions and posted strong gains in 2011. Creditor insurance sales reached \$265.9 million in 2011, up 45% compared to 2010. Creditor sales were \$214.2 million from regular SAL operations, up 17% compared to 2010, and \$51.7 million from the newly integrated VAG operations. Sales have significantly outperformed the car industry. The Canadian light vehicle industry shows light vehicle sales up only 1.8%<sup>1</sup> compared to 2010.

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 and personal loans.

<sup>1</sup> Source: DesRosiers Automotive Consultants Inc.

**Sales<sup>1</sup>** (\$Million)

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.
- › During the third quarter, IAPG signed an agreement to insure the extended warranty business distributed by SquareTrade in Canada, one of the largest independent warranty providers in the United States that recently expanded into the UK. It offers extended warranties for consumer electronics and appliances such as cell phones and laptops. This agreement was made with long-term commitment in mind and will be renewed annually.
- › In line with our initiative to develop ways to manage administration expenses, SAL adopted the Lean philosophy in 2011 and we anticipate that the increase in efficiency will have a positive effect on future profit margins.
- › The recent acquisition of National Warranties, a small P&C extended warranty company in Quebec, is very profitable and we are looking for ways to use the same business model in our SAL Protection Plan (SPP) extended warranties business.

**Group Creditor Insurance Business Growth**

(In millions of dollars, unless otherwise indicated)	2011	2010	2009	2008	2007
Sales	265.9	183.3	152.4	194.2	192.0
Reinsurance	35.4	34.5	30.9	34.7	30.7
<b>Premiums</b>	<b>230.5</b>	<b>148.8</b>	<b>121.5</b>	<b>159.5</b>	<b>161.3</b>
Growth	55%	22%	(24%)	(1%)	9%

**Complementary P&C Warranties and Ancillary After-market Products**

Sales with motor vehicle dealers exceeded expectations for the year. P&C insurance sales reached \$56.5 million in 2011. This result is comparable to 2010, but is in fact up 32% compared to 2010 results if replacement insurance—which are now written by IAAH and which represented \$13.8 million of sales in 2010—is excluded. Mechanical warranty sales have been extremely strong with sales up 26% over last year and 17% ahead of plan.

Loss ratios are the main profitability driver for the Group Creditor Insurance sector's P&C portfolio and 2011 results are in line with expectations.

**P&C Insurance<sup>2</sup> Business Growth**

(In millions of dollars, unless otherwise indicated)	2011 <sup>3</sup>	2010	2009	2008	2007
Underwritten	51.3	51.2	45.1	31.7	22.0
Non-Underwritten	5.2	5.5	4.5	4.7	4.3
<b>Total</b>	<b>56.5</b>	<b>56.7</b>	<b>49.6</b>	<b>36.4</b>	<b>26.3</b>
Growth	0%	14%	36%	38%	0%

**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 48% 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 our business portfolio by taking advantage of the Company's strong position as a full service provider.
- › Expand into the used vehicle dealer market.
- › Continue to provide value to dealerships.
- › Continue to manage our competitive position.
- › Continue to prudently and strategically expand our P&C portfolio.

**GROUP INSURANCE SPECIAL MARKETS GROUP (SMG)****2011 HIGHLIGHTS**

- › Business Growth
  - › Net sales of \$133.0 million, similar to 2010
  - › Most product lines delivered steady growth throughout the year, but this growth was offset by mid-2010 termination of a large student group insurance block
- › Competitive Advantages
  - › Considerable expertise in accidental death and dismemberment (AD&D) insurance and other products in the special risks market
  - › Excellent reputation for customized service and business solutions
  - › Coast-to-coast local presence
- › Development Strategy
  - › Increase market share of Creditor and AD&D insurance lines
  - › Grow Life Insurance line through concerted marketing initiatives
  - › Develop relationships with new distributors of specialized insurance products
  - › Exploit new niche markets

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

<sup>2</sup> P&C premiums excluding RI/RW business

<sup>3</sup> Sales for 2011 exclude replacement warranty products, which are now underwritten by IAAH and which accounted for \$13.8 million in 2010.

## 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 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.

## 2011 ACHIEVEMENTS

Sales, defined here as gross premiums net of reinsurance, were \$133.0 million in 2011. The AD&D, disability, critical illness and travel lines of business all grew well in 2011.

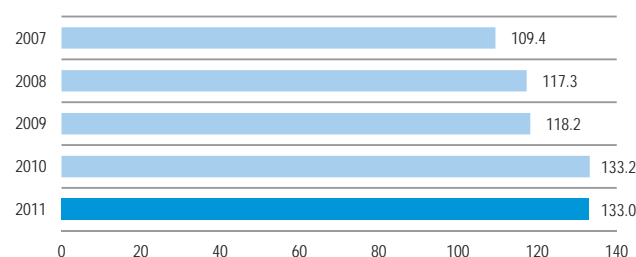
### Special Markets Group (SMG)

#### Business Growth

(In millions of dollars, unless otherwise indicated)	2011	2010	2009	2008	2007
Sales (gross premiums)	133.0	133.2	118.2	117.3	109.4
Growth	0%	13%	1%	7%	9%

#### Sales (Gross Premiums)

(\$Million)



## 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.

The sector's objective is to be a leader in unique and innovative special risks insurance that meets the needs of our clients. We believe in personalized service and in building strong relationships and approaches that inspire trust and provide clients with the reassurance that a strong, reliable and innovative financial institution can bring.

The SMG Division's 2012 development strategy hinges on these four key components:

- › Increase the market share of the Creditor and AD&D lines of business.
- › Grow the Life line of business through concerted marketing initiatives.
- › 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 SAVINGS AND RETIREMENT

### 2011 HIGHLIGHTS

- › Business Growth
  - › Assets under management of \$8.5 billion, up 2% from 2010 despite weak financial market performance
  - › Premiums from new group transfers down 47%
  - › Sales of new accumulation plans outside Quebec higher than plan sales in Quebec for the seventh consecutive year
- › Main Achievements
  - › Enhancement and expansion of our product line
  - › Improvement of our administrative processes
  - › Integration of digital tablet technology in our marketing strategy
- › Development Strategy
  - › Focus on accumulation products
  - › Enhancement of product and service offer
  - › Canada-wide development
  - › Ongoing presence with our distributors
  - › Selective, prudent growth of insured annuities

## DESCRIPTION OF SECTOR

The Group Savings and Retirement sector offers a wide range of products and services that are adapted to the needs of retirement plan members.

The products offered can be broken down into two categories: accumulation products (savings products, such as defined contribution or defined benefit plans, and institutional money management services) and disbursement products (essentially insured annuities).

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

For savings products, the Company's main target market is medium-sized businesses with 100 to 2,500 employees; for 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 150 employees, has signed agreements with nearly 8,250 groups, and serves approximately 230,000 plan members. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

## BUSINESS GROWTH

Group Savings and Retirement ended the year with \$728.7 million in premiums, about the same as in 2010. Fund entries can fluctuate substantially from one year to another in the Group Savings and Retirement sector due to the size of the mandates sometimes granted.

### Group Savings and Retirement

#### Premiums (Sales)

(In millions of dollars, unless otherwise indicated)	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Accumulation Products					
Recurring premiums	435.2	405.1	366.0	337.8	289.6
Transfers	107.1	203.2	353.7	526.2	306.3
Premium equivalents	71.8	55.5	--	--	--
Subtotal	614.1	663.8	719.7	864.0	595.9
Insured Annuities	114.6	56.2	120.1	250.9	232.4
<b>Total</b>	<b>728.7</b>	<b>720.0</b>	<b>839.8</b>	<b>1,114.9</b>	<b>828.3</b>
Growth	1%	--	(25%)	35%	1%

### Accumulation Products

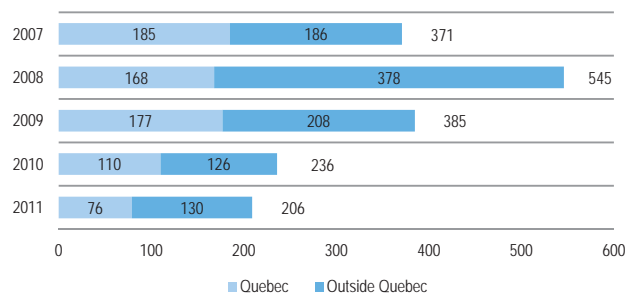
Three factors contributed to the \$614.1 million in accumulation product sales in 2011:

- Recurring premiums totalling \$435.2 million, about the same as in 2010. 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 \$107.1 million, down 47% compared to 2010.
- Premium equivalents of \$71.8 million, up 29% compared to 2010.

### Accumulation Products

#### New Plan Sales<sup>1</sup>

(\$Million)



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 \$206 million in annualized premiums in 2011<sup>1</sup>.

One of the sector's strategic objectives is to increase business volume outside Quebec. This objective was reached for a seventh consecutive year in 2011 as 63% of new plan sales were made in other Canadian provinces.

### Accumulation Products

#### Net Fund Entries

(In millions of dollars)	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Entries	614.1	663.8	719.7	864.0	595.9
Disbursements	597.9	469.3	351.6	447.0	289.1
<b>Net entries</b>	<b>16.2</b>	<b>194.5</b>	<b>368.1</b>	<b>417.0</b>	<b>306.8</b>

Net fund entries were lower than the previous year, mainly due to the loss of a small number of large groups.

### Insured Annuities

In the insured annuities segment, the year ended with \$114.6 million in sales, which is more than double last year's sales. Although we were able to capitalize on market opportunities this year, the strategy used in this market segment remains the same: the Company is aiming for selective, prudent growth by focusing on appropriate risk management, primarily in terms of mortality.

## FUNDS UNDER MANAGEMENT

Funds under management amounted to \$8.5 billion in 2011, an increase of 2% compared to 2010. This is primarily due to the poor performance of the financial markets and lower net fund entries. Growth in assets under management is important because it is the key long-term profitability driver for the sector.

### Group Savings and Retirement

#### Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Accumulation Products	5,350.0	5,356.1	4,339.6	3,443.0	3,560.6
Insured Annuities	3,147.8	2,941.8	2,852.0	2,697.2	2,556.6
<b>Total</b>	<b>8,497.8</b>	<b>8,297.9</b>	<b>7,191.6</b>	<b>6,140.2</b>	<b>6,117.2</b>
Growth	2%	--	17%	0%	14%

## 2011 ACHIEVEMENTS

The sector's achievements for 2011 were as follows:

- We made changes to our "Attitude – Life Cycle" product and launched a digital tablet application to promote it.
- We updated our fund offering.
- We launched EssentIA, a group retirement savings plan designed for small groups.
- We reviewed our administrative processes as part of the Lean initiative undertaken at the corporate level.
- We designed an insured annuity product that offers additional guarantees to meet the risk management needs of plan sponsors and actuarial consulting firms for defined benefit plans.

## DEVELOPMENT STRATEGY

Our development strategy is as follows:

- Focus on accumulation products** – We will continue to focus on developing accumulation products in 2012.
  - We will prepare for the launch of the new voluntary retirement savings plan (VRSP) in Quebec and the new pooled registered pension plan (PRPP) for the other provinces that decide to implement it.
  - We will carry out the marketing and communications plan that was developed in 2011, which will help guide our actions more effectively.

<sup>1</sup> 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.



- › **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 order to stand out from our competitors.
- › **Canada-wide development** – From a geographic standpoint, our objective is to continue growing our business outside Quebec, particularly for accumulation products.
- › **Selective, prudent growth of insured annuities** – For insured annuities, which are capital-intensive products for the Group Savings and Retirement sector, primarily due to the long-term mortality risks, we want to achieve selective, prudent growth.

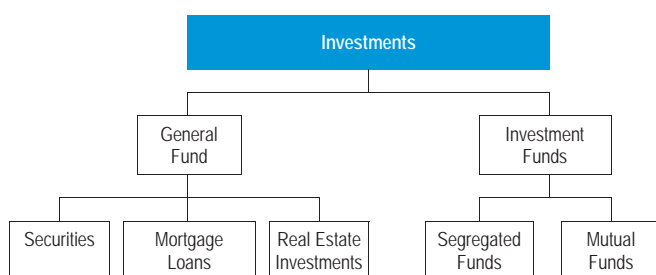
## INVESTMENTS

### 2011 HIGHLIGHTS

- › Very good quality of investments despite a still unsettled economy
- › Net impaired investments very low: 0.06% of investments
- › Bond portfolio
  - › Bonds rated BB and lower: just 0.12%
  - › No defaulted bonds as at December 31, 2011
- › Mortgage loan portfolio
  - › Delinquency rate: 0.25%
  - › Proportion of insured loans: 64.8%
  - › No investments in US subprime mortgages
- › Real estate portfolio
  - › Occupancy rate: 94.6%
- › Very strict matching: difference in duration of 0.10 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 \$73.4 billion as at December 31, 2011, a 6% increase over the end of 2010. 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 10% in 2011 to reach a record \$52.1 billion at the end of the year. All the main components of assets under management increased in 2011, particularly the general fund, whose assets grew 15% to reach \$23.7 billion at the end of the year. This growth is mainly due to the fixed-income securities portfolio, whose market value increased as a result of lower interest rates.

Assets under administration were down slightly, amounting to \$21.2 billion as at December 31, 2011, a year-over-year decrease of 2%. This change is primarily due to a decrease in assets under administration for the mutual fund distribution subsidiaries, which were adversely impacted by weak stock markets during the year.

#### Assets Under Management and Under Administration

(In millions of dollars)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Assets under management					
General fund	23,706.1	20,535.8	17,626.5	15,415.2	15,104.3
Segregated funds	13,734.9	13,572.5	11,450.3	8,924.2	10,210.9
Mutual funds	8,476.3	8,135.7	6,615.7	5,277.7	6,846.9
Other	6,199.8	5,010.6	563.3	596.7	630.6
Subtotal	52,117.1	47,254.6	36,255.8	30,213.8	32,792.7
Assets under administration <sup>1</sup>	21,233.8	21,654.1	22,150.8	19,258.4	17,618.9
<b>Total</b>	<b>73,350.7</b>	<b>68,908.7</b>	<b>58,406.6</b>	<b>49,472.2</b>	<b>50,411.6</b>

<sup>1</sup> 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 brokerage company (Industrial Alliance Securities Inc.), as well as the assets of the trust company (Industrial Alliance Trust Inc.). Certain assets were reclassified in 2011 and add to assets under management.



## GENERAL FUND

2011 marked another year of uncertainty regarding the recovery of the global economy. Despite some encouraging statistics out of the US in the first half of the year, Europe's economic woes came back to haunt investors in the second half of 2011.

While stock markets rallied at the beginning of 2011, they quickly took a turn for the worse to end the first half of the year with a return of almost nil. The second part of the year was much more challenging for the markets, with the Canadian stock market index posting a negative return (including dividends) of almost 9%. Not only was investor confidence eroded by Europe's economic environment, but other factors like changes in the Chinese economy and the geopolitical situation in Arab countries only made matters worse.

The year also unfolded in two distinct phases for fixed-income securities. In the first six months, long-term bond rates rebounded to end the first half of the year at their initial levels. However, during the second half of the year, rates were subject to considerable downward pressure due to uncertainty surrounding the world economic situation. At year-end, long-term bond rates were down over 100 basis points. The bond market benefited from these lower rates, with the DEX Universe Bond Index that represents this market posting a return of almost 10% for the year.

Industrial Alliance was able to capitalize on opportunities created by market volatility to post good returns on its investment portfolio, taking advantage of investment opportunities in the long-term bond sector to mitigate the negative impact of lower interest rates on its financial results. The excellent quality of the fixed-income securities portfolio continued throughout the year despite the various events that occurred on the world economic scene. Impaired assets were down from 2010, and continue to represent just a very small portion of invested 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 mortgages, 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.

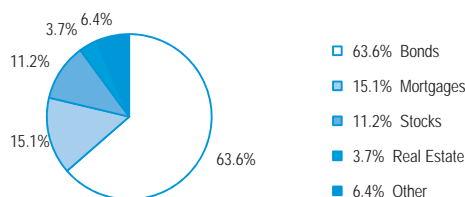
At the end of 2011, 63.6% of the Company's investments were invested in bonds and 15.1% in mortgages, for a total of 78.7% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.

### General Fund Investments

(In millions of dollars)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Bonds	13,676.8	11,121.2	9,409.5	7,942.2	8,127.2
Mortgages	3,251.4	3,334.5	3,405.0	3,508.1	2,920.2
Stocks	2,396.5	2,186.4	1,896.4	1,340.2	1,764.2
Real estate	788.5	716.1	649.0	629.5	481.6
Other invested assets	1,380.9	1,334.6	1,130.3	976.3	921.1
<b>Total</b>	<b>21,494.1</b>	<b>18,692.8</b>	<b>16,490.2</b>	<b>14,396.3</b>	<b>14,214.3</b>

### Investments by Asset Category

As at December 31, 2011



### OVERALL QUALITY OF INVESTMENTS

The overall quality of investments continued to be very good, and even improved in 2011. Net impaired investments totalled \$13.1 million as at December 31, 2011, compared to \$21.5 million as at December 31, 2010. Impaired investments represent just 0.06% of total investments (0.12% as at December 31, 2010). The decrease in net impaired investments in 2011 is primarily due to certain loans that were brought up to date with the borrower throughout the year.

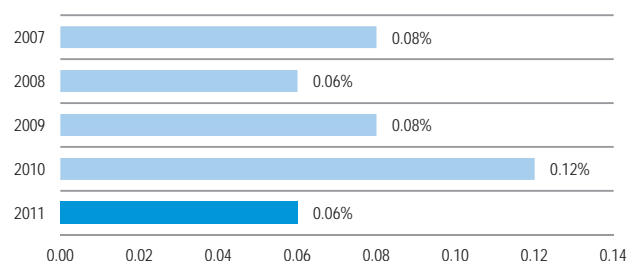
### Net Impaired Investments (Excluding Insured Loans)

(In millions of dollars)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Bonds	8.4	8.4	4.5	0.5	1.2
Mortgages	4.7	13.1	6.9	7.8	2.8
Repossessed properties	---	---	1.6	0.5	7.7
<b>Total</b>	<b>13.1</b>	<b>21.5</b>	<b>13.0</b>	<b>8.8</b>	<b>11.7</b>

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 (in nominal value) is limited to a \$27.6 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 \$5.4 million as at December 31, 2011, compared to \$2.9 million as at December 31, 2010. This increase is primarily explained by the decrease in the fair value of one security during the year.

Bonds whose market value has been 20% or more lower than the nominal value for six or more months have been almost fully provisioned, such that the impact these securities could have on the Company's financial results is practically nil.

### BOND PORTFOLIO

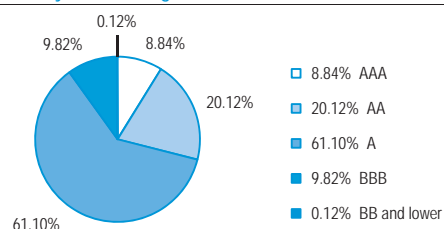
In accordance with the rules defined in the investment policies, the Company invests in bonds whose credit rating from a recognized rating agency is BBB low or higher at the time of acquisition. In the event no evaluation is available from a recognized rating agency, the Company uses an in-house method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

The quality of the bond portfolio, which totalled \$13.7 billion as at December 31, 2011, continued to be very good despite the uncertain economic environment. The bond portfolio had no defaulted bonds as at December 31, 2011.

The proportion of bonds rated A or higher represented 90.06% of the portfolio at the end of 2011, compared to 92.88% at the end of 2010. As at December 31, 2011, bonds rated BB and lower represented just \$16.2 million (0.12% of the portfolio), compared to \$13.0 million as at December 31, 2010 (0.12% of the portfolio). The increase in the value of bonds rated BB and lower is primarily due to one security whose rating was downgraded from BBB to BB during the year.

### Bonds by Credit Rating

As at December 31, 2011



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, 2011, private issue bonds accounted for \$2.0 billion, which represents 14.4% of the bond portfolio.

### Bond Portfolio

(In percent, unless otherwise indicated)	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Book value of the portfolio (\$Million)	13,676.8	11,121.2	9,409.5	7,942.2	8,127.2
Distribution by category of issuer					
Governments <sup>1</sup>	59.0	63.2	63.3	61.1	59.7
Municipalities	3.0	1.5	1.3	1.4	1.8
Corporations – Public issues	23.6	21.1	20.8	21.6	23.4
Corporations – Private issues	14.4	14.2	14.6	15.9	15.1
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.01	0.01	0.00	0.01	0.02

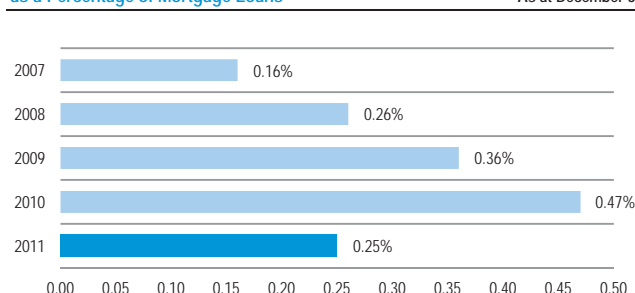
### MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio improved in 2011. The delinquency rate dropped from 0.47% as at December 31, 2010 to 0.25% as at December 31, 2011. The decrease in the delinquency rate is primarily due to the fact that the Company was able to bring a number of loans up to date during the year. In total, as at December 31, 2011, delinquent loans represented just \$8.3 million of a \$3.3 billion portfolio.

### Delinquency Rate

as a Percentage of Mortgage Loans

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				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
Book value of the portfolio (\$Million)	3,251.4	3,334.5	3,405.0	3,508.1	2,920.2
Distribution by type of loan					
Insured loans	64.8	68.4	71.8	71.3	65.0
Conventional loans	35.2	31.6	28.2	28.7	35.0
Total	100.0	100.0	100.0	100.0	100.0
Delinquency Rate	0.25	0.47	0.36	0.26	0.16

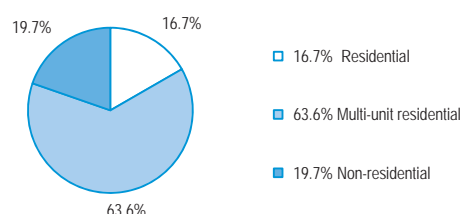
Virtually all mortgage loans are secured by first mortgages. Insured loans represented nearly two thirds of the portfolio at the end of 2011, which continues to be high despite decreasing somewhat during the year.

Once again this year, the proportion of loans secured by single-family or multi-unit residential properties was over 80% (80.3% at December 31, 2011).

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

**Mortgage Loans by Type of Property**

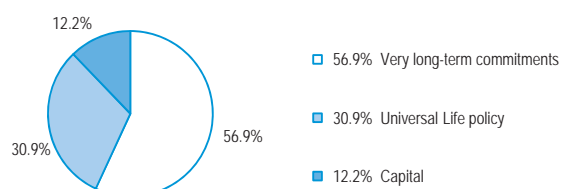
As at December 31, 2011

**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, 2011



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, 2011, investments in equity securities amounted to \$2.4 billion, or 11.2% of the Company's total investments, compared to \$2.2 billion or 11.7% a year earlier. This increase is primarily explained by the purchase of new securities.

**Stock Portfolio**

	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
(In percent, unless otherwise indicated)					
Book value of the portfolio (\$Million)	2,396.5	2,186.4	1,896.4	1,340.2	1,764.2
Distribution by category of stock					
Common shares	39.0	22.3	13.5	18.8 <sup>1</sup>	5.7
Preferred shares	8.3	8.6	8.8	10.3	8.1
Market indices	30.2	41.5	43.2	26.0	25.6
Investment fund units and other	22.5	27.6	34.5	44.9 <sup>1</sup>	60.6
Total	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> 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.

**REAL ESTATE PORTFOLIO**

As at December 31, 2011, the book value of real estate held for investment totalled \$788.5 million, which represents an increase of 10.1% compared to the end of 2010. This increase reflects the acquisition of a property in downtown Montreal and the change in the fair value of real estate held for investment during the year. Real estate investments represented 3.7% of total investments as at December 31, 2011, compared with 3.8% at December 31, 2010.

Note that the accounting method for real estate investments was modified by the adoption of International Financial Reporting Standards in 2011. As a result, real estate held for investment was carried at its fair value on the date of transition to IFRS. Own-use properties, on the other hand, are valued at the rebuilt cost. Under the old accounting framework, all properties, regardless of their use, were carried at the moving average market method whereby the carrying value is adjusted towards market value at 3% per quarter of unrealized gains and losses. To learn about the impact of these changes, and for more information in this regard, please refer to notes 2 and 19 of the Company's consolidated financial statements.

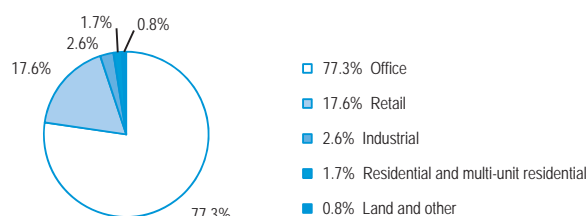
The Company generally reappraises each of its properties in turn every three years. In 2010, this exercise did not lead to any significant changes in the estimated market values.

For real estate held for investment, the occupancy rate remained high (94.6% as at December 31, 2011 compared to 92.9% at December 31, 2010), and compares very favourably with that of commercial properties in large Canadian cities. Office buildings account for over three quarters of real estate investments.

Lastly, note that the book value of the Company's own-use properties was \$82.4 million at December 31, 2011.

**Real Estate Portfolio by Category of Property**

As at December 31, 2011

**Real Estate Portfolio**

	As at December 31				
	2011 IFRS	2010 IFRS	2009 GAAP	2008 GAAP	2007 GAAP
(In percent, unless otherwise indicated)					
Book value (IFRS) of the portfolio (\$Million)	788.5	716.1	---	---	---
Book value (GAAP) of the portfolio (\$Million)	---	---	649.0	629.5	481.6
Market value/book value of the portfolio	---	---	126.9	129.4	129.5
Occupancy rate	94.6	92.9	94.4	94.0	95.5

## OTHER INVESTED ASSETS

The *Other Invested Assets* category (6.4% 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.

## 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 2011, 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, 2011, the difference between the duration of Company assets and liabilities for portfolios matched on a cash flow basis was 0.10 years, which is within the  $\pm 0.25$ -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, 2011	
	In millions of dollars	In percent
Immunized liabilities		
On a cash flow basis	8,748	49%
Universal Life policy accounts	1,322	7%
Subtotal	10,070	56%
Non-immunized liabilities	7,967	44%
<b>Total</b>	<b>18,037</b>	<b>100%</b>

## 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 223% as at December 31, 2011 (201% as at December 31, 2010). 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 164% as at December 31, 2011 (155% as at December 31, 2010).

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 \$4.0 billion as at December 31, 2011 (\$2.0 billion as at December 31, 2010). The increase in 2011 is primarily due to the hedging program used by the Company 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 \$207.3 million as at December 31, 2011 (\$20.1 million as at December 31, 2010). 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 \$64.1 million as at December 31, 2011 (\$39.5 million as at December 31, 2010).

## 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, 2011, the maximum amount authorized for these lines of credit was \$80.3 million (\$66.9 million at December 31, 2010). As at December 31, 2011, none of the lines of credit were used.

## INVESTMENT FUNDS (Segregated Funds and Mutual Funds)

### INVESTMENT FUND ASSETS

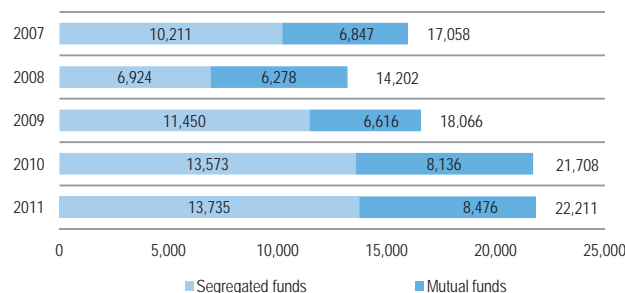
Investment fund assets for the Industrial Alliance group totalled \$22.2 billion as at December 31, 2011 (\$13.7 billion in segregated funds and \$8.5 billion in mutual funds), which represents an increase of 2% over 2010. There was good growth in net sales during the year, but asset growth was somewhat slowed by the decline in the stock markets.

The Industrial Alliance group continues to be a leader in the investment fund industry. Despite having a limited presence in this market a few years ago, the group is now one of the top fifteen fund managers (mutual funds and segregated funds combined) in Canada. Note that once again, the group did particularly well in terms of net segregated fund sales in 2011, ranking number one in the industry for the second year in a row.

Industrial Alliance continues to develop its business successfully by relying on a broad, diversified range of funds and a vast distribution network.

#### Segregated Fund and Mutual Fund Assets as at December 31

(\$Million)



#### RANGE OF FUNDS

Industrial Alliance offers a broad range of segregated funds designed for its individual and group clients. As at December 31, 2011, Individual Wealth Management was offering its clients 78 funds open to new premiums, while Group Savings and Retirement was offering 69. 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. Despite an already vast and diversified selection, a number of changes were made in 2011.

In the Group Savings and Retirement sector, 14 new funds were brought to market and 7 were withdrawn. Many of the new funds added are managed by firms with an excellent reputation in the Canadian pension plan industry. Some of them can be used with special investment strategies or offer the option to invest in specialized markets. Some attractive changes were also made to the ATTITUDE product, a sophisticated investment program created for defined contribution plans.

In the Individual Wealth Management sector, the Company launched 24 new funds at the beginning of the year, 20 of which are hybrid funds, which means that they contain 25% fixed-income securities and 75% equity securities (stocks). These new funds are available through the IAG Savings and Retirement Plan, an investment product launched at the beginning of 2011. More recently, in January 2012, the sector added 5 new segregated funds to expand its offering and create additional synergy with IA Clarington, which offers 4 mutual funds of the same type.

IA Clarington also launched 4 new mutual funds in the past year, bringing the number of funds it offers to 59 at the end of 2011. Of the new funds launched, 3 focus on the "income" component—a sought-after feature by many investors in the past few years—mainly through the incorporation of bonds.

In 2011, IA Clarington announced the appointment of two new portfolio managers with an excellent reputation in the Canadian investment industry.

As at December 31, 2011, 57.5% of Industrial Alliance's investment fund assets (divided among 91 funds) was managed by the Company's in-house managers, while 42.5% (114 funds) was managed by external fund managers. The Industrial Alliance group has strategic alliances with over 40 external managers.

#### Industrial Alliance Group's Active Investment Funds

	As at December 31, 2011			
	Number of funds	Assets (\$Million)	Distribution of assets	Proportion of assets managed in-house
Segregated funds	145	13,743.3	61.3%	65.1%
Mutual funds	60	8,663.8	38.7%	45.3%
<b>Total</b>	<b>205</b>	<b>22,407.1</b>	<b>100.0%</b>	<b>57.5%</b>

#### ECONOMIC ENVIRONMENT AND STOCK MARKET PERFORMANCE

From an economic standpoint, the year ended on a weak note due to the ongoing sovereign debt crisis in Europe that continues to have a major impact on financial markets worldwide.

In Europe, government authorities and the Central Bank are trying to resolve the crisis to avoid contaminating the world financial system, but their limited success thus far has only reinforced investor concerns.

In addition to the European crisis, the markets were disrupted by a number of other events in 2011, including fears of another recession in the US, the natural disaster in Japan, political unrest in the Arab countries and the downgrading of US government bonds by the Standard & Poor's rating agency.

Stock market behaviour reflected the mood of investors in 2011. As a result, all the stock market indices of industrialized countries posted negative returns except one: the US S&P 500 index. This index surpassed the others, ending the year with a slightly positive return of 2.1% in local currency.

The Canadian stock market, represented by the S&P/TSX composite index, closed the year with a total negative return (including dividends) of 8.7%. With natural resources accounting for 50% of its stocks, the Canadian index was hurt by the drop in the price of raw materials.

Outside North America, the European market was hit hard by the sovereign debt crisis. The MSCI Europe index was down 8.5% for the year in Canadian dollars. The MSCI World index closed the year down 3.4% in Canadian dollars, and the MSCI EAFE index was down 10.2% in Canadian dollars.

The bond market was the big winner in 2011. In the midst of European uncertainty and volatile stock markets, investors sought to invest their assets in safe havens like US and Canadian bonds. As a result, US and Canadian bond rates plunged during the year, driving bond returns up. For instance, long-term bonds (10 years or more) posted an 18.1% return, while medium-term and short-term bonds posted returns of 10.9% and 4.7% respectively.

## INVESTMENT FUND PERFORMANCE

The challenging economic environment and highly volatile stock markets were cause for concern among fund managers in 2011. The returns earned by the Company's investment fund offerings were weakened by the stock market downturn, and many of them were penalized in terms of relative performance.

As shown in the table below, the relative performance over a 1-year period was impacted the most in 2011, with only 46% of assets surpassing the median. Over longer periods, however, the results continued to be quite good compared to the industry. Over 5-year and 10-year periods, 70% and 59% of assets, respectively, were above the median.

### Gross Relative Performance Segregated Funds and Mutual Funds

(In percent)	1 year	3 years	5 years	10 years
1st quartile	21	20	20	39
2nd quartile	25	31	50	20
<b>Above the median – As at December 31, 2011</b>	<b>46</b>	<b>51</b>	<b>70</b>	<b>59</b>
Above the median – As at December 31, 2010	47	70	65	74

The strong correlation among market sectors posed a particular challenge for equity fund managers in 2011, making it difficult for them to set themselves apart. Many of the funds offered by the Company felt the impact of this situation and were unable to earn above-median returns in Canada, the US or internationally. The best results in terms of relative performance were achieved by bond funds, which ended the year with higher returns than their peers, with some of the larger ones even ranking in the first quartile.

For mutual funds, relative performance was good for periods of 5 years or less. Over half of the assets managed are above the median for these periods.

### Gross Relative Performance Mutual Funds

(In percent)	1 year	3 years	5 years	10 years
1st quartile	23	31	29	21
2nd quartile	33	22	45	4
<b>Above the median – As at December 31, 2011</b>	<b>56</b>	<b>53</b>	<b>74</b>	<b>25</b>
Above the median – As at December 31, 2010	67	73	70	45

In the segregated fund category, median returns were below expectations in the last year, with the exception of bond funds, which performed very well. Relative performance over 5-year and 10-year periods continued to be favourable.

### Gross Relative Performance Segregated Funds

(In percent)	1 year	3 years	5 years	10 years
1st quartile	18	11	13	51
2nd quartile	19	39	54	29
<b>Above the median – As at December 31, 2011</b>	<b>37</b>	<b>49</b>	<b>67</b>	<b>80</b>
Above the median – As at December 31, 2010	32	68	61	91

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 IFRS 7, "*Financial Instruments: Disclosures*" and IFRS 4 "*Insurance Contracts*" of the International Financial Reporting Standards (IFRS) 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, 2011, given that the standard permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally what is found in the financial statements.

As a financial institution, Industrial Alliance assumes a variety of risks inherent in the conduct of its business. 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 Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required by the regulatory authorities.

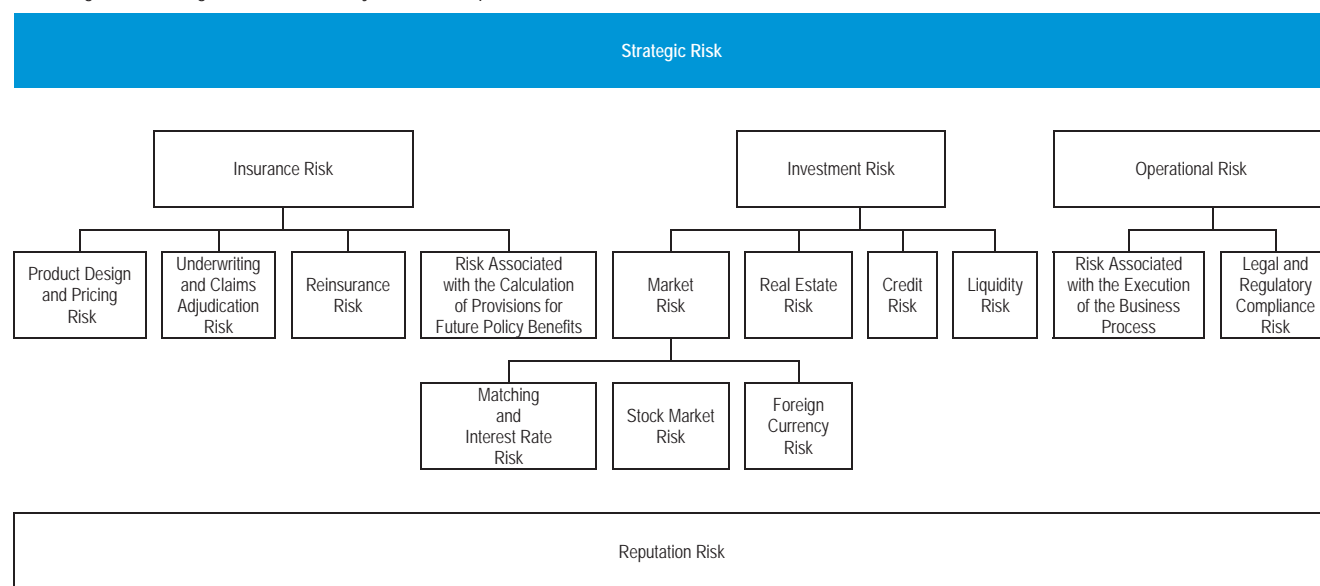
### RISK CATEGORIES

One of the risks the Company must assume in the course of pursuing its financial goals is strategic risk. This risk may arise from a poor execution of

the business plan, an inadequate business plan, or the Company's inability to adapt to changes in the competitive, economic, legal or political environment.

The Company is also exposed to reputation risk. This risk may result from negligence or unauthorized actions by employees or other individuals affiliated with the Company, inappropriate behaviour by one of its representatives, or other events that may, rightly or wrongly, have a negative impact on the public's perception of the Company and potentially lead to fewer clients, lost revenues or considerable litigation costs.

The diagram below illustrates the additional risks facing the Company. A summary of these risks and the process for managing them is outlined in the following pages.



### RISK MANAGEMENT PRINCIPLES AND RESPONSIBILITIES

Effective risk management rests on identifying, understanding and communicating the risks the Company is exposed to in the course of its operations.

In accordance with this principle, the Company has implemented an integrated risk management program that is consistently applied and that is taken into account in developing the Company's business strategies and in all of its operations.

The goal of the integrated risk management program is to identify, assess, manage and monitor the risks the Company is exposed to in the course of its operations and to ensure that any pertinent information regarding these risks is communicated and shared on a regular and timely basis with the various people involved in the program.

The integrated risk management program is also designed to provide the Board of Directors with reasonable assurance that sufficient resources and appropriate procedures are in place within the Company to ensure sound risk management.

The program is governed by a global policy designed to classify and define the risks the Company is exposed to, outline the risk management organizational structure, including the roles and responsibilities of the various people involved in the risk management process, and identify the key steps in the process, particularly in terms of identifying, assessing, communicating and monitoring the risks.

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

The risk sponsors are made up of senior managers who are responsible for the various organizational units such as the business lines and the Finance, Actuarial, Human Resources, Legal, Investment and IT departments. These people are responsible for managing the risks that could adversely affect the achievement of the objectives identified in their respective areas of responsibility. The risk sponsors are responsible for producing a report at regular intervals on the material risks the Company is exposed to. Ongoing communication with the Risk Management Facilitator is also established to ensure that the entire Company manages risk in an appropriate and effective manner.

