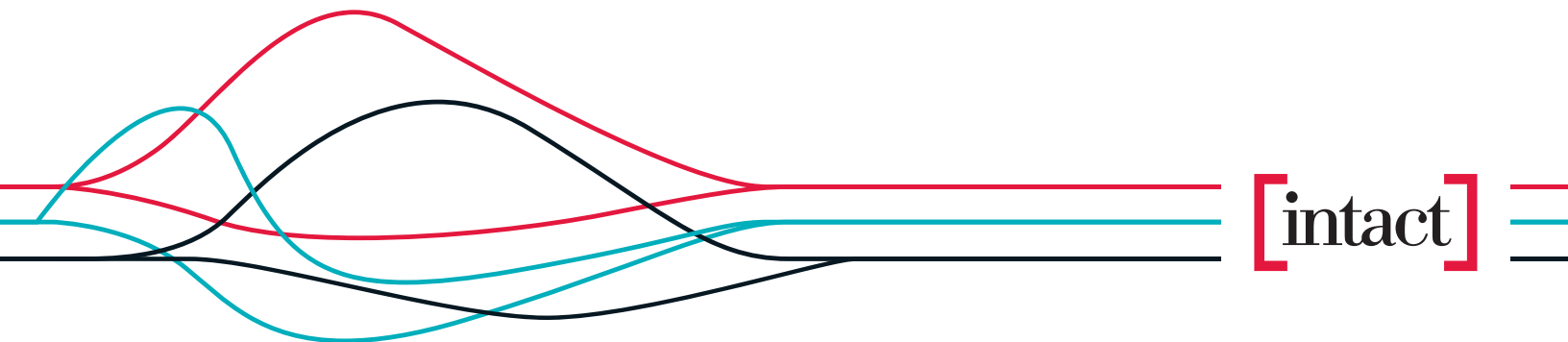


2008 Financial Report



Who we are

We are the leading provider of property and casualty (P&C) insurance in Canada, insuring more than four million individuals and businesses through our insurance subsidiaries. With an estimated 11% market share, we are the largest private sector provider of P&C insurance in Ontario, Québec, Alberta and Nova Scotia. We distribute insurance through brokers under the Intact Insurance, Grey Power and Canada Brokerlink brands, and direct-to-consumers through belairdirect.

We also manage our own investment portfolio with approximately \$6.6 billion in invested assets.

Financial highlights

(in millions of Canadian dollars, except as noted)	2008	2007	2006	2005	2004
Consolidated performance					
Written insured risks (thousands)	4,601.5	4,679.9	4,565.1	4,417.9	3,857.6
Direct premiums written (excluding pools)	4,145.5	4,108.6	3,993.6	3,905.9	3,501.4
Net premiums earned	4,039.4	3,932.0	3,826.6	3,840.2	3,364.6
Net claims and general expenses	3,972.4	3,723.2	3,422.8	3,302.5	2,894.6
Combined ratio (excluding MYA)	97.1%	95.2%	89.4%	86.0%	86.0%
Interest and dividend income, net of expenses	328.8	344.8	321.3	307.5	249.1
Net gains on invested assets and other gains	(288.0)	73.6	193.5	223.5	132.4
Corporate and distribution income	15.6	44.3	33.4	22.3	4.3
Income before income taxes	123.6	671.6	952.0	1,091.0	855.8
Effective tax rate	(3.8)%	24.3%	30.9%	28.3%	27.1%
Net operating income	360.7	457.0	530.5	612.3	532.3
Net income	128.2	508.3	658.1	781.8	624.2
Earnings per share (\$)	1.05	4.01	4.92	5.85	6.51
Average number of shares outstanding	122.0	126.7	133.7	133.5	95.8
Book value per share (\$)	21.96	25.48	25.58	21.63	15.40
Return on equity	4.4%	15.4%	20.8%	31.6%	40.9%

Direct premiums written by business line
(excluding pools)



Personal auto	49.6%
Personal property	23.0%
Commercial non-auto	19.7%
Commercial auto	7.7%

Direct premiums written by distribution channel
(excluding pools)



Brokers	79.0%
belairdirect	12.1%
Affiliated distribution network brokerages	8.9%

Investment asset mix
(% of fair value)



Fixed income securities	53.2%
Preferred shares	18.4%
Common shares	12.0%
Cash and cash equivalents	7.7%
Short-term notes	4.4%
Other	4.3%

Management's discussion and analysis

TABLE OF CONTENTS

2	Introduction		
Section 1 – ING Canada			
3	1.1	Overview of the business	
4	1.2	Critical capabilities	
5	1.3	Key performance indicators	
Section 2 – Outlook			
6	2.1	Canadian property and casualty insurance industry outlook – next 12 months	
Section 3 – Overview of consolidated performance			
7	3.1	Consolidated financial results	
8	3.2	Explanation of consolidated financial results	
11	3.3	Subsequent events	
11	3.4	Underwriting income	
12	3.5	Interest and dividend income, net of expenses	
13	3.6	Gains and losses on invested assets and other gains	
15	3.7	Net operating income	
16	3.8	Selected quarterly information	
17	3.9	Seasonality of the business	
17	3.10	Selected annual information	
Section 4 – Personal lines			
18	4.1	Financial results	
19	4.2	Explanation of financial results	
Section 5 – Commercial lines			
20	5.1	Financial results	
21	5.2	Explanation of financial results	
Section 6 – Corporate and distribution			
22	6.1	Financial results	
22	6.2	Explanation of financial results	
Section 7 – Financial condition			
23	7.1	Balance sheet highlights	
24	7.2	Portfolio of invested assets	
28	7.3	Claims liabilities	
29	7.4	Reinsurance	
30	7.5	Shareholders' equity	
30	7.6	Liquidity and capital resources	
32	7.7	Contractual obligations	
32	7.8	Off-balance sheet arrangement	
Section 8 – Accounting and disclosure matters			
33	8.1	Disclosure controls and procedures	
33	8.2	Internal controls over financial reporting	
33	8.3	Critical accounting estimates and assumptions	
37	8.4	Impact of new accounting standards	
37	8.5	Future accounting changes not yet applied	
Section 9 – Risk management			
38	9.1	Risk management principles and responsibilities	
41	9.2	Operational risk management	
42	9.3	Corporate governance and compliance	
42	9.4	Industry standards	
Section 10 – Other matters			
43	10.1	Related-party transactions	
43	10.2	Cautionary note regarding forward-looking statements	
Section 11 – Additional information			

Introduction

March 27, 2009

The following Management's Discussion and Analysis ("MD&A"), which was approved by the Board of Directors for the year ended December 31, 2008, is intended to enable the reader to assess the Company's results of operations and financial conditions for the three- and 12-month periods ended December 31, 2008, compared to the corresponding periods in 2007. It should be read in conjunction with the Company's Audited Consolidated Annual Financial Statements and accompanying notes for the full year ended December 31, 2008.