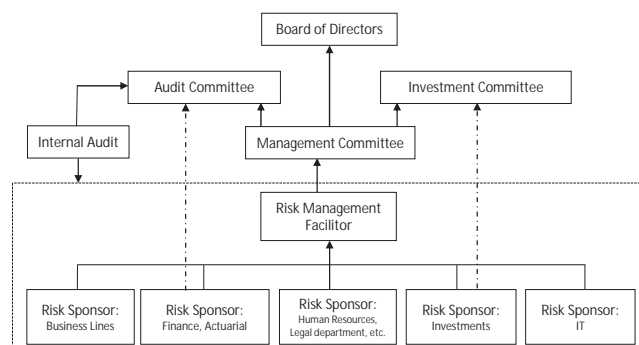
The Risk Management Facilitator is responsible for coordinating the program within the Company and ensuring that appropriate policies and procedures are established and implemented by the risk sponsors. This person is also responsible for summarizing and communicating the risk-related information to the Management Committee, which in turn notifies the Board of Directors. The Risk Management Facilitator works closely with the risk sponsors to ensure effective management of the risks in their respective areas of responsibility.

The Management Committee, which includes the President and Chief Executive Officer as well as the senior executives responsible for the business lines and the various organizational units, ensures that the policies and procedures are enforced and keeps the Board of Directors apprised of the key risks the Company is exposed to and the measures being taken to manage them. The Management Committee also plays a key role in ensuring good communication among the various managers, and promotes a general culture of sound 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 established limits for risk tolerance.

The Board of Directors monitors the effectiveness of the risk management program. It verifies and approves the global policy governing this process as well as any changes that are made to it. The Board also approves the overall level of risk the Company is willing to take as well as how far the Company is willing to deviate financially from its objectives.

The internal auditors assess the effectiveness of the integrated risk management program, recommend improvements to the people involved in the process and report on the situation to the Board of Directors' Audit Committee.

The integrated risk management program is also applied in the Company's subsidiaries. The boards of directors for the subsidiaries, which 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, also play an important role in risk management. For the most part, the subsidiaries 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).



## INSURANCE RISK

Insurance risk is subdivided into four categories: product design and pricing risk, underwriting and claims adjudication risk, reinsurance risk and risk associated with the calculation of provisions for future policy benefits.

### 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 as compared to the Company's profitability objectives. This risk may be due to a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes.

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 could result in a \$123 million reduction in net income available to common shareholders due to the strengthening of policy liabilities that might occur. A 5% improvement in mortality rates would have the same impact, but in the opposite direction.

The Company estimates that a permanent adverse deviation of 5% in lapse rates, unit costs and morbidity rates would decrease net income available to common shareholders by \$156 million, \$37 million and \$61 million respectively.

A catastrophe reinsurance treaty is 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.

### 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. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations.

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.

### Risk Associated with the Calculation of Provisions for Future Policy Benefits

In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries.

The risk associated with the calculation of provisions for future policy benefits represents the risk of financial loss that could occur if a flaw were to be detected in the process used to calculate the amount of these provisions.

A flaw in calculating the provisions for future policy benefits might arise from inadequate use of valuation models or the use of inappropriate models, misreading the historical data used to project future experience results, insufficient controls during the valuation process, inconsistency in the methods used or in the application of valuation standards, or non-compliance with actuarial valuation standards.

In order to minimize this risk, the Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the Canadian Institute of Actuaries (or another similar organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business. The parent company's Corporate Actuarial department plays a key role in overseeing the valuation process. The actuaries responsible for calculating the provisions for future policy benefits in the business lines and in the subsidiaries must certify that they are acting in accordance with the policy.

### The Company's Sensitivity to Certain Insurance Risks

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

#### Decrease in Net Income Available to Common Shareholders Resulting from Adverse Deviations from the Assumptions

(In millions of dollars)	2011	2010
Insurance risk: adverse deviation of 5%		
Mortality rate <sup>1</sup>	123	118
Lapse rate <sup>2</sup>	156	139
Unit costs	37	36
Morbidity rate <sup>3</sup>	61	17

<sup>1</sup> The adverse deviation is expressed assuming 105% of the mortality rates, adjusted to reflect the adjustability of certain products.

<sup>2</sup> 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.

<sup>3</sup> For 2011, the adverse deviation is expressed assuming 95% of the termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active. For 2010, the adverse deviation is expressed assuming 95% of the termination rate when the insured is or becomes disabled.

## 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 subdivided into four main categories: market risk, real estate risk, credit risk and liquidity risk.

### Market Risk

Market risk includes three types of risk: matching and interest rate risk, stock market risk 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,			
	2011		2010	
	\$M	%	\$M	%
Immunized liabilities				
On a cash flow basis	8,748	49%	7,900	50%
Universal Life policy accounts	1,322	7%	1,445	9%
Subtotal	10,070	56%	9,345	59%
Non-immunized liabilities	7,967	44%	6,330	41%
<b>Total</b>	<b>18,037</b>	<b>100%</b>	<b>15,675</b>	<b>100%</b>

## 1b Liabilities Immunized on a Cash Flow Basis

This category represents 49% 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.

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 7% 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 accounts where the return varies based on an index, 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 44% 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, 2011, the Company estimates that a 25 basis point decrease in the IRR would lead to an increase in policy liabilities of approximately \$82 million after taxes (\$71 million at December 31, 2010).
- › 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, 2011, the Company estimates that a 10 basis point decrease in the URR would lead to a strengthening of policy liabilities of approximately \$62 million after taxes (\$49 million at December 31, 2010).

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. Also, the Company might have to review its URR assumption following a 25 basis point decrease in the IRR.

The Company estimates that a 25 basis point increase in the IRR and a 10 basis point increase in the URR would have a similar impact to a 25 basis point decrease and a 10 basis point decrease respectively, but in the opposite direction.

In addition, it should be noted that an immediate 25 basis point decrease (or increase) in the IRR would increase (decrease) other comprehensive income by \$14 million (\$20 million in 2010) due to the unrealized gains (losses) that would then be generated on the fixed income securities classified as available for sale (\$10 million at December 31, 2010). 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 25 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, 2011.

**Stock Market Risk** – Stock market risk represents the risk that a stock market 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 is 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, 2011 would have led to a \$5 million decrease in net income (\$4 million at December 31, 2010) and a \$7 million decrease in other comprehensive income (\$7 million at December 31, 2010). A 25% drop in the markets as at December 31, 2011 would have reduced net income by approximately \$13 million (\$10 million at December 31, 2010), and other comprehensive income by \$17 million (\$14 million at December 31, 2010). 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, 2011 would have led to a decrease in net income of approximately \$2 million (\$1 million at December 31, 2010), while a 25% drop in the markets would have led to a decrease in net income of approximately \$228 million (\$56 million at December 31, 2010). On the other hand, an upward market variance of 10% would have had the same impact on net income, but in the opposite direction. Following a drop of more than 12% in the markets (compared to their December 31, 2011 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.

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2011, 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 2012, to subsequently grow in line with expectations for the rest of the year, net income available to common shareholders for 2012 would be about \$22 million lower than expected for its regular operations (\$20 million lower at December 31, 2011). On the other hand, a sudden 10% increase in the stock markets at the beginning of 2012, 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, 2011, segregated fund assets under management in the Individual Wealth Management sector totalled \$9,101 million (\$8,799 million at December 31, 2010), and the guaranteed minimum value of these funds totalled \$8,601 million (\$7,319 million at December 31, 2010). On this same date, the net amount at risk (for funds whose market value was lower than their guaranteed minimum value) totalled \$263 million (\$61 million at December 31, 2010). For segregated funds whose guarantees are not covered by the hedging program, the Company's liabilities included \$8 million in provisions for future policy benefits (\$9 million at December 31, 2010) 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 hedging program put in place in 2010 covers all of the Company's exposure to this type of guarantee, thus mitigating the associated risk. The value of the assets underlying the hedged guarantees was \$2,232 million as at December 31, 2011 (\$1,709 million 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 a good portion of the sensitivity of net income to the performance of the bond and equity funds and to the interest rate fluctuations arising from the segregated fund guarantees. 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.
- › 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, 2011, the Company's solvency ratio was 189% (205% at December 31, 2010), and the S&P/TSX index of the Toronto Stock Exchange was at 11,955 points (13,443 points at December 31, 2010). The Company estimates that if the S&P/TSX index had been at 9,900 points as at December 31, 2011 (i.e. 17% lower) (9,300 points or 31% lower at December 31, 2010), the solvency ratio would have been around 175%, and if it had been at 8,100 points (i.e. 32% lower) (7,700 points or 43% lower at December 31, 2010), 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 mix 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. However, no hedge accounting was used in 2011 and 2010.

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, 2011, derivative financial instruments were used to hedge the risk associated with the Universal Life policy funds, as well as under the hedging program for the risk associated with the segregated fund guarantees and for performance improvement strategies.



**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, 2011, the Company was not exposed to any material foreign currency risk.

Note that the Company used hedge accounting in 2011. For more information, refer to note 19 of the Company's consolidated financial statements as at December 31, 2011.

### The Company's Sensitivity to Certain Market Risks

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

#### Decrease in Net Income Available to Common Shareholders Resulting from Adverse Deviations from the Assumptions

In millions of dollars	2011	2010
<b>Investment Risk</b>		
25 basis point decrease in the initial reinvestment rate (IRR)	82	71
10 basis point decrease in the ultimate reinvestment rate (URR)	62	49
Sudden 10% drop in the stock markets <sup>1</sup>	22	20

### Real Estate Risk

Real estate risk is the risk associated with the variation in the value of real estate and rental income losses.

The Company's investment policy authorizes prudent investments in the real estate market within certain clearly defined limits, both globally and by geographic region. Real estate investments are used to back long-term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

### 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 risk originates mainly from credit granted in the form of mortgage loans and private placements, but also from exposure to derivative financial instruments.

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.

The derivative products used under the hedging program for segregated fund guarantees introduce credit risk due to the presence of counterparties involved in the program. As indicated earlier, the counterparty financial institutions for derivative products must meet certain well-established criteria, and specific agreements have been established with these institutions in order to minimize and control the credit risk.

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. More information about concentration risk is presented in note 19 of the consolidated financial statements as at December 31, 2011.

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

### 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, 2011, the value of the marketable securities included in the Company's investment portfolio represented 223% of the amount that would be required under an extreme adverse scenario where the Company would have to redeem all of its redeemable contracts (201% as at December 31, 2010). This means that easily convertible assets, which represent the sources of liquidity, cover over 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 164% as at December 31, 2011 (155% as at December 31, 2010).

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.

<sup>1</sup> Assuming a sudden drop in the stock markets at the beginning of the following year, followed by market growth in line with expectations for the rest of the year.

## 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 priority 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 to changing technologies and Company needs.

The Company's crisis management structure covers all the potential risks the Company may be exposed to, including 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 implemented an extensive business continuity plan and has procedures in place in all of its business offices to minimize service recovery wait times. Both the business continuity plan and the related procedures are reviewed and tested on a regular basis.

In addition, the Company has adopted a detailed communication plan designed to protect its corporate image in a crisis situation and to reassure the public about its ability to manage this kind of situation. The plan outlines the communication strategies to use in a crisis situation in order to notify the public of the causes and consequences of the crisis, the procedures in place to resolve it and the measures taken to reduce the risk of the same thing happening again.

Preserving the environment is of fundamental importance to the Company. An environmental policy has been developed and programs have been set up to achieve a balance between the changing ecological and economic factors that are necessary to the Company's growth.

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. 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 2011

In the fourth quarter of 2011, Industrial Alliance recorded a net loss to common shareholders of \$81.2 million (\$0.90 per diluted common share) compared to net income to common shareholders of \$74.1 million in the fourth quarter of 2010 (\$0.84 per diluted common share). This data is established using International Financial Reporting Standards (IFRS).

The loss recorded in the fourth quarter of 2011 results primarily from the following factors:

- › A strengthening of the provisions for future policy benefits by \$152.3 million after tax (\$1.68 per common share). This strengthening was primarily due to the decrease in interest rates in 2011 (refer to the Profitability section of this report for more details).
- › Experience losses of \$8.8 million after tax (\$0.10 per common share) related to stock market volatility, primarily due to lower management fees than expected and the cost of hedging the risk associated with the segregated funds' capital guarantees.

The annual analysis of the future income tax liability, the loss recorded during the quarter and certain other adjustments resulting from an audit carried out by the tax authorities led to an \$8.5 million recovery of tax expenses (\$0.09 per common share).

The Board of Directors announced the payment of a quarterly dividend of \$0.245 per common share. The dividend is payable in cash on March 15, 2012 to the common shareholders of record as at February 29, 2012. The Company also announced that it was maintaining its target range of 25% to 35% in the medium term for the dividend payout ratio. The Company expects the ratio to be in the upper end of the target range in 2012.

In terms of business growth, net premiums, deposits and premium equivalents were down 4% in the fourth quarter compared to the same period in 2010. This decrease is due to weaker sales in the Individual Wealth Management sector, which was unable to repeat its exceptional performance from the last quarter of 2010.

### Highlights

(In millions of dollars, unless otherwise indicated)	Fourth quarter		Year	
	2011	2010	2011	2010
Net income to common shareholders	(81.2)	74.1	103.3	253.4
Earnings per common share (diluted)	(\$0.90)	\$0.84	\$1.18	\$2.93
Return on common shareholders' equity	(13.8%)	13.1%	4.7%	12.8%
Net premiums, premium equivalents and deposits	1,747.7	1,821.0	7,008.5	6,751.2
	December 31 2011	December 31 2010	December 31 2009	
Assets under management and under administration <sup>1</sup>	73,350.7	68,908.7	58,406.6	

<sup>1</sup> In 2011, assets managed for third parties were reclassified and added to assets under management.

### QUARTERLY RESULTS

Following is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters. Generally speaking, the terminology used in the following sections is the same terminology used in the financial statements.

Net 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.

Net premiums reached \$1.3 billion in the last quarter of 2011, a year-over-year increase of 1%. As a result, the Company ended the year with net premiums totalling \$5.0 billion, an increase of 4% over 2010 and a new record for the Company. The 2011 performance is primarily explained by the increase in premiums paid into the general fund.

In 2011, investment income was \$732.4 million higher than in 2010, primarily because of the increase in the market values of assets held for trading. Growth in these assets can be attributed to bonds, which benefited from the decrease in long-term interest rates throughout the year. Most of the bonds and stocks are classified as held for trading and are used to match the provisions for future policy benefits. For this reason, the impact of the increase in investment income on the 2011 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 segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the brokerage subsidiaries.

Fees and other revenues for each of the four quarters came close to \$200 million to total \$794.2 million in 2011, a level that had never been achieved before. This result is primarily due to the increase in average assets under management, which continued to grow in 2011 thanks to the achievement of positive net investment fund sales during the year, in spite of volatile markets.

## Quarterly Results

(In millions of dollars, unless otherwise indicated)	2011 IFRS				2010 IFRS			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Net premiums	1,348.8	1,188.8	1,142.4	1,312.4	1,338.7	1,123.3	1,090.2	1,229.7
Investment income	774.8	865.0	397.3	214.0	185.5	619.7	319.6	393.9
Fees and other revenues	193.6	190.5	199.1	211.0	188.1	166.8	174.1	174.9
Total	2,317.2	2,244.3	1,738.8	1,737.4	1,712.3	1,909.8	1,583.9	1,798.5
Income before income taxes	(130.6)	67.6	102.2	95.0	83.7	95.0	86.6	88.6
Income taxes	68.0	(15.4)	(23.0)	(22.2)	(4.2)	(25.0)	(23.5)	(23.9)
Net Income	(62.6)	52.2	79.2	72.8	79.5	70.0	63.1	64.7
Less: net income (net loss) to participating policyholders	12.6	0.5	0.6	0.7	(0.5)	0.5	0.5	0.5
Net income to shareholders	(75.2)	51.7	78.6	72.1	80.0	69.5	62.6	64.2
Less: dividends to preferred shareholders	6.0	6.0	5.9	6.0	5.9	6.0	6.0	5.0
<b>Net income to common shareholders</b>	<b>(81.2)</b>	<b>45.7</b>	<b>72.7</b>	<b>66.1</b>	<b>74.1</b>	<b>63.5</b>	<b>56.6</b>	<b>59.2</b>
Earnings per common share								
Basic	(\$0.90)	\$0.54	\$0.86	\$0.79	\$0.88	\$0.76	\$0.68	\$0.72
Diluted	(\$0.90)	\$0.52	\$0.83	\$0.76	\$0.84	\$0.73	\$0.66	\$0.69
Diluted, adjusted <sup>1</sup>	(\$0.90)	\$0.53	\$0.85	\$0.78	\$0.87	\$0.75	\$0.68	\$0.71
Premiums invested in segregated funds	500.7	395.0	398.6	593.7	625.6	457.6	409.6	569.4
Change in provisions for future policy benefits	860.3	859.8	326.0	123.1	270.8	610.4	284.3	308.6
Total general fund assets	23,706.1	22,732.9	21,385.9	20,825.9	20,535.8	20,285.1	19,320.2	18,380.3
Segregated fund net assets	13,734.9	13,203.1	13,936.0	14,082.3	13,572.5	12,711.5	11,699.7	11,935.1

<sup>1</sup> Data adjusted to exclude dilution related to innovative tier 1 financial instruments (IATS)

## 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 loan 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 2011, the cash flows related to operating activities increased by \$182.6 million compared to 2010, reaching \$934.7 million. This increase was essentially due to the strengthening of provisions for future policy benefits.

Investing activities produced net disbursements of \$1,531.6 million in 2011, compared with net disbursements of \$749.4 million in 2010, which represents a difference of \$782.2 million. This difference is primarily due to purchases of bonds in 2011.

Financing activities produced cash flows of \$451.1 million, \$341.3 million more than in 2010. Note that in 2011, financing activities included the issuance of \$192.4 million in common shares and \$250 million in subordinated debentures in the second half of the year. Dividends paid to common shareholders amounted to \$83.9 million in 2011 (\$81.2 million in 2010), while dividends paid to preferred shareholders amounted to \$23.9 million (\$22.9 million in 2010).

## Cash Flows

(In millions of dollars)	2011 IFRS	2010 IFRS	2009 GAAP
Cash flows related to the following activities:			
Operating	934.7	752.1	891.1
Investing	(1,531.6)	(749.4)	(864.5)
Financing	451.1	109.8	105.1
Gains (losses) resulting from the currency translation of cash and cash equivalents	2.1	(29.6)	(8.3)
Increase (decrease) in cash and cash equivalents	(143.7)	82.9	123.4
Cash and cash equivalents at the beginning of the year	451.4	368.5	258.5
<b>Cash and cash equivalents at the end of the year</b>	<b>307.7</b>	<b>451.4</b>	<b>381.9</b>

## 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, 2011, the balance of these loans totalled \$0.2 million (\$0.5 million as at December 31, 2010).

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 at 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 39 of the Company's consolidated financial statements.

## SIGNIFICANT ACCOUNTING AND ACTUARIAL POLICIES

The Company's significant accounting policies are summarized in note 2 of the consolidated financial statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) while maintaining the specifics of each of the entities included in the consolidation, namely: life and health insurance companies; auto and home insurance companies; and mutual fund, securities and trust companies.

The preparation of financial statements in accordance with IFRS 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 the standards established by the Canadian Institute of Actuaries, 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 the liabilities takes into account a future decrease in mortality rates.

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. In addition, the longevity risk associated with the insured annuities portfolio is partially reinsured. The Company also has reinsurance treaties covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

Reinsurance assets are reported on the balance sheet. In 2011, reinsurance assets totalled \$395.5 million (\$497.2 million in 2010).

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 Savings and Retirement 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 2011 was not favourable in comparison with its assumptions.



**Lapse** – Lapse refers to the lapse rate of contracts, or in other words, the termination of policies due to non-payment of premiums. Policies may also be terminated by their policyholders through a policy surrender. Lapse rate assumptions are generally based on the Company's recent lapse experience. These assumptions are adjusted, however, to take into account industry experience where the Company's experience is limited. For some types of insurance products, lower than expected lapse rates, instead of higher than expected lapse rates, could have an adverse impact on the Company's financial situation. The lapse rate assumptions and the margins for conservatism applied to these assumptions take into account the type of product contained in each policy. Overall, 2011 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, 2011 results were slightly better than 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 15 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 2011, 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 2011

The Company adopted International Financial Reporting Standards (IFRS) on January 1, 2011 and produced its first financial statements using IFRS in the first quarter of 2011. The new accounting policies are presented in note 2 of the consolidated financial statements, entitled "Accounting Policies". All the major differences between IFRS and generally accepted accounting principles (GAAP) are presented in note 4 of the consolidated financial statements.

### Future Change in Accounting

The International Accounting Standards Board (IASB) has issued a number of amendments and new standards. For more information, refer to note 3 of the consolidated financial statements, entitled "Change in Accounting Policies".

## RECONCILIATION OF CERTAIN NON-IFRS MEASURES WITH IFRS MEASURES

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

### Reconciliation of the Sources of Earnings with IFRS

(In millions of dollars)	2011	2010
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	27.2	258.7
Income on capital (according to sources of earnings)	106.2	102.5
Income attributable to participating contracts and other items <sup>1</sup>	0.8	7.3
Earnings before taxes according to the financial statements	134.2	353.9
Income taxes:		
On the operating profit and on income on capital	(6.2)	(84.9)
Amount for participating contracts and other items <sup>1</sup>	13.6	8.3
Income taxes according to financial statements	7.4	(76.6)
Net income according to financial statements	141.6	277.3

## 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, 2011, 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 Canadian generally accepted accounting principles (GAAP).

<sup>1</sup> Other items include tax adjustments.



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, 2011, 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)	2011 IFRS	2010 IFRS	2009 GAAP
Debentures	747.7	499.1	519.8
Preferred shares	425.0	425.0	325.0
<b>Total</b>	<b>1,172.7</b>	<b>924.1</b>	<b>844.8</b>

### ACQUISITIONS IN 2011

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 was financed from the Company's general funds.

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

### DISPOSITIONS DURING THE PERIOD

No dispositions were made during the period.

### MERGERS

On September 12, 2011, the Company announced the merger of its Industrial Alliance Pacific Insurance and Financial Services Inc. (Industrial Alliance Pacific) subsidiary with its own operations.

### CONTRACTUAL OBLIGATIONS

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

As at December 31, 2011, the Company's contractual obligations and commitments were as follows:

#### Contractual Obligations Payments Due by Period

(In millions of dollars)	As at December 31, 2011			
	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures <sup>1</sup>	747.7	---	---	747.7
Capital lease	0.5	0.3	0.2	---
Operating lease	39.0	12.7	23.5	2.8
Purchasing commitments	179.8	33.0	80.3	66.5
Other long-term commitments	292.0	217.9	71.8	2.3
<b>Total of contractual obligations</b>	<b>1,259.0</b>	<b>263.9</b>	<b>175.8</b>	<b>819.3</b>

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2011, these investment commitments totalled \$136.4 million (\$180.2 million in 2010), including \$80.6 million that will be maturing in the next year (\$147.4 million in 2010), and \$55.8 million that will be maturing in more than one year (\$32.8 million in 2010).

### DEBENTURES

On December 14, 2011, the Company closed the issuance of subordinated debentures maturing on December 14, 2021 with a fixed annual rate of return of 4.75% for the first five years, payable semi-annually, and a variable rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 3.20% for the last five years, payable quarterly.

### OUTSTANDING SHARES

As at February 16, 2012, Industrial Alliance had 90,470,521 issued and outstanding common shares.

<sup>1</sup> 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

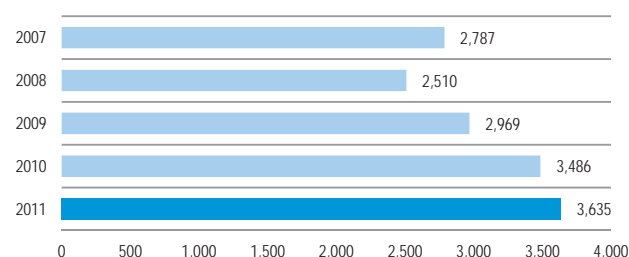
### 2011 HIGHLIGHTS

- › Embedded value of \$3.6 billion as at December 31, 2011, up 4.3% compared to December 31, 2010 after the payment of dividends (up 6.7% before the payment of dividends)
- › Embedded value per common share: \$40.23 as at December 31, 2011
- › Embedded value/book value ratio: 1.57 as at December 31, 2011
- › Contribution of recurring items to growth in embedded value: 10.9% in 2011

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 International Financial Reporting Standards.

As at December 31, 2011, Industrial Alliance's embedded value reached \$3.6 billion. This is up 6.7% from the value calculated at December 31, 2010, before the payment of dividends to common shareholders, and 4.3% after the payment of these dividends. The embedded value as at December 31, 2011 amounted to \$40.23 per common share, down 3.2% compared to \$41.56 at December 31, 2010. This decrease is due to the issuance of 6 million common shares in September 2011.

### Embedded Value as at December 31 (\$Million)

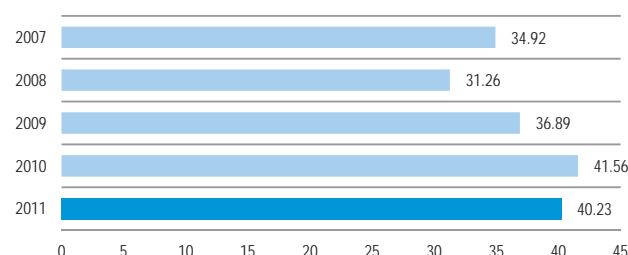


Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 10.9% in 2011 (12.2% in 2010). 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 significant impact on the Company's embedded value in 2011, causing it to decrease by \$357 million (-10.2%).

### Embedded Value Per Common Share as at December 31 (\$)



Among the non-recurring items in 2011, the year-end changes in assumptions regarding the provisions for future policy benefits following the drop in interest rates during the year, combined with a decrease in the discount rate and the return on shareholders' equity used to calculate embedded value, led to a \$364 million decrease in embedded value.

Moreover, the stock market performance led to a reduction in the Company's future profits, primarily due to the decrease in management fees collected on segregated funds, mutual funds and Universal Life policy funds, and reduced shareholders' equity as well. This led to a \$163 million decrease in embedded value (-4.7%). In 2010, the stock market performance resulted in a \$69 million (2.3%) increase in embedded value.

Other experience gains and losses increased the embedded value by \$237 million (6.8%). These gains include better business retention in wealth management products, a higher than expected return on surplus and the inclusion of own-use properties at their market value.

The introduction of International Financial Reporting Standards (IFRS) led to an increase in the amount of equity required by the regulatory authorities, which resulted in a \$15 million (-0.4%) decrease in embedded value in 2011.

The acquisition of the operations of Protection V.A.G. Inc., Communications & Références Multi Assurance Direct inc. and Produits récréatifs Accès Inc. reduced embedded value by \$52 million in 2011 (-1.5%). This decrease is due to the fact that a portion of the assets on the Company's balance sheet was converted to goodwill as a result of the acquisition, and goodwill is not included in embedded value.

Changes to the capital structure in 2011, in particular the issuance of common shares in September, increased embedded value by \$209 million (6.0%) in 2011.

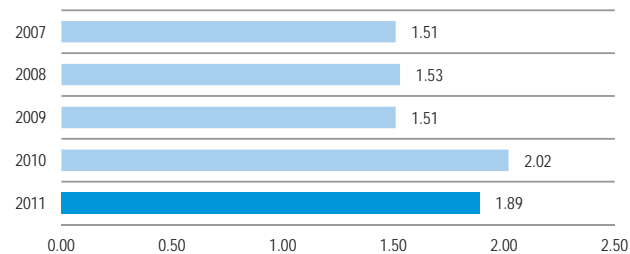
The Company also paid \$84 million in dividends to its common shareholders in 2011, which represents a 2.4% decrease in embedded value.

### 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 2011, the contribution of new sales to the increase in Industrial Alliance's embedded value was \$163.6 million, or \$1.89 per common share. This is a decrease of \$6.2 million (or 3.5%) compared to the previous year. The decrease in the value of new business compared to 2010 can be explained by lower interest rates in 2011.

#### 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 2011, the embedded value represented 1.57x 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	
	2011	2010
Discount rate	5.50%	6.50%
Risk premium	3.00%	3.00%
Return on shareholders' equity	2.50%	3.50%
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, 2011
1% increase in risk premium	(13%)
3% increase in risk premium	(38%)
Increase in the solvency ratio from 150% to 175%	(5%)
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	(6%)

#### Embedded Value

	Embedded Value (\$Million)	Contribution to Embedded Value (%)	Embedded Value per Common Share (\$)
Embedded value as at December 31, 2010	3,486	--	41.56
Recurring items			
Expected growth of embedded value	217	6.2	2.58
New sales	164	4.7	1.89
Subtotal	381	10.9	4.47
Non-recurring items			
Experience gains (losses) – related to the equity markets	(163)	(4.7)	(1.94)
Experience gains (losses) – other	237	6.8	2.83
Changes in assumptions (including the discount rate and return on shareholders' equity)	(364)	(10.4)	(4.34)
Change in solvency requirements	(15)	(0.4)	(0.18)
Acquisitions	(52)	(1.5)	(0.62)
Subtotal	(357)	(10.2)	(4.25)
Changes in capital structure	209	6.0	(0.57)
Embedded value as at December 31, 2011, before dividends	3,719	6.7	41.21
Dividends paid to common shareholders	(84)	(2.4)	(0.98)
Embedded value as at December 31, 2011	3,635	4.3	40.23

## TEN-YEAR HISTORY

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>PROFITABILITY</b>											
<b>Net income</b>											
Net income	141.6	277.3	274.7	218.3	74.8	249.2	231.3	134.6	159.2	140.3	103.5
Less: net income (loss) attributed to participating policyholders	14.4	1.0	1.0	(1.3)	2.9	1.2	3.4	2.4	4.1	3.4	6.1
Net income attributed to shareholders	127.2	276.3	273.7	219.6	71.9	248.0	227.9	132.2	155.1	136.9	97.4
Less: preferred share dividends	23.9	22.9	22.9	13.8	5.8	5.8	4.9	---	0.1	0.3	0.7
Net income available to common shareholders	103.3	253.4	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7
<b>Earnings per common share<sup>4</sup></b>											
Basic	\$1.20	\$3.04	\$3.02	\$2.56	\$0.82	\$3.02	\$2.77	\$1.66	\$1.96	\$1.76	\$1.29
Diluted	\$1.18	\$2.93	\$2.99	\$2.55	\$0.82	\$2.99	\$2.74	\$1.65	\$1.95	\$1.74	\$1.29
Diluted - adjusted for IATS <sup>5</sup>	\$1.19	\$3.01	---	---	---	---	---	---	---	---	---
Return on common shareholders' equity	4.7%	12.8%	12.6%	11.9%	4.0%	15.1%	15.7%	10.3%	13.6%	13.9%	11.8%
<b>Net income (loss) available to common shareholders by line of business</b>											
Individual Insurance	(5.1)	123.5	123.7	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2
Individual Wealth Management	69.5	69.4	68.9	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1
Group Insurance	22.4	42.4	40.7	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3
Group Savings and Retirement	16.5	18.1	17.5	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1
Total	103.3	253.4	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7
<b>SPECIFIED ITEMS</b>											
<b>Impact on net income to common shareholders</b>											
<b>Impact of credit</b>											
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 <sup>6</sup>	---	---	---	---	(10.6)	(7.3)	---	---	---	---	---
Provision for the Norshield funds <sup>7</sup>	---	---	---	---	---	---	---	(52.1)	---	---	---
Provision for an investment in Teleglobe <sup>8</sup>	---	---	---	---	---	---	---	---	---	---	(19.4)
<b>Impact of market on expected earnings<sup>9</sup></b>											
Increase (decrease) in income on UL policies	(8.8)	2.2	2.2	3.8	(9.8)	---	---	---	---	---	---
Higher (lower) than expected management fees	(9.8)	(1.0)	(1.0)	8.7	(23.9)	---	---	---	---	---	---
Higher (lower) than expected income on capital	---	0.2	0.2	0.8	(4.6)	---	---	---	---	---	---
Impact of dynamic hedging	(9.5)	---	---	---	---	---	---	---	---	---	---
<b>Other</b>											
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	(152.3)	(8.4)	(8.4)	(0.8)	(138.2)	(0.7)	0.4	(1.5)	(2.6)	2.5	1.4
Restructuring charges <sup>10</sup>	---	---	---	---	---	---	(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	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>SPECIFIED ITEMS (continued)</b>											
<b>Impact on earnings per common share</b>											
<b>Impact of credit</b>											
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 <sup>6</sup>	---	---	---	---	(\$0.13)	(\$0.09)	---	---	---	---	---
Provision for the Norshield funds <sup>7</sup>	---	---	---	---	---	---	---	(\$0.65)	---	---	---
Provision for an investment in Teleglobe <sup>8</sup>	---	---	---	---	---	---	---	---	---	---	(\$0.26)
<b>Impact of market on expected earnings<sup>9</sup></b>											
Increase (decrease) in income on UL policies	(\$0.10)	\$0.03	\$0.03	\$0.05	(\$0.12)	---	---	---	---	---	---
Higher (lower) than expected management fees	(\$0.11)	(\$0.01)	(\$0.01)	\$0.11	(\$0.30)	---	---	---	---	---	---
Higher (lower) than expected income on capital	---	---	---	\$0.01	(\$0.05)	---	---	---	---	---	---
Impact of dynamic hedging	(\$0.11)	---	---	---	---	---	---	---	---	---	---
<b>Other</b>											
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	(\$1.76)	(\$0.10)	(\$0.10)	(\$0.01)	(\$1.71)	(\$0.01)	\$0.01	(\$0.02)	(\$0.03)	\$0.03	\$0.02
Restructuring charges <sup>10</sup>	---	---	---	---	---	---	(\$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	---	---	---
<b>SOURCES OF EARNINGS BY LINE OF BUSINESS</b>											
<b>Individual Insurance</b>											
<b>Operating profit (loss)</b>											
Expected profit on in-force	233.5	211.0	209.6	197.4	200.4	184.5	172.5	156.0	146.6	126.7	108.0
Experience gain (loss)	(27.4)	(4.7)	(2.2)	17.4	(34.2)	(8.9)	2.6	5.7	0.1	9.7	(7.5)
Gain (strain) on sales	(111.4)	(104.3)	(105.4)	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)	(70.3)	(57.7)	(52.9)
Changes in assumptions and management actions	(194.1)	(2.2)	(2.2)	68.6	(175.6)	(1.6)	(1.7)	(1.5)	(0.5)	(4.3)	2.9
Total	(99.4)	99.8	99.8	194.4	(91.0)	91.0	70.7	77.3	75.9	74.4	50.5
Income on capital	89.3	80.5	77.7	51.3	41.5	57.2	50.6	41.4	36.5	28.2	17.9
Income taxes	23.5	(40.7)	(38.0)	(68.1)	17.8	(42.2)	(40.6)	(37.4)	(34.2)	(30.5)	(17.8)
Net income (loss) attributed to shareholders, before other items	13.4	139.6	139.5	177.6	(31.7)	106.0	80.7	81.3	78.2	72.1	0.1
Less: preferred share dividends	18.5	16.1	16.1	8.0	0.0	0.0	0.0	0.0	0.0	0.2	0.4
Net income (loss) available to common shareholders, before other items	(5.1)	123.5	123.4	169.6	(31.7)	106.0	80.7	81.3	78.2	71.9	50.2
Other items <sup>11</sup>	---	---	0.3	(3.4)	4.8	0.3	5.1	(0.9)	(4.8)	0.9	0.0
Net income (loss) available to common shareholders	(5.1)	123.5	123.7	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8	50.2

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

	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)</b>											
<b>Individual Wealth Management</b>											
Operating profit											
Expected profit on in-force	128.5	103.3	102.8	59.2	117.9	106.0	92.9	55.8	46.7	41.9	42.1
Experience gain (loss)	(15.9)	4.5	4.5	(4.4)	(32.1)	6.1	9.4	13.6	2.5	(0.9)	(18.2)
Gain (strain) on sales	(8.3)	(7.7)	(7.7)	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)	(11.9)	(10.8)	(5.8)
Changes in assumptions and management actions	(16.5)	(6.8)	(6.8)	(16.9)	(1.9)	(0.9)	1.4	(1.6)	(1.9)	0.3	0.1
Total	87.8	93.3	92.8	32.4	80.2	106.6	98.3	59.5	35.4	30.5	18.2
Income on capital	0.2	2.4	2.2	8.4	5.9	5.4	4.8	11.7	14.6	12.1	6.9
Income taxes	(16.5)	(22.3)	(22.1)	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)	(15.7)	(13.1)	(6.9)
Net income attributed to shareholders, before other items	71.5	73.4	72.9	29.1	62.5	77.8	76.9	49.0	34.3	29.5	18.2
Less: preferred share dividends	2.0	4.0	4.0	5.8	5.8	5.8	4.9	0.0	0.0	0.1	0.1
Net income available to common shareholders, before other items	69.5	69.4	68.9	23.3	56.7	72.0	72.0	49.0	34.3	29.4	18.1
Other items <sup>11</sup>	---	---	0.0	(0.4)	0.6	0.1	0.9	(50.4)	(1.0)	0.6	0.0
Net income (loss) available to common shareholders	69.5	69.4	68.9	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0	18.1
<b>Group Insurance</b>											
Operating profit											
Expected profit on in-force	45.7	39.1	38.0	48.1	53.4	46.0	40.5	44.0	27.9	21.2	14.4
Experience gain (loss)	(15.0)	11.1	11.1	(10.4)	(8.3)	0.4	5.3	(0.3)	16.3	1.3	9.3
Gain (strain) on sales	0.0	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	(8.2)	(2.3)	(2.3)	(0.9)	(1.0)	1.5	1.3	(1.1)	(1.3)	0.3	(0.4)
Total	22.5	47.9	46.8	36.8	44.1	47.9	47.1	42.6	42.9	22.8	23.3
Income on capital	10.8	11.4	10.5	12.6	9.0	15.1	13.2	10.1	8.0	5.4	3.7
Income taxes	(8.8)	(15.3)	(15.1)	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)	(17.0)	(9.3)	(8.6)
Net income attributed to shareholders, before other items	24.5	44.0	42.2	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.4
Less: preferred share dividends	2.1	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Net income available to common shareholders, before other items	22.4	42.4	40.6	35.8	41.2	45.2	44.2	35.7	33.9	18.9	18.3
Other items <sup>11</sup>	---	---	0.1	(1.0)	1.4	0.1	2.6	(0.6)	(0.3)	0.9	0.0
Net income available to common shareholders	22.4	42.4	40.7	34.8	42.6	45.3	46.8	35.1	33.6	19.8	18.3
<b>Group Savings and Retirement</b>											
Operating profit (loss)											
Expected profit on in-force	17.0	14.4	14.0	15.8	19.7	16.2	15.3	12.5	10.5	9.4	15.4
Experience gain (loss)	1.4	3.5	3.5	1.3	(17.8)	1.7	1.4	0.0	(0.8)	2.9	(8.2)
Gain (strain) on sales	(1.2)	(0.2)	(0.2)	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)	(0.2)	(0.9)	(0.9)
Changes in assumptions and management actions	(0.9)	0.0	0.0	(51.9)	(16.7)	0.0	(0.4)	2.1	0.0	(1.0)	(0.6)
Total	16.3	17.7	17.3	(35.9)	(17.5)	15.8	15.0	13.4	9.5	10.4	5.7
Income on capital	5.9	8.2	7.7	7.4	6.0	9.2	9.4	11.3	10.7	9.0	6.6
Income taxes	(4.4)	(6.6)	(6.4)	11.0	3.8	(6.6)	(6.8)	(6.5)	(5.5)	(4.7)	(2.1)
Net income (loss) attributed to shareholders, before other items	17.8	19.3	18.6	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.2
Less: preferred share dividends	1.3	1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Net income (loss) available to common shareholders, before other items	16.5	18.1	17.4	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7	10.1
Other items <sup>11</sup>	---	---	0.1	(0.6)	0.8	0.1	(0.1)	(0.1)	0.0	(0.7)	0.0
Net income (loss) available to common shareholders	16.5	18.1	17.5	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0	10.1



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

	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
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## SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)

### Total company

Operating profit											
Expected profit on in-force	424.7	367.8	364.4	320.5	391.4	352.7	321.2	268.3	231.7	199.2	179.9
Experience gain (loss)	(56.9)	14.4	16.9	3.9	(92.4)	(0.7)	18.7	19.0	18.1	13.0	(24.6)
Gain (strain) on sales	(120.9)	(112.2)	(113.3)	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)	(82.4)	(69.4)	(59.6)
Changes in assumptions and management actions	(219.7)	(11.3)	(11.3)	(1.1)	(195.2)	(1.0)	0.6	(2.1)	(3.7)	(4.7)	2.0
Total	27.2	258.7	256.7	227.7	15.8	261.3	231.1	192.8	163.7	138.1	97.7
Income on capital											
Investment income	67.8	80.3	84.2	73.3	58.8	78.0	---	---	---	---	---
Realized gains (losses) on assets available for sale	38.4	22.2	13.9	6.4	3.6	8.9	---	---	---	---	---
Total	106.2	102.5	98.1	79.7	62.4	86.9	78.0	74.5	69.8	54.7	35.1
Income taxes	(6.2)	(84.9)	(81.6)	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)	(72.4)	(57.6)	(35.4)
Net income attributed to shareholders, before other items	127.2	276.3	273.2	225.0	64.3	247.4	219.4	184.2	161.1	135.2	97.4
Less: preferred share dividends	23.9	22.9	22.9	13.8	5.8	5.8	4.9	0.0	0.0	0.3	0.7
Net income available to common shareholders, before other items	103.3	253.4	250.3	211.2	58.5	241.6	214.5	184.2	161.1	134.9	96.7
Other items <sup>11</sup>	---	---	0.5	(5.4)	7.6	0.6	8.5	(52.0)	(6.1)	1.7	0.0
Net income available to common shareholders	103.3	253.4	250.8	205.8	66.1	242.2	223.0	132.2	155.0	136.6	96.7

## BUSINESS GROWTH

### Revenues

Premiums											
General fund	3,114.4	2,719.7	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
Segregated funds	1,878.0	2,062.2	2,089.6	1,552.0	1,661.6	1,565.6	1,554.0	1,189.9	981.5	842.0	756.7
Total	4,992.4	4,781.9	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
Net investment income											
Investment income	957.8	682.2	598.2	587.6	393.3	433.4	643.3	610.6	596.0	574.5	557.4
Variation in the market value on real estate held for investment	12.4	3.1	---	---	---	---	---	---	---	---	---
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)
Realized gains (losses) on assets available for sale	38.4	24.5	14.8	6.4	3.6	8.9	---	---	---	---	---
Variations in the market value of assets designated at fair value through profit or loss (FVTPL) <sup>12</sup>	1,244.2	809.4	813.7	691.8	(596.0)	125.9	---	---	---	---	---
Change in provision for losses	(1.7)	(0.5)	(0.5)	(3.1)	(5.2)	0.2	2.0	(76.3)	0.8	(0.1)	(28.9)
Total	2,251.1	1,518.7	1,444.5	1,302.3	(188.0)	578.8	860.0	690.9	696.9	677.3	450.2
Fees and other income	794.2	703.9	450.5	360.3	371.4	363.5	314.9	167.4	128.9	99.5	90.8
Total revenues	8,037.7	7,004.5	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
Net premiums, premium equivalents and deposits by line of business											
Individual Insurance	1,246.9	1,111.6	1,125.6	---	---	---	---	---	---	---	---
Individual Wealth Management	3,543.6	3,676.3	3,676.3	---	---	---	---	---	---	---	---
Group Insurance	1,305.6	1,151.4	1,151.4	---	---	---	---	---	---	---	---
Group Savings and Retirement	708.6	657.1	650.6	---	---	---	---	---	---	---	---
General Insurance	203.8	154.8	161.6	---	---	---	---	---	---	---	---
Total	7,008.5	6,751.2	6,765.5	---	---	---	---	---	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>BUSINESS GROWTH (continued)</b>											
<b>Premiums and deposits by line of business</b>											
Individual Insurance	---	---	1,125.6	938.4	920.7	897.3	838.6	768.7	763.1	683.4	663.9
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
Group Insurance	---	---	1,035.2	962.4	956.5	860.5	749.6	694.9	637.9	603.0	543.0
Group Savings and Retirement	---	---	622.5	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4
General Insurance	---	---	161.6	140.6	128.4	118.2	107.2	95.1	83.5	65.2	48.2
<b>Total</b>	<b>---</b>	<b>---</b>	<b>6,621.2</b>	<b>5,231.2</b>	<b>5,542.9</b>	<b>5,826.2</b>	<b>4,990.6</b>	<b>3,583.7</b>	<b>2,852.4</b>	<b>2,566.7</b>	<b>2,337.2</b>
<b>Individual Insurance</b>											
Sales <sup>13</sup>											
Canada	178.2	170.8	170.8	145.6	145.8	155.1	147.6	136.5	137.0	125.7	129.3
United States	31.2	15.8	15.8	1.5	1.1	3.9	6.0	4.8	2.9	3.0	4.0
<b>Total</b>	<b>209.4</b>	<b>186.6</b>	<b>186.6</b>	<b>147.1</b>	<b>146.9</b>	<b>159.0</b>	<b>153.6</b>	<b>141.3</b>	<b>139.9</b>	<b>128.7</b>	<b>133.3</b>
Premiums											
Canada	1,116.3	1,054.3	1,068.3	923.6	907.1	880.5	820.0	751.0	745.8	665.9	645.7
United States	130.6	57.3	57.3	14.8	13.6	16.8	18.6	17.7	17.3	17.5	18.2
<b>Total</b>	<b>1,246.9</b>	<b>1,111.6</b>	<b>1,125.6</b>	<b>938.4</b>	<b>920.7</b>	<b>897.3</b>	<b>838.6</b>	<b>768.7</b>	<b>763.1</b>	<b>683.4</b>	<b>663.9</b>
<b>Individual Wealth Management</b>											
Sales <sup>13</sup>											
General fund	403.6	441.1	441.1	404.3	345.5	334.4	289.2	242.4	237.5	227.9	198.7
Segregated funds	1,362.3	1,488.0	1,488.0	866.2	815.7	990.6	958.3	805.2	669.3	430.8	392.0
Mutual funds	1,777.7	1,747.2	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---	---
<b>Total</b>	<b>3,543.6</b>	<b>3,676.3</b>	<b>3,676.3</b>	<b>2,350.0</b>	<b>2,422.4</b>	<b>3,121.9</b>	<b>2,475.1</b>	<b>1,460.2</b>	<b>906.8</b>	<b>658.7</b>	<b>590.7</b>
Net investment fund sales											
Segregated funds	768.6	925.0	925.0	476.4	322.9	578.7	607.6	547.4	332.7	117.5	152.1
Mutual funds	729.5	797.1	797.1	281.4	289.5	799.2	267.0	148.7	---	---	---
<b>Total</b>	<b>1,498.1</b>	<b>1,722.1</b>	<b>1,722.1</b>	<b>757.8</b>	<b>612.4</b>	<b>1,377.9</b>	<b>874.6</b>	<b>696.1</b>	<b>332.7</b>	<b>117.5</b>	<b>152.1</b>
Assets under management											
General fund	1,834.8	1,751.4	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
Segregated funds	9,098.7	8,794.6	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
Mutual funds	8,463.9	8,124.1	8,124.1	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5	94.1	---
<b>Total</b>	<b>19,397.4</b>	<b>18,670.1</b>	<b>18,670.1</b>	<b>15,479.2</b>	<b>12,454.0</b>	<b>15,115.0</b>	<b>13,959.7</b>	<b>12,206.5</b>	<b>6,661.0</b>	<b>5,130.9</b>	<b>4,532.7</b>
<b>Group Insurance</b>											
Sales <sup>13</sup>											
Employee Plans	131.9	72.2	72.2	75.0	92.9	72.0	70.8	52.3	55.7	53.3	92.4
Creditor Insurance	265.9	183.3	183.3	152.4	194.2	192.0	176.4	158.8	132.6	130.1	124.5
Special Markets Group (SMG)	133.0	133.2	133.2	118.2	117.3	109.4	100.2	97.7	97.1	78.3	69.9
Net premiums and premium equivalents											
Employee Plans	785.4	711.8	762.2	727.7	684.1	594.8	509.2	475.4	448.4	426.0	378.6
Creditor Insurance	230.5	148.8	148.8	121.5	159.5	161.3	147.8	132.1	109.8	105.5	98.7
Special Markets Group (SMG)	123.1	124.2	124.2	113.2	112.9	104.4	92.6	87.4	79.7	71.5	65.7
<b>Total net premiums</b>	<b>1,139.0</b>	<b>984.8</b>	<b>1,035.2</b>	<b>962.4</b>	<b>956.5</b>	<b>860.5</b>	<b>749.6</b>	<b>694.9</b>	<b>637.9</b>	<b>603.0</b>	<b>543.0</b>
Premium equivalents and deposits											
Administrative services only contracts (ASO)	43.9	51.0	116.2	115.9	101.9	94.7	124.1	102.9	96.1	99.2	43.9
Investment contracts	122.7	115.6	---	---	---	---	---	---	---	---	---
<b>Total</b>	<b>1,305.6</b>	<b>1,151.4</b>	<b>1,151.4</b>	<b>1,078.3</b>	<b>1,058.4</b>	<b>955.2</b>	<b>873.7</b>	<b>797.8</b>	<b>734.0</b>	<b>702.2</b>	<b>586.9</b>

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>BUSINESS GROWTH (continued)</b>											
<b>Group Savings and Retirement</b>											
<b>Sales<sup>12</sup></b>											
Accumulation contracts											
General fund	26.6	34.0	34.0	33.9	18.1	20.9	29.2	25.8	49.1	35.3	40.7
Segregated funds	515.7	574.3	601.7	685.8	845.9	575.0	595.7	384.7	312.2	411.2	364.7
Total	542.3	608.3	635.7	719.7	864.0	595.9	624.9	410.5	361.3	446.5	405.4
Insured annuities (general fund)	114.6	56.2	49.7	120.1	250.9	232.4	195.2	154.3	99.8	109.9	86.0
Deposits	71.8	55.5	28.1	---	---	---	---	---	---	---	---
Total sales	728.7	720.0	713.5	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4	491.4
<b>Assets under management</b>											
Accumulation contracts											
General fund	235.6	236.8	236.8	212.8	181.7	181.1	178.8	185.1	192.1	199.3	188.8
Segregated funds	4,620.5	4,646.3	4,646.3	4,126.9	3,261.3	3,379.5	3,041.5	2,402.9	1,927.8	1,599.6	1,143.8
Other	493.9	473.0	473.0	---	---	---	---	---	---	---	---
Total	5,350.0	5,356.1	5,356.1	4,339.7	3,443.0	3,560.6	3,220.3	2,588.0	2,119.9	1,798.9	1,332.6
Insured annuities (general fund)	3,147.8	2,941.8	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
Total	8,497.8	8,297.9	8,297.9	7,191.6	6,140.2	6,117.2	5,371.2	4,614.2	4,056.3	3,704.0	2,984.9
<b>Distribution of premiums, premium equivalents and deposits by region</b>											
Atlantic provinces	4.0%	4.6%	4.6%	4.6%	4.7%	5.8%	4.7%	3.6%	3.6%	3.4%	3.7%
Quebec	40.6%	39.8%	39.8%	44.9%	42.8%	43.1%	43.3%	51.5%	50.1%	53.1%	54.9%
Ontario	30.0%	29.4%	29.4%	29.4%	31.8%	30.9%	31.6%	26.3%	25.0%	23.7%	21.9%
Western provinces	22.2%	23.1%	23.1%	19.5%	19.6%	19.1%	18.9%	16.7%	18.6%	17.2%	17.3%
Outside Canada	3.2%	3.1%	3.1%	1.6%	1.1%	1.1%	1.5%	1.9%	2.7%	2.6%	2.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Assets under management and administration</b>											
Assets under management											
General fund	23,706.1	20,535.8	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
Segregated funds	13,734.9	13,572.5	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
Mutual funds	8,476.3	8,135.7	8,135.7	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7	1,018.5	94.1	---
Other <sup>14</sup>	6,199.8	5,010.6	5,010.6	563.3	596.7	630.6	501.3	785.9	872.0	---	---
Total	52,117.1	47,254.6	46,819.9	36,255.8	30,213.8	32,792.7	29,091.5	25,780.3	18,834.9	15,443.9	13,462.7
Assets under administration	21,233.6	21,654.1	21,654.1	22,150.8	19,258.4	17,618.9	17,812.6	12,390.9	9,641.1	4,129.6	3,298.2
Total	73,350.7	68,908.7	68,474.0	58,406.6	49,472.2	50,411.6	46,904.1	38,171.2	28,476.0	19,573.5	16,760.9
<b>Human resources</b>											
Number of employees	4,109	3,756	3,756	3,478	3,427	2,947	2,819	2,746	2,626	2,503	2,434
Number of Career representatives	1,860	1,761	1,761	1,688	1,597	1,608	1,550	1,445	1,379	1,309	1,310

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

	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>INVESTED ASSETS</b>											
<b>Value and distribution of investments</b>											
Book value of investment portfolio	21,494.1	18,692.8	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
Market value of investment portfolio	---	---	---	---	---	---	13,759.8	12,809.6	11,720.6	10,893.7	9,751.8
Market value/book value	---	---	---	---	---	---	112.3%	114.1%	110.7%	109.8%	109.1%
<b>Distribution of investments by financial instrument category</b>											
Available for sale	12.7%	12.4%	11.0%	11.6%	10.0%	8.7%	---	---	---	---	---
Fair value through profit or loss (FVPTL) <sup>12</sup>	59.4%	55.6%	58.2%	53.9%	51.3%	58.6%	---	---	---	---	---
Loans and receivables	24.1%	28.1%	26.9%	30.5%	34.2%	27.8%	---	---	---	---	---
Real estate held for investment	3.7%	3.8%	3.8%	3.9%	4.4%	3.4%	---	---	---	---	---
Other	0.1%	0.1%	0.1%	0.1%	0.1%	1.5%	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---
<b>Distribution of investments by asset category</b>											
Bonds	63.6%	59.6%	59.1%	57.1%	55.2%	57.2%	58.6%	58.9%	57.4%	55.7%	52.5%
Mortgages	15.1%	17.8%	17.7%	20.6%	24.3%	20.5%	20.1%	21.6%	23.5%	25.1%	28.3%
Stocks	11.2%	11.7%	12.3%	11.5%	9.3%	12.4%	11.9%	10.4%	10.2%	9.4%	8.1%
Real estate held for investment	3.7%	3.8%	3.8%	3.9%	4.4%	3.4%	3.7%	4.0%	4.2%	4.3%	4.9%
Other	6.4%	7.1%	7.1%	6.9%	6.8%	6.5%	5.7%	5.1%	4.7%	5.5%	6.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Distribution of investments by region</b>											
Atlantic provinces	3.9%	4.0%	4.0%	4.2%	3.9%	4.1%	3.9%	4.8%	5.1%	4.6%	5.3%
Quebec	42.5%	45.8%	45.6%	46.9%	48.6%	48.1%	48.0%	49.5%	49.6%	50.1%	50.5%
Ontario	23.4%	21.0%	20.9%	21.5%	20.5%	20.6%	20.6%	20.3%	20.7%	20.5%	20.3%
Western provinces	16.4%	16.9%	16.9%	18.1%	17.5%	16.8%	16.6%	16.9%	17.3%	17.9%	18.1%
Outside Canada	13.8%	12.3%	12.6%	9.3%	9.5%	10.4%	10.9%	8.5%	7.3%	6.9%	5.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Impaired investments and provisions</b>											
Gross impaired investments (excluding insured loans)	17.8	25.6	26.9	16.7	14.0	20.7	95.2	96.8	47.6	60.5	60.4
<b>Net impaired investments (excluding insured loans)</b>											
Bonds	8.4	8.4	8.4	4.5	0.5	1.2	1.2	1.2	1.2	1.2	1.4
Mortgages	4.7	13.1	13.1	6.9	7.8	2.8	0.2	0.5	1.4	11.1	8.9
Real estate acquired to settle loans <sup>15</sup>	---	---	1.3	1.6	0.5	7.7	6.5	5.9	5.9	7.5	9.0
Total	13.1	21.5	22.8	13.0	8.8	11.7	7.9	7.6	8.5	19.8	19.3
<b>Provisions for losses</b>											
At beginning of period	4.1	3.7	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1	15.7
Increase for the period	2.8	2.7	2.7	3.6	5.3	0.3	0.3	78.2	0.0	0.1	29.4
Decrease for the period	(2.2)	(2.3)	(2.3)	(5.1)	(7.3)	0.0	(2.2)	(28.1)	(1.6)	(0.5)	(4.0)
Impact of financial instrument as at January 1, 2007	---	---	---	---	---	(78.6)	---	---	---	---	---
Transfer of provisions to investments	---	---	---	---	(1.8)	---	---	---	---	---	---
At end of period	4.7	4.1	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1
<b>Provisions for losses by type of investments</b>											
Bonds	2.9	2.9	2.9	3.0	5.0	5.2	4.8	4.6	32.4	30.5	30.5
Mortgages	1.8	1.2	1.2	0.7	0.2	0.1	0.8	3.0	3.0	4.5	2.3
Real estate acquired to settle loans <sup>15</sup>	---	---	0.0	0.0	0.0	3.7	3.7	3.7	3.7	3.8	4.0
Other	---	---	---	---	---	---	78.0	77.9	---	1.9	4.3
Total	4.7	4.1	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>INVESTED ASSETS (continued)</b>											
Net impaired investments as a % of total investments	0.06%	0.12%	0.12%	0.08%	0.06%	0.08%	0.06%	0.07%	0.08%	0.20%	0.22%
Provisions as a % of gross impaired investments	26.4%	16.0%	15.2%	22.2%	37.5%	43.6%	91.7%	92.1%	82.0%	67.3%	68.0%
Real estate acquired to settle loans <sup>15</sup>											
Real estate held for resale	5.7	1.3	---	---	---	---	---	---	---	---	---
<b>Bonds</b>											
Book value of the bond portfolio	13,676.8	11,121.2	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
Market value of the bond portfolio	---	---	---	---	---	---	8,409.3	7,997.0	7,046.8	6,368.7	5,423.1
Market value/book value	---	---	---	---	---	---	117.0%	120.8%	116.0%	115.2%	115.7%
Distribution by financial instrument category											
Available for sale	17.9%	18.1%	15.3%	16.9%	14.7%	11.8%	---	---	---	---	---
Fair value through profit or loss (FVPTL) <sup>12</sup>	74.7%	72.9%	75.8%	73.1%	74.7%	78.8%	---	---	---	---	---
Loans and receivables	7.4%	9.0%	8.9%	10.0%	10.6%	9.4%	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---
Distribution by credit rating											
Rating – AAA	8.84%	10.83%	10.83%	11.30%	11.80%	13.70%	17.40%	12.28%	9.81%	11.30%	12.20%
Rating – AA	20.12%	16.68%	16.68%	15.83%	18.24%	19.80%	17.93%	16.31%	17.09%	15.67%	14.98%
Rating – A	61.10%	65.37%	65.37%	66.36%	63.06%	60.53%	58.25%	63.77%	65.64%	66.64%	65.04%
Rating – BBB	9.82%	7.00%	7.00%	6.44%	6.67%	5.86%	6.11%	7.28%	7.22%	6.25%	7.67%
Rating – BB and lower	0.12%	0.12%	0.12%	0.07%	0.23%	0.11%	0.31%	0.36%	0.24%	0.14%	0.11%
Total	100.00%	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	59.0%	63.2%	63.2%	63.3%	61.1%	59.7%	56.9%	60.4%	64.5%	59.2%	55.1%
Municipalities	3.0%	1.5%	1.5%	1.3%	1.4%	1.8%	1.7%	1.6%	1.7%	1.8%	2.5%
Corporates – Public issues	23.6%	21.1%	21.1%	20.8%	21.6%	23.4%	26.1%	25.1%	22.4%	26.0%	28.2%
Corporates – Private issues	14.4%	14.2%	14.2%	14.6%	15.9%	15.1%	15.3%	12.9%	11.4%	13.0%	14.2%
Total	100.0%	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%	0.01%	0.01%	0.00%	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%
<b>Mortgages</b>											
Book value of the mortgage portfolio	3,251.4	3,334.5	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
Market value of the mortgage portfolio	---	---	---	---	---	---	2,516.0	2,469.8	2,562.7	2,570.1	2,615.5
Market value/book value	---	---	---	---	---	---	102.4%	102.0%	102.8%	103.2%	103.5%
Distribution by financial instrument category											
Loans and receivables	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---
Distribution by type of property											
Residential	16.7%	19.3%	19.3%	19.0%	19.4%	21.6%	20.4%	16.3%	16.4%	17.1%	18.4%
Multi-residential	63.6%	63.3%	63.3%	65.2%	66.5%	60.2%	59.5%	58.9%	59.5%	55.6%	52.5%
Non-residential	19.7%	17.4%	17.4%	15.8%	14.1%	18.2%	20.1%	24.8%	24.1%	27.3%	29.1%
Total	100.0%	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	64.8%	68.4%	68.4%	71.8%	71.3%	65.0%	60.2%	55.6%	52.8%	48.6%	45.3%
Conventional	35.2%	31.6%	31.6%	28.2%	28.7%	35.0%	39.8%	44.4%	47.2%	51.4%	54.7%
Total	100.0%	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)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>INVESTED ASSETS (continued)</b>											
Other quality measures											
Delinquency rate											
Insured loans	0.08%	0.06%	0.06%	0.21%	0.08%	0.10%	0.09%	0.50%	0.50%	0.75%	0.80%
Conventional loans	0.57%	1.36%	1.36%	0.72%	0.72%	0.27%	0.02%	0.05%	0.13%	0.97%	0.69%
Total	0.25%	0.47%	0.47%	0.36%	0.26%	0.16%	0.06%	0.30%	0.32%	0.86%	0.74%
Delinquency rate, including real estate acquired to settle loans	0.43%	0.51%	0.51%	0.40%	0.28%	0.55%	0.48%	0.69%	0.70%	1.31%	1.25%
Proportion of conventional restructured loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%
<b>Stocks</b>											
Book value of the stock portfolio	2,396.5	2,186.4	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
Market value of the stock portfolio	---	---	---	---	---	---	1,599.7	1,255.1	1,130.5	957.3	691.7
Market value/book value	---	---	---	---	---	---	110.1%	108.0%	104.6%	102.9%	96.1%
Distribution by financial instrument category											
Available for sale	12.4%	13.7%	16.1%	17.5%	19.2%	15.6%	---	---	---	---	---
Fair value through profit or loss (FVPTL) <sup>12</sup>	87.6%	86.3%	83.9%	82.5%	80.8%	84.4%	---	---	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---	---
Distribution by category											
Common	39.0%	22.3%	21.2%	13.5%	18.8% <sup>16</sup>	5.7%	5.0%	4.9%	4.1%	4.1%	6.1%
Preferred	8.3%	8.6%	8.0%	8.8%	10.3%	8.1%	10.9%	12.8%	21.6%	24.8%	32.4%
Market indices	30.2%	41.5%	39.1%	43.2%	26.0%	25.6%	23.6%	18.2%	12.0%	11.1%	15.3%
Investment fund units and other	22.5%	27.6%	31.7%	34.5%	44.9% <sup>16</sup>	60.6%	60.5%	64.1%	62.3%	60.0%	46.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Real estate (IFRS)</b>											
Real estate held for investment	788.5	716.1	---	---	---	---	---	---	---	---	---
Linearization of rents	10.9	9.9	---	---	---	---	---	---	---	---	---
Fair value of real estate held for investment	799.4	726.0	---	---	---	---	---	---	---	---	---
Occupancy rate on real estate held for investment	94.6%	92.9%	---	---	---	---	---	---	---	---	---
<b>Real estate (CGAAP)</b>											
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
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
Market value/book value	---	---	122.6%	126.9%	129.4%	129.5%	117.4%	114.2%	108.6%	104.9%	104.5%
Occupancy rate on real estate portfolio	---	---	93.8%	94.4%	94.0%	95.5%	95.5%	96.8%	95.2%	93.9%	92.1%
<b>Other</b>											
Provision for potential loss on fixed-income securities	204.6	138.0	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)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
<b>SOLVENCY AND CAPITALIZATION</b>											
<b>Capital structure</b>											
Debentures <sup>17</sup>	747.7	499.1	526.4	519.8	385.9	309.8	310.1	373.0	150.0	135.0	185.0
Other debt (IATS <sup>18</sup> ) <sup>17</sup>	---	---	---	---	---	---	---	---	150.0	150.0	---
Participating policyholders' account	41.3	26.9	26.9	25.7	27.0	24.1	23.1	19.7	17.3	13.2	59.5
<b>Equity</b>											
Common shares	860.7	652.5	652.5	545.7	541.0	513.1	507.7	510.6	458.1	438.3	382.0
Preferred shares	425.0	425.0	425.0	325.0	223.7	125.0	125.0	---	---	18.7	75.0
Contributed surplus	23.6	23.3	23.3	21.6	19.8	17.1	14.6	12.3	9.5	6.5	3.3
Retained earnings	1,360.0	1,341.5	1,422.0	1,254.8	1,127.7	1,148.3	971.3	845.4	751.7	627.5	470.2
Accumulated other comprehensive income	64.4	59.3	38.3	10.5	(54.3)	(3.8)	---	---	---	---	---
Currency translation account	---	---	---	---	---	---	(6.8)	(7.1)	(5.8)	(2.5)	7.5
Total	2,733.7	2,501.6	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
Total capital structure	3,522.7	3,027.6	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
<b>Solvency ratio<sup>19</sup></b>											
<b>Available capital</b>											
Tier 1 (net)	2,461.7	2,303.8	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
Tier 2 (net)	587.4	340.9	348.3	343.1	195.4	120.6	128.6	134.9	136.1	295.8	342.4
Total	3,049.1	2,644.7	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
Required capital	1,613.8	1,306.8	1,296.2	1,107.2	967.1	934.6	809.9	704.5	624.0	583.7	556.5
Solvency ratio	189%	202%	205%	208%	199%	193%	201%	188%	222%	221%	186%
<b>Debt measures</b>											
Debt <sup>20</sup> /capital structure	21.2%	16.5%	16.9%	19.2%	17.0%	14.5%	15.9%	21.3%	19.6%	20.6%	15.6%
Debt <sup>20</sup> and preferred shares/capital structure	33.3%	30.5%	30.5%	31.3%	26.8%	20.4%	22.4%	21.3%	19.6%	21.9%	22.0%
Coverage ratio (in number of times) <sup>21</sup>	2.8	6.2	6.1	6.3	3.9	12.2	12.1	11.0	13.4	9.6	8.7
<b>MISCELLANEOUS INFORMATION</b>											
<b>Market data<sup>4</sup></b>											
<b>Common shares</b>											
<b>Share price</b>											
High	\$42.02	\$37.40	\$37.40	\$32.70	\$42.64	\$43.75	\$37.28	\$29.82	\$27.93	\$22.08	\$23.80
Low	\$24.75	\$29.69	\$29.69	\$13.75	\$19.50	\$34.25	\$29.14	\$26.55	\$21.01	\$17.25	\$16.00
Share price at end of period	\$26.29	\$36.81	\$36.81	\$32.20	\$23.31	\$42.58	\$36.14	\$29.07	\$27.50	\$21.90	\$19.75
Average share price	\$34.22	\$33.73	\$33.73	\$24.63	\$32.11	\$38.28	\$32.42	\$28.49	\$23.44	\$18.69	\$20.18
Number of common shares outstanding (in millions)	90.4	83.9	83.9	80.5	80.3	79.8	79.9	81.4	79.5	78.6	75.4
<b>Weighted average number of common shares (in millions)</b>											
Basic	85.9	83.1	83.1	80.3	80.2	80.1	80.5	79.6	79.2	77.6	75.1
Diluted	92.5	88.3	83.9	80.7	81.0	81.1	81.3	80.2	79.7	79.6	75.1
Diluted - adjusted for IATS <sup>5</sup>	86.5	83.9	---	---	---	---	---	---	---	---	---
<b>Dividends</b>											
Dividends paid per common share	\$0.98	\$0.98	\$0.98	\$0.98	\$0.94	\$0.76	\$0.60	\$0.50	\$0.41	\$0.35	\$0.32
Dividend payout ratio	82%	32%	33%	38%	115%	25%	22%	30%	21%	20%	25%

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010 IFRS	2010 CGAAP	2009	2008	2007 <sup>1</sup>	2006	2005	2004	2003 (restated <sup>2</sup> )	2002 (restated <sup>3</sup> )
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**MISCELLANEOUS INFORMATION (continued)****Company's worth**

Market capitalization	2,376.2	3,087.9	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
Book value per common share	\$25.54	\$24.75	\$25.46	\$22.77	\$20.35	\$20.98	\$18.61	\$16.72	\$15.27	\$13.61	\$11.46
Embedded value <sup>22</sup>	3,635	3,486	3,486	2,969	2,510	2,787	2,448	2,133	2,138	1,899	1,643
Embedded value per common share <sup>22</sup>	\$40.23	\$41.56	\$41.56	\$36.89	\$31.26	\$34.92	\$30.64	\$26.78	\$26.90	\$24.17	\$21.89
<b>General expenses</b>	<b>663.3</b>	<b>611.6</b>	<b>448.0</b>	<b>399.9</b>	<b>358.4</b>	<b>333.5</b>	<b>314.0</b>	<b>273.1</b>	<b>257.8</b>	<b>237.4</b>	<b>229.9</b>

For comparison purposes, certain previous data have been reclassified.

**Notes**

<sup>1</sup> Adoption of the new financial instruments accounting standards.

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

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

<sup>4</sup> 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.

<sup>5</sup> Ignores the potential conversion of the IATS (innovative Tier 1 debt instruments) into common shares required under IFRS.

<sup>6</sup> ABCP: Asset-backed commercial paper.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> Estimated impact of stock market downturn as compared to the net earnings that the Company would have earned under normal market conditions.

<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> Investments classified as "Fair value through profit or loss" (FVTPL) under IFRS were previously classified as "Held for trading" under CGAAP.

<sup>13</sup> 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; Group Creditor Insurance: gross premiums (premiums before reinsurance); Special Markets Group (SMG): grosse premiums (premiums before reinsurance); Group Savings and Retirement: premiums, before reinsurance, and deposits.

<sup>14</sup> Reflects reclassification of assets managed for third parties.

<sup>15</sup> Since the conversion to IFRS on January 1, 2011, real estate acquired to settle loans is no longer included in the invested assets.

<sup>16</sup> 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.

<sup>17</sup> 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.

<sup>18</sup> IATS: Industrial Alliance Trust Securities.

<sup>19</sup> The solvency ratio is a financial measure that has no IFRS or CGAAP equivalent.

<sup>20</sup> Debt includes debentures and other debts.

<sup>21</sup> Obtained by dividing pre-tax income and financing expenses, by financing expenses.

<sup>22</sup> The embedded value is a financial measure that has no IFRS or CGAAP equivalent.

## CONSOLIDATED FINANCIAL STATEMENTS

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## RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Audit Committee of the Board of Directors, which is comprised solely of independent directors, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:

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


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

The Appointed Actuary is appointed by the Board of Directors pursuant to *An Act respecting insurance* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of insurance contract 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 insurance contract liabilities at the Statement of Financial Position 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 insurance contract liabilities are important elements of the work required to form this opinion.

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

The Autorité des marchés financiers has the power to perform checks to ensure 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 17, 2012

## APPOINTED ACTUARY'S REPORT

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

I have valued the policy liabilities of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated Statements of Financial Position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the change in policy liabilities in its consolidated Income Statements for the years then ended. These valuations were carried out in accordance with accepted actuarial practice, using appropriate assumptions and methods.

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



René Chabot  
Fellow of the Canadian Institute of Actuaries

Quebec, February 17, 2012

## AUDITORS' REPORT

### Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of **Industrial Alliance Insurance and Financial Services Inc.** and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, changes in equity, comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 judgment, 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



Samson Bélair/Deloitte & Touche s.e.n.c.r.l.<sup>1</sup>  
Quebec, February 17, 2012

<sup>1</sup> Chartered Accountant Auditor permit No.18527

## CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010
	\$	\$
<b>Revenues</b>		
Gross premiums	5,309	5,165
Premiums ceded	(317)	(383)
Net premiums (Note 7)	4,992	4,782
Investment income (Note 8)	2,251	1,519
Fees and other revenues (Note 9)	794	704
	8,037	7,005
<b>Policy benefits and expenses</b>		
Benefits to policyholders and beneficiaries	2,360	2,195
Ceded benefits	(180)	(177)
Net benefits to policyholders and beneficiaries (Note 10)	2,180	2,018
Net transfer to segregated funds	1,626	1,795
Dividends, experience rating refunds and interest on amounts on deposit (Note 10)	95	78
Change in provisions for future policy benefits (Notes 10 and 28)	2,169	1,474
Change in reinsurance assets (Note 10)	107	(252)
	6,177	5,113
Commissions (Note 11)	947	825
Premium and other taxes (Note 12)	84	71
General expenses (Note 13)	663	612
Interest expenses	32	30
	7,903	6,651
<b>Income before income taxes</b>	134	354
Less: income taxes (Note 15)	(7)	77
<b>Net income</b>	141	277
<b>Net income attributed to shareholders</b>	127	276
<b>Net income attributed to participating policyholders</b>	14	1
<b>Earnings per common share (in Canadian dollars) (Note 16)</b>		
Basic	1.20	3.04
Diluted	1.18	2.93
<b>Weighted average number of shares outstanding (in units) (Note 16)</b>		
Basic	85,885,831	83,126,815
Diluted	92,533,101	88,339,639
<b>Dividends per common share (in Canadian dollars)</b>	0.245	0.245

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



## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

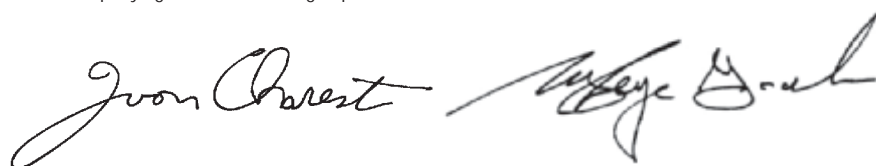
Years ended December 31 (in millions of dollars)	2011	2010
	\$	\$
<b>Net income</b>	<b>141</b>	<b>277</b>
<b>Other comprehensive income, net of income taxes</b>		
Unrealized gains (losses) arising during the year on available for sale financial assets:		
Bonds	45	36
Stocks	(9)	12
Reclassification of losses (gains) on available for sale financial assets included in net income:		
Bonds	(21)	(9)
Stocks	(9)	(10)
Change in unrealized gains (losses) on available for sale financial assets	6	29
Change in unrealized currency translation gains (losses) in foreign operations	4	(12)
Hedges of net investment in foreign operations	(5)	9
Reclassification of losses (profits) by an associate on available for sale financial assets included in the net income	---	(1)
Total other comprehensive income	5	25
<b>Comprehensive income</b>	<b>146</b>	<b>302</b>
<b>Comprehensive income attributed to shareholders</b>	<b>132</b>	<b>301</b>
<b>Comprehensive income attributed to participating policyholders</b>	<b>14</b>	<b>1</b>

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions of dollars)	As at December 31 2011 \$	As at December 31 2010 \$	As at January 1 2010 \$
<b>Assets</b>			
<b>Invested assets (Note 19)</b>			
Bonds	13,677	11,122	9,411
Mortgages	3,251	3,334	3,405
Stocks	2,396	2,186	1,775
Real estate held for investment	789	716	666
Policy loans	521	469	381
Short-term investments	288	122	88
Cash and cash equivalents	308	452	369
Other invested assets	264	292	325
	21,494	18,693	16,420
<b>Other assets (Note 22)</b>	955	602	555
<b>Reinsurance assets (Notes 28 and 29)</b>	465	561	288
<b>Own-use properties (Note 23)</b>	82	82	74
<b>Deferred income tax assets (Note 15)</b>	84	35	15
<b>Intangible assets (Note 24)</b>	463	422	377
<b>Goodwill (Note 25)</b>	163	141	116
<b>Segregated fund assets (Note 27)</b>	13,735	13,572	11,450
<b>Total assets</b>	<b>37,441</b>	<b>34,108</b>	<b>29,295</b>
<b>Liabilities</b>			
<b>Insurance contract liabilities (Note 28)</b>			
Provisions for future policy benefits	17,554	15,347	13,300
Provisions for dividends to policyholders and experience rating refunds	35	37	36
Benefits payable and provision for unreported claims	184	160	146
Policyholders' amounts on deposit	251	229	201
	18,024	15,773	13,683
<b>Other liabilities (Note 30)</b>	1,254	968	854
<b>Investment contract liabilities (Note 29)</b>	577	535	488
<b>Deferred income tax liabilities (Note 15)</b>	340	364	315
<b>Debentures (Note 32)</b>	748	499	499
<b>Segregated fund liabilities (Note 27)</b>	13,723	13,441	11,332
	34,666	31,580	27,171
<b>Equity</b>			
Participating policyholders' account	41	27	26
Share capital	1,286	1,078	871
Contributed surplus - Stock option plan	24	23	22
Retained earnings and accumulated other comprehensive income	1,424	1,400	1,205
	2,775	2,528	2,124
<b>Total liabilities and equity</b>	<b>37,441</b>	<b>34,108</b>	<b>29,295</b>

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 EQUITY STATEMENTS

Years ended December 31 (in millions of dollars)

	Participating Policyholders' Account (Note 36)	Share Capital (Note 34)	Contributed Surplus - Stock option plan	Retained earnings	Accumulated Other comprehensive income (Note 35)	Total
	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2010	26	871	22	1,171	34	2,124
Net income attributed to shareholders	---	---	---	276	---	276
Net income attributed to participating policyholders' account	1	---	---	---	---	1
Other comprehensive income	---	---	---	---	25	25
<b>Comprehensive income for the year</b>	<b>1</b>	<b>---</b>	<b>---</b>	<b>276</b>	<b>25</b>	<b>302</b>
<b>Equity transactions</b>						
Stock option plan (Note 37)	---	---	2	---	---	2
Stock options exercised	---	---	(1)	---	---	(1)
Shares issued (Note 34)	---	207	---	---	---	207
Issue cost of shares, net of \$1 of income taxes	---	---	---	(2)	---	(2)
Dividends (Note 17)	---	---	---	(104)	---	(104)
Balance as at December 31, 2010	27	1,078	23	1,341	59	2,528
Net income attributed to shareholders	---	---	---	127	---	127
Net income attributed to participating policyholders' account	14	---	---	---	---	14
Other comprehensive income	---	---	---	---	5	5
<b>Comprehensive income for the year</b>	<b>14</b>	<b>---</b>	<b>---</b>	<b>127</b>	<b>5</b>	<b>146</b>
<b>Equity transactions</b>						
Stock option plan (Note 37)	---	---	3	---	---	3
Stock options exercised	---	---	(2)	---	---	(2)
Shares issued (net of \$6 of issue costs) (Note 34)	---	208	---	---	---	208
Dividends (Note 17)	---	---	---	(108)	---	(108)
Balance as at December 31, 2011	41	1,286	24	1,360	64	2,775

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

## CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2011	2010
	\$	\$
<b>Cash flows from operating activities</b>		
Income before income taxes	134	354
Income taxes paid, net of refunds	(69)	(36)
Adjustments		
Change in provisions for future policy benefits	2,169	1,474
Change in reinsurance asset	107	(252)
Share of results of an associate (Note 21)	(2)	(3)
Change in fair value of real estate held for investment	(13)	(3)
Change in fair value of financial instruments held for trading	(230)	11
Change in fair value of financial instruments classified as designated at fair value through profit or loss	(1,244)	(809)
Losses (gains) realized on financial assets classified as available for sale	(39)	(24)
Losses (gains) realized on financial assets classified as loans and receivables	(9)	(8)
Amortization of premiums and discounts	5	10
Stock option plan	3	2
Amortization of deferred sales commissions, depreciation of fixed assets and depreciation of intangible assets	58	52
Provision for loss	1	---
Other	58	66
	929	834
Reinsurance recovery	---	19
Disposition of reinsurance assumed	---	(57)
Changes in other assets and liabilities	6	(44)
Cash flows from operating activities	935	752
<b>Cash flows from investing activities</b>		
Sales, maturities and repayments of the following items:		
Bonds	5,857	4,302
Mortgages	498	454
Stocks	748	1,428
Real estate held for investment	---	1
Policy loans	128	128
Short-term investments	490	637
Other invested assets	145	42
Dividend from an associate	2	8
	7,868	7,000
Purchases of the following items:		
Bonds	(6,984)	(5,133)
Mortgages	(401)	(374)
Stocks	(940)	(1,660)
Real estate held for investment	(62)	(47)
Policy loans	(176)	(176)
Short-term investments	(653)	(553)
Other invested assets	(184)	(199)
Cash and cash equivalents acquired (Note 5)	---	393
	(9,400)	(7,749)
Cash flows from investing activities	(1,532)	(749)
<b>Cash flows from financing activities</b>		
Issue of common shares	203	105
Issue of preferred shares (less cost of issuance of \$3 in 2010)	---	97
Increase in debenture	249	---
Dividends paid to preferred shareholders	(24)	(23)
Dividends paid to common shareholders	(84)	(81)
Increase (decrease) in mortgage debt	13	12
Increase (decrease) in securitization liabilities	94	---
Cash flows from financing activities	451	110
Foreign currency gain (loss) on cash and cash equivalents	2	(30)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(144)</b>	<b>83</b>
<b>Cash and cash equivalents at beginning</b>	<b>452</b>	<b>369</b>
<b>Cash and cash equivalents at end</b>	<b>308</b>	<b>452</b>
<b>Supplementary information:</b>		
Cash	242	114
Cash equivalents	66	338
<b>Total cash and cash equivalents</b>	<b>308</b>	<b>452</b>
Interest paid (included in operating activities)	34	32

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010 (in millions of dollars, unless otherwise indicated)

### 1 > General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company listed on the Toronto Stock Exchange and incorporated under *An Act respecting insurance* and the *Companies Act* (Quebec). Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries (the Company) offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgage loans, and other financial products and services. The Company's products and services are offered on both an individual and group basis. The 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 in Canada.