The Company uses both generally accepted accounting principles ("GAAP") and certain non-GAAP measures to assess performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other companies. ING Canada analyzes performance based on underwriting ratios such as combined, general expenses and claims ratios as well as other performance measures including and excluding the market yield adjustment ("MYA") to claims liabilities. These measures are defined in the Company's glossary which is posted on the ING Canada web site at www.ingcanada.com. Click on "Investor Relations" and "Glossary" on the left navigation bar.

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter or in the Company's 2008 Annual Information Form. Please read the cautionary note at the end of this document.

Certain totals, subtotals and percentages may not agree due to rounding. Additional information about ING Canada, including the Annual Information Form, may be found online on SEDAR at www.sedar.com. A change column has been provided for convenience showing the variation between the current period and the prior period. Not applicable (n/a) is used to indicate that the current and prior year figures are not comparable or if the percentage change exceeds 1,000%.

Notes

- All references to direct premiums written in this MD&A exclude pools, unless otherwise noted.
- All references to "excess capital" in this MD&A include excess capital in the P&C insurance subsidiaries at 170% minimum capital test ("MCT") plus liquid assets in the holding company, unless otherwise indicated.
- "IIC", "ING Canada", "the Company," "we" and "our" are terms used throughout the document to refer to ING Canada Inc. and its subsidiaries.

1.1 Overview of the business

ING Canada (“IIC”) is the largest provider of automobile, home and business insurance in Canada insuring approximately four million individuals and businesses across Canada. Overall, the Company has an approximate 11% market share and is the leading private sector property and casualty (“P&C”) insurer in Ontario, Québec, Alberta and Nova Scotia. IIC distributes insurance through brokers under Intact Insurance (formerly known as ING Insurance) and Grey Power, and direct-to-consumers through belairdirect. As at December 31, 2008, IIC and its insurance subsidiaries had a \$6.6 billion portfolio of invested assets, managed by the Company’s investment management subsidiary.

Personal insurance

IIC is the largest personal auto and property insurer in Canada. The market as a whole is very fragmented – the top five P&C insurers represent less than 40% of annual direct premiums written (“DPW”) in Canada. In automobile, the Company is more than 30% larger than the second largest P&C insurer in Canada and about 60% larger than the third ranking P&C insurer, based on the most recently reported industry data for 2007 which includes both personal and commercial auto. In personal property, the gap is even larger – IIC is approximately 45% larger than the second largest insurer and about 90% larger than the number three insurer in the Canadian market. Though the Company holds the number one position in both segments of personal insurance, its estimated market share is only 14% in automobile and 15% in property, demonstrating the growth potential of this segment of the business.

Commercial insurance

IIC is also one of the largest players in commercial insurance in Canada with a significant share of the small- to medium-size commercial segment. These two segments make up approximately 90% of the Company’s commercial premiums. Small and medium-sized commercial accounts are generally more profitable over time and market pricing is less competitive.

2008 Direct premiums written by province

TABLE 1

Province	Ontario	%	Alberta	%	Québec	%	British Columbia	%	Nova Scotia	%	Other	%	Total	%
Automobile*	1,149.5	64.4%	561.5	67.7%	543.9	52.3%	14.6	6.2%	68.3	55.1%	37.0	28.0%	2,374.8	57.3%
Personal property	310.9	17.4%	133.8	16.1%	294.4	28.3%	135.2	57.1%	33.9	27.4%	44.7	33.8%	952.9	23.0%
Commercial non-auto	323.6	18.1%	134.3	16.2%	200.7	19.3%	87.1	36.8%	21.7	17.5%	50.4	38.2%	817.8	19.7%
Total	1,784.0	100.0%	829.6	100.0%	1,039.0	100.0%	236.9	100.0%	123.9	100.0%	132.1	100.0%	4,145.5	100.0%
% of Total DPW	43%		20%		25%		6%		3%		3%		100%	

* Includes personal and commercial automobile

Investment management

IIC actively manages its \$6.6 billion portfolio of cash and invested assets to generate superior after-tax returns while balancing capital preservation and risk. The mix of invested assets is as follows: 53% fixed income; 12% common shares; 19% preferred shares; 12% Canadian Treasury Bills and 4% in secured broker loans. The Company’s portfolio is more heavily concentrated in equities compared to the average Canadian property and casualty insurer to maximize dividend income, which is non-taxable for financial institutions in Canada. See section 7.2 for more information on the quality, asset mix, and performance of the Company’s portfolio of invested assets.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

1.2 Critical capabilities

IIC has several critical capabilities which enable it to sustain a performance advantage over other P&C insurers in Canada. These critical capabilities are described in the table below.

Significant scale advantage	The key benefit of scale is IIC's uniquely comprehensive database of customer and claims information that allows early identification of trends in claims and enables the Company to more accurately model the risk of each policy. IIC also uses its scale to negotiate preferred terms with suppliers, priority service on repairs, quality guarantees on workmanship and lower material costs.
Underwriting discipline/ pricing sophistication	The Company has superior underwriting expertise and proprietary scoring models used to price risks. These models are continuously refined to create a substantial advantage in the market. Scale, underwriting and pricing sophistication also allow the Company to identify certain segments of the market which are more profitable than others. The Company's objective is to establish pricing that 1) will continue to attract new business; 2) is fair for the customer; and 3) is profitable.
Expertise in claims management	More than 97% of IIC's claims are handled in-house. By managing claims in-house, claims are settled faster and less expensively, and a more consistent service experience is created for the customer.
Product innovation	IIC is continuously developing new products to attract and retain customers. IIC has a history of product innovations such as its Claims Service Guarantee and Responsible Driver Guarantee which reflect the Company's customer-driven strategy. IIC has also worked aggressively to expand its customer loss prevention services in commercial lines. The Company conducted more than 10,500 site visits in 2008 and more than 4,000 building appraisals.
Proven acquisition strategy	IIC has been the most active in the industry's consolidation with 11 successful acquisitions in 20 years. The Company's strategy is three-fold: <ul style="list-style-type: none">• acquire businesses that fit existing business lines;• integrate those businesses into the Company's technology infrastructure;• increase the profitability of the acquired book of business through pricing, underwriting expertise and claims.
Solid investment returns	IIC's investment strategy is to generate solid after-tax returns while preserving capital and diversifying risk. The Company's \$6.6 billion portfolio (including cash) is comprised primarily of Canadian securities, including high-quality fixed income securities and Canadian Treasury Bills, as well as common shares of large-cap companies and preferred shares that pay dividends.
Diverse business portfolio	The Company benefits from diversity in its geographic mix, product mix and multi-channel distribution. The diversity of the portfolio provides some insulation from the cyclical nature of the industry.
Broker relationships	The broker channel represents nearly 80% of annual direct premiums written. IIC has more than 1,800 broker relationships in 3,300 locations across Canada for customers that prefer the highly-personalized, community-based service that insurance brokers provide. IIC provides a variety of services including technology, sales training and financing to brokers to enable them to continue to grow and expand their businesses.