### 2 > Accounting Policies

#### a) Basis of Presentation

The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the former International Accounting Standards Committee, are based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and on interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

The presentation order of the items included in the Statements of Financial Position is based on liquidity. Each line item includes both current and non-current balances, if applicable.

The Company has defined its reportable segments and the amounts disclosed for these segments based on its management structure and the manner in which its internal financial reporting is conducted.

The Company's financial statements are established according to IFRS as published by the IASB on December 31, 2011.

Publication of these financial statements was authorized for issue by the Company's Board of Directors on February 17, 2012.

#### b) Important Estimates

The preparation of financial statements in conformity with IFRS 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 financial statements, and the reported amounts of revenues, net benefits to policyholders and beneficiaries, and expenses during the year. Actual results could differ from management's best estimates. The most significant estimates are related to the determination of:

- > insurance contract and investment contract liabilities and employee future benefit liabilities;
- > fair values of financial instruments, real estate held for investment, segregated fund assets and liabilities and reinsurance assets;
- > assumptions used for goodwill, intangible assets and fair value of purchased business in force impairment tests;
- > assumptions used in the determination of provisions and depreciation of financial instruments.

Management has applied judgements in the classification of insurance and investment contracts, and financial instruments within the financial statements. In addition, the financial statements require management's judgement in accounting for the component of fixed assets, own-use properties and the identification of cash generating units and operating segments.

#### c) Basis of Consolidation and Methods

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

Entities over which the Company exercises control are subsidiaries. Subsidiaries are consolidated through global integration from the date on which effective control is transferred to the Company and are excluded from consolidation on the date of the loss of control. The results of these acquired companies were recognized in the Company's results from the date of acquisition. Control is defined as being the power to govern the financial and operational policies, so as to obtain benefits from its activities. The Company usually directly or indirectly owns 50% or more of the voting rights.

The Parent company's most significant subsidiaries are: Industrial Alliance Pacific Insurance and Financial Services Inc., The Excellence Life Insurance Company, IA American Life Insurance Company, IA Clarington Investments Inc., Investia Financial Services Inc., FundEX Investments Inc., Industrial Alliance Securities Inc., Industrial Alliance Trust Inc., Industrial Alliance Investment Management Inc., Industrial Alliance Auto and Home Insurance Inc.

Entities that are controlled in substance, even without holding voting rights, are also consolidated. These are special purpose entities.

The Company uses the equity method to record for entities over which it has a sustainable and significant influence, namely by holding between 20% and 50% of the voting rights. The Company records its share of the investee's net assets and financial results using uniform accounting policies for similar transactions and events.

Ownership interest in the profits of subsidiaries and entities recorded through the equity method, subsequent to acquisition, is reported in the Income Statement, while ownership interest in other comprehensive income is recorded in accumulated other comprehensive income.

Intercompany transactions are eliminated.

## 2 › Accounting Policies (continued)

### d) Business Combinations

#### i) Revaluation of assets and liabilities of newly acquired companies

Business acquisition are accounted for using the acquisition method. The consideration transferred on a business combination is measured at fair value, which is calculated as the total of the fair values on the acquisition date of the assets transferred by the Company, liabilities contracted by the Company with respect to previous holders of the acquired business, and equity issued by the Company in exchange for control of the acquired business. Acquisition expenses are recorded in the Income Statement as incurred.

On first-time consolidation, all identifiable assets and liabilities of newly acquired entities are recorded at their fair value.

#### ii) Restructuring costs

Only restructuring costs that can be measured reliably and which result from an obligation of the acquired entity that existed prior to the acquisition date are included in the provisions for restructuring recorded in the acquired entity's Statement of Financial Position on the acquisition date. Acquisition costs and restructuring costs which are not consistent with the previous definition are recorded in the Income Statement.

### e) Financial Instruments

#### i) Classification of Financial Instruments

At the initial recognition of financial instruments, the Company must classify financial assets into one of the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale. The category at fair value through profit or loss includes financial assets held for trading and financial assets designated at fair value through profit or loss. The Company must classify financial liabilities into one of the following categories: designated at fair value through profit or loss and at amortized cost.

Financial instruments are classified according to their nature and use by the Company at the time of initial recognition.

The Company has elected to designate its assets matching the insurance contract liabilities and investment contract liabilities at fair value through profit or loss, except for mortgages and bonds that are not quoted on an active market. Insurance contract liabilities are calculated according to the Canadian Asset Liability Method (CALM) and any changes in the fair value of underlying assets matched to the insurance contract liabilities are directly reflected in the insurance contract liabilities. Changes in fair value of assets matching these liabilities and changes in insurance contract and investment contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise.

Bonds and stocks that are not matched with the insurance contract liabilities and investment contract liabilities 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 in an active market are classified as loans and receivables and carried at amortized cost using the effective interest method.

#### ii) Regular-way Purchases and Sales of Financial Instruments

For financial assets acquired or disposed through a regular-way contract, the Company applies the trade date accounting method.

#### iii) Transaction Costs of Financial Instruments

Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred and do not represent a material value either individually or collectively. Transaction costs related to financial assets classified as loans and receivables and available for sale or financial liabilities at cost after amortization are capitalized and amortized to the Income Statement using the effective interest method.

#### iv) 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 prices (bid for assets/ask for liabilities). 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.

### f) Invested Assets

#### i) Bonds

*Designated at fair value through profit or loss:*

Bonds designated at fair value through profit or loss are measured at fair value with gains and losses recognized in the Income Statement.

*Available for sale:*

Bonds classified as available for sale are carried at fair value and unrealized gains and losses are recognized in accumulated other comprehensive income, except for the portion related to foreign exchange difference which is recorded in the Income Statement. Upon realization, gains or losses are reclassified to the Income Statement. Interest is calculated according to the effective interest method and is accounted for in the Income Statement.

At each reporting date, bonds classified as available for sale are tested for impairment and when there is objective evidence of impairment, the cumulative loss recorded in accumulated other comprehensive income is reclassified to the Income Statement. 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. It is possible that the cost after amortization of a bond at the end of the period would be higher than its fair value. However the Company can conclude that the contractual terms of investments will be fulfilled and that the financial asset will be recovered. The unrealized losses could occur as a result of interest rate fluctuations, an increase in rates spread, 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. In this case, no impairment is recorded. When there is objective evidence of impairment, an impairment loss is recorded in the Income Statement. The impairment 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 accumulated other comprehensive income. Subsequent losses are recorded directly in the Income Statement.



## 2 > Accounting Policies (continued)

### f) Invested Assets (continued)

#### i) Bonds (continued)

##### *Loans and receivables:*

Private bonds not traded in an active market are classified as loans and receivables and are carried at amortized cost using the effective interest method. The interest calculated according to this method is accounted in the Income Statement.

At each reporting date, 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 carrying value according to the amount recoverable. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed. The changes related to provisions for losses are recorded in the Income Statement. Realized gains or losses on the sale of these investments are accounted in the Income Statement.

#### ii) Mortgages

Mortgages are classified as loans and receivables and carried at amortized cost using the effective interest 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.

When conventional mortgages are impaired or when contractual payments are more than 90 days in arrears, contractual interest is no longer accrued. Contractual interest accruals are resumed once the contractual payments are no longer in arrears and are considered current.

When mortgages are impaired, provisions for losses are established to adjust the carrying value of the mortgages to its present value of estimated future cash flows, discounted at the original effective interest rate.

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

Mortgages are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. On each reporting date, first on an individual basis, the Company considers as objective evidence of the impairment of mortgages the borrower's major financial difficulty, and a bankruptcy or a default of payment of interest or principal. When there is evidence of impairment on mortgages, a provision for losses is recorded in order to adjust the carrying value to the amount recoverable. This provision is immediately recorded in the Income Statement. Realized gains and losses on the sale of mortgages are recorded in the Income Statement.

For mortgages with no indication of impairment on an individual basis, a group test is conducted for asset groups that have similar risks.

Change in allowance for losses, and write-offs for specific mortgages are recorded in the Income Statement. When the effects of the impairment cause begin to fade and the future payments are reasonably assured, allowances are reduced and the mortgage is no longer classified as impaired.

##### *Securitization of mortgages*

As part of the securitization of mortgages, the Company conserves substantially all risks and rewards related to the transferred mortgages. The Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. The Company therefore considers that the criteria for derecognition are not met. The Company continues to recognize mortgages in the Statement of Financial Position. An obligation of a value approximatively equal to the amounts securitized is recorded in other liabilities in the Statement of Financial Position.

#### iii) Stocks

##### *Designated at fair value through profit or loss:*

Stocks designated at fair value through profit or loss are measured at fair value with gains and losses recognized in the Income Statement.

##### *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, gains or losses are reclassified in the Income Statement.

On each reporting date, stocks classified as available for sale are tested for impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and indicates that the carrying value of the investment in the equity instrument may not be recovered. The Company considers as objective evidence of the impairment of stocks observable data about the issuer's significant financial difficulty or changes in the technological, economic or legal environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. It is possible that the cost of a stock at the end of the period would be higher than its fair value but that the Company is able to conclude that the value of the stock will be recovered. The unrealized losses could occur as a result of interest rate fluctuations, an increase in 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.

When there is objective evidence of impairment, the loss accounted in accumulated other comprehensive income is reclassified to the Income Statement and cannot be reversed. These stocks continue to be recorded at fair value even if impairment was recognized and changes in fair value are recorded in other comprehensive income. Subsequent losses are directly recorded in the Income Statement.

Dividends are accounted in the Income Statement from the moment that the Company has the right to receive payment.

## 2 › Accounting Policies (continued)

### f) Invested Assets (continued)

#### iv) Real Estate Held for Investment

Real estate held for the long term to earn rental income or for capital appreciation and which the Company or its subsidiaries does not primarily occupy, is considered real estate held for investment. In accordance with IAS 40 "Investment property", the Company opted for measurement at fair value for real estate held for investment. This value is based on market data and is determined by independent experts or by Company personnel. Changes in fair value are recorded in the Income Statement.

Rental income from real estate held for investment is recognized in the Income Statement on a straight-line basis over the term of the lease.

#### v) 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 insurance contracts on which the respective loans are made.

#### vi) Short-term Investments

Short-term investments are bank acceptances, Treasury bills, guaranteed investment certificate and bank asset-backed commercial paper with maturities of greater than 90 days and less than 1 year at the acquisition date. Bank acceptances, Treasury bills and bank asset-backed commercial paper are classified as held-for-trading and accounted at fair value. Guaranteed investment certificates are classified as loans and receivables and accounted at amortized cost.

#### vii) 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 with maturities of 90 days or less at the acquisition date. Cash, payments in transit, and operating lines of credit used, are classified as loan and receivables and are accounted at amortized cost. Bank acceptances, Treasury bills and bank-guaranteed asset backed commercial paper are classified as held-for-trading and are accounted at fair value.

#### viii) Other Invested Assets

Other invested assets include the investment in an associate, notes receivable and cash in trust. Notes receivable and cash in trust are classified as loans and receivables and are accounted at amortized cost using the effective interest rate method. The investment in an associate is accounted according to the equity method as described in c) Basis of consolidation and methods.

#### ix) Derivative Financial Instruments

The Company uses derivative financial instruments, including contracts for foreign currency, interest rates, market indices, credit risk and options when appropriate, to manage exposure to foreign currency, interest rates, stock market variations and credit risk associated with certain assets and liabilities.

Derivative financial instruments are classified as held for trading and recorded at fair value. Fair value of derivative financial instruments is included with *Other assets* when in an asset position and *Other liabilities* when in a liability position. Gains and losses are accounted in *Investment income* in the Income Statement unless these derivative financial instruments are part of an effective hedging relationship.

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 foreign operation and as hedging items of currency risk related to financial assets for accounting purposes. Hedge accounting is used to reduce the volatility of its results.

The Company documents the hedging relationship and objectives in terms of risk management and hedging strategy. The Company also documents the effectiveness of the hedge both upon implementation and over the duration of the hedge.

#### *Net Investment Hedge:*

Currency forward contracts are designated as hedging items of a net investment in foreign operations. Variation in fair value of derivative financial instruments is accounted for in *Hedges of net investment in foreign operations* in the Comprehensive Income Statement. This amount reported in the Comprehensive Income Statement is net of income taxes. Any ineffectiveness is accounted for in *Investment income* in the Income Statement. Gain or loss on the hedge item constituting the efficient portion of hedge that was reported in accumulated other comprehensive income, is accounted for in the Income Statement in the period during which there is a disposal or partial disposal of the foreign operation.

#### *Fair Value Hedge:*

Currency 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 *Investment income* in the Income Statement. Hedge accounting is used to account in the Income Statement 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 Statement. Any ineffectiveness is accounted in the *Investment income* in the Income Statement.

#### x) Embedded Derivative Financial Instruments

Embedded derivative financial instruments are separate from the host contract and are accounted for as derivative financial instruments classified held for trading if:

- › The economic characteristics and risks of the embedded derivative are not closely linked to the economic characteristics and risks of the host contract.
- › A separate instrument containing the same conditions as the embedded derivative meets the definition of a derivative.
- › The hybrid instrument (compound) is not measured at fair value with accounting of variations in fair value through profit or loss (a derivative embedded in a financial asset or liability at fair value through profit or loss is not separated).

Variations in the fair value of these embedded derivative financial instruments are reported in *Investment income* in the Income Statement.

## 2 > Accounting Policies (continued)

### f) Invested Assets (continued)

#### xi) Credit Risk

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds and mortgages classified as loans and receivables. Provisions for credit losses consist of specific amounts for loans and debt considered to be impaired and an estimated amount determined using a collective evaluation technique.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the net present value of estimated future cash flows, discounted at the original effective interest rate. 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. 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 insurance contract 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 present value of estimated future cash flows, discounted at the original effective interest rate. As soon as a financial asset is impaired, interest is recorded using the interest rate applied to discount the future cash flows used in the calculation of the impairment.

### g) 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. Other assets mainly include receivables, outstanding premiums, deferred sales commissions, fixed assets, real estate held for resale, employee future benefits, derivative financial instruments, investment income due and accrued and prepaid expenses.

#### i) Deferred Sales Commissions

Deferred sales commissions arising from 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.

#### ii) Fixed Assets

Fixed assets consist mainly of systems hardware, office furniture and equipment and leasehold improvements to real estate.

The gross carrying amount of fixed assets is equal to their acquisition or development cost. Fixed assets are subsequently recorded at cost less accumulated depreciation.

The Company calculates depreciation on the straight-line method, accounting for any residual values as a deduction. The depreciation period is based on the estimated useful lives:

Systems hardware	5 years
Office furniture and equipment	15 years
Leasehold improvements to real estate	original term of lease agreement, usually 5 years
Other	between 2 and 8 years

At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

A gain or loss resulting from the disposal or retirement of a fixed asset item is the difference between the proceeds of sale and the carrying value of the asset and is accounted for in the Income Statement as income or expense when there is transfer of risks and rewards to the buyer.

#### iii) Real Estate Held for Resale

Real estate held for resale, presented in *Other assets*, 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 lower than the carrying value of the underlying loans at foreclosure date, losses are immediately accounted in the Income Statement. Gains and losses on real estate held for resale are recorded in the Income Statement when realized.

### h) Own-use Property

The Company records real estate classified as own-use property at cost using the component method. Each component is amortized on a straight-line basis over its useful life according to the following categories:

Land	No amortization
Structure	60 years
Exterior walls/Roof/Doors and windows	30 years
Building equipment	20 years
Development and finishing	10 years

At the end of each year, the Company must revise the residual values and useful lives of each component. Any change in the estimated useful life or residual value is accounted for prospectively if applicable.

A gain or loss resulting from the disposal of an own-use property is the difference between the net proceeds of sale and the carrying value of the asset. The Company records the gain or loss on disposal in the Income Statement when there is transfer of risks and rewards to the buyer.

## 2 › Accounting Policies (continued)

### i) Intangible Assets and Fair Value of Purchased Business in Force

#### i) Intangible Assets

Intangible assets consist of finite and indefinite useful life intangible assets of acquired subsidiaries and software acquired or internally developed by the Company. Intangible assets are recorded in the Statement of Financial Position if it is probable that the future economic benefits attributable to the asset will flow to the Company and its cost can be measured reliably. Amounts are classified as indefinite useful life intangible assets when based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. Intangible assets with finite useful life are carried at cost less accumulated amortization and any accumulated impairment losses. Impairment losses are calculated and recorded on an individual basis. Intangible assets with indefinite useful life acquired in business combinations are not subject to amortization. Intangible assets are initially recorded at cost.

The Company records the costs incurred during the software application research phase as an expense. However, it capitalizes the costs incurred during the development phase. Amortization of software applications in development begins when they are available for use. Subsequent expenses are capitalized to the cost of the intangible asset only when the future economic benefits are increased. All other expenses are recorded when incurred. Software applications are amortized in the Income Statement on a straight-line basis according to their useful life, which varies between 5 and 10 years.

#### ii) Fair Value of Purchased Business in Force

The fair value of purchased business in force is recorded as an asset if positive or in other liabilities if negative, in the Statement of Financial Position for an amount equal to the discounted value of estimated future gains or losses related to purchased business in force at the acquisition date. The discounted value of the future gain or loss takes into consideration cost of capital and is estimated, using the actuarial assumptions that are similar to the ones used to establish the insurance contract liability and a discounted rate integrating a risk premium.

The fair value of purchased business in force recorded as part of a business combination is amortized using the future gains or losses over the useful life of the portfolio contracts.

### j) Goodwill

Goodwill represents the positive difference between the acquisition cost and the fair value of identifiable assets, assumed liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture, at the acquisition date. Goodwill resulting from business combinations is presumed to have an indefinite life and is not amortized. Goodwill is initially recorded at fair value. Following its initial recognition at fair value, goodwill is measured at cost less any accumulated impairment losses.

When the initial accounting for a business combination is incomplete, goodwill can be modified within 12 months starting on the acquisition date on the basis of new available information about facts and circumstances that existed as of acquisition date. In this case, the comparative information is revised and presented as if the initial accounting for business combination had been finalized on the acquisition date.

The Company allocates a cash-generating unit (CGU) to goodwill and intangible assets with indefinite useful lives starting on the acquisition date. The CGU is the smallest group of identifiable assets that generate cash flows that are largely independent of cash flows from other assets or groups of assets.

Gains or losses realized on the partial or total disposal of a CGU take into account any goodwill resulting from the acquisition of this CGU.

### k) Impairment Testing of Non-Financial Assets

#### i) Goodwill and intangible assets with indefinite useful life

Impairment tests for goodwill and intangible assets are founded on CGUs using an analysis that contains several assumptions. The Company compares the net carrying value and the recoverable amount within each CGU. The recoverable amount is the higher of the fair value less cost to sell and the value in use. The value in use of a CGU is the discounted value of expected future cash flows resulting from an asset or a CGU.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment losses on goodwill cannot be reversed.

#### ii) Intangible assets with a finite useful life, fair value of purchased business in force and other long-term assets

Intangible assets with a finite useful life, fair value of purchased business in force and other long-term assets are tested for impairment when 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 recoverable value. The recoverable amount is the higher of the fair value less cost to sell and the value in use. The value in use is the total discounted 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 recoverable value.

### l) Segregated Fund Assets

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. 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. Investment income and changes in fair value of the segregated fund assets are not presented separately in the Income Statement and are offset by a corresponding change in the segregated fund liabilities.

## 2 > Accounting Policies (continued)

### m) Reinsurance Assets

In the normal course of business, the Company uses reinsurance to limit its risk exposure. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who share the risks. Reinsurance assets represent the amounts due to the Company for insurance contract and investment contract liabilities ceded. The calculation of these amounts is similar to the provisions for future policy benefits on underlying insurance contracts or investment contracts, in accordance with the contract provisions of reinsurance agreements. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured.

### n) Classification of Contracts

The Company issues contracts that contain an insurance risk, a financial risk or both. Insurance contracts, including reinsurance acceptances, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. Service contracts are contracts for which the Company offers administrative services.

The financial risk represents the risk of a possible future change in one or more of the following items: specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

### o) Provisions for Future Policy Benefits for Insurance Contracts

Provisions for future policy benefits for insurance contracts represent the amount which, after consideration of future premiums and investment income, provide for all unexpired commitments under policy contracts. These provisions are established using the CALM, which is generally accepted actuarial practice established by the Canadian Institute of Actuaries (CIA). This calculation method considers various assumptions, including: mortality, morbidity, investment returns, foreign currency risk, lapse, operating expense levels, inflation, policyholder dividends and taxes.

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 insurance contract 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.

To determine the cash flows to use in the CALM, 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.

These best estimate assumptions are adjusted by the Appointed Actuary to include margins for adverse deviation. These margins take into account the uncertainty in establishing these best estimates and a potential deterioration in expected experience.

A reinsurance asset is recorded for an amount equal to provisions for future policy benefits for ceded reinsurance.

### i) Liability adequacy test

Liability adequacy tests are carried out on each consolidated entity at each reporting date to ensure the sufficiency of insurance liabilities, net of deferred acquisition costs. Any deficiency is immediately reported in the Income Statement in order to ensure the adequacy of liabilities under the CALM.

### p) Investment Contract Liabilities

Investment contract liabilities are the amounts that the Company owes to clients since these contracts do not have insurance risk. These amounts are carried at fair value in the Statement of Financial Position.

### q) Segregated Fund Liabilities

The liabilities of insurance or investment contracts whose financial risk is supported by policyholders are accounted for in a separate item from the Statement of Financial Position and are recorded at fair value. The assets backing these liabilities are recorded in a specific item of the Statement of Financial Position assets.

### r) Unearned Premiums

Unearned premiums represent the portion of premiums issued and premiums remaining to be issued for the period between the reporting date and the contract's next maturity. For certain products, unearned premiums are adjusted to take into account changes in the related risks.

### s) Provisions

The Company recognizes a provision when there is an obligation towards a third party resulting from a past event and it is probable that an outflow of economic resources will be necessary to settle the obligation and the amount can be estimated reliably.

The amount of provision equals the best estimate of the amount needed to extinguish the current obligation, given the risks and uncertainties related to the obligation. No amount of provision is recognized for future operating losses.

Contingent liabilities are disclosed if the future obligation is probable, but the amount cannot be reasonably estimated.

## 2 › Accounting Policies (continued)

### t) Other Liabilities

Financial liabilities included in Other liabilities are classified as financial liabilities at amortized cost, except for derivatives, which are classified as held for trading. Other liabilities are mainly legal provisions, unearned premiums, other liabilities related to insurance contracts, employee future benefits, derivative financial instruments, deposits related to products other than insurance account payable, securitization liabilities and other liabilities.

### u) Income Taxes

The Company uses the asset and liability method of tax allocation to record income taxes. According to this method, the income tax expense includes current taxes and deferred taxes. The calculation of current income tax expense is based on taxable income for the year. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be received or paid to the tax authorities using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred income taxes are recorded based on the expected tax consequence of the difference between the carrying value of the Statement of Financial Position items and their value for tax purposes, using those rates enacted or substantively enacted applicable to the periods the differences are expected to reverse. A deferred income tax asset is recognized to the extent that future realization of the tax benefit is probable. In addition to income taxes, the expense in the Income Statement includes the tax on capital imposed on financial institutions.

Current and deferred income tax are presented in the Income Statement unless they are related to items that are recorded in Other Comprehensive Income or directly in Retained earnings, in which case, they are presented in Other comprehensive income or directly in Retained earnings respectively.

### v) Debentures

The Company has chosen to classify its debentures as financial liabilities at amortized cost. The debentures are initially recognized at fair value, net of related transaction costs. Debentures are subsequently measured at amortized cost using the effective interest method.

Interest calculated according to the effective interest method for debentures is recognized in the Income Statement and presented as *Interest expenses*.

### w) Equity

Common shares are classified as equity if there is no contractual obligation to deliver cash or another financial asset and if they represent a residual interest in the assets of the Company. Costs, net of income taxes, directly related to an issuance of common shares, are accounted for directly as a deduction of the issued instrument.

Preferred shares are classified as equity if there is no contractual obligation to deliver cash or another financial asset and it is non-redeemable or retractable only at the Company's option. Costs, net of income taxes, directly related to an issuance of preferred shares, are accounted for directly as a deduction of retained earnings.

### x) Earnings Per Share

Basic earnings per share are calculated by dividing the net income attributed to common shareholders by the weighted average number of outstanding common shares during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding shares by the effects of all potentially dilutive common shares, such as the stock option plan and convertible debenture.

Diluted earnings per share are also calculated by adjusting the net income attributed to common shareholders by the effects on income, expenses, income taxes and dividends that potentially dilutive common shares would have if they were converted into common shares.

### y) Dividends

Dividends on the Company's common shares and preferred shares are deducted from equity on the dividend declaration date. At that time, dividends payable are recorded among *Other liabilities* in the Statement of Financial Position.

### z) Conversion of Accounts and Transactions into Foreign Currency

The financial statements are presented in millions of Canadian dollars, which is the Parent company's functional and reporting currency.

#### i) Transactions in foreign currencies:

When the Company carries out transactions in foreign currencies, they are converted into the reporting currency using the following method:

- › The 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.
- › Monetary items in the Statement of Financial Position are translated at the year-end exchange rate.
- › Gains and losses on foreign currency resulting from these conversions are reported in the Income Statement.

#### ii) Translation to the reporting currency:

The Income Statement and Statement of Financial Position of certain entities of the group whose functional currency (the currency of the principal economic environment in which the entity operates) is different from the functional currency of the Parent company, are converted into the reporting currency using the following method:

- › Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the year-end exchange rate.
- › Revenues and expenses are translated at the average rate of the period.
- › Gains and losses on foreign currency transactions and hedge results of some of these investments, net of income taxes, are accounted in the other comprehensive income, presented as a component of Equity.



## 2 Accounting Policies (continued)

### aa) 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. Net premiums represent gross premiums, including assumed premiums, 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.

General insurance premiums are recorded when written. Premiums are recognized as premiums earned over the contract period. The unrecognized portion is recorded as unearned premiums of the Statement of Financial Position.

### bb) Investment Income

Investment income is recorded on an accrual basis. Gains and losses resulting from variations in the fair value on investments classified as designated at fair value through profit or loss are reported in the Income Statement in the period in which they occur. Dividend income is recognized when the right to receive it is established. For loans and receivables reported at amortized cost, interest income is calculated using the effective interest rate method and is reported in the Income Statement. Rental income from real estate is reported in the Income Statement on a straight-line basis over the term of the lease.

### cc) Fees and Other Revenues

Fees and other revenues primarily represent fees earned from 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.

### dd) Government Assistance

Government assistance is only recorded when the entity has reasonable assurance that it will satisfy the conditions and will receive the grant. It is reported using the income approach, which consists of recognizing the public grants in the Income Statement on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grant intends to compensate. Government assistance is recorded as *Fee and other revenues* in the Income Statement.

### ee) 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.

### ff) Pension Plans and Other Complementary Benefits Plans

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 retirement plans is determined using the Projected Unit Credit Method 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 purposes of calculating the expected return on plan assets, those assets are measured 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 go directly to the Income Statement if the right to benefits is already vested when the amendment is made or are deferred and amortized on a straight-line basis over the average remaining period until the corresponding rights are vested to the employees.

### gg) Stock-based Compensation

#### i) 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 in the Statement of Financial Position. Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model taking into account a release rate and using a graduated vesting schedule. 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.

#### ii) Share Purchase Plan for Employees

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

#### iii) Deferred Share Units

Measurement of deferred share units, which are settled in cash, is based on the value of the Company's shares. When an allocation is made, the Company recognizes a remuneration expense in the Income Statement and a liability equivalent to the fair value of the Company's common shares in the Statement of Financial Position. This liability is revalued at the end of each reporting period and on the settlement date according to the value of the Company's shares and the change in fair value is recorded in the general expenses in the Income Statement.

## 2 › Accounting Policies (continued)

### hh) Leases

#### i) Finance Leases

Any agreement that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the Company is classified as a finance lease. Fixed assets financed by finance lease are recorded as assets at the present value of future payments or at fair value if lower. Fixed assets are amortized according to their anticipated useful life, which is between 2 and 3 years. The financing obligation is reported in *Other liabilities* in the Statement of Financial Position.

#### ii) Operating Leases

Leases that do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Payments made under operating leases, where the Company is a lessee, are presented in *General expenses* in the Income Statement. The amount of future rents for non-cancellable operating leases is indicated in the note on *Commitments*.

### ii) Derecognition

A financial asset (or portion of a financial asset) is derecognized when:

- › the contractual rights to the cash flows from the financial asset expire;
- › the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to a counterparty;
- › the Company transfers to a third party the contractual rights to receive the cash flows of the financial asset and transfers substantially all the risks and rewards of the financial asset; or
- › the Company does not transfer or retain substantially all the risks and rewards of the financial asset, but transfers control of the asset.

A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires. The difference between the carrying value of the derecognized financial liability and the consideration paid and due, including any non-monetary asset transferred or liability assumed is reported in the Income Statement.

### jj) Recognition of Expenses

Annuities and benefits at maturity are recognized when payment is due. Redemptions are recorded on payment. Death benefits and other benefits are recorded when reported.

Reinsurance recoveries are recorded for the same periods as related benefits.

Claims related to general insurance are recognized when there is sufficient evidence of their existence and when a reasonable assumption can be made on the amounts involved.

## 3 › Change in Accounting Policies

### Impact of the Changes in Accounting Policies adopted earlier

In December 2010, the IASB published an amendment to IAS 12 "Deferred Tax: Recovery of the Underlying Assets" and to SIC 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets." The amendment introduced a rebuttable presumption that the carrying value of real estate held for investment at fair value will be recovered through a sale unless the real estate held for investment is depreciable and is owned according to a business model that aims to use all the economic benefits over time. With the amendments, SIC 21 will no longer apply to real estate held for investment recorded at fair value. The amendments in these standards are applicable to financial statements covering periods beginning on or after January 1, 2012. Early adoption is permitted. The Company adopted this amendment on January 1, 2010 with the application of IFRS. The impact of earlier and retrospective adoption is not significant on opening retained earnings and on net income of 2010 and 2011.

### Future Changes in Accounting Policies

The IASB published an amendment to IFRS 7 "Financial Instruments: Disclosures." This amendment adds an obligation to provide disclosure on financial asset transfers. Additional disclosure will enable users of financial statements to understand the relationship between transferred financial assets that are not fully derecognized and their related liabilities. This additional disclosure can be used to measure the nature of the links maintained with derecognized financial assets and the risks associated with them. The amendments will apply to financial statements for periods beginning on or after July 1, 2011. Early adoption is permitted. The Company is currently evaluating the impact of the amendments to this standard on its financial statements.

On December 16, 2011, the IASB published an amendment to IFRS 7 "Financial Instruments: Disclosures." The amendments concern the presentation of additional disclosures on compensation agreements to enable users of financial instruments to understand the impact of these agreements on the Company's financial position. The provisions in this amendment will apply to financial statements for periods beginning on or after January 1, 2013. Retrospective application of the amendments is mandatory. The Company is evaluating the impact of these amendments on its financial statements.

The IASB published IFRS 9 "Financial Instruments," which replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to the classification and measurement of financial assets and liabilities. The provisions of IFRS 9 were initially required to be applied to financial statements for periods beginning on or after January 1, 2013. On December 16, 2011, the IASB published an amendment to IFRS 9, in order to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. This amendment also indicates that entities will not have to restate comparative data. However, additional disclosure on the effects at transition is required. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

### 3 › Change in Accounting Policies (continued)

#### Future Changes in Accounting Policies (continued)

In May 2011, the IASB published three new standards that outline the new IFRS consolidation framework: IFRS 10 "Consolidated Financial Statements," IFRS 11 "Joint Arrangements," which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and IFRS 12 "Disclosure of Interest in Other Entities." Two other standards were amended at the same time: IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures." These standards will apply to financial statements for periods beginning on or after January 1, 2013. Early adoption is permitted under certain conditions. The Company is currently evaluating the impact of adopting these new standards on its financial statements.

##### *IFRS 10 Consolidated Financial Statements*

IFRS 10 defines control as the basis for consolidation. Control must be evaluated according to the power that the Company exercises over the entity, its exposure or rights to variable returns through its involvement with the entity and the ability to affect those returns through its power over the entity.

##### *IFRS 11 Joint Arrangements, IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures*

A joint arrangement is a joint operation whereby the company has rights and obligations over specific assets and liabilities, or a joint venture whereby the company holds rights to the net assets of the entity. For a joint operation, the company will have to recognize its share of the assets, liabilities, revenues and expenses of the joint operations. For a joint venture, the company will have to recognize its interest according to the equity method described in IAS 28. The proportionate consolidation method under IAS 31 will also be eliminated.

##### *IFRS 12 Disclosure of Interest in Other Entities*

IFRS 12 will require the company to present additional disclosure in the consolidated financial statements for interests in other entities. This disclosure will enable users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the company's financial position, financial performance and cash flows.

In May 2011, the IASB published IFRS 13 "Fair Value Measurement." This standard brings further clarification on fair value measurement and disclosures on measuring fair value when fair value measurement is required or permitted by another IFRS standard. The provisions of IFRS 13 will apply to financial statements for periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new standard on its financial statements.

On June 16, 2011, the IASB published an amendment to IAS 1 "Presentation of Financial Statements," on the presentation of other comprehensive income. The amendments provide instructions on the presentation of other comprehensive income, which will have to be grouped under one of the following two categories: items that are potentially reclassifiable to profit or loss in subsequent periods or items that will not be reclassified to profit or loss in subsequent periods. The provisions outlined in this amendment will apply to financial statements for periods beginning on or after July 1, 2012. Retrospective application is mandatory. The Company is evaluating the impact of these amendments on its financial statements.

On June 16, 2011, the IASB published amendments to IAS 19 "Employee Benefits." The amendments aim to improve financial disclosure on employee benefits. A major amendment concerns the obligation for the Company to recognize changes in defined benefit obligations and retirement plan assets when they occur. The corridor method will no longer be permitted. The Company will have to split changes in the defined benefit obligation and the fair value of plan assets into service cost, financial cost and remeasurement components. The provisions of this standard will apply to financial statements for periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is evaluating the impact of these amendments on its financial statements.

On December 16, 2011, the IASB published an amendment to IAS 32 "Financial Instruments: Presentation." The amendments provide clarification on the application of rules to offset financial assets and financial liabilities. The following notions are clarified: legally enforceable right to set-off, application of simultaneous realization and settlement, offsetting a guaranteed amount and the unit of accounting for application of the offsetting obligations. The provisions of this amendment will apply to financial statements for periods beginning on or after January 1, 2014. Amendments must be applied retrospectively. Early adoption is permitted. The Company is evaluating the impact of these amendments on its financial statements.

#### IASB Projects

On July 30, 2010, the Exposure Draft on phase II of IFRS 4 "Insurance Contracts," was published and covers the valuation and recognition of insurance contracts. The comments period ended on November 30, 2010. Phase II of the standard should not take effect prior to 2015. The IASB's proposed accounting method for insurance contracts separate the valuation of insurance liabilities from the assets they are matched to. Consequently, these proposals could lead to a strong increase in insurance contract liabilities and required capital on adoption and major volatility in the results.

On August 25, 2011 the IASB published Exposure Draft "Investment Entities," which proposes that an investment entity measure investments in entities that it controls at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" (or IAS 39 "Financial Instruments: Recognition and Measurement" if IFRS 9 is not yet effective). This means that the entities which meet the definition of investment entity will be exempted from consolidation, but will have to recognize their overall share (including subsidiaries, associates and joint ventures) at fair value through profit or loss, as per IFRS 9.

### 3 › Change in Accounting Policies (continued)

#### IASB Projects (continued)

On October 20, 2011, the IASB published Exposure Draft "Government Loans (proposed amendments to IFRS 1)." This exposure draft allows entities that receive government loans with a below market rate of interest to apply this requirement to apply the date of transition to IFRS prospectively.

On November 14, 2011, the IASB published a revised Exposure Draft "Revenue from Contracts with Customers" (to replace IAS 11 and IAS 18). The goal of this exposure draft is to create a unique standard on the recognition of revenues from its normal operations and to clarify the principles for recognizing these revenues.

On December 20, 2011, the IASB published Exposure Draft "Transition Guidance (Proposed Amendments to IFRS 10)," in order to clarify when the retrospective application of IFRS 10 is imposed.

Among other published Exposure Drafts, the followings are also of note: "Provisions, Contingent Liabilities and Contingent Assets," "Leases," "Revenue Recognition" and phase II of IFRS 9, "Classification and Measurement of Financial Liabilities."

### 4 › Transition to International Financial Reporting Standards (IFRS)

The Company adopted IFRS on January 1, 2011. Prior to this adoption, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The financial statements for the year ended December 31, 2011 are the first annual financial statements of the Company prepared in accordance with IFRS as published by the IASB on that same date. The Company prepared its opening Statement of Financial Position as of January 1, 2010. The accounting policies described in Note 2 are the accounting policies that the Company used in preparing its opening Statement of Financial Position.

#### A) Exemptions and exceptions under IFRS 1

IFRS 1 "First-time Adoption of International Financial Reporting Standards" contains certain optional exemptions and mandatory exceptions to the general principle of retrospective application of IFRS in order to facilitate the transition to IFRS. The Company analyzed these exceptions and exemptions in order to make choices that allow it to establish its opening Statement of Financial Position under IFRS. The information below corresponds to the exemptions and exceptions to the retrospective application of IFRS that the Company has decided to apply.

#### Exemptions from retrospective application

The Company applied certain optional exemptions to the retrospective application of IFRS when it prepared its opening Statement of Financial Position. The exemptions applied are described below:

1. **Business combinations**  
The Company availed itself of this exemption. Therefore, acquisitions made prior to January 1, 2010 were not restated according to IFRS. The value of goodwill and intangible assets was not amended on the transition date. The Company also ensured that all assets and liabilities acquired during business combinations were properly recorded.
2. **Employee benefits**  
The Company elected to record all unamortized actuarial gains and losses in the retained earnings on the date of transition to IFRS.
3. **Cumulative translation differences**  
The Company elected to take advantage of this exemption and to reset at zero the amount of currency translation on foreign operations that existed on the date of transition to IFRS. This amount, which had been recorded in the accumulated other comprehensive income, was recorded in the retained earnings in the opening Statement of Financial Position.
4. **Share-based payments**  
The Company elected to not retrospectively apply IFRS 2 "Share-based Payment" on share-based payments issued prior to January 1, 2010 and whose vesting period was terminated on the transition date.
5. **Designation of previously recognized financial instruments**  
The Company availed itself of this exemption and reclassified the debentures classified as designated at fair value through profit or loss as a financial liability at amortized cost. Consequently, the financial assets matching these liabilities were reclassified from designated at fair value through profit or loss to available for sale.
6. **Fair value or revaluation as deemed cost**  
An entity may elect to measure fixed assets on the transition date to IFRS at its fair value and use this fair value as deemed cost on that date. A first-time adopter may elect to use a revaluation of fixed assets established according to previous GAAP on the transition date to IFRS or prior to that date, as deemed cost on the revaluation date.

The Company recorded real estate held for investment at fair value on the date of transition to IFRS.

Fair value was used as deemed cost for the land related to own-use properties.

For own-use properties, the Company decided not to use the exemption proposed in IFRS 1 and rebuilt the cost after amortization of these assets using IAS 16 "Property, Plant and Equipment".

For other fixed assets, the Company decided to use the exemption proposed in IFRS 1. However, the application of the exemption did not have an impact on the opening Statement of Financial Position.

7. **Insurance contracts**  
The Company did not modify its method for measuring insurance contract liabilities.

#### 4 › Transition to IFRS (continued)

##### Mandatory exceptions from retrospective application

When preparing its opening statement of financial position, the Company was obligated to apply mandatory exceptions to the full retrospective application of IFRS, as described below:

1. Hedge accounting  
Only hedging relationships that meet hedge accounting criteria on the transition date are recognized as hedges on the transition date.
2. Estimates  
The Company made sure to not use its subsequent knowledge in order to create or revise estimates. Consequently, the estimates that the Company used in GAAP were used in IFRS.

##### B) Reconciliation of Equity and Comprehensive Income between GAAP and IFRS

The following table presents the reconciliation of equity recorded according to GAAP and the equity recorded in accordance with IFRS.

## EQUITY

(in millions of dollars)		As at January 1, 2010	As at December 31, 2010
		\$	\$
<b>Equity according to GAAP</b>		2,158	2,562
<b>Effect of participating policyholders accounts</b>		26	27
<b>Effect on retained earnings</b>			
Real estate held for investment	a)	95	87
Net deferred gains on real estate	b)	9	8
Own-use properties	c)	(24)	(26)
Fair value of financial instruments	d)	(29)	(24)
Insurance contract liabilities	e)	(76)	(72)
Reclassification of debentures—reversal of fair value	f)	11	17
Employee benefits—retirement plans and other plans	g)	(105)	(101)
Currency translation on foreign operations, net of hedging activities	h)	(4)	(4)
Income taxes on changes in accounting standards	i)	45	40
Other		(6)	(7)
<b>Total</b>		<b>(84)</b>	<b>(82)</b>
<b>Effect on the accumulated other comprehensive income, net of income taxes</b>			
Fair value of financial instruments	d)	27	24
Currency translation on self-sustaining foreign operations, net of hedging activities	h)	---	---
Income taxes on changes in accounting standards	i)	(3)	(3)
<b>Total</b>		<b>24</b>	<b>21</b>
<b>Equity according to IFRS</b>		<b>2,124</b>	<b>2,528</b>

#### 4 › Transition to IFRS (continued)

##### B) Reconciliation of Equity and Comprehensive Income between GAAP and IFRS (continued)

The following table presents the reconciliation between the comprehensive income presented according to GAAP and the comprehensive income presented in accordance with IFRS.

### CONSOLIDATED COMPREHENSIVE INCOME

(in millions of dollars)		As at December 31
		2010
		\$
<b>Comprehensive income according to GAAP</b>		<b>303</b>
<b>Effect on net income</b>		
Real estate held for investment	a)	(8)
Own-use properties	c)	(2)
Insurance contract liabilities	e)	4
Other		(1)
Net deferred gains on real estate	b)	(1)
Fair value of financial instruments	d)	5
Reclassification of debentures	f)	6
Employee benefits – retirement plans and other plans	g)	4
Income taxes on changes in accounting standards	i)	(5)
Total		2
<b>Effect on other comprehensive income, net of taxes</b>		
Fair value of financial instruments	d)	(3)
Income taxes on changes in accounting standards	i)	---
Total		(3)
<b>Comprehensive income according to IFRS</b>		<b>302</b>

Details on adjustments to equity and comprehensive income are presented below:

- a) Real estate held for investment:  
The Company owns several properties. Under GAAP, all properties, without distinction based on their use, were carried at the moving average market method, at a rate of 3% per quarter of unrealized gains and losses. According to IAS 40 "Investment property", the Company must classify real estate according to its use as real estate held for investment or as own-use properties. Consequently, real estate held for purposes of increasing the value or for purposes of earning rental income, was classified as real estate held for investment. The Company recorded these properties at fair value on the transition date. The fair value of these properties includes the linearization of rents that is reported in the Statement of Financial Position under *Other assets*. Upon consolidation, the Company also reclassifies certain real estate held for investment as own-use property given that entities of the group occupy these buildings.
- b) Net deferred gains on real estate:  
IFRS no longer allow the Company to defer net gains on dispositions of real estate. GAAP allowed all gains and losses from disposition of real estate to be deferred and amortized at a quarterly rate of 3%. Consequently, writing-off this amount affected retained earnings.
- c) Own-use properties:  
The Company owns buildings that it occupies and uses for its operations. According to previous GAAP, these buildings were recorded the same way as real estate held for investment at the moving average market method. Under IFRS, these buildings must be considered as fixed assets and recorded, either at cost or at fair value at the choice of the Company, according to IAS 16 "Property, Plant and Equipment." On the transition date, own-use property was measured at cost retrospectively rebuilt as per IAS 16 and land related to own-use properties was measured at fair value. The fair value of the components of own-use properties measured at fair value is \$127.
- d) Fair value of financial instruments:  
Given that the designation of financial instruments can be changed under IFRS 1, the Company reclassified bonds matching the debentures with a fair value of \$305 from designated at fair value through profit or loss to available for sale. This reduced the retained earnings and increased the accumulated other comprehensive income by the same amount.

Furthermore, according to previous GAAP, the Company could classify stocks for which there was no active market as available for sale at cost. These stocks must now be measured at fair value. To do this, the Company uses an internal measurement method. The fair value of these stocks is \$54.

Compared to previous accounting standard, IAS 39 added impairment criteria for stocks classified as available for sale. Hence, stocks classified as available for sale should be impaired if the unrealized loss accounted in the Comprehensive Income Statement is significant or prolonged.

#### 4 › Transition to IFRS (continued)

##### B) Reconciliation of Equity and Consolidated Comprehensive Income between GAAP and IFRS (continued)

- e) Insurance contract liabilities:  
Given that the Company uses the CALM to calculate its provisions for future policy benefits for insurance contracts, variations in the fair value of assets matched to these liabilities have an effect on the calculation. Consequently, variation of real estate held for investment, variation of stocks, and a portion of net deferred gains on real estate increased the provisions for future policy benefits for insurance contracts and reduced the retained earnings by the same amount.
- f) Reclassification of debentures—reversal of fair value:  
The Company used the IFRS 1 exemption on the designation of financial instruments and amended the designation of certain debentures. According to previous GAAP, these debentures were designated at fair value through profit or loss and had a fair value of \$327. According to IFRS, these debentures are classified as financial liabilities at amortized cost.
- g) Employee benefits—retirement plans and other plans:  
The Company elected to use the IFRS 1 exemption on employee benefits. All unamortized actuarial gains and losses on the transition date were recorded as a reduction of retained earnings.
- h) Currency translation on foreign operations, net of hedging activities:  
Given that the Company used the currency translation exemption allowed by IFRS 1, this led to a reduction in retained earnings and an increase in accumulated other comprehensive income.
- i) Income taxes on changes in accounting standards:  
The Company calculated the effect of income taxes on the various preceding accounting changes. The anticipated adoption of IAS 12 "Income taxes" described in Note 3, Changes in Accounting Policies did not have an impact compared to the previous GAAP.

The other adjustments did not have a significant impact on the Company's Equity and Comprehensive income.



## 4 › Transition to IFRS (continued)

*C) Reconciliation of the Consolidated Statement of Financial Position between GAAP and IFRS as at January 1, 2010*

The following table presents the reconciliation of the Statement of Financial Position on the transition date. Several of these adjustments had an effect on the retained earnings and accumulated other comprehensive income.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of dollars)		As at December 31, 2009	Impact of new accounting standards Adjustment	As at January 1, 2010
		\$ GAAP	\$	\$ IFRS
<b>Assets</b>				
<b>Invested assets</b>				
Bonds	a)	9,410	1	9,411
Mortgages		3,405	---	3,405
Stocks	b)	1,896	(121)	1,775
Real estate	c)	649	17	666
Policy loans		381	---	381
Short-term investments		---	88	88
Cash and cash equivalents		382	(13)	369
Other invested assets	d)	367	(42)	325
		16,490	(70)	16,420
Other assets	c) and e)	658	(103)	555
Reinsurance assets	f)	---	288	288
Own-use properties	c)	---	74	74
Deferred income tax assets		---	15	15
Intangible assets		375	2	377
Goodwill		116	---	116
Segregated fund assets	g)	---	11,450	11,450
<b>Total general fund assets</b>		<b>17,639</b>	<b>11,726</b>	<b>29,295</b>
<b>Segregated fund net assets</b>		<b>11,450</b>	<b>(11,450)</b>	<b>---</b>
<b>Liabilities</b>				
<b>Insurance contract liabilities</b>				
Provisions for future policy benefits	f), h) and i)	13,392	(92)	13,300
Provisions for dividends to policyholders and experience rating refunds	f) and h)	60	(24)	36
Benefits payable and provision for unreported claims	f) and h)	139	7	146
Policyholders' amounts on deposit	f) and h)	212	(11)	201
		13,803	(120)	13,683
Other liabilities	e)	784	70	854
Investment contract liabilities	h)	---	488	488
Deferred income tax liabilities		339	(24)	315
Debentures	d) and k)	520	(21)	499
Segregated fund liabilities	g)	---	11,332	11,332
Net deferred gains	j)	9	(9)	---
Participating policyholders' account		26	(26)	---
		15,481	11,690	27,171
<b>Equity</b>				
Participating policyholders' account		---	26	26
Share capital		871	---	871
Contributed surplus – Stock option plan		22	---	22
Retained earnings and accumulated other comprehensive income		1,265	(60)	1,205
		2,158	(34)	2,124
<b>Total general fund liabilities and equity</b>		<b>17,639</b>	<b>11,656</b>	<b>29,295</b>
<b>Segregated fund liabilities</b>		<b>11,450</b>	<b>(11,450)</b>	<b>---</b>

#### 4 › Transition to IFRS (continued)

##### C) Reconciliation of the Consolidated Statement of Financial Position between GAAP and IFRS as at January 1, 2010 (continued)

Details concerning the adjustments of the Statement of Financial Position are as follows:

- a) The Company reclassified bonds from designated at fair value through profit or loss and available for sale to loans and receivables with fair values of \$26 and \$3 respectively. Also, the Company reclassified bonds with a fair value of \$17 from loans and receivables to designated at fair value through profit or loss.
- b) The Company eliminated the seed money that it had in its segregated funds and it reduced the fair value of stocks designated at fair value through profit or loss and available for sale by \$115 and \$3 respectively. Also, stocks that could be classified available for sale at cost according to previous GAAP, were measured at fair value and are now designated at fair value through profit or loss or available for sale. The fair value of these stocks is \$54.
- c) The Company must now reclassify its real estate as real estate held for investment or own-use properties. The fair value of real estate held for investment considers several items such as leasehold improvements, deferred commissions and other deferred expenses that were part of other assets under previous GAAP. Also, fair value of real estate held for investment also considers the linearization of rents that are recorded in other assets.

Own-use properties were reclassified from real estate to own-use properties.

- d) Considering that the Company must consolidate IA Capital Trust, various intercompany transactions must now be eliminated. A financing debenture was part of these transactions which is now eliminated.
- e) Given that offsetting is no longer permitted between accounts receivable and accounts payable, various accounts were subject to reclassification.
- f) Previous GAAP allowed the Company to report reinsurance items under the appropriate items on a net basis. This is no longer permitted under IFRS 4 "Insurance Contracts." The Company reclassified reinsurance assets in a separate line under assets. These reinsurance assets come from provisions for future policy benefits, provisions for dividends to policyholders and experience rating refunds, payments to policyholders and provisions for unreported claims and amounts of contracts on deposit.
- g) Since the Company controls segregated funds, it must consolidate them. Consequently, segregated fund assets are reported in the total assets of the Company and segregated fund client units as liabilities.
- h) Certain contracts were classified as investment contracts when classification of the Company's contracts was analyzed. Consequently, the Company reclassified amounts recorded as provisions for future policy benefits, provisions for dividends to policyholders and experience rating refunds, payments to policyholders and provisions for unreported claims, amounts of contracts on deposit as investment contracts liabilities.
- i) The provisions for future policy benefits were also adjusted for fair value variations of assets matching these liabilities.
- j) Previous GAAP permitted gains or losses on disposition of real estate to be deferred. This is no longer permitted under IFRS.
- k) The Company reclassified certain debentures that were designated at fair value through profit or loss as financial liabilities at amortized cost. Consequently, these debentures were reduced to cost and they had a fair value of \$305.

The other adjustments did not have a significant impact on the Company's Statement of Financial Position.

## 4 › Transition to IFRS (continued)

*D) Reconciliation of Consolidated Income Statements between GAAP and IFRS as at December 31, 2010*

## CONSOLIDATED INCOME STATEMENTS

(in millions of dollars, unless otherwise indicated)		Year ended December 31	Impact of new accounting standards	Year ended December 31
		2010	Adjustment	2010
		\$	\$	\$
		GAAP		IFRS
<b>Revenues</b>				
Gross premiums	a), b) and e)	4,874	291	5,165
Premiums ceded	b)	---	(383)	(383)
Net premiums		4,874	(92)	4,782
Investment income	c)	1,445	74	1,519
Fees and other revenues	a), d)	450	254	704
		6,769	236	7,005
<b>Policy benefits and expenses</b>				
Benefits to policyholders and beneficiaries	a), b) and e)	2,102	93	2,195
Ceded benefits	b)	---	(177)	(177)
Net benefits to policyholders and beneficiaries		2,102	(84)	2,018
Net transfer to segregated funds	e)	1,779	16	1,795
Dividends, experience rating refunds and interest on amounts on deposit	e)	66	12	78
Change in provisions for future policy benefits	a), e), f) and g)	1,257	217	1,474
Change in reinsurance assets	f)	---	(252)	(252)
		5,204	(91)	5,113
Commissions	d)	661	164	825
Premium and other taxes		71	---	71
General expenses	c), d) and i)	448	164	612
Financing expenses	h)	37	(7)	30
		6,421	230	6,651
<b>Income before income taxes</b>				
		348	6	354
Less: income taxes	j)	73	4	77
<b>Net income</b>				
		275	2	277
Less: net income attributed to participating policyholders		1	---	1
<b>Net income attributed to shareholders</b>				
		274	2	276
Less: preferred share dividends		23	---	23
<b>Net income available to common shareholders</b>				
		251	2	253
<b>Earnings per common share (in dollars)</b>				
Basic		3.02		3.04
Diluted	k)	2.99		2.93

#### 4 › Transition to IFRS (continued)

##### D) Reconciliation of Consolidated Income Statements between GAAP and IFRS as at December 31, 2010 (continued)

Following are details of the adjustments to the Consolidated Income Statements:

- a) According to IFRS 4, the Company must now classify its insurance contracts according to three possibilities: insurance contracts, investment contracts or service contracts. Certain contracts that were classified as administrative services only contracts according to previous GAAP correspond to the definition of insurance contract. This increased the premiums, benefits to policyholders and beneficiaries and changes in the provision for future policy benefits and reduced fees and other revenues.
- b) Under previous GAAP, the Company reported insurance amounts net of reinsurance. IFRS 4 no longer permits this reporting. Consequently, the Company increased the premiums and the benefits to policyholders and beneficiaries of reinsured amounts in order to report them before reinsurance and recorded ceded premiums and ceded benefits on a separate line.
- c) The Company's investment income was adjusted for changes in the fair value of assets backing the debentures that were reclassified as available for sale on January 1, 2010. Investments were also readjusted for fair value variations of stocks which were classified as available for sale at cost according to previous GAAP. Operating costs of real estate and investment expenses are now presented in general expenses.
- d) Previous GAAP permitted entities of the group to report commission revenues on a net basis. According to IAS 18 "Revenue," commissions can now only be reported on a net basis for an intermediate transaction. Consequently, the commission expense was reclassified in commissions. Segregated fund and mutual fund management expenses are now classified as general expenses.
- e) Certain contracts that were insurance contracts according to previous GAAP are now classified as investment contracts according to IFRS 4. This classification reduces premiums, payments to policyholders and beneficiaries, changes in provisions for future policy benefits and transfers to segregated funds.
- f) Given that the Company must report reinsurance assets separately according to IFRS 4, changes in these assets are found on a separate line in the Income Statements, except for variations in reinsurance assets related to amounts on deposit.
- g) Changes in the provisions for future policy benefits primarily come from adjustment of stocks at fair value that match insurance contract liabilities and changes in the fair value of real estate held for investment.
- h) The financing expense was amended due to the fact that the Company modified the classification of certain debentures from designated at fair value through profit or loss to financial liabilities at amortized cost.
- i) The Company's general expenses include under IFRS the amortization of own-use properties.
- j) The Company calculated the effect of income taxes on the various changes to accounting policies.
- k) According to previous GAAP, even though the Series A debentures (IATS) (innovative tier 1 instruments) are convertible into preferred shares which are subsequently convertible into common shares, they have no dilutive effect on the calculation of earnings per common share since they satisfy certain specific criteria. These criteria are the Company's past experience in terms of conversions and the possibility of settlement in cash. Under IFRS, earnings per share calculation assumes that the IATS will be ultimately converted into common shares.

##### E) Changes to the Cash Flows Statement

Under IFRS, the Company continues to present the Cash Flow Statement under the indirect method. The presentation differences of the Cash Flows Statement are the use of income before income taxes and the presentation of income taxes paid in the cash flow from operating activities and the presentation of the purchases and sales transactions on short-term investments in the cash flow from investing activities.

#### 5 › Acquisitions and Mergers of Businesses

##### **Business merger**

On September 12, 2011, the Company announced the merger of its subsidiary, Industrial Alliance Pacific Insurance and Financial Services Inc. (Industrial Alliance Pacific) with its own activities. The effective date of the merger will June 30, 2012. Costs and provision detail related to this business merger is presented in Note 6 *Restructuring costs*.

##### **Acquisitions in the United States**

On July 19, 2010, IA American Life Insurance Company (IA American), a life insurance subsidiary of the company, acquired 100% of the shares of American-Amicable Holding Inc. (American-Amicable) for a cash consideration of a \$152. 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 was \$31.

## 5 › Acquisitions of Businesses (continued)

### Acquisitions in the United States (continued)

During 2011, the Company has finalized the allocation of the acquisition price. Following this analysis, the Company recorded a finite life intangible asset of \$27, amortizable over a 30-year-period (amortization of \$1 in 2011), a liability representing the fair value of purchased business in force of \$18, amortizable over a 30-year-period (amortization of less than \$1 in 2011), goodwill of \$25 and a deferred income tax liability of \$3. The fair value of the purchased business in force is presented in *Other Liabilities* in the Statement of Financial Position.

The Company's revenues and net income for 2010 include amounts of \$42 and \$1 respectively, from the results of American-Amicable from the date of its acquisition through the end of the year. By adding revenues and net income of American-Amicable from January 1, 2010 to December 31, 2010, the revenues and the net income of the Company for 2010 would have been \$124 and \$39 respectively.

On September 2, 2010, IA American acquired the individual life insurance portfolio of Golden State Mutual Life Insurance Company (GSM) for a cash consideration of \$12. GSM activities were in the field of life insurance in 17 US states. Preliminary goodwill related to this transaction is zero. Following the final allocation of the acquisition price, there was no adjustment to the value of goodwill.

On September 30, 2010, IA American acquired the business of administering life insurance policies of Dream Life Administration LLC for cash consideration of \$2. Preliminary intangible assets with finite useful life related to the transaction is \$1 (amortization was less than \$1 in 2011) and preliminary goodwill is \$1. Following the final allocation of the acquisition price, there was no significant adjustment to the value of the intangible assets with finite useful life and to goodwill.

### 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 the outstanding shares of National Warranties MRWV Limited (National Warranties) in consideration of a \$10 cash payment. National Warranties sells extended warranties primarily through independent used car dealers in the province of Quebec. Preliminary goodwill related to the transaction was \$15.

The Company has finalised the allocation of the acquisition price. Following this analysis, the Company has recorded a finite life intangible asset of \$5, amortizable over a 12-year-period (amortization of \$1 in 2011 and 2010), an asset representing the fair value of purchased business in force of \$3, amortizable accordingly to the revenue of contracts (amortization was less than \$1 in 2011 and 2010), a goodwill of \$9 and a deferred income taxes liabilities of \$2.

The Company's revenues for 2010 include \$1 from the results of National Warranties from its acquisition date to the end of the year, whereas its net income has a negligible impact on the Company's net income. By adding National Warranties' revenues from January 1, 2010 to December 31, 2010, the company's 2010 revenues would have been \$5, whereas its net income would have had a negligible effect on the Company's net income.

On February 14, 2011, the Company acquired the assets of Protection V.A.G. inc. ("VAG") for a consideration of \$29 and a conditional consideration of \$19. Preliminary indefinite useful life intangible asset related to this transaction is \$25, preliminary goodwill is \$21 and a deferred income tax liability of \$2.

On that same date, the Company acquired 100% of the shares of Produits récréatifs Accès inc. ("Accès") for a consideration of \$6. Preliminary indefinite useful life intangible asset related to this transaction is \$6.

The Company also acquired, through a wholly-owned subsidiary, the assets of Communications & Références Multi Assurance Direct inc. ("MAD") for a consideration of \$4. Preliminary indefinite useful life intangible asset related to this transaction is \$4.

Collectively, VAG, MAD and Accès distribute creditor insurance products and replacement insurance through a network of new and used automobile dealers in Quebec.

Revenues and net income of the other acquired entities did not have a significant impact on the Company's financial results.

### Goodwill

Goodwill is not deductible for tax purposes.

### Allocation of the acquisition price

The Company has 12 months following the acquisition date to complete the allocation of the acquisition price. Once the analysis is finalized, allocation of the preliminary purchase price and its distribution by activity sector could be adjusted. The allocation of preliminary goodwill and intangible assets between intangible assets and goodwill are presented respectively in Note 24 *Intangible assets* and Note 25 *Goodwill*.

## 5 > Acquisitions of Businesses (continued)

The assets acquired and liabilities assumed at the acquisition date are summarized as follows:

	2011	2010	
	General Insurance \$	Acquisitions in the United States \$	General Insurance \$
<b>Assets acquired</b>			
<b>Invested assets</b>			
Bonds	---	224	4
Stocks	---	4	1
Mortgages	---	21	---
Real Estate	---	11	---
Policy loans	---	41	---
Short-term investments	---	99	---
Cash and cash equivalents	---	392	1
	---	792	6
Other assets	5	26	1
	5	818	7
<b>Liabilities assumed</b>			
<b>Insurance contract liabilities</b>			
Provisions for future policy benefits	---	650	---
Payments to policyholders and provisions for unreported claims	---	12	---
Amounts of contracts on deposit	---	10	---
	---	672	---
Other liabilities	3	13	12
	3	685	12
Net assets acquired	2	133	(5)
Preliminary finite useful life intangible assets	---	1	---
Preliminary indefinite useful life intangible assets	35	---	---
Preliminary goodwill	21	32	15
<b>Purchase price</b>	<b>58</b>	<b>166</b>	<b>10</b>

## 6 > Restructuring Costs

Restructuring costs related to the merger of the Company with its subsidiary Industrial Alliance Pacific are as follow:

	Expected future costs \$	Amount expensed in 2011 \$	Balance of expected future costs \$
Systems conversion and other	5	1	4

For the year ended December 31, 2011, a provision for restructuring of \$1 was recorded essentially for employee compensation and other fees. Outflows will occur during 2012.

## 7 > Segmented Information

The Company operates principally in one dominant industry segment, the life and health insurance industry. The Company also operates mutual fund, securities brokerage and trust businesses. The Company primarily operates in Canada and the operations outside Canada are not significant.

The Company operates and manages its activities according to five reportable operating segments. The major products and services of each sector are:

### Individual Life and Health Insurance

Offers individual life insurance products and long-term care insurance.

### Individual Wealth Management

Offers individual products and services for savings plans, retirement funds and segregated funds, in addition to mutual fund, securities brokerage and trust operations.

### Group Life and Health Insurance

Offers group life insurance products and group insurance for long-term care.

### Group Savings and Retirement

Offers group products and services for savings plans, retirement funds and segregated funds.

### Other activities

The Company offers general insurance products, products related to car insurance and liabilities unallocated and allocated to the surplus.

## 7 > Segmented Information (continued)

### Segmented Income Statements

The following tables provide a summary of the Income Statements by segment:

	Individual		2011 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	Other activities \$	
<b>Revenues</b>						
Net Premiums	1,247	1,766	1,139	637	203	4,992
Investment income	1,539	272	108	325	7	2,251
Fees and other revenues	24	697	25	48	---	794
	<b>2,810</b>	<b>2,735</b>	<b>1,272</b>	<b>1,010</b>	<b>210</b>	<b>8,037</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	2,218	489	871	860	113	4,551
Net transfer to segregated funds	---	1,550	---	76	---	1,626
Commissions, general and other expenses	582	607	370	50	85	1,694
Interest expenses	26	2	2	1	1	32
	<b>2,826</b>	<b>2,648</b>	<b>1,243</b>	<b>987</b>	<b>199</b>	<b>7,903</b>
Income before income taxes	(16)	87	29	23	11	134
Less: income taxes	(38)	16	5	4	6	(7)
Net income before allocation of other activities	22	71	24	19	5	141
Allocation of other activities	5	---	---	---	(5)	---
<b>Net income</b>	<b>27</b>	<b>71</b>	<b>24</b>	<b>19</b>	<b>---</b>	<b>141</b>
Attributed to shareholders	14	71	24	18	---	127
Attributed to participating policyholders	13	---	---	1	---	14

	Individual		2010 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	Other activities \$	
<b>Revenues</b>						
Net premiums	1,130	1,926	969	602	155	4,782
Investment income	1,068	96	90	256	9	1,519
Fees and other revenues	30	615	18	41	---	704
	<b>2,228</b>	<b>2,637</b>	<b>1,077</b>	<b>899</b>	<b>164</b>	<b>7,005</b>
<b>Operating expenses</b>						
Cost of commitments to policyholders	1,505	318	731	670	94	3,318
Net transfer to segregated funds	---	1,633	---	162	---	1,795
Commissions, general and other expenses	544	587	289	41	47	1,508
Financing expenses	16	3	2	2	7	30
	<b>2,065</b>	<b>2,541</b>	<b>1,022</b>	<b>875</b>	<b>148</b>	<b>6,651</b>
Income before income taxes	163	96	55	24	16	354
Less: income taxes	32	23	12	5	5	77
Net income before allocation of other activities	131	73	43	19	11	277
Allocation of other activities	9	---	1	1	(11)	---
<b>Net income</b>	<b>140</b>	<b>73</b>	<b>44</b>	<b>20</b>	<b>---</b>	<b>277</b>
Attributed to shareholders	139	73	44	20	---	276
Attributed to participating policyholders	1	---	---	---	---	1



## 7 > Segmented Information (continued)

### Segmented premiums

The following tables show premiums by segment:

	Individual		2011 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	General Insurance \$	
<b>Gross premiums</b>						
Invested in general fund	1,465	404	1,212	141	209	3,431
Invested in segregated funds	---	1,362	---	516	---	1,878
<b>Total</b>	<b>1,465</b>	<b>1,766</b>	<b>1,212</b>	<b>657</b>	<b>209</b>	<b>5,309</b>
<b>Premiums ceded</b>						
Invested in general fund	218	---	73	20	6	317
Invested in segregated funds	---	---	---	---	---	---
<b>Total</b>	<b>218</b>	<b>---</b>	<b>73</b>	<b>20</b>	<b>6</b>	<b>317</b>
<b>Net premiums</b>	<b>1,247</b>	<b>1,766</b>	<b>1,139</b>	<b>637</b>	<b>203</b>	<b>4,992</b>

	Individual		2010 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	General Insurance \$	
<b>Gross premiums</b>						
Invested in general fund	1,331	438	1,083	91	160	3,103
Invested in segregated funds	---	1,488	---	574	---	2,062
<b>Total</b>	<b>1,331</b>	<b>1,926</b>	<b>1,083</b>	<b>665</b>	<b>160</b>	<b>5,165</b>
<b>Premiums ceded</b>						
Invested in general fund	201	---	114	63	5	383
Invested in segregated funds	---	---	---	---	---	---
<b>Total</b>	<b>201</b>	<b>---</b>	<b>114</b>	<b>63</b>	<b>5</b>	<b>383</b>
<b>Net premiums</b>	<b>1,130</b>	<b>1,926</b>	<b>969</b>	<b>602</b>	<b>155</b>	<b>4,782</b>

### Segmented Statements of Financial Position

The following tables are a summary of the financial position by segment:

	Individual		December 31, 2011 Group			Total \$
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	Other activities \$	
<b>Assets</b>						
Invested assets and segregated fund assets	13,187	11,204	1,675	7,970	1,193	35,229
Reinsurance assets	148	---	194	123	---	465
Intangible assets	96	324	3	2	44	469
Goodwill	73	38	20	---	26	157
Other	---	---	---	---	1,121	1,121
<b>Total assets</b>	<b>13,504</b>	<b>11,566</b>	<b>1,892</b>	<b>8,095</b>	<b>2,384</b>	<b>37,441</b>
<b>Liabilities</b>						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	11,555	11,095	1,702	7,972	---	32,324
Debentures	517	42	55	33	101	748
Other	18	---	---	---	1,576	1,594
<b>Equity</b>	<b>1,917</b>	<b>451</b>	<b>228</b>	<b>138</b>	<b>41</b>	<b>2,775</b>
<b>Total liabilities and equity</b>	<b>14,007</b>	<b>11,588</b>	<b>1,985</b>	<b>8,143</b>	<b>1,718</b>	<b>37,441</b>

## 7 &gt; Segmented Information (continued)

## Segmented Statements of Financial Position (continued)

	December 31, 2010					
	Individual		Group			
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	Other activities \$	Total \$
<b>Assets</b>						
Invested assets and segregated fund assets	10,740	11,061	1,564	7,804	1,096	32,265
Reinsurance assets	251	---	181	129	---	561
Intangible assets	89	321	2	2	14	428
Goodwill	71	39	20	---	5	135
Other	---	---	---	---	719	719
<b>Total assets</b>	<b>11,151</b>	<b>11,421</b>	<b>1,767</b>	<b>7,935</b>	<b>1,834</b>	<b>34,108</b>
<b>Liabilities</b>						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	9,976	10,468	1,524	7,781	---	29,749
Debentures	290	54	33	22	100	499
Other	18	---	---	---	1,314	1,332
<b>Equity</b>	<b>1,757</b>	<b>399</b>	<b>198</b>	<b>145</b>	<b>29</b>	<b>2,528</b>
<b>Total liabilities and equity</b>	<b>12,041</b>	<b>10,921</b>	<b>1,755</b>	<b>7,948</b>	<b>1,443</b>	<b>34,108</b>

	January 1, 2010					
	Individual		Group			
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	Other activities \$	Total \$
<b>Assets</b>						
Invested assets and segregated fund assets	8,883	9,426	1,478	7,211	872	27,870
Reinsurance assets	93	---	165	30	---	288
Intangible assets	49	324	3	1	---	377
Goodwill	55	41	20	---	---	116
Other	---	---	---	---	644	644
<b>Total assets</b>	<b>9,080</b>	<b>9,791</b>	<b>1,666</b>	<b>7,242</b>	<b>1,516</b>	<b>29,295</b>
<b>Liabilities</b>						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	8,095	8,812	1,429	7,167	---	25,503
Debentures	290	24	53	32	100	499
Other	---	---	---	---	1,169	1,169
<b>Equity</b>	<b>1,181</b>	<b>498</b>	<b>287</b>	<b>131</b>	<b>27</b>	<b>2,124</b>
<b>Total liabilities and equity</b>	<b>9,566</b>	<b>9,334</b>	<b>1,769</b>	<b>7,330</b>	<b>1,296</b>	<b>29,295</b>

## 8 > Investment Income

Investment income was derived from the following sources:

	2011					
	Held for trading \$	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$
<b>Bonds</b>						
Interest	---	196	67	63	---	326
Change in fair value	---	1,335	---	---	---	1,335
Realized gains (losses)	---	---	29	1	---	30
<b>Mortgages</b>						
Interest	---	---	---	168	---	168
Change in provisions for loss	---	---	---	(1)	---	(1)
Realized gains (losses)	---	---	---	8	---	8
<b>Stocks</b>						
Dividends	---	48	12	---	---	60
Change in fair value	---	(91)	---	---	---	(91)
Realized gains (losses)	---	---	10	---	---	10
<b>Real estate</b>						
Rental income	---	---	---	---	113	113
Change in fair value	---	---	---	---	13	13
<b>Cash and cash equivalents and short-term investments</b>						
Interest	5	---	---	2	---	7
<b>Derivative income</b>	230	---	---	---	---	230
<b>Associate</b>	---	---	---	---	2	2
<b>Other</b>	---	---	---	41	---	41
<b>Total</b>	<b>235</b>	<b>1,488</b>	<b>118</b>	<b>282</b>	<b>128</b>	<b>2,251</b>

	2010					
	Held for trading \$	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$
<b>Bonds</b>						
Interest	---	156	71	62	---	289
Change in fair value	---	636	---	---	---	636
Realized gains (losses)	---	---	12	1	---	13
<b>Mortgages</b>						
Interest	---	---	---	174	---	174
Realized gains (losses)	---	---	---	7	---	7
<b>Stocks</b>						
Dividends	---	26	15	---	---	41
Change in fair value	---	173	---	---	---	173
Realized gains (losses)	---	---	12	---	---	12
<b>Real estate</b>						
Rental income	---	---	---	---	108	108
Change in fair value	---	---	---	---	3	3
<b>Cash and cash equivalents and short-term investments</b>						
Interest	2	---	---	3	---	5
<b>Derivative income</b>	11	---	---	---	---	11
<b>Associate</b>	---	---	---	---	3	3
<b>Other</b>	---	---	---	44	---	44
<b>Total</b>	<b>13</b>	<b>991</b>	<b>110</b>	<b>291</b>	<b>114</b>	<b>1,519</b>

## 9 › Fees and Other Revenues

Fees and other revenues consist of the following:

	2011	2010
	\$	\$
Commissions	242	229
Management fees	457	397
Other revenues	95	78
<b>Total fees and other revenues</b>	<b>794</b>	<b>704</b>

### Government Assistance

The Company has qualified for the major investment project of the Quebec government, for which government assistance could be available until 2010. The program calls for annual eligibility certification by the Quebec government on a prospective basis. The Company accounted for an amount of \$12 (\$9 after tax) for government assistance in 2010, based upon receipt of formal confirmation in 2010 from the Quebec government. This government assistance is presented under *Fees and other revenues* as *Other revenues*.