1.3 Key performance indicators

IIC's key performance indicators are defined in the table below. The following key performance indicators are considered non-GAAP measures. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies in our industry.

<p>Growth</p>	<p>Direct premiums written: The total premiums from the primary insured in respect of insurance underwritten by an insurer during a specified period.</p> <p>Written insured risks: The number of vehicles in automobile insurance, the number of premises in personal property insurance and the number of policies in commercial insurance (excluding commercial auto insurance).</p>
<p>Profitability</p>	<p>Net underwriting income: The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and general expenses.</p> <p>Market-based yield: This yield is calculated using the interest and dividend income for the period excluding realized gains and losses divided by the average invested assets calculated monthly including cash equivalents but excluding cash balances.</p>
<p>Performance and execution</p>	<p>Claims ratio: Claims incurred, net of reinsurance, during a defined period and expressed as a percentage of net premiums earned for the same period.</p> <p>Expense ratio: Underwriting expenses including commissions, premium taxes and all general and administrative expenses, incurred in operating the business during a defined period and expressed as a percentage of net premiums earned for the same period. Components of the expense ratio (commissions, premium taxes and general expenses) are individual ratios expressed as a percentage of net premiums earned.</p> <p>Combined ratio: The sum of the claims ratio and the expense ratio. A combined ratio below 100.0% indicates a profitable underwriting result. A combined ratio over 100.0% indicates an unprofitable underwriting result.</p>
<p>Capital management</p>	<p>Return on equity (ROE): Represents our net income for the 12 months ended on the date indicated divided by the average shareholders' equity over the same 12-month period. Net income and shareholders' equity are determined in accordance with GAAP. The average shareholders' equity is the mean of shareholders' equity at the beginning and end of the period. Shareholders' equity includes accumulated other comprehensive income (AOCI). We compare our ROE against that of the industry, when available.</p> <p>Book value per share: Represents the shareholders' equity at the end of the year divided by the number of outstanding common shares at the same date.</p> <p>Minimum Capital Test (MCT): Represents the ratio of available capital to required capital. The regulatory minimum required capital is 150%.</p>

SECTION 2 – Outlook

2.1 Canadian property and casualty insurance industry outlook – next 12 months

IIC is well-positioned to continue to outperform the P&C insurance industry in the current environment due to its significant scale, pricing and underwriting discipline, prudent investment and capital management practices, and strong financial position.

	P&C insurance industry	IIC's response
Pricing and claims environment (12-month outlook)	<ul style="list-style-type: none"> • Premiums in personal lines will likely rise in 2009 due to cost pressures in Ontario and Alberta and increases in water-related property losses • In Ontario, industry personal auto rates are rising in response to higher accident benefit and bodily injury (AB/BI) claims • Cost pressures in Ontario will likely be addressed as part of the ongoing five-year review of the Insurance Act • The Alberta Insurance Rate Board approved a 5.0% rate increase on mandatory personal auto insurance effective in November 2008 • Signs have emerged that suggest prices may firm up for commercial insurance in 2009 	<ul style="list-style-type: none"> • Pricing strategies demonstrate commitment to sustaining appropriate underwriting margins • Proactive in addressing claims trends • Focusing on innovation, supply chain management and efficiency in claims • Taking robust actions in home insurance in pricing, segmentation and claims to build a sustainable competitive advantage • Differentiating 'Accel', our small business commercial offering from others on the market • Ready to exploit growth opportunities
Economic conditions	<ul style="list-style-type: none"> • Overall, P&C insurance industry results are not significantly correlated with economic cycles • Demand for P&C insurance is relatively inelastic; home, auto and business insurance are generally considered a non-discretionary purchase • Expenses are largely variable – broker commissions and premium taxes fluctuate with premium growth and claims ratio experience • Lower expected investment yield could increase premiums across the industry 	<ul style="list-style-type: none"> • IIC's underwriting and pricing segmentation strategies include several variables that enable the Company to better identify and price risks that are more likely to be affected by adverse economic conditions • Strong capital base and financial flexibility are also significant advantages in a weak economic environment • Focus on identifying opportunities to maximize quality growth
Capital markets	<ul style="list-style-type: none"> • Prolonged capital market weakness in 2008 resulted in investment losses, higher borrowing costs and diminished excess capital levels across the industry • Pressure on the industry's capital will likely continue through 2009 	<ul style="list-style-type: none"> • Financial position is strong with \$427.5 million in excess capital and no debt • MCT of 205%, 5.1 points higher than at the end of the third quarter of 2008 • \$6.6 billion cash and investment portfolio is largely Canadian with minimal US exposure and includes no leveraged investments • Changes in the asset mix and cautious approach towards reinvestment resulted in a strengthening of the balance sheet • Lower excess capital levels in the industry could create opportunities for IIC to consolidate in the Canadian market and points to higher premiums in 2009

SECTION 3 – Overview of consolidated performance

Fourth quarter highlights

- Strong financial position with MCT of 205%; a 5.1 point improvement over the third quarter
- Overall combined ratio of 98.9% versus 93.2% in the fourth quarter of 2007 reflects higher claims associated with severe storms and a decrease in favourable prior year claims development in personal lines, which offset strong commercial underwriting results
- Net loss in the fourth quarter reflects common equity impairments caused by prolonged capital market weakness

2008 Full year highlights

- Strong balance sheet with \$427.5 million of excess capital at year end and no debt
- Overall combined ratio of 97.1% with healthy combined ratios in all lines of business, except personal property which was impacted by severe storms
- Excluding catastrophe claims, underwriting income improved slightly
- Lower net earnings reflect realized investment losses and impairments related to global capital market decline

3.1 Consolidated financial results

TABLE 2 – COMPONENTS OF NET INCOME

	Q4 2008	Q4 2007	Change	2008	2007	Change
Direct premiums written	968.2	961.3	0.7%	4,145.5	4,108.6	0.9%
Underwriting income (excluding MYA)	11.0	68.2	(83.9)%	117.0	189.1	(38.1)%
Combined ratio (excluding MYA)	98.9%	93.2%	5.7 pts	97.1%	95.2%	1.9 pts
Interest and dividend income, net of expenses (table 8)	78.3	86.5	(9.5)%	328.8	344.8	(4.6)%
(Losses) gains on invested assets and other gains (table 9)	(152.2)	(3.3)	n/a	(288.0)	73.6	(491.3)%
Income (loss) before income taxes	(108.2)	132.6	(181.6)%	123.6	671.6	(81.6)%
Income tax (benefit) expense	(44.1)	36.8	(219.8)%	(4.6)	163.3	(102.8)%
Effective income tax rate	40.7%	27.8%	12.9 pts	(3.8)%	24.3%	(28.1) pts
Net income (loss)	(64.1)	95.8	(166.9)%	128.2	508.3	(74.8)%
Net operating income (table 12)	75.1	116.4	(35.5)%	360.7	457.0	(21.1)%
Earnings per share (“EPS”) – basic and diluted (dollars)	(0.53)	0.77	(168.8)%	1.05	4.01	(73.8)%
Net operating income per share (dollars)	0.63	0.93	(32.3)%	2.96	3.61	(18.0)%
Return on equity (“ROE”) for the last 12 months	4.4%	15.4%	(11.0) pts			
Book value per share (dollars)	21.96	25.48	(13.8)%			

3.2 Explanation of consolidated financial results

TABLE 3 – CHANGES IN PRE-TAX OPERATING INCOME (YEAR-OVER-YEAR)

	Q4 2008	2008
Pre-tax operating income, as reported in 2007	156.6	578.2
Change in favourable prior year claims development	(10.2)	46.6
Changes in current accident year from:		
Underwriting income	(34.4)	(36.6)
Losses from catastrophes	(11.9)	(73.7)
Results from Facility Association	(0.7)	(8.4)
Change in underwriting income excluding MYA	(57.2)	(72.1)
Change in interest and dividend income, net of expenses	(8.2)	(16.0)
Change in corporate and distribution	0.1	(28.7)
Pre-tax operating income, as reported in 2008	91.3	461.4

Pre-tax operating income is a non-GAAP measure. Catastrophe claims are defined as a single event resulting in \$5.0 million or more in aggregate claims.

TABLE 4 – CHANGES IN INCOME BEFORE INCOME TAXES (YEAR-OVER-YEAR)

	Q4 2008	2008
Income before income taxes, as reported in 2007	132.6	671.6
Change in net gains on invested assets and other gains excluding held for trading ("HFT") debt securities (table 9)	(175.2)	(410.9)
Change in pre-tax operating income (table 3)	(65.3)	(116.7)
Change in market yield effect (table 10)	(0.3)	(20.4)
Income (loss) before income taxes, as reported in 2008	(108.2)	123.6
Income tax	44.1	4.6
Net income (loss) as reported in 2008	(64.1)	128.2

Fourth quarter 2008

The significant decline of the stock market in 2008 resulted in \$185.8 million of common equity impairments in the fourth quarter, leading to a net loss. The magnitude of the impairments reflects management's assessment of the impact of the deep and prolonged decline of the Canadian stock market on the value of the Company's common equity portfolio. See table 9 for a discussion of net gains and losses on invested assets.

In light of current capital market conditions, management also took further actions which resulted in a strengthening of the balance sheet including a reduction of the common share portfolio of \$249 million. The proceeds of the asset dispositions as well as dividend and interest income received in the fourth quarter were reinvested in Canada Treasury Bills. Canada Treasury Bills now represent approximately 12% of the \$6.6 billion cash and investment portfolio. These actions benefited our MCT capital ratio as equity and debt markets continued to deteriorate in late 2008. Despite turbulent capital market conditions, our financial position is strong with no debt, \$427.5 million in excess capital and an MCT ratio of 205%, 5.1 points higher than at the end of the third quarter. IIC also has an untapped committed \$150 million credit line.

We continue to manage our \$6.6 billion cash and investment portfolio prudently and have no leveraged investments. The equity portfolio is 100% Canadian, including common and preferred shares of high-quality, dividend-paying Canadian companies. Approximately 89% of the preferred share portfolio is top-rated at either P1 or P2 and more than 97% of the fixed income portfolio is rated 'A' or better.

Lower net operating income and an increase in the combined ratio to 98.9% reflect the impact of severe storms and lower favourable prior year development in personal lines. Severe wind, rain and snow storms in late 2008 had an adverse effect on personal property underwriting performance in the quarter, resulting in a combined ratio of 114.1% in that line of business. The combined ratio in personal auto was 102.9% in the fourth quarter reflecting a decrease in favourable prior year development, which normally fluctuates from quarter to quarter, and higher claims severity.

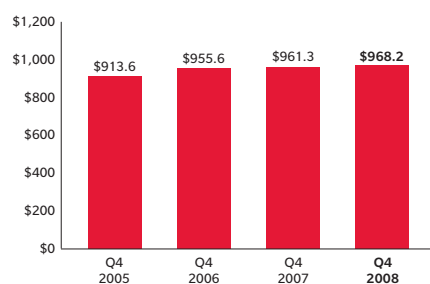
Commercial underwriting income increased year-over-year for the third quarter in a row with combined ratios of 91.6% in commercial auto and 73.2% in commercial non-auto. Higher underwriting income was driven by a lower overall current year loss ratio and more favourable prior year claims development. Pricing discipline, strong operational execution and the high quality of the book of business are reflected in consistent year-over-year increases in commercial underwriting results in 2008.

In total, direct premiums written were up slightly in the fourth quarter, reflecting our disciplined pricing strategy and commitment to maintaining adequate margins, though it has resulted in a slower pace of premium growth in the short-term. The effectiveness of our strategy is demonstrated through our combined ratio performance compared to the Canadian P&C insurance industry. For the first nine months of 2008, our combined ratio of 96.5% was trending 2.7 points lower than the industry average of 99.2%. During the same time period, we outperformed industry loss ratios in every line of business except personal property.

Personal and commercial insurance premiums are likely to rise over the next 12 months across the industry. Cost pressures in personal property and auto insurance as well as increases in water-related property losses will likely lead to higher premiums this year. With lower excess capital levels and higher loss ratios across the industry, some signs have emerged that suggest the commercial pricing environment will become less aggressive in 2009 and premiums may start to rise, reversing the trend over the last couple of years. With industry returns and capital levels at a low point in the cycle, conditions are more conducive to industry consolidation and point to higher premiums overall.