## 10 › Cost of Commitments to Policyholders

The cost of commitments to policyholders is divided as follows:

	Individual		2011 Group			
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	General insurance \$	Total \$
<b>Benefits to policyholders and beneficiaries</b>						
Gross	553	258	726	708	115	2,360
Ceded	(119)	---	(38)	(21)	(2)	(180)
	434	258	688	687	113	2,180
<b>Change in provisions for future policy benefits</b>	1,668	232	103	167	(1)	2,169
<b>Change in reinsurance assets</b>	107	(1)	(3)	6	(2)	107
<b>Dividends, experience rating refunds and interest on amounts on deposit</b>						
Direct dividends	7	---	---	---	---	7
Experience rating refunds	---	---	39	---	3	42
Interest on amounts on deposit	2	---	44	---	---	46
	9	---	83	---	3	95
<b>Total</b>	<b>2,218</b>	<b>489</b>	<b>871</b>	<b>860</b>	<b>113</b>	<b>4,551</b>

	Individual		2010 Group			
	Life and Health \$	Wealth Management \$	Life and Health \$	Savings and Retirement \$	General insurance \$	Total \$
<b>Benefits to policyholders and beneficiaries</b>						
Gross	486	268	680	670	91	2,195
Ceded	(102)	---	(55)	(19)	(1)	(177)
	384	268	625	651	90	2,018
<b>Change in provisions for future policy benefits</b>	1,256	50	48	117	3	1,474
<b>Change in reinsurance assets</b>	(142)	---	(10)	(98)	(2)	(252)
<b>Dividends, experience rating refunds and interest on amounts on deposit</b>						
Direct dividends	7	---	---	---	---	7
Experience rating refunds	(3)	---	37	---	3	37
Interest on amounts on deposit	3	---	31	---	---	34
	7	---	68	---	3	78
<b>Total</b>	<b>1,505</b>	<b>318</b>	<b>731</b>	<b>670</b>	<b>94</b>	<b>3,318</b>

## 11 › Commissions

Commissions are divided as follows between commissions on insurance products and other commissions:

	2011	2010
	\$	\$
Direct insurance	672	582
Ceded insurance	(24)	(30)
	648	552
Other commissions	299	273
Total	947	825

Other commissions include an amount of \$35 (\$34 in 2010) which corresponds to the amortization of deferred commissions.

## 12 › Premium and Other Taxes

Premium taxes and other taxes are comprised of the following items:

	2011	2010
	\$	\$
Premium taxes	73	61
Taxes on ceded premiums	(5)	(5)
Taxes on net premiums	68	56
Tax on investments	16	15
Total	84	71

## 13 › General Expenses

General expenses according to their nature and function are as follows:

### General expenses by nature

	2011	2010
	\$	\$
Salaries and benefits (Note 14)	294	289
Professional and audit fees	143	119
Rent	21	21
Depreciation of fixed assets	10	7
Depreciation of own-use properties	2	2
Depreciation of intangible assets	16	13
Amortization of deferred expenses	1	1
Real estate operating expenses	67	58
Other administrative expenses	109	102
Total	663	612

### General expenses by function

	2011	2010
	\$	\$
Operating expenses	532	491
Investment and management fees	64	63
Real estate operating expenses	67	58
Total	663	612

## 14 Salaries and Benefits

Salaries and benefits expense included in general expenses is divided as follows:

	2011	2010
	\$	\$
Salaries	219	206
Termination benefits	2	1
Bonuses	17	26
Stock-based compensation	3	2
Employee benefits	26	23
Post-retirement benefits:		
Defined contribution plans	1	1
Defined benefit plans	12	15
Group insurance	10	9
Other benefits	4	6
<b>Total</b>	<b>294</b>	<b>289</b>

## 15 Income Taxes

### a) Income tax for the year

Income taxes charged to the Consolidated Income Statement are divided as follows:

	2011	2010
	\$	\$
<b>Current income taxes</b>		
Current income taxes	65	52
<b>Deferred income taxes</b>		
Creation and reversal of temporary differences	(56)	39
Variation in tax rates	(16)	(14)
	(72)	25
<b>Total</b>	<b>(7)</b>	<b>77</b>

### b) Deferred income taxes

The deferred income taxes are related to the following principal items:

	Statement of Financial Position			Income Statement	
	December 31, 2011	December 31, 2010	January 1, 2010	2011	2010
	\$	\$	\$	\$	\$
<b>Deferred income tax assets</b>					
Insurance contract liabilities	69	19	5	(48)	(6)
Real estate	11	---	---	(14)	(3)
Other	4	16	10	13	1
	84	35	15	(49)	(8)
<b>Deferred income tax liabilities</b>					
Insurance contract liabilities	436	377	323	58	47
Real estate	98	94	82	4	11
Other	(194)	(107)	(90)	(85)	(25)
	340	364	315	(23)	33
<b>Total</b>	<b>256</b>	<b>329</b>	<b>300</b>	<b>(72)</b>	<b>25</b>

**15 › Income Taxes (continued)**

## c) Reconciliation of 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:

	2011		2010	
	\$	%	\$	%
Income before income taxes	134	---	354	---
Provision for income tax at statutory rates	38	28	98	28
Non-taxable income	(22)	(16)	(3)	(1)
Adjustments of prior years	(9)	(7)	---	---
Change in tax rate	(14)	(10)	(18)	(5)
Income taxes and effective income tax rates	(7)	(5)	77	22

The total amount of temporary difference related to investment in American subsidiaries for which deferred tax liabilities have not been recorded is \$15 in 2011 (\$18) in 2010).

**16 › Earnings Per Common Share****Basic earnings per share**

Basic earnings per share are calculated by dividing the net income attributed to common shareholders by the weighted average number of outstanding common shares during the year.

	2011	2010
Net income attributed to shareholders	127	276
Less: preferred share dividends	(24)	(23)
Net income attributed to common shareholders	103	253
Weighted average number of shares outstanding (in units)	85,885,831	83,126,815
Basic earnings per share (in dollars)	1.20	3.04

**Diluted earnings per share**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares. The Company has two categories of potentially dilutive items: stock options from the stock based compensation plan and the Series A debenture.

The dilutive effect of stock options considers the number of incremental shares using the difference between number of shares presumed issued (by assuming the outstanding stock option grants are exercised) and number of shares presumed purchased (the number of shares that could be repurchased from the issuance proceeds, using the average market price of the Company's common shares for the year). An average of 185,875 (118,097 in 2010) antidilutive stock options was excluded from the calculation.

The series A debenture is convertible into 40 category A, series YY preferred shares per \$1,000 starting June 30, 2014. These preferred shares are convertibles into common shares. The net income attributed to common shareholders is also adjusted for interest paid on this debenture, net of related income taxes.

	2011	2010
Net income attributed to common shareholders	103	253
Add: interest on the Series A debenture (net of income taxes)	6	6
Net income attributed to common shareholders on a diluted basis	109	259
Weighted average number of shares outstanding (in units)	85,885,831	83,126,815
Add: dilutive effect of stock options granted and outstanding (in units)	646,268	802,438
Add: dilutive effect of Series A debenture (in units)	6,001,002	4,410,386
Weighted average number of shares outstanding on a diluted basis (in units)	92,533,101	88,339,639
Earnings per diluted share (in dollars)	1.18	2.93

No transaction took place on the common shares that could affect these calculations after the closing date and before the authorized publication date of these financial statements.



## 17 › Dividends

The table below presents the dividends accrued or paid on the various classes of shares issued by the Company.

	2011		2010	
	Gross \$	Per share \$	Gross \$	Per share \$
<b>Common shares</b>	<b>84</b>	<b>0.9800</b>	<b>81</b>	<b>0.9800</b>
<b>Preferred shares</b>				
Category A – Series B	6	1.1500	6	1.1500
Category A – Series C	6	1.5500	6	1.5500
Category A – Series E	6	1.5000	6	1.5000
Category A – Series F	6	1.4750	5	1.2386
<b>Total</b>	<b>108</b>		<b>104</b>	

### Dividends declared and not recognized on common shares

A dividend of \$0.2450 per share was approved by the Board of Directors on February 17, 2012. This dividend will be paid on March 15, 2012 to the shareholders of record as of February 29, 2012. This dividend was not recorded as a liability in these financial statements. It will be recognized in the equity on February 29, 2012.

## 18 › 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 comprised 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 45 and 46.

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

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

### 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 insurance contract 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 measurement of its insurance contract liabilities, as described in Note 28, 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.

#### Hedging Program

In 2010, the Company implemented a dynamic hedging program for all minimum withdrawal guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents \$2,232 as at December 31, 2011 (\$1,709 in 2010).

More detailed information on the hedging program is provided in the shaded portion of the Risk Management section in Management's Discussion and Analysis on page 50.

## 18 › Management of Risks Associated with Financial Instruments (continued)

### a) Risk Management Principles and Responsibilities (continued)

#### Market Risk (continued)

##### 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 exposure to currency risk, whereby, liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. As at December 31, 2011 and 2010, 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 that has a different functional currency from the Company's reporting currency, have a nominal value of \$286 (\$226 in 2010), a fair value less than \$1 (\$3 in 2010) and maturities of less than 1 year. The effective portion of the change in fair value is recorded in the other comprehensive income as is the currency translation of the net investment in a self-sustaining foreign operation.

The Company ended the foreign exchange risk hedging relationship on financial assets classified available for sale. The forward contracts that were designated as hedging items of currency had a nominal value of \$17 as at December 31, 2010 and \$10 as at January 1, 2010 and a fair value lower than \$1 as at December 31, 2010 and as at January 1, 2010. Fair value was recorded in net investment income, as with 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, 2011 and 2010, the Company did 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 48 to 51.

#### 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 50.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans and the establishment of provisions, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and 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 47.

#### 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 recorded in the financial position, except for the associate corresponds to the maximal credit risk for the Company.

#### *Collateral held and transferred*

The Company negotiates derivative 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 requires guarantees by the counterparty or by the Company. The amount of assets to pledge is based on change in fair value of derivative financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of cash, Canadian and US 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, 2011 the fair value of assets received as collateral is \$ 85 (\$ 0 at December 31, 2010).

The Company may also pledge assets as collateral to the counterparty. The fair value of assets pledged as collateral is \$55 as at December 31, 2011 (\$8 in 2010).

## 18 Management of Risks Associated with Financial Instruments (continued)

### a) Risk Management Principles and Responsibilities (continued)

#### Credit Risk (continued)

##### Provisions for Losses

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt considered to be impaired and an estimated amount determined using a collective evaluation technique.

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, contractual interest on impaired assets is no longer accrued and recognized through net income, and previous interest accruals are reversed.

In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities according to actuarial standards.

#### Liquidity Risk

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

#### Maturity Dates of Financial Liabilities

The following tables provide the maturities of financial liabilities:

December 31, 2011					
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	Total \$
Benefits payable	86	---	---	---	86
Other policy liabilities	20	5	1	---	26
Mortgage debt	27	13	14	---	54
Derivative financial instruments	13	9	4	2	28
Amounts on deposit related to products other than insurance	178	25	6	---	209
Investment contract liabilities	205	125	56	191	577
Other financial liabilities	459	4	---	---	463
Securitization	3	6	85	---	94
Debentures	---	---	---	748	748
<b>Total</b>	<b>991</b>	<b>187</b>	<b>166</b>	<b>941</b>	<b>2,285</b>

December 31, 2010					
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	Total \$
Benefits payable	73	---	---	---	73
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
Investment contract liabilities	176	123	55	181	535
Other financial liabilities	337	---	---	---	337
Debentures	---	---	---	499	499
<b>Total</b>	<b>797</b>	<b>172</b>	<b>75</b>	<b>694</b>	<b>1,738</b>

## 18 Management of Risks Associated with Financial Instruments (continued)

### a) Risk Management Principles and Responsibilities (continued)

#### Maturity Dates of Financial Liabilities (continued)

	January 1, 2010				
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	Total \$
Benefits payable	58	---	---	---	58
Other policy liabilities	20	4	1	---	25
Mortgage debt	1	28	---	---	29
Derivative financial instruments	6	4	3	1	14
Amounts on deposit related to products other than insurance	196	---	---	---	196
Investment contract liabilities	144	119	54	171	488
Other financial liabilities	340	---	---	---	340
Debentures	---	---	---	499	499
<b>Total</b>	<b>765</b>	<b>155</b>	<b>58</b>	<b>671</b>	<b>1,649</b>

Other financial liabilities include accounts payable and amounts due to reinsurers as presented in *Other liabilities* (Note 30).

Other policy liabilities presented in Note 30 *Other liabilities* include \$6 which do not meet the definition of financial liabilities (\$6 as at December 31, 2010 and \$5 as at January 1, 2010).

Annual interest payments on mortgage debt will amount to \$3 for 2012, to \$2 for 2013 and to \$1 for 2014. Annual interest payments on debentures are \$41 for the next 5 years.

Information concerning off Statement of Financial Position commitments is presented in Note 40, 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 page 51.

### b) Other Information on Risk Management Principles

#### Impairment of financial assets classified as available for sale

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

	December 31, 2011			December 31, 2010			January 1, 2010		
	Fair value \$	Unrealized losses \$	Unrealized gains \$	Fair value \$	Unrealized losses \$	Unrealized gains \$	Fair value \$	Unrealized losses \$	Unrealized gains \$
<b>Bonds</b>									
Governments	1,581	(1)	51	1,103	(1)	17	1,051	(7)	6
Municipalities	16	---	1	17	---	1	20	---	1
Corporate and other	846	(5)	33	892	(3)	33	821	(16)	25
	<b>2,443</b>	<b>(6)</b>	<b>85</b>	<b>2,012</b>	<b>(4)</b>	<b>51</b>	<b>1,892</b>	<b>(23)</b>	<b>32</b>
<b>Stocks</b>	<b>298</b>	<b>(1)</b>	<b>15</b>	<b>300</b>	<b>(2)</b>	<b>26</b>	<b>271</b>	<b>(3)</b>	<b>23</b>
<b>Total</b>	<b>2,741</b>	<b>(7)</b>	<b>100</b>	<b>2,312</b>	<b>(6)</b>	<b>77</b>	<b>2163</b>	<b>(26)</b>	<b>55</b>

## 18 › Management of Risks Associated with Financial Instruments (continued)

## b) Other Information on Risk Management Principles (continued)

## Impairment of financial assets classified as available for sale (continued)

The following tables show the unrealized losses on financial assets classified as available for sale according to the period for which the assets had an unrealized loss.

	December 31, 2011					
	Less than 12 months		12 months or over		Total	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
<b>Bonds</b>						
Governments	244	(1)	---	---	244	(1)
Municipalities	---	---	---	---	---	---
Corporate and other	48	(3)	8	(2)	56	(5)
	292	(4)	8	(2)	300	(6)
<b>Stocks</b>	31	(1)	---	---	31	(1)
<b>Total</b>	323	(5)	8	(2)	331	(7)

	December 31, 2010					
	Less than 12 months		12 months or over		Total	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
<b>Bonds</b>						
Governments	298	(1)	7	---	305	(1)
Municipalities	4	---	---	---	4	---
Corporate and other	170	(2)	13	(1)	183	(3)
	472	(3)	20	(1)	492	(4)
<b>Stocks</b>	60	(2)	---	---	60	(2)
<b>Total</b>	532	(5)	20	(1)	552	(6)

	January 1, 2010					
	Less than 12 months		12 months or over		Total	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
<b>Bonds</b>						
Governments	619	(7)	---	---	619	(7)
Municipalities	3	---	---	---	3	---
Corporate and other	104	(2)	134	(14)	238	(16)
	726	(9)	134	(14)	860	(23)
<b>Stocks</b>	34	(3)	---	---	34	(3)
<b>Total</b>	760	(12)	134	(14)	894	(26)

The following table shows declines in fair value on financial assets classified as available for sale that were reclassified from the *Accumulated other comprehensive income*, net of income taxes to *Investment income*.

	2011	2010
	\$	\$
Bonds	---	4
Stocks	1	1
<b>Total</b>	1	5

## 18 › Management of Risks Associated with Financial Instruments (continued)

### b) Other Information on Risk Management Principles (continued)

#### Impairment of financial assets classified as available for sale (continued)

Since the assets designated at fair value through profit or loss 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 cash flows would have an impact on the Company's net income.

### c) Other Information on Risk Management Principles

#### Sensitivity analysis

A sensitivity analysis regarding 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 47 to 49.

## 19 › Invested Assets

### a) Carrying Value and Fair Value

The following tables provide information on the carrying value and fair value of the Company's investments. Financial instruments classified as held for trading, designated at fair value through profit or loss and available for sale have a carrying value equal to the fair value.

More detailed disclosure on valuation models and assumptions used to determine fair value is presented in Note 20, Fair Value of Financial Instruments.

	December 31, 2011						
	Held for trading	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	\$	\$	\$	\$	\$	\$	\$
<b>Bonds</b>							
Governments	---	6,427	1,581	58	---	8,066	
Municipalities	---	403	16	---	---	419	
Corporate and other	---	3,396	846	950	---	5,192	
	---	10,226	2,443	1,008	---	13,677	13,783
<b>Mortgages</b>							
Insured							
Residential	---	---	---	448	---	448	
Multi-residential	---	---	---	1,626	---	1,626	
Non-residential	---	---	---	33	---	33	
	---	---	---	2,107	---	2,107	
Conventional							
Residential	---	---	---	93	---	93	
Multi-residential	---	---	---	443	---	443	
Non-residential	---	---	---	608	---	608	
	---	---	---	1,144	---	1,144	
	---	---	---	3,251	---	3,251	3,500
<b>Stocks</b>							
Common stocks	---	928	7	---	---	935	
Preferred stocks	---	1	198	---	---	199	
Stock indexes	---	647	76	---	---	723	
Investment fund units	---	522	17	---	---	539	
	---	2,098	298	---	---	2,396	2,396
Real estate held for investment	---	---	---	---	789	789	800
Policy loans	---	---	---	521	---	521	521
Short-term investments	258	---	---	30	---	288	288
Cash and cash equivalents	183	---	---	125	---	308	308
Other invested assets	---	---	---	250	14	264	273
<b>Total</b>	<b>441</b>	<b>12,324</b>	<b>2,741</b>	<b>5,185</b>	<b>803</b>	<b>21,494</b>	<b>21,869</b>

## 19 &gt; Invested Assets (continued)

## a) Carrying Value and Fair Value (continued)

December 31, 2010							
	Held for trading	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	\$	\$	\$	\$	\$	\$	\$
<b>Bonds</b>							
Governments	---	5,865	1,103	58	---	7,026	
Municipalities	---	149	17	3	---	169	
Corporate and other	---	2,091	892	944	---	3,927	
	---	8,105	2,012	1,005	---	11,122	11,171
<b>Mortgages</b>							
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
<b>Stocks</b>							
Common stocks	---	487	1	---	---	488	
Preferred stocks	---	3	184	---	---	187	
Stock indexes	---	809	99	---	---	908	
Investment fund units	---	587	16	---	---	603	
	---	1,886	300	---	---	2,186	2,186
Real estate held for investment	---	---	---	---	716	716	726
Policy loans	---	---	---	469	---	469	469
Short-term investments	102	---	---	20	---	122	122
Cash and cash equivalents	294	---	---	158	---	452	452
Other invested assets	---	---	---	277	15	292	301
<b>Total</b>	<b>396</b>	<b>9,991</b>	<b>2,312</b>	<b>5,263</b>	<b>731</b>	<b>18,693</b>	<b>18,907</b>



## 19 ▸ Invested Assets (continued)

## a) Carrying Value and Fair Value (continued)

	January 1, 2010						
	Held for trading \$	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$	Fair value \$
<b>Bonds</b>							
Governments	---	4,848	1,051	59	---	5,958	
Municipalities	---	98	20	3	---	121	
Corporate and other	---	1,621	821	890	---	3,332	
	---	6,567	1,892	952	---	9,411	9,402
<b>Mortgages</b>							
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
<b>Stocks</b>							
Common stocks	---	250	1	---	---	251	
Preferred stocks	---	4	163	---	---	167	
Stock indexes	---	730	89	---	---	819	
Investment fund units	---	520	18	---	---	538	
	---	1,504	271	---	---	1,775	1,775
<b>Real estate held for investment</b>	---	---	---	---	666	666	675
<b>Policy loans</b>	---	---	---	381	---	381	381
<b>Short-term investments</b>	88	---	---	---	---	88	88
<b>Cash and cash equivalents</b>	237	---	---	132	---	369	369
<b>Other invested assets</b>	---	---	---	283	42	325	336
<b>Total</b>	325	8,071	2,163	5,153	708	16,420	16,482

## Other Invested Assets

Other invested assets are comprised of the following items:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Investment in an associate (Note 21)	15	15	23
Cash in trust	21	19	16
Notes receivable	228	258	286
<b>Total</b>	<b>264</b>	<b>292</b>	<b>325</b>

## 19 &gt; Invested Assets (continued)

## a) Carrying Value and Fair Value (continued)

**Real estate held for investment**

Fair value of real estate held for investment is estimated each year using appraisals made by independent chartered appraisers or by qualified Company personnel. Each property is appraised by an external appraiser at least once every three years. Certain properties are subject to external appraisals each year. Appraisals made by independent appraisers rely on recognized methods. For property that was not subject to an external appraisal in the current year, fair value is revised by qualified personnel of the Company to reflect changes in market conditions. During the year, 43% of the investment real estate portfolio was appraised by independent appraisers (46% in 2010).

The following table presents reconciliation of the balance at beginning and balance at end for real estate held for investment.

	2011	2010
	\$	\$
Balance at beginning	716	666
Acquisitions	49	35
Subsequent acquisition expenses	13	12
Transfer to own-use properties	(2)	---
Change in fair value	13	3
<b>Balance at end</b>	<b>789</b>	<b>716</b>

Rental income is presented in Note 8 Investment income and operating expenses for real estate held for investment is presented in Note 13 General expenses.

The following table reconciles the fair value of real estate held for investment.

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Amount related to real estate held for investment	789	716	666
Linearization of rents	11	10	9
<b>Total fair value of real estate held for investment</b>	<b>800</b>	<b>726</b>	<b>675</b>

The linearization of rents is the total rental income under the lease which is distributed evenly over the lease term using an average rate. This rate is established based on price changes over the term of the lease and assuming rents for free and other benefits granted to tenants.

Amounts related to the linearization of rents are presented in Note 22 *Other assets*.

## 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 fulfill their contractual obligations.

The following tables provide information about the Company's concentration risk and credit risk.

**Bonds by sector of activity**

	December 31, 2011			
	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Total \$
<b>Bonds (corporate and other)</b>				
Financial services	1,079	487	227	1,793
Asset backed securities	51	77	4	132
Utilities and energy	1,261	138	382	1,781
Industrial products	318	14	130	462
Consumer cyclical and non-cyclical	235	75	74	384
Health	329	2	131	462
Other	123	53	2	178
<b>Total</b>	<b>3,396</b>	<b>846</b>	<b>950</b>	<b>5,192</b>

## 19 › Invested Assets (continued)

## b) Credit Risk and Concentration Risk (continued)

## Bonds by sector of activity (continued)

	December 31, 2010			
	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Total
	\$	\$	\$	\$
<b>Bonds (corporate and other)</b>				
Financial services	842	585	226	1,653
Asset backed securities	127	132	20	279
Utilities and energy	451	78	379	908
Industrial products	273	13	115	401
Consumer cyclical and non-cyclical	181	44	57	282
Health	158	1	146	305
Other	59	39	1	99
<b>Total</b>	<b>2,091</b>	<b>892</b>	<b>944</b>	<b>3,927</b>

	January 1, 2010			
	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Total
	\$	\$	\$	\$
<b>Bonds (corporate and other)</b>				
Financial services	764	507	226	1,497
Asset backed securities	185	190	23	398
Utilities and energy	296	49	335	680
Industrial products	212	13	117	342
Consumer cyclical and non-cyclical	77	37	55	169
Health	30	1	126	157
Other	57	24	8	89
<b>Total</b>	<b>1,621</b>	<b>821</b>	<b>890</b>	<b>3,332</b>

## Bonds by investment grade

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	Carrying value \$	\$
AAA	1,209	1,204	1,063
AA	2,752	1,855	1,490
A	8,357	7,272	6,245
BBB	1,343	778	607
BB and lower	16	13	6
<b>Total</b>	<b>13,677</b>	<b>11,122</b>	<b>9,411</b>

The Company prepares an assessment 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 \$741 (\$766 as at December 31, 2010 and \$738 as at January 1, 2010).

## 19 &gt; Invested Assets (continued)

## b) Credit Risk and Concentration Risk (continued)

## Mortgages by region and type

December 31, 2011						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
<b>Insured mortgage loans</b>						
Residential	---	424	21	3	---	448
Multi-residential	44	807	296	479	---	1,626
Non-residential	1	1	7	24	---	33
	45	1,232	324	506	---	2,107
<b>Conventional mortgage loans</b>						
Residential	---	89	1	2	1	93
Multi-residential	---	51	15	81	296	443
Non-residential	51	165	96	173	123	608
	51	305	112	256	420	1,144
Total	96	1,537	436	762	420	3,251

December 31, 2010						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
<b>Insured mortgage loans</b>						
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
<b>Conventional mortgage loans</b>						
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

January 1, 2010						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
<b>Insured mortgage loans</b>						
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
<b>Conventional mortgage loans</b>						
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

## 19 › Invested Assets (continued)

## b) Credit Risk and Concentration Risk (continued)

## Real estate held for investment by type of property

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	Carrying value \$	\$
Residential and multi-residential	13	13	13
Office	610	542	495
Retail	139	134	132
Industrial	21	21	21
Land and other	6	6	5
Total	789	716	666

*Operating lease as a lessor*

Minimum lease payments receivable on real estate held for investment over the next periods are as follows:

	December 31	
	2011	2010
	\$	\$
Maturing in one year	47	44
More than 1 year and less than 5 years	152	144
More than 5 years	95	93
Total	294	281

**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.

	December 31, 2011			
	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	7	5	2	14
Conventional mortgage loans	3	6	---	9
Total	10	11	2	23

	December 31, 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

	January 1, 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	4	9	5	18
Conventional mortgage loans	1	13	---	14
Total	5	22	5	32

As at December 31, 2011 and 2010 and as at January 1, 2010, the Company did not hold any past due bonds.

## 19 &gt; Invested Assets (continued)

## b) Credit Risk and Concentration Risk (continued)

## Allowances for losses

	2011		
	Bonds \$	Mortgages \$	Total \$
Balance at beginning	3	1	4
Increase in allowances for losses	---	3	3
Decrease in allowances for losses	---	(2)	(2)
Balance at end	3	2	5

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

## Impaired Investments

	December 31, 2011		
	Gross \$	Provisions \$	Total \$
Bonds	11	3	8
Mortgage loans	7	2	5
Balance at end	18	5	13

	December 31, 2010		
	Gross \$	Provisions \$	Total \$
Bonds	11	3	8
Mortgage loans	14	1	13
Balance at end	25	4	21

	January 1, 2010		
	Gross \$	Provisions \$	Total \$
Bonds	7	3	4
Mortgage loans	8	1	7
Balance at end	15	4	11

## Foreclosed Properties

During the year ended December 31, 2011, the Company took possession of \$5 (\$6 in 2010) in properties which it held as collateral on mortgage loans. A \$1 provision for impaired loans was recorded for these loans in 2010 and transferred to real estate held for resale in 2011. Foreclosed properties that the Company still held at year-end are presented as real estate held for resale in note 22 *Other assets*.

## Securitization of mortgages

During the year ended December 31, 2011, the Company transferred insured mortgage loans to an unrelated counterpart. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. Consequently, the Company continued to record the full carrying value of these mortgages. As at December 31, 2011, the carrying value of ceded mortgage loans is \$94. The carrying value of the corresponding liability is \$94. Their fair value is \$95 and \$93 respectively.

## 19 ▸ 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.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Bonds	Mortgages	Bonds	Mortgages	Bonds	Mortgages
	\$	\$	\$	\$	\$	\$
Due in 1 year or less	601	268	478	265	530	274
Due after 1 year through 5 years	2,444	1,447	2,038	1,544	1,922	1,443
Due after 5 years through 10 years	2,360	823	2,022	750	1,681	859
Due after 10 years	8,272	713	6,584	775	5,278	829
<b>Total</b>	<b>13,677</b>	<b>3,251</b>	<b>11,122</b>	<b>3,334</b>	<b>9,411</b>	<b>3,405</b>

The effective yield is between 0.07% and 12.16% (0.19% and 11.80% in 2010) for bonds, between 1.76% and 12.20% (1.25% and 12.25% in 2010) for mortgages and between 3.00% and 10.00% (2.50% and 10.00% in 2010) 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 fluctuations in interest rates, currency exchange rates and fair values of invested assets.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from movement in underlying market rates. The Company's exposure at the end of each period 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, 2011, all counterparties have a credit rating of A and higher (A and higher as at December 31, 2010).

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

	December 31, 2011			
	Notional amount	Maximum credit risk	Potential future credit risk	Credit equivalent amount
	\$	\$	\$	\$
<b>Equity contracts</b>				
Equity swaps	425	3	26	29
Futures contracts	290	---	---	---
<b>Currency contracts</b>				
Forward contracts - long	818	5	8	13
Forward contracts - short	121	2	1	3
Currency swaps	177	7	12	19
Futures contracts	65	---	---	---
<b>Interest rate contracts</b>				
Interest rate swaps	1,224	118	15	133
<b>Bond contracts</b>				
Forward contracts - long	637	70	---	70
Forward contracts - short	108	---	---	---
Futures contracts - short	55	---	---	---
<b>Options</b>				
Options purchased	38	2	2	4
Options written	40	---	---	---
<b>Total</b>	<b>3,998</b>	<b>207</b>	<b>64</b>	<b>271</b>



## 19 &gt; Invested Assets (continued)

## d) Derivative financial instruments (continued)

	December 31, 2010			
	Notional amount \$	Maximum credit risk \$	Potential future credit risk \$	Credit equivalent amount \$
<b>Equity contracts</b>				
Equity swaps	443	2	28	30
Futures contracts	93	---	---	---
<b>Currency contracts</b>				
Forward contracts	406	7	3	10
Currency swaps	45	7	3	10
Futures contracts	23	---	---	---
<b>Interest rate contracts</b>				
Interest rate swaps	602	3	6	9
<b>Bond contracts</b>				
Futures contracts	405	1	---	1
<b>Other derivative contracts</b>	4	---	---	---
<b>Total</b>	<b>2,021</b>	<b>20</b>	<b>40</b>	<b>60</b>

	January 1, 2010			
	Notional amount \$	Maximum credit risk \$	Potential future credit risk \$	Credit equivalent amount \$
<b>Equity contracts</b>				
Equity swaps	486	2	29	31
Futures contracts	---	---	---	---
<b>Currency contracts</b>				
Forward contracts	222	2	2	4
Currency swaps	79	8	4	12
Futures contracts	---	---	---	---
<b>Interest rate contracts</b>				
Interest rate swaps	166	1	---	1
<b>Credit contracts</b>				
Credit swaps	18	---	---	---
<b>Options</b>				
Options written	120	---	7	7
<b>Other derivative contracts</b>	1	---	---	---
<b>Total</b>	<b>1,092</b>	<b>13</b>	<b>42</b>	<b>55</b>

	December 31, 2011				Fair value	
	Notional amount			Total \$	Positive \$	Negative \$
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$			
<b>Equity contracts</b>						
Equity swaps	418	7	---	425	3	(2)
Futures contracts	290	---	---	290	---	---
<b>Currency contracts</b>						
Forward contracts – long	818	---	---	818	5	(2)
Forward contracts – short	120	1	---	121	2	(1)
Currency swaps	9	35	133	177	7	(4)
Futures contracts	65	---	---	65	1	---
<b>Interest rate contracts</b>						
Interest rate swaps	114	230	880	1,224	118	(13)
<b>Bond contracts</b>						
Forward contracts – long	637	---	---	637	70	---
Forward contracts – short	108	---	---	108	---	(4)
Futures contracts – short	55	---	---	55	---	---
<b>Options</b>						
Options purchased	38	---	---	38	2	---
Options written	40	---	---	40	---	(2)
<b>Total</b>	<b>2,712</b>	<b>273</b>	<b>1,013</b>	<b>3,998</b>	<b>208</b>	<b>(28)</b>

## 19 ▸ Invested Assets (continued)

## d) Derivative financial instruments (continued)

December 31, 2010						
	Notional amount				Fair value	
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$	Positive \$	Negative \$
<b>Equity contracts</b>						
Equity swaps	436	7	---	443	2	(3)
Futures contracts	93	---	---	93	---	(1)
<b>Currency contracts</b>						
Forward contracts	406	---	---	406	7	---
Currency swaps	---	29	16	45	7	(1)
Futures contracts	23	---	---	23	---	---
<b>Interest rate contracts</b>						
Interest rate swaps	54	218	330	602	3	(21)
<b>Bond contracts</b>						
Futures contracts	405	---	---	405	1	(3)
<b>Other derivative contracts</b>	4	---	---	4	2	---
<b>Total</b>	<b>1,421</b>	<b>254</b>	<b>346</b>	<b>2,021</b>	<b>22</b>	<b>(29)</b>

January 1, 2010						
	Notional amount				Fair value	
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$	Positive \$	Negative \$
<b>Equity contracts</b>						
Equity swaps	464	22	---	486	2	(5)
Futures contracts	---	---	---	---	---	---
<b>Currency contracts</b>						
Forward contracts	222	---	---	222	2	---
Currency swaps	33	29	17	79	8	(1)
Futures contracts	---	---	---	---	---	---
<b>Interest rate contracts</b>						
Interest rate swaps	31	122	13	166	1	(7)
<b>Credit contracts</b>						
Credit swaps	18	---	---	18	---	---
<b>Options</b>						
Option written	120	---	---	120	---	(1)
<b>Other derivative contracts</b>	1	---	---	1	---	---
<b>Total</b>	<b>889</b>	<b>173</b>	<b>30</b>	<b>1,092</b>	<b>13</b>	<b>(14)</b>

## 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, 2011, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately \$1,274 (\$654 in 2010).

## 20 > 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 hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs when market prices are not readily available or reliable. The three levels of the hierarchy are described below:

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

The financial instruments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is directly classified into Level 3.

### 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 at fair value through profit or loss 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.

For the year ended December 31, 2010, the Company reviewed certain assumptions in its valuation model for certain bonds to consider new information and changes in market conditions. These bonds are valued according to the model described in the previous paragraph. The discount rate used was modified to increase the risk premium. Certain bonds were devalued to take into account their subordination to other bonds with the same underlying assets. The changes in assumptions reduced the fair value of bonds by \$4. Since bonds are fully matched to insurance contract liabilities, there is no impact on the Company's net income.

The Company measures bonds classified as loans and receivables based on a discounted future cash flows model. The discount rate corresponds to the prevailing rate of return on the market expected by the Company for bonds with similar terms and risks.

#### *Mortgages*

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

#### *Stocks*

Each listed investment security is valued at the latest bid price reported by the principal securities exchange on which the issue is traded or, if no bid price is reported, the closing sale price is used.

Investment fund units are evaluated at the net asset value published by the fund manager.

#### *Real estate held for investment*

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

#### *Policy loans, short-term investments and cash and cash equivalents*

Fair value of policy loans, short-term investments and cash and cash equivalents is presumed to approximately correspond to their carrying value due to their short term maturity.

#### *Other assets*

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

#### *Segregated fund assets*

Segregated fund assets are evaluated according to the net assets value published by the fund administrator.

## 20 Fair Value of Financial Instruments (continued)

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

#### Derivative financial instruments

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

Exchange traded derivative financial instruments that are exchange-traded are valued using the most recently posted bid price for a long position or ask price for a short position, as published on the primary exchanges where they are traded.

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 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 other liabilities, except mortgage debt, securitization liabilities and derivative financial instruments, is approximately the same as the carrying value due to their short-term nature.

The fair value of mortgage debt and of the securitization liabilities 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

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 substantially the same conditions. 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 recorded at fair value, based on the levels of the inputs used.

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Assets</b>				
<b>Invested assets</b>				
<b>Bonds</b>				
Designated at fair value through profit or loss	210	9,778	238	10,226
Available for sale	519	1,908	16	2,443
	729	11,686	254	12,669
<b>Stocks</b>				
Designated at fair value through profit or loss	2,014	---	84	2,098
Available for sale	291	---	7	298
	2,305	---	91	2,396
<b>Short-term investments</b>				
Held for trading	---	258	---	258
<b>Cash and cash equivalents</b>				
Held for trading	---	183	---	183
<b>Other assets</b>				
Held for trading	1	207	---	208
<b>Total</b>	<b>3,035</b>	<b>12,334</b>	<b>345</b>	<b>15,714</b>
<b>Liabilities</b>				
<b>Other liabilities</b>				
Designated at fair value through profit or loss	2	5	---	7
Held for trading	2	26	---	28
<b>Total</b>	<b>4</b>	<b>31</b>	<b>---</b>	<b>35</b>

## 20 &gt; Fair Value of Financial Instruments (continued)

	December 31, 2010			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
<b>Invested assets</b>				
<b>Bonds</b>				
Designated at fair value through profit or loss	385	7,444	276	8,105
Available for sale	324	1,598	90	2,012
	709	9,042	366	10,117
<b>Stocks</b>				
Designated at fair value through profit or loss	1,817	---	69	1,886
Available for sale	299	---	1	300
	2,116	---	70	2,186
<b>Short-term investments</b>				
Held for trading	---	102	---	102
<b>Cash and cash equivalents</b>				
Held for trading	---	294	---	294
<b>Other assets</b>				
Held for trading	---	22	---	22
<b>Total</b>	2,825	9,460	436	12,721
<b>Liabilities</b>				
<b>Other liabilities</b>				
Designated at fair value through profit or loss	4	2	---	6
Held for trading	1	28	---	29
<b>Total</b>	5	30	---	35

	January 1, 2010			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
<b>Invested assets</b>				
<b>Bonds</b>				
Designated at fair value through profit or loss	94	6,283	190	6,567
Available for sale	431	1,341	120	1,892
	525	7,624	310	8,459
<b>Stocks</b>				
Designated at fair value through profit or loss	1,450	---	54	1,504
Available for sale	270	---	1	271
	1,720	---	55	1,775
<b>Short-term investments</b>				
Held for trading	---	88	---	88
<b>Cash and cash equivalents</b>				
Held for trading	---	237	---	237
<b>Other assets</b>				
Held for trading	---	13	---	13
<b>Total</b>	2,245	7,962	365	10,572
<b>Liabilities</b>				
<b>Other liabilities</b>				
Designated at fair value through profit or loss	3	4	---	7
Held for trading	---	14	---	14
<b>Total</b>	3	18	---	21

During the years ended December 31, 2011 and 2010, there was no transfer of financial instruments between Levels 1 and 2.

## 20 Fair Value of Financial Instruments (continued)

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

2011								
	Balance as at December 31, 2010 \$	Net realized and unrealized gains (losses) included in net income \$	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, 2011 \$	Total unrealized gains (losses) included in net income on financial instruments still held \$
Assets								
Invested assets								
Bonds								
Designated at fair value through profit or loss	276	35	---	207	(45)	(235)	238	11
Available for sale	90	1	1	---	(19)	(57)	16	---
Stocks								
Designated at fair value through profit or loss	69	9	---	15	(9)	---	84	9
Available for sale	1	---	1	5	---	---	7	---
Other assets								
Held for trading	---	---	---	---	(2)	2	---	---
Total	436	45	2	227	(75)	(290)	345	20

2010								
	Balance as at January 1, 2010 \$	Net realized and unrealized gains (losses) included in net income \$	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 net income on financial instruments still held \$
Assets								
Invested assets								
Bonds								
Designated at fair value through profit or loss	190	15	---	114	(38)	(5)	276	13
Available for sale	120	1	7	2	(40)	---	90	---
Stocks								
Designated at fair value through profit or loss	54	2	---	20	(7)	---	69	2
Available for sale	1	---	---	---	---	---	1	---
Total	365	18	7	136	(85)	(5)	436	15

Since financial instruments designated at fair value through profit or loss are fully matched to the insurance contract liabilities, there is no impact on the Company's net income.