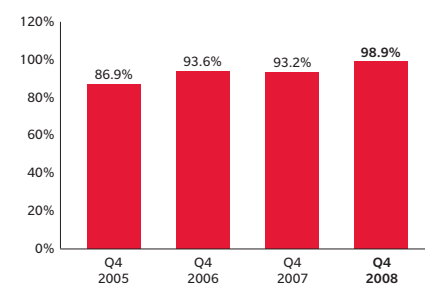
Direct premiums written

(in millions)



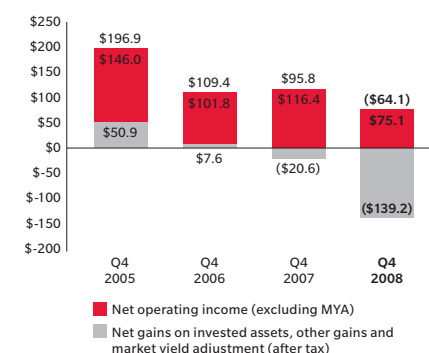
Combined ratio

(excluding MYA, %)



Net income (loss)

(in millions)



Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

Full year 2008

Direct premiums written increased by 0.9% overall as we maintained pricing discipline in both personal and commercial lines in a competitive environment. Rates in personal lines are being adjusted to reflect higher material and labour costs and higher water-related property claims. Commercial underwriting results remained very healthy with combined ratios below 90% due to our pricing discipline and portfolio shift toward smaller accounts that are more profitable than larger accounts.

The decrease in net operating income mainly reflects lower underwriting income due to severe storms. Overall, underwriting income decreased to \$117.0 million compared to \$189.1 million in 2007, reflecting a \$73.7 million year-over-year increase in catastrophe claims in 2008 which affected both personal property and personal auto results. Notwithstanding significantly higher weather-related claims in 2008, the overall combined ratio was 97.1%, a moderate increase of 1.9 points.

In Central Canada, we experienced near-record snowfall and severe hail, rain and wind storms in 2008. Despite the storms, personal auto underwriting income was \$84.7 million with a healthy combined ratio of 95.9%, a slight increase of 1.4 points compared to 2007. Overall, personal auto current accident year results were relatively stable in 2008. Personal property underwriting performance was most impacted by seasonal storms, resulting in a loss of \$120.7 million with a combined ratio of 113.6%, largely reflecting catastrophe claims.

Commercial underwriting income was strong in 2008, increasing 58.9% year-over-year due to more favourable prior year claims development. The combined ratio in commercial auto was 87.2% and commercial non-auto was 85.3%.

Overall, net income decreased to \$128.2 million, down from \$508.3 million in 2007. The decrease reflects lower operating income, as well as realized common equity investment losses and impairments associated with the weak capital market environment. Refer to table 11 for more information on unrealized gains and losses on available-for-sale ("AFS") securities.

Return on equity ("ROE")

ROE for the 12-month period ended December 31, 2008 was 4.4%, compared to 15.4% at December 31, 2007. The decrease reflects lower operating income in 2008, as well as a net loss on invested assets compared to a gain in 2007. See section 3.6 for a discussion of net gains and losses on invested assets.

Book value

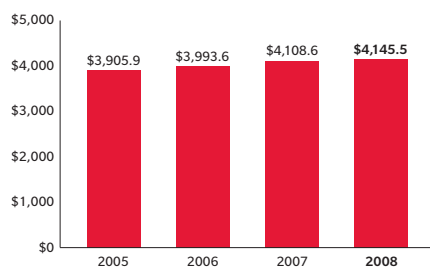
Book value per share decreased to \$21.96 in the fourth quarter from \$25.48 in the same quarter last year. The change reflects an increase in the accumulated other comprehensive loss as capital market valuations declined sharply in 2008, as well as the impact of share repurchases made under the normal course issuer bid announced on February 20, 2008.

Normal course issuer bid ("NCIB")

IIC announced its NCIB in February 2008 to buy back up to 6.2 million shares over the following 12 months. At year end, the NCIB was 73.4% complete with approximately 4.6 million shares repurchased at an average price of \$38.53. ING Groep N.V. ("ING Groep") participated in the NCIB to maintain its proportionate share ownership at 70%. The NCIB was suspended in September 2008 and no further shares were repurchased in 2008 or in January or February of 2009.

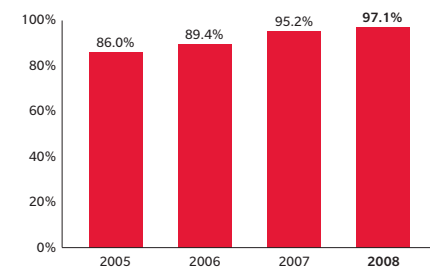
Direct premiums written

(in millions)



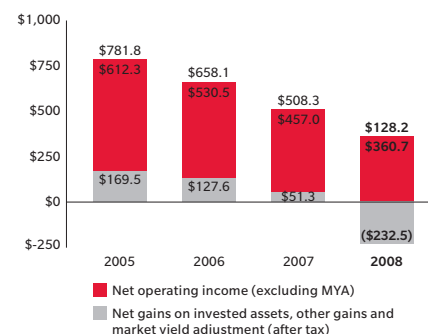
Combined ratio

(excluding MYA, %)



Net income (loss)

(in millions)



3.3 Subsequent events

ING Canada shares become widely held

On February 19, 2009, ING Groep completed the sale of its entire 70% ownership of IIC via the sale of 36,183,480 of the Company's common shares to a number of institutional investors through a private placement and the sale of 47,757,920 common shares pursuant to a "bought deal" secondary public offering. The special share owned by ING Groep was immediately converted into one common share that was also disposed of through the secondary offering.

On the same date, the Company and ING Groep entered into an Amended and Restated Co-operation and Transition Services Agreement which governs among other things the transition of reinsurance and advisory and management services, including risk management, human resources, internal audit and information technology, over a period of up to twenty-four months. IIC management has already begun to transfer these services to other providers and does not expect a material financial impact as a result.

Transition to new brand

IIC announced on February 23, 2009 that ING Insurance Company of Canada will be renamed Intact Insurance Company. The holding company will be renamed Intact Financial Corporation upon approval by the Company's shareholders at the Annual and Special Meeting of Shareholders on May 13, 2009. The holding company will continue to operate as ING Canada Inc. until the new name is approved.

Dividend increase

On February 23, 2009, the Company announced that its Board of Directors increased the quarterly dividend by 3.2%, or one cent, to 32 cents per share on its outstanding common shares. The dividend will be payable on March 31 to shareholders of record on March 16. The decision reflects IIC's objective of returning value to shareholders, the strength of the Company's financial position and quality of operating earnings.