### Transfer from Level 3 to Level 2

During the year ended December 31, 2011, the Company changed the valuation of some of its bonds designated at fair value through profit or loss and available for sale classified as level 3 for a fair value of \$361 and \$65 respectively. The fair value of these bonds was previously determined using internal valuation models that required the use of assumptions, of which one of the main ones was not observable in the market. The bonds are now valued at market prices obtained through brokers who assess the fair value of these financial instruments. In assessing the value, the brokers take into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment.

During the year ended December 31, 2010, a more efficient market has developed for a bond designated at fair value through profit or loss classified as level 3 for a fair value of \$5. 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 measurement method and this bond is now valued at market prices obtained through independent measurement services that evaluate the fair value of financial instruments.

## 20 › Fair Value of Financial Instruments (continued)

### Transfer from Level 2 to Level 3

During the year ended December 31, 2011, the Company changed the valuation of some of its bonds designated at fair value through profit or loss and available for sale classified as Level 3 for a fair value of \$126 and \$8 respectively. The fair value of these bonds was previously valued at market prices obtained through brokers who assess the fair value of these financial instruments. In assessing the value, the brokers would take into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment. The fair value of these bonds are now determined using internal valuation models that required the use of assumptions, of which one of the main ones was not observable in the market.

### Sensitivity analysis

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 \$30 (\$28 as at December 31, 2010 and \$19 as at January 1, 2010). 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 by \$39 (\$33 as at December 31, 2010 and \$22 as at January 1, 2010).

## 21 › Investment in an Associate

The Company's 45% ownership interest in an associate is detailed as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Ownership interest in the statement of financial position</b>			
Total assets	1,380	1,317	1,257
Total liabilities	1,365	1,302	1,234
<b>Net assets</b>	<b>15</b>	<b>15</b>	<b>23</b>
<b>Ownership interest in the revenues and net income</b>			
Revenues	12	12	---
Net income	2	3	---
<b>Carrying amount of ownership interest</b>	<b>15</b>	<b>15</b>	<b>23</b>

## 22 › Other Assets

Other assets consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Fixed assets	40	33	29
Investment income due and accrued	110	77	79
Derivative financial instruments (Note 19)	208	22	13
Outstanding premiums	61	54	55
Due from reinsurers	29	22	29
Due from agents	37	35	39
Accounts receivable	282	223	179
Deferred sales commissions	59	67	75
Employee future benefits (Note 38)	35	24	17
Prepaid expenses	11	13	14
Real estate held for resale	6	1	1
Linearization (Note 19)	11	10	9
Income tax receivable	25	10	5
Insurance claim receivable	2	2	---
Miscellaneous	39	9	11
<b>Total</b>	<b>955</b>	<b>602</b>	<b>555</b>

The amount of *Other assets* that the Company expects to receive within the next 12 months is \$592 (\$432 as at December 31, 2010 and \$397 as at January 1, 2010).



**22 › Other Assets (continued)**

The following tables present the reconciliation between the balance at beginning and balance at end of year for fixed assets:

**Fixed assets**

	Systems equipment \$	Office furniture and supplies \$	Leasehold improvements to real estate \$	Other \$	Total \$
<b>Cost</b>					
Balance as at January 1, 2010	31	34	23	9	97
Acquisitions	4	2	3	2	11
Disposals	---	---	---	(1)	(1)
Acquisitions through business combinations	---	---	1	---	1
Balance as at December 31, 2010	35	36	27	10	108
Acquisitions	4	2	9	2	17
Disposals	(1)	---	(1)	(1)	(3)
Write-offs	(1)	(1)	--	---	(2)
Balance as at December 31, 2011	37	37	35	11	120
<b>Accumulated depreciation</b>					
Balance as at January 1, 2010	24	25	13	6	68
Depreciation for the year	3	1	3	---	7
Balance as at December 31, 2010	27	26	16	6	75
Depreciation for the year	3	1	4	2	10
Depreciation on disposals	(1)	---	(1)	(1)	(3)
Depreciation on write-offs	(1)	(1)	---	---	(2)
Balance as at December 31, 2011	28	26	19	7	80
Net carrying value as at December 31, 2011	9	11	16	4	40
Net carrying value as at December 31, 2010	8	10	11	4	33
Net carrying value as at January 1, 2010	7	9	10	3	29

The carrying value of fixed assets held under a finance lease was \$1 as at December 31, 2011 (\$1 as at December 31, 2010).

**Real estate held for resale**

Real estate held for resale corresponds to properties that the Company has foreclosed because they were held as collateral on mortgage loans. The Company records provisions for this real estate to recognize it at the lower of the fair value less cost to sell and the carrying value of underlying loans at foreclosure date.

**Provisions for losses**

The following table present the reconciliation between the balance at beginning and balance at end of the provision for losses on real held for resale.

	2011 \$	2010 \$
Balance at beginning	---	---
Transfer of the mortgages loan provision	1	---
Increase in provisions for losses	2	---
Balance at end	3	---

## 23 › Own Use Property

Reconciliation between balance at beginning and balance at end of year of own use properties is detailed as follows:

	Land	Structure	Exterior walls/ Roof/Doors and Windows	Building equipment	Improvement and Finishing	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance as at January 1, 2010	29	24	9	23	16	101
Acquisitions through business combinations	2	3	1	2	2	10
Balance as at December 31, 2010	31	27	10	25	18	111
Transfer to real estate held for investment	---	---	---	1	1	2
<b>Balance as at December 31, 2011</b>	<b>31</b>	<b>27</b>	<b>10</b>	<b>26</b>	<b>19</b>	<b>113</b>
<b>Accumulated depreciation</b>						
Balance as at January 1, 2010	---	5	3	10	9	27
Depreciation for the year	---	---	---	1	1	2
Balance as at December 31, 2010	---	5	3	11	10	29
Depreciation for the year	---	1	---	---	1	2
<b>Balance as at December 31, 2011</b>	<b>---</b>	<b>6</b>	<b>3</b>	<b>11</b>	<b>11</b>	<b>31</b>
<b>Net carrying value as at December 31, 2011</b>	<b>31</b>	<b>21</b>	<b>7</b>	<b>15</b>	<b>8</b>	<b>82</b>
Net carrying value as at December 31, 2010	31	22	7	14	8	82
Net carrying value as at January 1, 2010	29	19	6	13	7	74

## 24 › Intangible Assets

The following tables present the reconciliation between the balance at beginning and balance at end of year for intangible assets:

	Software applications	Software applications in development	Indefinite life intangible assets	Finite life intangible assets	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance as at January 1, 2010	68	4	344	8	424
Acquisitions	3	6	---	2	11
Acquisitions through business combinations	1	---	---	---	1
Reclassification after allocation of purchase price	---	---	1	46	47
Transfer (from)/to software applications in development to software applications	6	(6)	---	---	---
Foreign currency translation	---	---	---	(1)	(1)
Balance as at December 31, 2010	78	4	345	55	482
Acquisitions	1	16	---	4	21
Acquisitions through business combinations	---	---	35	1	36
Transfer (from)/to software applications in development to software applications	3	(3)	---	---	---
<b>Balance as at December 31, 2011</b>	<b>82</b>	<b>17</b>	<b>380</b>	<b>60</b>	<b>539</b>
<b>Accumulated depreciation</b>					
Balance as at January 1, 2010	45	---	---	2	47
Depreciation for the year	10	---	---	3	13
Balance as at December 31, 2010	55	---	---	5	60
Depreciation for the year	9	---	---	7	16
<b>Balance as at December 31, 2011</b>	<b>64</b>	<b>---</b>	<b>---</b>	<b>12</b>	<b>76</b>
<b>Net carrying value as at December 31, 2011</b>	<b>18</b>	<b>17</b>	<b>380</b>	<b>48</b>	<b>463</b>
Net carrying value as at December 31, 2010	23	4	345	50	422
Net carrying value as at January 1, 2010	23	4	344	6	377

Indefinite useful life intangible assets include management contracts and distribution networks. Intangible assets with finite useful life primarily represent the discounted value of future profits from insurance contracts.

## 25 › Goodwill

The carrying value and changes in goodwill are as follows:

	Preliminary goodwill	Goodwill	Total
	\$	\$	\$
Balance as at January 1, 2010	12	104	116
Business acquisitions	49	---	49
Transfer from preliminary goodwill to goodwill	(39)	39	---
Reclassification to other items of assets and liabilities	(21)	---	(21)
Foreign currency translation	(1)	(2)	(3)
Balance as at December 31, 2010	---	141	141
Business acquisitions	21	---	21
Impact of fluctuation in exchange rates	---	1	1
Balance as at December 31, 2011	21	142	163

## 26 › Impairment Tests

A summary of the allocation of goodwill and indefinite useful life intangible assets by activity sector, at the date where the impairment tests were performed, is presented below.

	December 31, 2011	
	Indefinite life intangible assets	Goodwill
	\$	\$
Individual Wealth Management	309	38
Individual Life and Health Insurance	9	33
Group Life and Health Insurance	1	21
General Insurance	---	5
Acquisitions in the United States	---	26
Other activities	26	13

	December 31, 2010	
	Indefinite life intangible assets	Goodwill
	\$	\$
Individual Wealth Management	309	38
Individual Life and Health Insurance	9	33
Group Life and Health Insurance	1	21
Other activities	26	13

	January 1, 2010	
	Indefinite life intangible assets	Goodwill
	\$	\$
Individual Wealth Management	308	39
Individual Life and Health Insurance	9	32
Group Life and Health Insurance	1	21
Other activities	26	13

### Sectors of Individual Wealth Management and General Insurance, Acquisitions in the United States and Other activities

The sectors of General Insurance and acquisitions in the United States were not subjected to impairment tests in 2011, due to the fact that the final allocation of the acquisition price was made during the current year. Rather, a qualitative analysis was performed.

The recoverable amount of cash-generating units (CGU) in the sector of Individual Wealth Management and for Other activities was determined according to calculations of the value in use. These calculations call upon cash flow projections before income taxes founded on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using the estimated growth rates presented below. These growth rates do not exceed the average long-term growth rates of the industry in which the CGU operates.

## 26 > Impairment Tests (continued)

The following are the assumptions used in the value in use calculations:

	Individual Wealth Management			Other activities		
	December 31 2011	December 31 2010	January 1 2010	December 31 2011	December 31 2010	January 1 2010
	%	%	%	%	%	%
Growth rate	7.04	8.39	8.14	3.00	3.00	3.00
Long-term growth rate	3.90	4.42	4.36	3.00	3.00	3.00
Discount rate	15.61	11.74	12.36	20.56	12.20	12.20

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The weighted average growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are historical industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before income taxes which take into account specific risks in relation to relevant activity sectors.

For the Individual Wealth Management sector, the Company estimates that it is possible that a change in the key assumption used to calculate the unit value in use results in a change in value in use that is lower than the carrying value. The result of the value in use calculation established using a 15.61% discount rate shows that value in use exceeds the sector's carrying value by \$288. An 11.53% increase in the discount rate would result in a value in use equal to the carrying value.

For the Other activities sector, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value in use lower than the book value. The result of the calculation of the value in use established using a 20.96% discount rate shows that the value in use exceeds the carrying value of the CGU by \$3. A 1.59% increase in the discount rate would result in a value in use equal to the carrying value.

### Individual Life and Health Insurance and Group Life and Health Insurance

The recoverable amount in the Individual Life and Health Insurance and in the Groupe Life and Health Insurance sectors for CGUs was established using calculations of the value in use. These calculations are based on discounted cash flow projections (or techniques) and constitute estimated values determined actuarially which take into account:

- > The present value of shareholders' net assets and the future profitability of in-force business. Such techniques, which are measurement methods specific to the industry, respect the principles and method of determining discounted earnings, since the value of current business rests on a projection of distributable earnings.
- > Profitability of new business – The value of new business is calculated as a multiple of new business written during a standardized year (present value of the projection of distributable future earnings from business written during a year).

The key assumptions of the valuation take into account the discount rate, cost of capital, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

For Individual Life and Health Insurance, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value in use lower than the carrying value. The result of the calculation of the value in use established using an 12.25% discount rate shows that the value in use exceeds the carrying value of the CGU by \$391. A 1.77% increase in the discount rate would result in a value in use equal to the carrying value.

For the Group Life and Health Insurance sector, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value in use lower than the book value. The result of the calculation of the value in use established using an 12.05% discount rate shows that the value in use exceeds the carrying value by \$49. A 9.40% increase in the discount rate would result in a value in use equal to the carrying value.

Preliminary goodwill and intangible assets with indefinite useful life are not subject to impairment testing.

No impairment was reported in 2011 and 2010 in terms of goodwill or intangible assets with indefinite useful life.

## 27 > Segregated Fund Assets

The following table presents the segregated fund assets and liabilities.

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Assets</b>			
Bonds	4,160	3,689	3,357
Stocks	3,577	3,807	3,228
Fund units	5,293	5,344	4,261
Cash, short term and other investments	677	729	594
Other assets	85	74	62
	13,792	13,643	11,502
<b>Liabilities</b>			
Accounts payable and accrued expenses	57	71	52
<b>Net assets</b>	13,735	13,572	11,450

The difference between the balance of segregated fund assets and segregated fund liabilities is primarily related to seed money.

**27 Segregated Fund Assets** (continued)

The following table presents the change in segregated fund net assets.

	2011	2010
	\$	\$
Balance at beginning	13,572	11,450
Add:		
Amounts received from policyholders	2,275	2,315
Interest and dividends	340	299
Net realized gains (losses)	355	303
Net increase (decrease) in fair value	(881)	682
	15,661	15,049
Less:		
Amounts withdrawn by policyholders	1,664	1,258
Operating expenses	262	219
	1,926	1,477
<b>Balance at end</b>	<b>13,735</b>	<b>13,572</b>

**Management of Risks Associated with Financial Instruments**

Financial instruments included in segregated fund assets are subject to the same risk as the financial instruments held by the Company, namely market risk, credit risk and liquidity risk. However, in segregated funds, the risk is assumed by the policyholders.

The following table presents the fair value of financial instruments held by the segregated funds based on the levels of the inputs used in the fair value measurement.

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Assets</b>				
Bonds	670	3,485	5	4,160
Stocks	3,577	---	---	3,577
Fund units	5,291	2	---	5,293
Short-term investments and other invested assets	---	650	---	650
<b>Total</b>	<b>9,538</b>	<b>4,137</b>	<b>5</b>	<b>13,680</b>

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Assets</b>				
Bonds	785	2,890	14	3,689
Stocks	3,807	---	---	3,807
Fund units	5,340	4	---	5,344
Short-term investments and other invested assets	---	690	---	690
<b>Total</b>	<b>9,932</b>	<b>3,584</b>	<b>14</b>	<b>13,530</b>

	January 1, 2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Assets</b>				
Bonds	986	2,327	44	3,357
Stocks	3,140	88	---	3,228
Fund units	4,258	3	---	4,261
Short-term investments and other invested assets	3	564	---	567
<b>Total</b>	<b>8,387</b>	<b>2,982</b>	<b>44</b>	<b>11,413</b>

## 27 &gt; Segregated Fund Assets (continued)

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

2011						
	Balance as at December 31, 2010 \$	Net realized and unrealized gains (losses) included in net income \$	Purchases \$	Sales, maturities and repayments \$	Transfers out of Level 3 \$	Balance as at December 31, 2011 \$
Total unrealized gains (losses) included in net income on financial instruments still held \$						
<b>Assets</b>						
<b>Invested assets</b>						
<b>Bonds</b>						
Designated at fair value through profit or loss	14	---	1	(8)	(2)	5
<b>Total</b>	<b>14</b>	<b>---</b>	<b>1</b>	<b>(8)</b>	<b>(2)</b>	<b>5</b>

2010						
	Balance as at January 1, 2010 \$	Net realized and unrealized gains (losses) included in net income \$	Purchases \$	Sales, maturities and repayments \$	Transfers out of Level 3 \$	Balance as at December 31, 2010 \$
Total unrealized gains (losses) included in net income on financial instruments still held \$						
<b>Assets</b>						
<b>Invested assets</b>						
<b>Bonds</b>						
Designated at fair value through profit or loss	44	(2)	3	(30)	(1)	14
<b>Total</b>	<b>44</b>	<b>(2)</b>	<b>3</b>	<b>(30)</b>	<b>(1)</b>	<b>14</b>

## 28 &gt; Insurance Contract Liabilities

Insurance contract 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. Insurance contract 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. Insurance contract liabilities include provisions for future policy benefits, provisions for dividends to policyholders and experience rating refunds, benefits payable and provision for unreported claims and policyholders amounts on deposit.

The composition of the Company's insurance contract liabilities reinsurance asset and the corresponding assets are as follows:

	December 31, 2011				
	Individual		Group		Total
	Life & Health \$	Wealth Management \$	Life & Health \$	Savings and Retirement \$	
<b>Insurance contract liabilities (gross)</b>					
Canada	10,612	1,425	1,140	3,344	16,521
United States	926	572	4	---	1,502
Other countries	1	---	---	---	1
<b>Total</b>	<b>11,539</b>	<b>1,997</b>	<b>1,144</b>	<b>3,344</b>	<b>18,024</b>
<b>Reinsurance assets</b>					
Canada	124	---	125	123	372
United States	24	---	---	---	24
<b>Total</b>	<b>148</b>	<b>---</b>	<b>125</b>	<b>123</b>	<b>396</b>
<b>Assets backing insurance contract liabilities</b>					
Bonds and other fixed interest securities	7,329	1,014	604	2,073	11,020
Mortgages	612	765	279	993	2,649
Stocks	2,066	5	2	4	2,077
Real estate held for investment	803	---	---	---	803
Policy loans	467	39	---	12	518
Other invested assets	114	174	134	139	561
<b>Total</b>	<b>11,391</b>	<b>1,997</b>	<b>1,019</b>	<b>3,221</b>	<b>17,628</b>

## 28 › Insurance Contract Liabilities (continued)

	December 31, 2010				
	Individual		Group		Total
	Life & Health \$	Wealth Management \$	Life & Health \$	Savings and Retirement \$	
<b>Insurance contract liabilities (gross)</b>					
Canada	9,116	1,286	1,001	3,178	14,581
United States	719	469	2	---	1,190
Other countries	2	---	---	---	2
<b>Total</b>	<b>9,837</b>	<b>1,755</b>	<b>1,003</b>	<b>3,178</b>	<b>15,773</b>
<b>Reinsurance assets</b>					
Canada	248	---	117	129	494
United States	3	---	---	---	3
<b>Total</b>	<b>251</b>	<b>---</b>	<b>117</b>	<b>129</b>	<b>497</b>
<b>Assets backing insurance contract liabilities</b>					
Bonds and other fixed interest securities	5,815	689	570	1,897	8,971
Mortgages	651	841	288	1,084	2,864
Stocks	1,981	3	2	33	2,019
Real estate held for investment	685	---	---	2	687
Policy loans	402	53	---	12	467
Other invested assets	52	169	26	21	268
<b>Total</b>	<b>9,586</b>	<b>1,755</b>	<b>886</b>	<b>3,049</b>	<b>15,276</b>
	January 1, 2010				
	Individual		Group		Total
	Life & Health \$	Wealth Management \$	Life & Health \$	Savings and Retirement \$	
<b>Insurance contract liabilities (gross)</b>					
Canada	7,827	1,349	949	3,084	13,209
United States	142	328	2	---	472
Other countries	2	---	---	---	2
<b>Total</b>	<b>7,971</b>	<b>1,677</b>	<b>951</b>	<b>3,084</b>	<b>13,683</b>
<b>Reinsurance assets</b>					
Canada	90	---	95	30	215
United States	3	---	---	---	3
<b>Total</b>	<b>93</b>	<b>---</b>	<b>95</b>	<b>30</b>	<b>218</b>
<b>Assets backing insurance contract liabilities</b>					
Bonds and other fixed interest securities	4,627	549	522	1,805	7,503
Mortgages	619	846	306	1,189	2,960
Stocks	1,564	50	---	12	1,626
Real estate held for investment	689	---	---	---	689
Policy loans	316	53	---	10	379
Other invested assets	63	179	28	38	308
<b>Total</b>	<b>7,878</b>	<b>1,677</b>	<b>856</b>	<b>3,054</b>	<b>13,465</b>

The fair value of assets backing insurance contract liabilities as at December 31, 2011 was estimated at \$17,488 (\$15,339 as at December 31, 2010 and \$13,539 as at January 1, 2010). Insurance contract liabilities are measured at fair value, except for liabilities backed by assets which are not at fair value, such as mortgages and real estate.

The Company did not enter into any new reinsurance agreement for in-force policies in 2011. However, in 2010, the Company signed a new reinsurance agreement for group savings and retirement. No gain or loss was recorded for this agreement.



## 28 > Insurance Contract Liabilities (continued)

### Assumptions

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. Since December 31, 2011, calculation of insurance contract liabilities for this business block take into account a reduction in future mortality rates.

For 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.

For the Group Insurance segment, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of insurance contract 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.

As at December 31, 2011, the Company estimates that a 5% permanent deterioration in mortality rates would result in a \$123 reduction in net income to common shareholders due to the strengthening of the insurance contract liabilities (\$118 as at December 31, 2010). A 5% improvement in mortality rates would have a similar 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 industry morbidity tables, to which the Company makes changes based on the results of Company technical studies.

As at December 31, 2011, the Company estimates that a 5% deterioration in morbidity rates would result in a \$61 reduction in net income to common shareholders (\$17 as at December 31, 2010). As at December 31, 2011, the deterioration is expressed assuming 95% of the termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active. As at December 31, 2010, the deterioration is expressed assuming 95% of the termination rate when the insured is or becomes disabled.

### 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 insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. A description of CALM is found in Note 2 - Accounting Policies, sub-section o) Provisions for Future Policy Benefits for Insurance Contracts.

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, 2011, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to an increase in the insurance contract liabilities of approximately \$33 after taxes (\$28 after taxes as at December 31, 2010). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about \$62 after taxes (\$49 after taxes as at December 31, 2010).

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 as at December 31, 2011, the Company estimates that if the markets drop 10% at the beginning of the period, to subsequently progressively recover a portion of this loss during the year, net income to common shareholders would be about \$22 lower than expected for its regular operations (\$20 as at December 31, 2010).

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.

**28 › Insurance Contract Liabilities (continued)****Assumptions (continued)****Currency Risk**

Currency risk results from a difference between currency of liabilities and that of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different 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.

As at December 31, 2011, the Company estimates that a 5% deterioration in lapse rates would result in a \$156 reduction in net income to common shareholders (\$139 as at December 31, 2010). The 5% deterioration 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.

**Margins for Adverse Deviations**

Assumptions that rely on best estimates are used to calculate the insurance contract 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 insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract 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.

**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 insurance contract liability on the Statement of Financial Position. Acquisition costs are expenses incurred in the acquisition of individual wealth management and group annuity contracts. These costs 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.

	2011	2010
	\$	\$
Balance at beginning	181	151
Deferred acquisition costs for the year	90	100
Amortization for the year	(79)	(70)
<b>Balance at end</b>	<b>192</b>	<b>181</b>

**28 > Insurance Contract Liabilities (continued)****Changes in Insurance Contract Liabilities (gross)**

Changes in insurance contract liabilities include the participating policyholders' account.

	2011	2010
	\$	\$
Balance at beginning	15,773	13,683
Acquisition of portfolios or life insurance companies	---	672
Changes in assumptions – provision for future policy benefits	62	165
Normal changes – provision for future policy benefits		
On in-force	1,637	824
On new policies	510	469
Changes in other items of insurance contract liabilities	10	24
Foreign currency translation	32	(64)
<b>Balance at end</b>	<b>18,024</b>	<b>15,773</b>

Changes in other items of insurance contract 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.

**Changes in reinsurance assets**

Changes in reinsurance assets include amounts for participating contracts.

	2011	2010
	\$	\$
Balance at beginning	497	218
Change in assumptions	(159)	141
Normal changes		
On in-force	14	83
On new policies	44	55
<b>Balance at end</b>	<b>396</b>	<b>497</b>

**Impact of changes in assumptions or methodologies on net policy liabilities**

	2011	2010
	\$	\$
Mortality	a) (269)	72
Morbidity	b) (6)	3
Policyholders' behavior	c) 25	12
Investment returns	d) 606	(64)
Expenses	e) (92)	26
Methodology and other	f) (28)	(27)
<b>Impact on non participating insurance contract liabilities</b>	<b>236</b>	<b>22</b>
<b>Impact on participating insurance contract liabilities</b>	<b>(15)</b>	<b>2</b>
<b>Impact on insurance contract liabilities</b>	<b>221</b>	<b>24</b>

Details concerning the impact of changes in assumptions or methodologies on net policy liabilities for 2011 are as follows:

- a) Recognition of future mortality improvement and update of year-end mortality assumption
- b) Annual update
- c) Mostly on UL YRT business
- d) Reduction of URR/IRR net of investment initiatives
- e) Savings related to improved unit costs
- f) Mostly model refinement

## 29 › Investment Contract Liabilities

The Company has classified as investment contracts immunization contracts and non-participating "deficit reimbursement agreement" group life and health insurance contracts. In these contracts, there is no clause which transfers the insurance risk to the insurer. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The Company determines the fair value of investment contract liabilities on immunization contracts using the market value of assets backing these contracts. The fair value of investment contract liabilities for non-participating "deficit reimbursement agreement" group life and health insurance contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for "deficit reimbursement agreement" contracts.

Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

Investment contract liabilities, reinsurance assets and the assets backing them are divided as follows:

	December 31, 2011			
	Individual	Group		Total
	Life and Health \$	Life and Health \$	Savings and Retirement \$	\$
<b>Investment Contract Liabilities (gross)</b>				
Canada	---	553	3	556
United States	---	6	---	6
Other countries	15	---	---	15
<b>Total</b>	<b>15</b>	<b>559</b>	<b>3</b>	<b>577</b>
<b>Reinsurance assets</b>				
Canada	---	68	---	68
United States	---	1	---	1
<b>Total</b>	<b>---</b>	<b>69</b>	<b>---</b>	<b>69</b>
<b>Assets backing investment contract liabilities</b>				
Bonds and other fixed interest securities	12	279	2	293
Mortgages	---	144	1	145
Stocks	2	1	---	3
Other invested assets	1	66	---	67
<b>Total</b>	<b>15</b>	<b>490</b>	<b>3</b>	<b>508</b>

	December 31, 2010			
	Individual	Group		Total
	Life and Health \$	Life and Health \$	Savings and Retirement \$	\$
<b>Investment Contract Liabilities (gross)</b>				
Canada	---	515	3	518
United States	---	5	---	5
Other countries	12	---	---	12
<b>Total</b>	<b>12</b>	<b>520</b>	<b>3</b>	<b>535</b>
<b>Reinsurance assets</b>				
Canada	---	63	---	63
United States	---	1	---	1
<b>Total</b>	<b>---</b>	<b>64</b>	<b>---</b>	<b>64</b>
<b>Assets backing investment contract liabilities</b>				
Bonds and other fixed interest securities	10	292	2	304
Mortgages	---	160	1	161
Stocks	1	1	---	2
Other invested assets	1	3	---	4
<b>Total</b>	<b>12</b>	<b>456</b>	<b>3</b>	<b>471</b>

## 29 › Investment Contract Liabilities (continued)

	January 1, 2010			
	Individual	Group		
	Life and Health	Life and Health	Savings and Retirement	Total
	\$	\$	\$	\$
Investment Contract Liabilities (gross)				
Canada	---	474	---	474
United States	---	5	---	5
Other countries	9	---	---	9
Total	9	479	---	488
Reinsurance assets				
Canada	---	69	---	69
United States	---	1	---	1
Total	---	70	---	70
Assets backing investment contract liabilities				
Bonds and other fixed interest securities	8	248	---	256
Mortgages	---	157	---	157
Stocks	1	---	---	1
Other invested assets	---	4	---	4
Total	9	409	---	418

Fair value of assets backing investment contract liabilities as at December 31, 2011 represents approximately \$496 (\$474 as at December 31, 2010 and \$69 as at January 1, 2010).

## Variations in investment contract liabilities (gross)

	2011 \$	2010 \$
Balance at beginning	535	488
Deposits	139	137
Withdrawals	(120)	(112)
Interest	21	20
Other	2	2
<b>Balance at end</b>	<b>577</b>	<b>535</b>

## 30 › Other Liabilities

Other liabilities consist of the following:

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Legal provisions (Note 31)	9	7	9
Unearned premiums	194	170	128
Other policy liabilities	32	32	30
Mortgage debts	54	41	29
Derivative financial instruments	28	29	14
Employee future benefits	98	95	92
Income taxes payable	54	40	15
Amounts on deposit on products other than insurance	209	198	196
Accounts payable	430	303	311
Due to reinsurers	33	34	29
Obligation resulting from a finance lease contract	1	1	1
Securitization	94	---	---
Fair value of purchased business in force	18	18	---
<b>Total</b>	<b>1,254</b>	<b>968</b>	<b>854</b>

**30 › Other Liabilities (continued)****Fair value**

The fair value of the mortgage debts is \$57 (\$44 in 2010).

The mortgage debts bear interest of 5.38% and 6.82% (5.92% and 6.82% in 2010) and mature between 2012 and 2015. Mortgage debts are secured on real estates with a carrying value of \$168 (\$117 in 2010). The interest expense on the mortgage debts is \$3 (\$2 in 2010) and is included in general expenses on the real estate operating expenses line.

Reimbursements of the mortgage debts will amount to \$27 in 2012, \$1 in 2013, \$12 in 2014 and \$14 in 2015.

**Finance lease contracts**

The Company also has lease contracts for certain fixed assets.

Minimum payments under finance lease contracts and their discounted value over future periods are \$1 and \$1 respectively in 2011 (\$1 and \$1 in 2010) for contracts maturing in more than 1 year and less than 5 years.

**31 › Legal Provisions**

Legal provisions are the best estimate by the Company of the disbursements that will be needed to settle these litigations. This estimate was made using independent studies and internal studies. The amount of provisions is based on the assessment of the risk of current events and can lead to a reassessment of this risk at any time.

The following table presents the reconciliation of the provisions during the year:

	Litigations
	\$
Balance as at January 1, 2010	9
Increase	4
Decrease resulting from settlements	(6)
Balance as at December 31, 2010	7
Increase	5
Decrease resulting from settlements	(3)
<b>Balance as at December 31, 2011</b>	<b>9</b>

The Company also recorded as an asset the reimbursement by a third party, under an insurance contract, of \$2 (\$2 in 2010) related to a proceeding. These assets are recorded on the Insurance claim receivable line in *Other assets*.

**Legal Proceedings****Contingent liabilities**

In the normal course of operations, from time to time, the Company is named as defendant in legal proceedings or collective appeals in actions for damages and costs allegedly sustained by plaintiffs.

The Company does not believe that it will suffer major losses or incur major expenses as a result of these proceedings.

## 32 › Debentures

Debentures are detailed as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Debentures classified as financial liabilities at amortized cost</b>						
Debenture, Series A, bearing interest at 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	157	150	159	150	157
Subordinated debenture maturing December 14, 2021 and bearing a fixed annual rate of return of 4.75% for the first five years, payable semi-annually, and a variable annual rate of return equal to the 3-month Canadian Dealer Offered Rate (CDOR) plus 3.20% for the last five years, payable quarterly. This subordinated debenture is redeemable by the Company starting December 14, 2016, in whole or in part, subject to approval by the regulatory authorities. The carrying value of the debenture includes transaction costs and issue premium for a total of \$1.	249	254	---	---	---	---
Subordinated debenture maturing on June 30, 2019 and bearing interest at 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	156	150	158	150	153
Subordinated debenture maturing March 27, 2019 and bearing interest at 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.	99	108	99	112	99	112
Subordinated debenture maturing on August 1, 2023. The principal debenture of \$88 bears interest at 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	108	100	105	100	105
<b>Total</b>	<b>748</b>	<b>783</b>	<b>499</b>	<b>534</b>	<b>499</b>	<b>527</b>

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

More information about valuation of the fair value of debentures is provided in Note 20, Fair Value of Financial Instruments.

Financing cost of debentures is composed of a \$31 interest charge (\$30 in 2010).

### 33 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has adopted standards of sound capital management business and financial practices that aim to support its strategic orientations and financial targets and maintain an adequate level of capital. These practices include the establishment and strict follow up of a business plan and the drafting of a report on the Company's dynamic capital adequacy testing, which constitute a basis for decision-making. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

#### Regulatory Requirements and Solvency Ratio

The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF. According to this guideline, regulatory capital contains two categories:

- › Tier 1 capital, which contains more permanent equity items and which is primarily composed of equity attributable to common shareholders, preferred shares and the eligible amount of innovative capital instruments. Goodwill and other intangible assets are deducted from the capital of this category.
- › Tier 2 capital, which is primarily composed of subordinated debentures.

The available capital represents the total Tier 1 and Tier 2 capital, less the deductions prescribed by the AMF.

Required capital is determined according to 4 risk categories, namely asset default risk, insurance risk, changes in interest rate environment risk and segregated fund risk. Component capital requirements are determined using factor-based or other methods that are applied to specific on- and off-Statement of Financial Positions assets or liabilities.

The capital adequacy ratio (solvency ratio) is calculated by dividing available capital by required capital.

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements. 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, 2011 and 2010, 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

	2011	2010
	\$	\$
<b>Available capital</b>		
Total Tier 1 capital (net)	2,462	2,304
Total Tier 2 capital (net)	587	341
<b>Total</b>	<b>3,049</b>	<b>2,645</b>
<b>Required capital</b>	<b>1,614</b>	<b>1,307</b>
<b>Solvency ratio</b>	<b>189%</b>	<b>202%</b>

Various items influence the solvency ratio, causing it to increase or decrease. The \$192 common share issue and \$250 subordinated debenture issue increased the solvency ratio. However, the increase in capital required resulting from the increase in the market value of bonds and the normal course of business, the more restrictive capital requirements that apply to segregated fund contracts since the beginning of 2011 and the acquisition of VAG, Accès and MAD, reduced the solvency ratio. The contribution of net income to available capital was lower in 2011.

The Company also chose to avail itself of the transition period to defer the impact of adopting IFRS standards on available equity. The total value of the deferral is \$72 and will be amortized over eight quarters until December 31, 2012. An impact of \$36 was applied to available equity on December 31, 2011.



## 34 Share Capital

The authorized share capital consists of the following:

### Common Shares

Unlimited common shares without par value, with voting rights.

### Preferred Shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, with a non-cumulative preferential dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions, including approval by the AMF, convertible at the option of the holder over a period of 4 years starting in 2001 into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, redeemable at the option of the Company at the issuing value, increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value at the Company's option, subject to prior approval by the AMF, or convertible into common shares at their market value.

An unlimited number of class A – Series A preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008, subject to approval by the AMF, for 25 dollars per share.

An unlimited number of class A – Series B preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company after March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series C preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.3875 dollars per share, redeemable in full or in part at the option of the Company after December 31, 2013 and on December 31 every five years, 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 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 after December 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.

## 34 › Share Capital (continued)

	2011		2010	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
<b>Common shares</b>				
Balance at beginning	83,887	653	80,511	546
Shares issued following the exercise of stock options	496	14	426	10
Shares issued	6,000	194	2,950	97
Balance at end	90,383	861	83,887	653
Shares held in treasury	(22)	---	(22)	---
	<u>90,361</u>	<u>861</u>	<u>83,865</u>	<u>653</u>
<b>Preferred shares, class A – Series A</b>				
Balance at beginning and at end	4	---	4	---
Treasury shares	(4)	---	(4)	---
	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<b>Preferred shares, class A – Series B</b>				
Balance at beginning and at end	<u>5,000</u>	<u>125</u>	<u>5,000</u>	<u>125</u>
<b>Preferred shares, class A – Series C</b>				
Balance at beginning and at end	<u>4,000</u>	<u>100</u>	<u>4,000</u>	<u>100</u>
<b>Preferred shares, class A – Series E</b>				
Balance at beginning and at end	<u>4,000</u>	<u>100</u>	<u>4,000</u>	<u>100</u>
<b>Preferred shares, class A – Series F</b>				
Balance at beginning	4,000	100	---	---
Shares issued	---	---	4,000	100
Balance at end	<u>4,000</u>	<u>100</u>	<u>4,000</u>	<u>100</u>
<b>Total share capital</b>		<u>1,286</u>		<u>1,078</u>

**Issue of Share Capital**

On September 15, 2011, the Company issued 6,000,000 common shares for a net cash amount of \$194.

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.

**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 operations, from February 18, 2011 to February 17, 2012, up to 2,415,355 of its common shares. The Company did not purchase any shares under the conditions of this normal course issuer bid. The Company has not renewed its normal course issuer bid with the Toronto Stock Exchange.

## 35 &gt; Accumulated Other Comprehensive Income

	Bonds	Stocks	Associate	Currency Translation	Hedging	Total
	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2010	6	27	1	---	---	34
Unrealized gains (losses)	49	12	---	---	---	61
Income taxes on unrealized gains (losses)	(13)	---	---	---	---	(13)
Other	---	---	(1)	(12)	12	(1)
Income taxes on Other	---	---	---	---	(3)	(3)
	36	12	(1)	(12)	9	44
Realized gains (losses)	(12)	(12)	---	---	---	(24)
Income taxes on realized gains (losses)	3	2	---	---	---	5
	(9)	(10)	---	---	---	(19)
Balance as at December 31, 2010	33	29	---	(12)	9	59
Unrealized gains (losses)	62	(9)	---	---	---	53
Income taxes on unrealized gains (losses)	(17)	---	---	---	---	(17)
Other	---	---	---	4	(6)	(2)
Income taxes on Other	---	---	---	---	1	1
	45	(9)	---	4	(5)	35
Realized gains (losses)	(29)	(10)	---	---	---	(39)
Income taxes on realized gains (losses)	8	1	---	---	---	9
	(21)	(9)	---	---	---	(30)
Balance as at December 31, 2011	57	11	---	(8)	4	64

## 36 &gt; Participating Policyholders' Account

Participating policies entitle the holders of these contracts to receive additional income based on the performance of certain assets.

	2011	2010
	\$	\$
Balance at beginning	27	26
Net income for the year	17	4
Dividends	(3)	(3)
Net income (loss) attributed to participating policyholders	14	1
Balance at end	41	27

Net income attributed to shareholders includes a share of net income attributed to participating policyholders during the year. The amount of net income that could be transferred to the shareholders is calculated by taking into account regulatory restrictions. These restrictions generally take the form of a percentage of dividends paid. For 2011 and 2010, the transfer is less than \$1.

## 37 &gt; Stock-Based Compensation

## Stock Option Plan

The Company grants a certain number of common stock options to the directors and senior management and determines the exercise price of the options, the expiry dates and the dates on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of the Company.

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.

**37 › Stock-Based Compensation** (continued)**Stock Option Plan** (continued)

The following table presents the activities:

	2011		2010	
	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	3,944	28.22	3,897	26.88
Options granted	505	38.45	497	32.08
Options exercised	(496)	23.00	(426)	20.23
Options cancelled	(11)	31.07	(24)	33.68
At end	3,942	30.18	3,944	28.22
Exercisable at end	2,708	29.02	2,717	27.59

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The fair value weighted average for the options in 2011 is \$8.29 (\$6.46 in 2010). The pricing model assumes the following information:

	2011	2010
Risk free interest rate	3.18%	2.94%
Expected volatility	25%	25%
Expected life	6.3 years	7 years
Expected dividends	2.56%	3.07%

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 stocks. Changes in assumptions can materially affect estimates of fair values.

Exercise prices (in dollars)	Options outstanding		
	Number of options outstanding (in thousands)	Average remaining life (in years)	Number of exercisable options (in thousands)
22.81	85	0.12	85
18.63	216	1.12	216
19.00	10	1.82	10
23.44	322	1.98	322
28.72	408	2.84	408
30.22	470	3.81	470
35.64	465	4.77	466
36.03	10	5.33	10
37.37	482	6.03	360
38.25	4	6.32	3
19.23	478	7.05	237
32.08	489	8.10	121
38.48	501	9.12	---
31.17	2	9.82	---
<b>Total</b>	<b>3,942</b>	<b>5.32</b>	<b>2,708</b>

The stock-based compensation expense during the year is \$3 (\$2 in 2010), and an equivalent amount was posted as a contribution from 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 a maximum of 1,000 dollars per year. The Company's contribution is charged as a general expense. The share purchase plan for employees does not involve the issuance of new shares. The shares acquired by employees are already outstanding shares of the Company. During the year, the remuneration expense for this plan was lower than \$1 (lower than \$1 in 2010). The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years.

**Deferred Share Units (DSU)**

The plan is offered to the Company's directors and senior management. 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 quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 287,401 (240,449 in 2010) units and the remuneration expense for the plan is (\$3) (\$1 in 2010) and the liability is \$7 (\$7 at December 31, 2010).

### 38 › 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 additional 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, 2010 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2010. The next required valuation will be performed as at December 31, 2011 and will be available later in 2012.

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
<b>Defined benefit plan assets</b>				
Fair value at beginning	527	---	471	---
Expected return of plan assets	37	---	33	---
Actuarial gains (losses)	(34)	---	15	---
Company contributions	22	---	21	---
Employee contributions	11	---	7	---
Benefits paid	(20)	---	(20)	---
Fair value at end	543	---	527	---

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
<b>Accrued benefit plan obligations</b>				
Balance at beginning	536	33	514	32
Current service cost	20	1	22	1
Interest cost	29	2	26	2
Employee contributions	11	---	7	---
Benefits paid	(20)	(1)	(20)	(1)
Actuarial losses (gains)	54	4	(13)	(1)
Balance at end	630	39	536	33

	December 31, 2011		December 31, 2010		January 1, 2010	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$	\$	\$
<b>Reconciliation of funded status to the amounts recorded in the financial statements</b>						
Fair value of plan assets	543	---	527	---	471	---
Accrued benefit plan obligations	563	---	476	---	454	---
Funded status of plans	(20)	---	51	---	17	---
Obligations under unfunded defined benefit plans	(67)	(39)	(60)	(33)	(60)	(32)
Unamortized net actuarial losses (gains)	60	3	(28)	(1)	---	---
Accrued benefit asset (liability), net of valuation allowance	(27)	(36)	(37)	(34)	(43)	(32)
<b>The amounts presented in the Statement of Financial Position are:</b>						
Other assets (Note 22)	35	---	24	---	17	---
Others liabilities (Note 30)	62	36	61	34	60	32

## 38 Employee Future Benefits (continued)

## Defined Benefit Plans (continued)

## Funded plans with accrued benefit obligations in excess of plan assets:

Included in the above accrued benefit plan obligations and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
<b>Funded status – plan deficit</b>				
Accrued benefit plan obligations	400	---	---	---
Fair value of plan assets	373	---	---	---
Funded status – plan deficit	(27)	---	---	---
<b>Benefit for all plan expenses</b>				
Current service cost	20	1	22	1
Interest cost	29	2	26	2
Expected return of plan assets	(37)	---	(33)	---
<b>Defined benefit costs recognized</b>	12	3	15	3

## Expected contributions for 2012

The Company believes that it will have to contribute an amount of \$22 to its defined benefit plans during 2012.

Plan assets, evaluated on December 31 of each year, are divided as follows:

	2011	2010
	%	%
<b>Asset categories</b>		
Bonds	41	38
Stocks	59	62
Total	100	100

The pension plan assets did not include any common shares of the Company in 2011 and 2010.

The actual return of plan assets is 1% (10% in 2010).

## Significant Assumptions

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit plan obligations</b>				
Discount rate	4.9%	4.9%	5.4%	5.4%
Rate of compensation increase	3.5%	---	3.5%	---

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
<b>Benefit plan expenses</b>				
Discount rate	5.4%	5.4%	5.1%	5.1%
Expected long-term rate of return on plan assets	7.0%	---	7.0%	---
Rate of compensation increase	3.5%	---	3.5%	---
Rate of mortality (table)	UP94G	UP94G	UP94G	UP94G

	2011 Other plans			
	Drugs	Medical	Dental	Other
<b>Assumed health care cost trend rates</b>				
Initial health care cost trend rates	7.78%	8.80%	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	14	14	---	---

### 38 Employee Future Benefits (continued)

#### Defined Benefit Plans (continued)

#### Significant Assumptions (continued)

	2010			
	Other plans			
	Drugs	Medical	Dental	Other
<b>Assumed health care cost trend rates</b>				
Initial health care cost trend rates	8.0%	9.15%	4.5%	4.75%
Cost trend rate declines to	4.75%	4.25%	4.5%	4.75%
Number of years required to stabilize the rate	15	15	---	---

#### 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 2011.

	Increase	Decrease
	\$	\$
Total of service and interest cost	1	---
Accrued benefit obligations	6	(5)

The total of service and interest cost for 2011 and 2010 is less than \$1.

The following table shows the history of experience adjustments.

	2011		2010	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Present value of defined benefit obligation	630	39	536	33
Fair value of plan assets	543	---	527	---
Deficit	(87)	(39)	(9)	(33)
Experience adjustments on plan liabilities	54	4	(13)	(1)
Experience adjustments on plan assets	(34)	---	15	---

#### 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 2010). The liability related to this plan is presented in *Other liabilities* (Note 30 included in *Accounts payable*) for an amount of \$2 (\$2 in 2010).

### 39 Related Party Transactions

Industrial Alliance Insurance and Financial Services Inc., a publicly-traded company, constitutes, with its subsidiaries, a group of companies. The Company eliminates transactions between various group companies on consolidation. Consequently, these transactions are not presented below.

#### a) Commercial transactions

The Company concludes transactions with an associate and its key management personnel. These transactions are concluded in the normal course of business and were subject to normal market conditions.

At the end of the year, the balances with the associate were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Amounts receivable</b>			
Accounts receivable	1	1	2
Other investments	---	---	4
<b>Amounts payable</b>			
Accounts payable	---	---	9

**39 > Related Party Transactions (continued)****a) Commercial transactions (continued)****Key Management Personnel**

Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

For the associate and the key management personnel, amounts not settled at the end of the year are not guaranteed and do not bear interest and will be settled in cash.

No expense was recognized for doubtful debts with respect to amounts receivable from related parties.

During the year 2011, the Company made a commitment to a third party for one of its subsidiaries. This commitment is for a maximum amount of \$79. The Company has also committed to a third party to guarantee the funds offered by one of its subsidiaries.

**b) Loans to related parties**

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Key management personnel	---	1	1

The Company granted loans to its key management personnel under variable conditions.

**c) Compensation of directors and key management personnel**

The president and chief executive officer, the chief actuary and the three most highly compensated executive officers are the Company's key management personnel.

The compensation of directors and key management personnel for the year was as follows:

	2011	2010
	\$	\$
Salaries and other long-term benefits	2	4
Post-retirement benefits	2	2
Stock-based compensation	2	1
Total	6	7

**40 > 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 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:

2012	2013	2014	2015	2016	2017 and thereafter
\$	\$	\$	\$	\$	\$
33	27	20	18	15	67

**Operating leases**

Minimum lease payments over future periods are as follows:

	2011	2010
	\$	\$
Maturing in one year	13	12
More than 1 year and less than 5 years	23	22
More than 5 years	3	4
Total	39	38

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, 2011 is \$1 (\$1 as at December 31, 2010).



**40 › Guarantees, Commitments and Contingencies (continued)****Investments**

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

	30 days	Expires in 31 to 366 days	2013 and thereafter
	\$	\$	\$
	46	34	56

**Letters of Credit**

In the normal course of its operations, the Company establishes bank letters of credit. The balance of these letters is \$4 (\$1 in 2010).

**Indemnifications**

Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. 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.

**Lines of Credit**

As at December 31, 2011, the Company had operating lines of credit totalling \$80 (\$67 as at December 31, 2010). As at December 31, 2011 and 2010, 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.

## SOCIAL RESPONSIBILITY REPORT

### MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Industrial Alliance is committed to act as a responsible corporate citizen and to foster transparent, ethical behaviour.

This commitment means that we place major importance on our interactions with all parties and that we care about the Company's social and ecological footprint.

These attitudes are also an integral part of Industrial Alliance's philosophy. Teamwork and respect for individuals are two of the organization's fundamental values. Industrial Alliance also follows strict practices for corporate governance and for risk management.

We're pleased to see how our employees are deeply committed to respect these values and to promote them on a daily basis, not only in their jobs but also in their involvement in the community.

This social responsibility report bears this out.

Yvon Charest

### THE THREE PILLARS OF INDUSTRIAL ALLIANCE'S SOCIAL RESPONSIBILITY

Industrial Alliance's social responsibility relies on three main pillars: the community, the environment and people. For each pillar, the Company follows a specific strategic direction, and that direction determines all its actions.

#### COMMUNITY

##### Strategic direction

Industrial Alliance is proud of the support it has long given to local, regional and national communities. Through donations, sponsorships and programs to encourage volunteering, the Company seeks to contribute to the wellbeing of communities in which its employees and those of its subsidiaries live and work.

Under the Imagine Program, every year the Company commits to donating 1% of the average annual profits for the previous five years—before taxes and unusual items—to organizations that support their communities.

##### Sectors supported

As a company operating in the life insurance field, Industrial Alliance places particular importance on supporting health-related organizations. The Company takes individuals' welfare and improvement of their quality of life to heart. Its desire to contribute to scientific research meets these core values.

Since families have been part of Industrial Alliance's fundamental values for over 100 years, the Company also supports the educational sector, as well as family-oriented causes and events.

In addition, Industrial Alliance promotes learning a second language. For a second consecutive year, The Industrial Alliance Foundation for Learning a Second Language offered scholarships for immersion stays or school sessions sponsored by secondary, college or university level institutions across the country.

##### Internal donation policy

Through an internal donation policy, Industrial Alliance encourages its employees to volunteer. To recognize employees' individual involvement

in the community, the Company implemented a policy that enables employees to request financial aid for the organization in which they are involved. The Industrial Alliance donation policy is open to all Company employees—permanent, temporary or under contract—retirees, and to representatives from the Career Network. To be eligible, individuals must sign up as a participant or be a volunteer for a fundraising activity for a charitable organization, regularly volunteer for a charitable organization or be a member of a charity's board of directors.

For their part, Industrial Alliance Pacific employees have a volunteer incentive program. They can do up to 18 hours of volunteer work a year during their normal working hours.



Toy Parade



Donation cheque to United Way

### Main achievements

- ▶ In 2011, Industrial Alliance paid the equivalent of \$709 per employee in donations and sponsorships.
- ▶ In 2011, the Company supported The Leukemia and Lymphoma Society and the Vancouver Symphony Orchestra in Western Canada, the Sick Kids Foundation and the Young People's Theatre in Ontario and the Chair in Leukemia Research at the University of Montreal, the CHUQ, CHUM and CUSM foundations, Laval University and the Musée des beaux-arts du Québec.

- Some Industrial Alliance Group employees also took part in Light the Night, a walking event organized in various Canadian cities to raise funds for the Leukemia and Lymphoma Society of Canada.
- Across Canada, Industrial Alliance employees once again contributed to the United Way's annual fundraising campaign. This campaign raised more than \$779,000, as seen below:

Industrial Alliance Pacific	\$44,795
Toronto	\$174,304
Montreal (IA)	\$108,644
Montreal (Excellence)	\$30,000
Quebec City (head office)	\$335,017
Quebec City (IAAH)	\$62,155
Career Network (Quebec)	\$24,704
<b>Total</b>	<b>\$779,619</b>

This outpouring of generosity earned the head office 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 over 60%. This is the highest honour conferred by the United Way to a company that supports it. The "Major Donor" distinction is granted to companies whose campaigns solicited donations of \$500 and more.

- Thanks to The Industrial Alliance Foundation for Learning a Second Language, 32 students benefitted from a language immersion stay in San Francisco, California. In all, \$60,000 was granted to these students from two schools in the Quebec City region.
- Through its internal donation policy, Industrial Alliance supported 160 eligible people in their individual involvement in the community. This support had a positive impact on more than 50 organizations. In all, \$52,450 was awarded by the Company in 2011.

## ENVIRONMENT

### Strategic direction

Several years ago, Industrial Alliance made a strong commitment to act as a responsible corporate citizen. The Company adopted an environmental policy that dictates its actions according to three major principals: use less, use recycled materials and recycle what is used.

To ensure quality of life for present and future generations, Industrial Alliance takes concrete steps connected to these principals through various green committees. These committees also seek to raise employee awareness about respect for the environment.

### Main achievements

#### Use less

- The Company is steadily decreasing the number and circulation of documents printed internally. When possible, documents are available electronically for onscreen viewing. For example, since November 2010 the Company's newsletter has only been distributed electronically to Industrial Alliance employees and representatives (7,000 readers). This new distribution method saves 17 trees per year.

- Industrial Alliance promotes mass transit for its employees. Through the Greater Quebec City Transit Authority's BUS Pass program, a 10% discount on an annual bus pass is granted to Industrial Alliance head office employees and their families. Moreover, Industrial Alliance Auto and Home Insurance covers the cost of a monthly pass for employees who take the bus to work. In partnership with The Carpooling Network, a free carpooling program is also offered for Quebec City and Montreal employees of the Company and its subsidiaries.

#### Use recycled materials

- For the last six years, Industrial Alliance's annual report has been printed on paper made from 100% recycled postconsumer fibres. Some 190 trees are saved each year and no new forest is cut down to make this paper. The paper used for the report is EcoLogo certified and is produced using biogas energy. It has an alkaline or neutral base and is processed without chlorine.
- A number of products made from recycled materials are used every day in Industrial Alliance offices, including hand towels, bathroom tissue, ink cartridges and certain types of envelopes and printing paper.



#### Recycle what is used

- A paper and cardboard recycling program in three buildings owned by Industrial Alliance in Quebec City helped save over 3,851 trees in 2011.
- To optimize collection of waste matter, three-piece bins (paper, glass/metal/plastic and trash) were installed outside of large head office meeting rooms and in Industrial Alliance Auto and Home Insurance offices. In 2012, additional bins will be installed at the head office.

- › In 2011, kitchen scraps from over 150,000 meals served annually at the head office cafeteria continued to be composted.
- › Industrial Alliance commissioned a specialized firm to study the nature of waste materials generated by its head office. This site characterization study determines the quantity and composition of waste produced on-site and measures the site's performance rate in order to improve the existing recycling program.



The study showed that activities at the head office site annually produce 176.72 tonnes of waste, of which 127.86 tonnes are recovered to be re-used (about 72%). This recycling rate will allow Industrial Alliance to obtain the ICI on Recycle program's level 3 performance certificate, whose application will be filed shortly.

The study also revealed recovery rates (the percentage of material diverted from disposal) of various materials recovered from the head office.

Categories	Recovery rate
Paper	97.1%
Cardboard	88.7%
Plastic	40.9%
Glass	51.1%
Metal	73.2%
Organic matter (animal and postconsumer)	70.9%

## PEOPLE: OUR EMPLOYEES AND OUR CLIENTS

### Our employees

#### Strategic direction

Industrial Alliance set an objective to be recognized as an employer that offers great career opportunities and provides its employees with a healthy and stimulating workplace, emphasizing development of their skills and talents in a long-term perspective.

Industrial Alliance is committed to treating its employees with fairness and impartiality in terms of employment and remuneration. The Company believes in an environment free of discrimination and harassment. All Industrial Alliance employment practices, including posting of job offers, interviews, remuneration, hiring, benefits and personnel management programs shall be applied without discrimination based on the grounds enumerated in human rights laws.

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.

Industrial Alliance and its subsidiaries offer their employees various 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.

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.

As at December 31, 2011, Industrial Alliance and its subsidiaries had 4,109 employees.

### Main achievements



- › Health and wellbeing program – In 2011, Industrial Alliance established an official company health and wellness program by combining all related initiatives under the name IA Health. A web page was also made available to employees for health and wellness issues. Numerous conferences were offered to head office employees, a blood pressure kiosk was available and a physical activity month was organized.
- › Share purchase program – As at December 31, 2011, 1,544 eligible employees were enrolled in the Company's share purchase plan in which they can acquire Company shares and benefit from an employer contribution equivalent to 50% of the invested amount, to a maximum of \$1,000 per year.
- › Training programs – In 2011, 156 Industrial Alliance and Industrial Alliance Pacific employees successfully completed courses under the LOMA (Life Office Management Association, Inc.) program, 71 employees took advantage of the university studies program and 267 employees took English classes held in the workplace.



› Ergonomic workstation improvement program – In 2011, Industrial Alliance expanded the scope of its ergonomic workstation assessment program. Through a new partnership with McGill University, more than 100 employees at the Montreal office benefitted from services offered by occupational therapy students. Furthermore, Industrial Alliance continued its partnership with Laval University for Quebec City employees, adjusting more than 150 workstations in 2011.

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.

#### Main achievements

- › Customer satisfaction – Continuous improvement work inspired by the Lean management philosophy enabled Industrial Alliance Auto and Home Insurance to take third place for customer satisfaction among all Quebec property and casualty insurers in 2011—for both auto and home insurance—according to a study done by the American firm J.D. Power.
- › 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.

#### Our clients

##### Strategic direction

Industrial Alliance makes every effort to be considered the company that best meets client expectations, in partnership with our distributors.



A service-oriented mentality is one of the Industrial Alliance Group's five fundamental values. This mentality revolves around three main themes: continue to stand out with our distributors by maintaining preferred relationships with them and offering them service that reflects the Company's standards of excellence; acting courteously, efficiently and promptly; and ensuring that client expectations are met. This strategic direction, inspired by the Lean management philosophy officially adopted in 2011, enables Industrial Alliance to improve its internal efficiency to benefit its clientele.

In addition, Industrial Alliance and its subsidiaries consider it essential to ensure that the trust granted them by its clients is well-deserved. The level of integrity and professionalism to which clients are entitled must be reflected in employee behaviour. The main objectives of the Industrial Alliance Group Code of business conduct make employees and parties

#### AWARDS AND HONOURS

- › BOMA BEST certification for three buildings
- › Distinction Award from the Greater Quebec City Transit Authority as part of its Complicity Program
- › Silver Award (3rd place) in the Car-Free Challenge provincial competition organized as part of the Mass and Active Transportation Week, among companies with 501 or more registered employees
- › Industrial Alliance Auto and Home Insurance a 2011 laureate in the Productivity Improvement – Large Business and the Business of the Year – Large Business categories at the Mercuriades Awards organized by the Quebec Chambers of Commerce Federation
- › Jury Favourite: A Passion for Customer Satisfaction Award given to Industrial Alliance Auto and Home Insurance at the 2011 Best Business Practices Show in Montreal
- › Third place for Industrial Alliance Auto and Home Insurance among Quebec property and casualty insurers according to a 2011 study on auto insurance policyholder satisfaction by J.D. Power and Associates

#### GOOD GOVERNANCE

On November 28, *The Globe and Mail* daily newspaper published the tenth edition of its annual corporate governance rankings (Board Games 2011 corporate governance rankings). Industrial Alliance continued to rise in this Canadian ranking. The Company increased its score by 7 percentage points to attain 91% in 2011 (84% in 2010), placing it 12th out of 253 companies (22nd out of 187 companies in 2010).

In December, the Clarkson Centre for Board Effectiveness published its annual Board Shareholder Confidence Index study. Industrial Alliance obtained a 97% score and an AAA rating.



## 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.

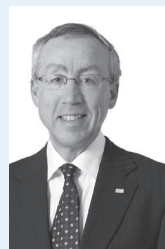
Board member since 2006

Chief Executive Officer, Mosaic  
Group LLC, a consulting firm for  
business and brand strategies

**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

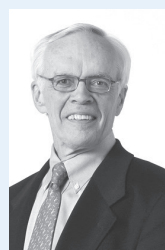
Consultant and Corporate  
Director

**Lise Lachapelle**

B.B.A.

Board member since 1995

Corporate Strategy  
Consultant

**Claude Lamoureux**

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

Board member since 2010

Corporate Director

**Jacques Martin**

B.Comm., LL.B., M.B.A.

Board member since 2011

Managing partner of Corner  
Stone Capital Partners L.P.,  
an investment bank

**Frank 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 Fuel  
Corp. and Chairman of  
EnerCare Inc.

**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.

- Investment Committee
- ▲ Audit Committee
- ▼ Ethics Committee
- ◆ Human Resources and 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

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 and Communications

Douglas A. Carrothers – LL.B., M.B.A.  
Vice-President, Legal Department  
Corporate Secretary

Guy Daneau – B.B.A., M.B.A.  
Vice-President, Information Systems

Manon Gauthier – CA, CFA  
Vice-President  
Accounting and Taxation

Maurice Germain – F.S.A., F.C.I.A.  
Vice-President, Internal Audit

Normand Gervais – LL.B., M.Fisc.  
Vice-President, Administration  
Individual Insurance and Annuities

Scott Heard – B.A., CEBS  
Vice-President, Sales and Marketing  
Group Insurance

Renée Laflamme – CA, CFA  
Vice-President  
Group Savings and Retirement

François Lalande – CFA  
Vice-President, Investments  
Portfolio Management

Tino Masecchia – AACI  
Vice-President, Mortgage Loans

Jacques Potvin – F.S.A., F.C.I.A.  
Vice-President, Sales  
Managing General Agents Section  
Quebec and Atlantic Provinces

Johnny Roy – RLU, Fin. Pl.  
Vice-President, Sales  
Career Section

Yvon Sauvageau – M.E.Sc.  
Vice-President, Development  
Financial Services

Sharon Smith – B.A.  
Vice-President, Administration  
Individual Insurance and Annuities  
Toronto Service Centre

Claude Tessier – B.Sc.A.  
Vice-President  
Real Estate Investments

### Industrial Alliance Pacific Insurance and Financial Services Inc.

- Gerald Bouwers – M.Math., F.S.A., F.C.I.A.  
President and Chief Operating Officer

Alnoor R. Jiwani – F.L.M.I.  
Senior Vice-President  
SAL Group

Randall Fell – B.Proc., CFP, EPC  
Vice-President, Personal Financial Services

Leanne Sersun – B.Comm, M.B.A.  
Vice-President, Human Resources

Paul A. Tatay  
Vice-President, Special Markets Group  
(SMG)

Luc Vinet  
Vice-President, Sales  
SAL Group

### IA American Life Insurance Company

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

Karen Davies – F.S.A., F.C.I.A.  
Vice-President, U.S. Operations

Mary Dinkel – CLU  
Vice-President, U.S. Sales Development

### The Excellence Life Insurance Company

Denis Ricard – F.S.A., F.C.I.A.  
President and General Manager

Dominique Laberge – Lawyer  
Vice-President, Administrative Services

Mario Champagne – ASA  
Regional Vice-President, Sales  
Quebec and Atlantic Provinces

Charles Parent – F.S.A., F.C.I.A.  
Vice-President, Marketing and  
Product Development

Éric Duval – ASA  
Vice-President, Actuarial and Specialized  
Products

Michel Giguère  
Vice-President, Sales

Alain Jordan  
Vice-President, Information Systems

Jacques Waite  
Vice-President, Legal Affairs

Marc-André Joly – CA  
Controller

### IA Clarington Investments Inc.

David Scandiffio – CFA  
President

Eric Frape – CFA  
Senior Vice-President  
Product and Business Development

Carl Mustos – M.B.A.  
Senior Vice-President and  
National Sales Manager

Anthony Silvestrin – B.A. (Economics)  
Senior Vice-President  
Private Wealth Management

Matthew Campbell – B.A., LL.B.  
Vice-President  
Chief Legal Counsel and  
Chief Compliance Officer

Nancy Cappadocia – CA  
Vice-President, Finance and  
Chief Financial Officer

George Ho  
Vice-President  
Information Systems and Technology

Kim Jativa  
Vice-President, Operations

### Investia Financial Services Inc.

Louis H. DeConinck  
President

Stéphane Blanchette – CA  
Vice-President, Finance and Operations

Andrew Norris  
Chief Compliance Officer

### FundEX Investments Inc.

David Chapman  
President

Robert Corbett  
Vice-President, Sales

David Hawkins  
Vice-President, Business Development

Jack Mastromattei  
Vice-President, Operations

Andrew Norris  
Chief Compliance Officer

Karen Woodman  
Vice-President, Finance

### Industrial Alliance Securities Inc.

Richard Legault – CA, CFA  
President

Bruno Blouin – CGA  
Chief Financial Officer

Linda Boiteau  
Chief Compliance Officer

### MRA

Daniel Riopel – LL.B.  
President and General Manager

Julie Sigouin – CA  
Controller

Luc Daoust  
Vice-President, Sales and Development

Ginette Crépeau  
Vice-President, Administration and Client  
Service

### Industrial Alliance Auto and Home Insurance Inc.

Michel Laurin – F.C.I.A., F.C.A.S.  
President and Chief Operating Officer

Christian Alain – CGA  
Vice-President, Administration

Sophie Duval – M.B.A., F.C.I.A., F.C.A.S.  
Vice-President, Risk Management

Christine Hébert – CHRP  
Vice-President, Claims and Assistance

Jean Lapointe – CA  
General Manager, Mobiliz Program

Jean-François L'Heureux  
Vice-President, Business Development

Marcel Lortie  
Vice-President, Technology

Suzanne Michaud – M.A.Sc.  
Vice-President, Client Experience

Sylvie Racine – FPAA  
Vice-President, Sales

### Industrial Alliance Trust Inc.

Denis Ricard – F.S.A., F.C.I.A.  
President

Michel St-François  
Vice-President, Auto Financing

Daniel Marceau – F.S.A., F.C.I.A.  
General Manager

- Member of the Planning Committee

## OFFICES OF INDUSTRIAL ALLIANCE AND ITS SUBSIDIARIES

**INDUSTRIAL ALLIANCE INSURANCE  
AND FINANCIAL SERVICES INC.****Head Office – Quebec City**

1080 Grande Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
418 684-5000  
1 800 463-6236  
www.inalco.com

**Individual Insurance and  
Individual Wealth Management  
Toronto Service and  
Sales Centre**

522 University Avenue  
Toronto, ON M5G 1Y7  
Administration: 416 585-8862  
1 800 242-9751  
Sales and Marketing:  
416 487-0242

**Moncton**

200 Champlain Street  
Suite 260  
Dieppe, NB E1A 1P1  
506 855-5310  
1 800 577-4747

**Winnipeg**

201 Portage Avenue  
Suite 1505  
Winnipeg, MB R3B 3K6  
204 956-2802  
1 800 268-4886

**Calgary**

1414 8<sup>th</sup> Street S.W.  
Suite 320  
Calgary, AB T2R 1J6  
403 241-9817  
1 877 656-9817

**Group Insurance  
Employee Plans****Halifax**

Corporate Campus, Suite 320  
238 Brownlow Avenue  
Dartmouth, NS B3B 1Y2  
902 422-6479  
1 800 255-2116

**Quebec City**

925 Grande Allée West  
Suite 420  
Quebec City, QC G1S 1C1  
418 684-5205  
1 800 463-7274

**Montreal**

680 Sherbrooke Street West  
PO Box 790, Station B  
Montreal, QC H3B 3K6  
514 499-3800

**Toronto**

522 University Avenue  
Toronto, ON M5G 1Y7  
416 585-8055

**Calgary**

777 8<sup>th</sup> Avenue S.W.  
Suite 2050  
Calgary, AB T2P 3R5  
403 532-1500

**Vancouver**

1055 West Hastings Street  
Suite 1130  
Vancouver, BC V6E 2E9  
604 689-0388

**Mortgage Loans****Quebec City**

925 Grande Allée West  
Suite 200  
Quebec City, QC G1S 1C1  
418 686-7738  
1 888 368-7738

**Montreal**

2000 McGill College Avenue  
Suite 1550  
PO Box 790, Station B  
Montreal, QC H3B 3K6  
514 499-6680  
1 800 361-2173

**Toronto**

522 University Avenue, Suite 400  
Toronto, ON M5G 1Y7  
416 585-8832  
1 877 585-8832

**Vancouver**

1188 West Georgia Street  
Suite 1910  
Vancouver, BC V6E 4A2  
604 688-8631  
1 866 688-8631

**Group Savings and Retirement****Halifax**

238 Brownlow Avenue  
Suite 320  
Dartmouth, NS B3B 1Y2  
902 422-6479  
1 800 255-2116

**Quebec City**

925 Grande Allée West  
Suite 420  
Quebec City, QC G1S 1C1  
418 684-5576  
1 800 549-4097

**Montreal**

2000 McGill College Avenue  
Suite 2100  
Montreal, QC H3A 3H3  
514 499-6600  
1 800 697-9767

**Toronto**

522 University Avenue  
8<sup>th</sup> Floor  
Toronto, ON M5G 1Y7  
416 585-8917  
1 877 902-4920

**Calgary**

777 8<sup>th</sup> Avenue S.W.  
Suite 2050  
Calgary, AB T2P 3R5  
403 218-3248  
1 888 532-1505, ext. 248

**Vancouver**

1055 West Hastings Street  
Suite 1130  
Vancouver, BC V6E 2E9  
604 689-0388, ext. 223  
1 800 557-2515

**INDUSTRIAL ALLIANCE PACIFIC  
INSURANCE AND FINANCIAL  
SERVICES INC.****Head Office – Vancouver**

2165 Broadway West  
PO Box 5900  
Vancouver, BC V6B 5H6  
604 734-1667  
1 800 665-4458  
www.iapacific.com

**US Operations**

17550 North Perimeter Drive  
Suite 210  
Scottsdale, AZ 85255  
USA  
480 473-5540  
1 888 473-5540

**Group Insurance  
Special Markets Group (SMG)****Halifax**

238A Brownlow Avenue  
Suite 302  
Dartmouth, NS B3B 2B4  
902 468-5043  
1 855 468-5043

**Montreal**

680 Sherbrooke Street West  
17<sup>th</sup> Floor  
PO Box 790, Station B  
Montreal, QC H3B 3K6  
514 499-3748  
1 866 499-3748

**Toronto**

515 Consumers Road, Suite 400  
Toronto, ON M2J 4Z2  
416 498-8319  
1 800 611-6667

**Calgary**

777 8<sup>th</sup> Avenue S.W., Suite 2050  
Calgary, AB T2P 3R5  
403 266-7582  
1 800 661-1699

**Vancouver**

1188 West Georgia Street  
Suite 1910  
Vancouver, BC V6E 4A2  
604 688-9641  
1 888 725-2886

**Group Insurance  
Group Creditor Insurance (SAL)****Halifax**

238A Brownlow Avenue  
Suite 302  
Dartmouth, NS B3B 2B4  
902 468-8698

**Montreal**

8840 Taschereau Boulevard  
Brossard, QC J4X 1C2  
450 465-0630

**Toronto**

1155 North Service Road West  
Unit 6  
Oakville, ON L6M 3E3  
905 847-7900

**Winnipeg**

865 Waverley Street, Suite 102  
Winnipeg, MB R3T 5P4  
204 942-8907

**Edmonton**

Terrace Plaza, Suite 840  
4445 Calgary Trail Southbound  
Edmonton, AB T6H 5R7  
780 435-1833

**Vancouver**

9440 202nd Street, Suite 305  
Langley, BC V1M 4A6  
604 882-8220

**IA AMERICAN  
LIFE INSURANCE COMPANY****Head Office –****Scottsdale, Arizona**

17550 North Perimeter Drive  
Suite 210  
Scottsdale, AZ 85255  
USA  
480 473-5540  
1 888 473-5540  
www.iaamerican.com

**THE EXCELLENCE  
LIFE INSURANCE COMPANY****Head Office – Montreal**

5055 Metropolitain Boulevard East  
Suite 202  
Montreal, QC H1R 1Z7  
514 327-0020  
1 800 465-5818  
www.iaexcellence.com

**MRA****Head Office – Montreal**

5055 Metropolitain Boulevard East  
Suite 200  
Montreal, QC H1R 1Z7  
514 329-3333  
1 800 363-5956  
info@cabinetmra.com

**IA CLARINGTON  
INVESTMENTS INC.****Head Office – Quebec City**

1080 Grand Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
418 684-5565  
www.iaclarington.com

**Montreal**

2200 McGill College Avenue  
Suite 300  
Montreal, QC H3A 3P8  
514 499-3871  
1 866 425-5861



**Montreal**

2000 McGill College Avenue  
Suite 260  
Montreal, QC H3A 3H3  
514 788-3555  
1 877 856-6845

**Toronto**

522 University Avenue, Suite 700  
Toronto, ON M5G 1Y7  
416 860-9880  
1 888 860-9888

**Calgary**

777 8<sup>th</sup> Avenue S.W., Suite 2020  
Calgary, AB T2P 3R5  
403 806-1078  
1 866 877-0223

**Vancouver**

885 West Georgia Street  
Suite 2240  
Vancouver, BC V6C 3E8  
604 408-2818  
1 877 341-1144

**INVESTIA  
FINANCIAL SERVICES INC.**

**Head Office – Quebec City**

6700 Pierre-Bertrand Boulevard  
Suite 300  
Quebec City, QC G2J 0B4  
418 684-5548  
1 888 684-5548  
www.investia.ca

**Halifax**

3650 Hammonds Plains Road  
Unit 14, Suite 341  
Upper Tantallon, NS B3Z 4R3  
1 888 684-5548

**Vaughan**

400 Applewood Crescent  
Vaughan, ON L4K 0C3  
1 888 684-5548

**Winnipeg**

200-5 Donald Street  
Winnipeg, MB R3L 2T4  
1 888 684-5548

**Calgary**

1414 8<sup>th</sup> Street S.W., Suite 320  
Calgary, AB T2R 1J6  
1 888 684-5548

**Vancouver**

2165 Broadway West  
PO Box 5900  
Vancouver, BC V6B 5H6  
1 888 684-5548

**FUNDEx INVESTMENTS INC.****Head Office – Vaughan**

400 Applewood Crescent, 3<sup>rd</sup> Floor  
Vaughan, ON L4K 0C3  
905 305-1651  
1 800 324-6048  
www.fundex.com

**INDUSTRIAL ALLIANCE  
SECURITIES INC.**

**Head Office – Montreal**

2200 McGill College Avenue  
Suite 350  
Montreal, QC H3A 3P8  
514 499-1066  
1 800 361-7465  
www.iagto.ca

**St. John's (Newfoundland)**

354 Water Street, Suite 301  
St. John's, NL A1C 5W8  
709 754-4274

**Halifax**

5670 Spring Garden Road, Suite 900  
Halifax, NS B3J 1H6  
902 420-1544  
1 877 275-1544

**Quebec City**

6700 Pierre-Bertrand Boulevard  
Suite 300  
Quebec City, QC G2J 0B4  
418 684-5171  
1 866 684-5171

1040 Belvédère Avenue, Suite 101  
Quebec City, QC G1S 3G3  
418 681-2442  
1 800 207-2445

**Sherbrooke**

2665 King Street West, Suite 650  
Sherbrooke, QC J1L 2G5  
819 569-2772  
1 877 569-2772

**Montreal**

2057 Mansfield Street  
Montreal, QC H3A 1Y7  
514 499-1066

2075 University Street, Suite 810  
Montreal, QC H3A 2L1  
514 499-1380

100 Alexis-Nihon Boulevard, Suite 990  
Ville Saint-Laurent, QC H4M 2P5  
514 748-7177

**Toronto**

5090 Explorer Drive, Suite 402  
Mississauga, ON L4W 4T9  
905 272-8004

**Vancouver**

4044 200 B Street  
Unit 5  
Langley, BC V3A 1N9  
604 539-8187

**Immigrant Investor Program –  
Montreal**

2200 McGill College Avenue  
Suite 320  
Montreal, QC H3A 3P8  
514 499-1170

**INDUSTRIAL ALLIANCE AUTO  
AND HOME INSURANCE INC.**

**Head Office – Quebec City**

925 Grande Allée West  
Suite 230  
Quebec City, QC G1S 1C1  
418 650-4600  
1 800 463-4382  
www.industrielleallianceauto.com

**INDUSTRIAL ALLIANCE  
TRUST INC.**

**Head Office – Quebec City**

1080 Grande Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
418 684-5000  
www.iatrust.ca

**NATIONAL FINANCIAL  
INSURANCE AGENCY INC.**

**Head Office – Quebec City**

6700 Pierre-Bertrand Boulevard  
Suite 300  
Quebec City, QC G2J 0B4  
418 684-5548  
1 888 684-5548  
www.nfi.ai.ca

**SOLICOUR INC.****Head Office – Quebec City**

1080 Grande Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
418 684-5000  
1 800 463-6236

**Quebec City**

Place-Iberville-IV, Suite 720  
2954 Laurier Boulevard  
Quebec City, QC G1V 4T2  
418 650-2211  
1 888 852-4444

**Montreal**

Place Val-des-Arbres  
Tour A, Suite 615  
1600 Saint-Martin Boulevard East  
Laval, QC H7G 4R8  
450 669-9454  
1 888 243-7152

## Shareholder Information

### Head Office

Industrial Alliance Insurance and Financial Services Inc.  
1080 Grande Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
Telephone: 418 684-5000  
Toll-free: 1 800 463-6236  
[www.inalco.com](http://www.inalco.com)

### Stock Exchange Listing

Industrial Alliance's common shares are listed on the Toronto Stock Exchange under the stock symbol IAG.

### Annual Meeting of Shareholders

Thursday, May 10, 2012 at 2:00 PM  
Quebec City Convention Centre  
1000 René-Lévesque Blvd.  
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.  
Telephone: 514 982-7555  
Toll-free: 1 877 684-5000  
[inalco@computershare.com](mailto:inalco@computershare.com)

### Investor Relations

For analysts, portfolio managers and other investors requesting financial information, contact our Investor Relations Department:

Telephone: 418 684-5000, extension 5862  
Toll-free: 1 800 463-6236, extension 5862  
Fax: 418 684-5192  
[investors@inalco.com](mailto:investors@inalco.com)  
[www.inalco.com](http://www.inalco.com)

### 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](http://www.inalco.com).

For questions regarding Industrial Alliance products and services, contact your agent or consult pages 159 and 160 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 2012  
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National Library of Canada

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Industrial Alliance does its part to respect and protect the environment.

This document was printed on paper made of 100% postconsumer recycled fibres.

Industrial Alliance offers its shareholders and those who request it an online version of this annual report at [www.inalco.com](http://www.inalco.com) in order to reduce the quantity of reports printed.

The paper used for the annual report is alkaline based or neutral and is treated without elemental chlorine. It is produced using biogas and has the EcoLogo certification.



100 %



The elephant, symbol of our 100 years of strength and longevity.