3.4 Underwriting income

TABLE 5 – NET PREMIUMS EARNED, CLAIMS AND GENERAL EXPENSES

	Q4 2008	Q4 2007	Change	2008	2007	Change
Net premiums earned	1,019.2	1,004.7	1.4%	4,039.4	3,932.0	2.7%
Net claims						
Current year claims	743.8	703.7	5.7%	2,790.4	2,665.2	4.7%
Current year catastrophes	21.6	9.7	122.7%	114.8	41.1	179.3%
(Favourable) prior year claims development	(52.2)	(62.4)	(16.3)%	(148.9)	(102.3)	45.6%
Total net claims	713.2	651.0	9.6%	2,756.3	2,604.0	5.8%
Commissions, net	150.2	146.3	2.7%	577.3	583.1	(1.0)%
Premium taxes, net	35.4	35.0	1.1%	140.4	136.9	2.6%
General expenses, net	109.5	104.2	5.1%	448.4	418.9	7.0%
Total underwriting expenses	295.1	285.5	3.4%	1,166.1	1,138.9	2.4%
Total underwriting income (excluding MYA)	11.0	68.2	(83.9)%	117.0	189.1	(38.1)%

TABLE 6 – UNDERWRITING RATIOS (EXCLUDING MYA)

	Q4 2008	Q4 2007	Change	2008	2007	Change
Claims ratio	70.0%	64.8%	5.2 pts	68.2%	66.2%	2.0 pts
Expense ratio	28.9%	28.4%	0.5 pts	28.9%	29.0%	(0.1) pts
Combined ratio	98.9%	93.2%	5.7 pts	97.1%	95.2%	1.9 pts

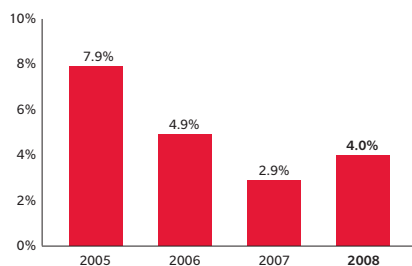
Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

TABLE 7 – ANNUALIZED RATE OF FAVOURABLE PRIOR YEAR CLAIMS DEVELOPMENT

(annualized rate, excluding MYA)	Q4 2008	Q4 2007	2008	2007
(Favourable) unfavourable prior year claims development as a % of opening reserves	(5.6)%	(7.0)%	(4.0)%	(2.9)%

Favourable prior year claims development (as a % of opening reserves)



Favourable prior year claims development

Excluding MYA, favourable prior year claims development was \$52.2 million in the fourth quarter, 5.6% of opening reserves on an annualized basis, and \$148.9 million or 4.0% of opening reserves in 2008.

Prior year claims development can fluctuate from quarter to quarter and therefore, should be evaluated over longer periods of time. The historical rate of favourable prior year claims development as a percentage of opening claims has been approximately 3% – 4% per year over the long term, but has varied from year to year and between quarters.

Industry pools

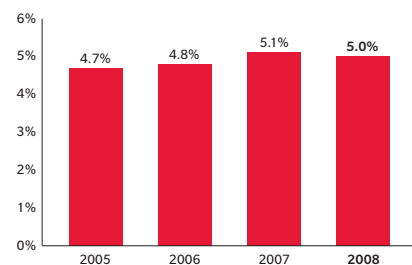
In the fourth quarter, transfers in and out of industry pools, including the Facility Association, increased pre-tax underwriting income in personal auto by \$18.4 million year-over-year, excluding MYA.

3.5 Interest and dividend income, net of expenses

TABLE 8

	Q4 2008	Q4 2007	Change	2008	2007	Change
Interest income	46.9	50.9	(7.9)%	187.9	197.7	(5.0)%
Dividend income	35.3	40.4	(12.6)%	157.3	166.5	(5.5)%
Interest and dividend income, before expenses	82.2	91.3	(10.0)%	345.2	364.2	(5.2)%
Expenses	(3.9)	(4.8)	0.9	(16.4)	(19.4)	3.0
Interest and dividend income, net of expenses	78.3	86.5	(9.5)%	328.8	344.8	(4.6)%
Market-based yield	5.1%	5.1%	(0.0) pts	5.0%	5.1%	(0.1) pts

Market-based yield (%)



The decline in **interest income** (before expenses) in the fourth quarter and in 2008 reflects capital management initiatives, including the share buyback program (“NCIB”) announced in February 2008, as well as an increase in investments in Canada Treasury Bills.

The decline in **dividend income** in the fourth quarter and in 2008 principally reflects the reduction of our common share portfolios in the last half of 2008, lower trading activities in these portfolios and the impact of capital management initiatives.

The **market-based yield** is a non-GAAP measure defined as total pre-tax dividend and interest income (before expenses) divided by the average fair values of equity and debt securities held during the reporting period. The market-based yield was 5.1% in the fourth quarter unchanged from 5.1% in the same quarter of last year. This measure may not be comparable to other companies since it is a non-GAAP measure.

3.6 Gains and losses on invested assets and other gains

TABLE 9

	Q4 2008	Q4 2007	Change	2008	2007	Change
Debt securities						
Gains (losses) on AFS securities	1.8	2.9	(1.1)	0.2	(1.9)	2.1
Losses on derivatives	(6.6)	(8.0)	1.4	(17.4)	(4.0)	(13.4)
Impairments	–	(8.1)	8.1	(10.9)	(37.3)	26.4
Losses on debt securities and related derivatives	(4.8)	(13.2)	8.4	(28.1)	(43.2)	15.1
Equity securities						
(Losses) gains, net of derivatives	(24.4)	9.2	(33.6)	(74.6)	147.4	(222.0)
Impairments	(185.8)	(34.6)	(151.2)	(250.5)	(47.7)	(202.8)
Gains on embedded derivatives	20.8	19.6	1.2	36.8	38.1	(1.3)
(Losses) gains on equity securities and related derivatives	(189.4)	(5.8)	(183.6)	(288.3)	137.8	(426.1)
Total (losses) gains excluding HFT debt securities	(194.2)	(19.0)	(175.2)	(316.4)	94.6	(411.0)
Gains (losses) on HFT debt securities ⁽¹⁾	42.0	15.7	26.3	28.4	(21.0)	49.4
Total (losses) gains, before income taxes	(152.2)	(3.3)	(148.9)	(288.0)	73.6	(361.6)

(1) The gains (losses) on HFT debt securities are offset by a MYA to claims liabilities, with an objective of a minimal impact to net income. The difference between the MYA and the gains and losses on HFT debt securities is referred to as the “market yield effect” in this MD&A. See table 10.

Fourth quarter 2008

The loss on invested assets in the fourth quarter was largely due to \$185.8 million of common share impairments reflecting the deep and prolonged decline of the stock market, particularly in the fourth quarter of 2008. The impairment process for common equities includes a review of all common shares, particularly focusing on those trading below book value for six months or more and more than 25% below book value at year end. Management applies judgment based upon a review of each issuer’s financial condition, considering various factors including latest financial results and cash flows, changes in credit ratings, capital structure or dividend payouts as well as security analysts’ recommendations. Management also takes into account the length of time the security has been below book and the significance of the unrealized loss. The stock market decline in late 2008 and the level of uncertainty around the timing of a market recovery, led management to give significant weight to the general market downturn in the judgment process. If such weighting had not been given to the capital market environment, it is estimated that common share impairments would have been approximately \$60 million. Impairments do not impact excess capital or the MCT ratio.

Preferred shares and debt securities were not impaired. Preferred shares are generally only impaired if the issuer is significantly downgraded, stops paying dividends, or declares bankruptcy. Despite a decline in the value of these securities, after careful review, management determined that there was no objective evidence at the time of assessment which suggested the Company would not receive the contractual cash flows from these securities, which include either dividends or interest payments. Management uses third party credit ratings as well as other public information in its analysis of the quality of debt securities and preferred shares.

Gains on embedded derivatives are similar to last year at \$20.8 million. These gains are driven by the decline in value of perpetual preferred shares.

Full year 2008

The decline of common share market values made up the majority of the \$316.4 million pre-tax loss on invested assets, excluding held-for-trading bonds. In the last half of the year, management also took certain actions which effectively strengthened the balance sheet, including a significant reduction of the common share portfolio. The proceeds from these transactions were reinvested in Canada Treasury Bills, which now represent approximately 12% of the \$6.6 billion cash and investment portfolio.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

Held-for-trading debt securities and market yield adjustment

TABLE 10 – MARKET YIELD EFFECT

	Q4 2008	Q4 2007	Change	2008	2007	Change
(Negative) positive impact of MYA	(47.3)	(20.7)	(26.6)	(50.0)	19.8	(69.8)
Net gains (losses) on HFT debt securities	42.0	15.7	26.3	28.4	(21.0)	49.4
Market yield effect	(5.3)	(5.0)	(0.3)	(21.6)	(1.2)	(20.4)

Claims liabilities are discounted at the estimated market yield of the assets backing these liabilities. The MYA to claims liabilities is offset by gains and losses on HFT debt securities with the objective that these items offset each other with a minimal overall impact to income. The difference between the MYA and the gains and losses on HFT debt securities is referred to as the “market yield effect” in this MD&A.

The interest rate fluctuations during the year, particularly the increasing gap between short-term and long-term rates, as well as significant capital market fluctuations have been challenging in terms of matching the gains and losses on HFT debt securities and the MYA. During the fourth quarter, the Company improved the calculation of the market yield estimate, in particular to better match the scattered duration of liabilities. The calculation previously used a blended rate for all durations which proved inappropriate under current economic conditions. Without this improvement, the unfavourable market yield effect in the fourth quarter would have been greater by \$24.4 million.

Unrealized gains and losses on available-for-sale securities

TABLE 11

	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007	Sept. 30, 2007
Debt securities	30.4	(16.3)	3.2	40.7	2.6	(13.8)
Common shares	(133.8)	(125.3)	(43.1)	(71.2)	(36.9)	47.8
Preferred shares	(522.5)	(272.1)	(215.5)	(175.8)	(141.0)	(64.5)
Loans and equity investments	(6.9)	(3.8)	(3.6)	(2.5)	(0.9)	-
Total net unrealized loss position	(632.8)	(417.5)	(259.0)	(208.8)	(176.2)	(30.5)

At the end of December 2008, the Company had \$632.8 million in unrealized losses on invested assets compared to \$417.5 million at the end of the third quarter. The increase in the unrealized loss position reflects a sharp decline in common and preferred share market values. To illustrate the market decline, the S&P/TSX Composite Index was down 24% in the quarter and the preferred share index was down 14%. In 2008, the S&P/TSX Composite Index was down 35% and the preferred share index was down 22% compared to the same periods in 2007. The market values of preferred shares were impacted by the widening of credit spreads as well as the recent number of new preferred shares issues in late 2008 which increased market supply of preferred shares at higher rates. Since preferred shares are typically held long term, unrealized gains and losses are generally not realized, unless they need to be impaired. Gains and losses in the common share portfolio are likely to be realized on an ongoing basis reflecting the active trading strategy in the high-dividend yield common share portfolio.

In determining the fair values of invested assets, we rely mainly on quoted market prices. There are no invested assets in the AFS or HFT categories which are not quoted on an active market, except for a very limited amount of fixed income private placements that we hold. Some of these assets, particularly preferred shares and BBB bonds have less trading liquidity, but their fair values are readily available from public market sources.

The debt security portfolios are relatively unchanged and they include approximately \$293.8 million of Treasury Bills with maturities greater than 90 days, purchased with proceeds from the sale of equities. The portfolios have net unrealized gains of \$30.4 million at December 31, 2008 due to the overall reduction of risk-free interest rates and the significant weight of government bonds in the portfolio. During the fourth quarter, the Company reduced its position in BBB rated bonds by 20% approximately, leaving only \$102.4 million of bonds rated lower than A (low). The quality of the debt securities in our portfolio remains strong with 97.1% rated A or better. There have been no defaults on any of the bonds in the portfolio.

Other comprehensive loss

The change in unrealized losses on AFS securities and dispositions of AFS securities resulted in another comprehensive loss (“OCI”) of \$162.0 million (after-tax) in the fourth quarter. Most of the unrealized losses incurred during the year are tax deductible and will allow the Company to claim a significant tax reimbursement in its tax return.

3.7 Net operating income

TABLE 12 – COMPONENTS OF NET OPERATING INCOME

	Q4 2008	Q4 2007	Change	2008	2007	Change
Net underwriting income (excluding MYA)	11.0	68.2	(83.9)%	117.0	189.1	(38.1)%
Interest and dividend income (table 8)	78.3	86.5	(9.5)%	328.8	344.8	(4.6)%
Corporate and distribution income (table 21)	2.0	1.9	5.3%	15.6	44.3	(64.8)%
Tax impact	(16.2)	(40.2)	(59.7)%	(100.7)	(121.2)	(16.9)%
Net operating income (excluding MYA)	75.1	116.4	(35.5)%	360.7	457.0	(21.1)%

Net operating income for the fourth quarter and full year decreased due to lower underwriting results and a decrease in dividend and interest income. The decline in underwriting income was mainly due to higher catastrophe claims and other claims associated with severe seasonal storms in 2008.

TABLE 13 – RECONCILIATION TO NET INCOME

	Q4 2008	Q4 2007	Change	2008	2007	Change
Net income (loss)	(64.1)	95.8	(166.9)%	128.2	508.3	(74.8)%
Add losses (deduct gains) before						
HFT debt securities (table 9)	194.2	19.0	175.2	316.4	(94.6)	411.0
Add market yield effect (table 10)	5.3	5.0	0.3	21.6	1.2	20.4
Tax impact	(60.3)	(3.4)	(56.9)	(105.5)	42.1	(147.6)
Net operating income (excluding MYA)	75.1	116.4	(35.5)%	360.7	457.0	(21.1)%
Average outstanding shares (millions)	119.9	124.5	(4.6)	122.0	126.7	(4.7)
Net operating income per share (dollars)	0.63	0.93	(0.31)	2.96	3.61	(0.65)

Operating income (net and pre-tax) and net operating income per share are non-GAAP measures. Net operating income is defined as net income excluding the MYA and net gains on invested assets and other gains, after tax. Pre-tax operating income is defined as net operating income before income taxes. Net operating income per share is equal to net operating income for the period divided by the average outstanding number of shares for the same period. These measures are used by management and financial analysts to assess the Company’s performance; however, they may not be comparable to similar metrics published by other companies.

Changes in the definition of net operating income and underwriting measures

Since the first quarter of 2008, the MYA to claims liabilities is excluded from net operating income and underwriting measures discussed in this MD&A. The MYA reflects the impact of changes in the discount rate applied to the Company’s claims liabilities based on the market-based yield of the underlying assets. The MYA can fluctuate substantially from quarter to quarter as market yields vary. Therefore the MYA has been excluded from net operating income and underwriting measures which focus on core operating performance. The MYA is matched with gains and losses on HFT debt securities, which are also excluded from net operating income. The objective is that these two items offset each other with a minimal overall impact to income (see table 10). The difference between the MYA and the gains and losses on HFT debt securities is referred to as the “market yield effect” in this MD&A.

3.8 Selected quarterly information

TABLE 14

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Written insured risks (thousands)	1,034.3	1,240.7	1,380.6	945.8	1,056.7	1,273.1	1,399.7	950.4	1,051.1
Direct premiums written	968.2	1,100.3	1,216.7	860.3	961.3	1,091.2	1,209.8	846.3	955.6
Total revenues	956.0	1,045.8	1,065.4	1,064.5	1,096.8	1,091.3	1,152.2	1,099.6	1,095.8
Net premiums earned	1,019.2	1,032.3	996.1	991.8	1,004.7	994.0	976.7	956.7	979.6
(Favourable) unfavourable prior year claims development	(19.3)	(62.7)	(70.3)	38.4	(45.4)	(20.7)	(37.6)	(12.2)	(24.3)
(Favourable) unfavourable prior year claims development (excluding MYA)	(52.2)	(56.4)	(41.2)	0.9	(62.4)	(24.0)	(5.2)	(10.7)	(24.3)
Net underwriting income (loss) (including MYA)	(36.3)	69.1	74.9	(40.7)	47.5	28.7	92.3	40.3	62.3
Net underwriting income (excluding MYA)	11.0	61.9	43.4	0.7	68.2	29.0	53.1	38.7	62.3
Combined ratio (%) (including MYA)	103.6%	93.3%	92.5%	104.1%	95.3%	97.1%	90.6%	95.8%	93.6%
Combined ratio (%) (excluding MYA)	98.9%	94.0%	95.6%	99.9%	93.2%	97.1%	94.6%	96.0%	93.6%
Net operating income (excluding MYA)	75.1	106.3	109.3	70.2	116.4	95.5	132.5	112.8	101.8
Net (loss) income	(64.1)	57.3	112.0	23.0	95.8	92.0	194.3	126.2	109.4
EPS – basic/diluted (dollars)	(0.53)	0.47	0.91	0.19	0.77	0.74	1.56	0.95	0.82

3.9 Seasonality of the business

The property and casualty insurance business is seasonal in nature. While underwriting revenues are generally stable from quarter to quarter, underwriting income is typically higher in the second and third quarters of each year. This is driven by lower combined ratios in those periods, which is reflected in the seasonal index below. The seasonal indicator is a non-GAAP measure which represents the ratio of the quarterly combined ratio to the annual combined ratio, excluding the MYA.

TABLE 15 – SEASONAL INDICATOR

	2008	2007	2006	2005	Four-year average
Q1	1.03	1.01	1.02	1.02	1.02
Q2	0.98	0.99	0.93	0.94	0.96
Q3	0.97	1.02	1.01	1.02	1.00
Q4	1.02	0.98	1.05	1.01	1.02

3.10 Selected annual information

TABLE 16

	2008	2007	2006
Total revenue	4,131.7	4,439.9	4,406.4
Net underwriting income (excluding MYA)	117.0	189.1	403.8
Net income	128.2	508.3	658.1
EPS – basic and diluted (dollars)	1.05	4.01	4.92
Annual dividends per common share	1.24	1.08	1.00
Invested assets	6,108.9	7,237.8	7,241.9
Total assets	9,773.4	10,389.7	10,377.3
Total shareholders' equity	2,632.6	3,172.1	3,420.8

Financial performance between 2008 and 2007 is analyzed in detail in this document. In 2007, net income was higher than in 2008 due to the following main factors: 1) higher underwriting income and 2) robust results from the Company's investment portfolio.

IIC has two segments: 1) Underwriting and 2) Corporate and distribution. P&C insurance is divided into two lines of business: personal and commercial lines. Corporate and distribution includes income from the Company's affiliated distribution network, as well as other corporate items.

SECTION 4 – Personal lines

4.1 Financial results

TABLE 17

	Q4 2008	Q4 2007	Change	2008	2007	Change
Written insured risks (thousands)						
Automobile	528.7	541.5	(2.4)%	2,449.3	2,514.4	(2.6)%
Property	385.6	394.6	(2.3)%	1,654.4	1,676.1	(1.3)%
Total	914.3	936.1	(2.3)%	4,103.7	4,190.5	(2.1)%
Direct premiums written						
Automobile	452.5	453.1	(0.1)%	2,057.0	2,057.7	0.0%
Property	226.6	215.3	5.2%	952.9	904.4	5.4%
Total	679.1	668.4	1.6%	3,009.9	2,962.1	1.6%
Net premiums earned						
Automobile	520.6	515.2	1.0%	2,067.5	2,008.0	3.0%
Property	227.9	217.6	4.7%	891.3	837.0	6.5%
Total	748.5	732.8	2.1%	2,958.8	2,845.0	4.0%
Net underwriting income (loss) (excluding MYA)						
Automobile	(14.8)	21.1	(170.1)%	84.7	111.4	(24.0)%
Property	(32.0)	4.7	(780.9)%	(120.7)	(18.7)	(545.5)%
Total	(46.8)	25.8	(281.4)%	(36.0)	92.7	(138.8)%
Market yield adjustment	(30.7)	(13.1)	(17.6)	(32.4)	12.6	(45.0)
Net underwriting income (loss) (including MYA)	(77.5)	12.7	(90.2)	(68.4)	105.3	(173.7)

TABLE 18 – UNDERWRITING RATIOS

	Q4 2008	Q4 2007	Change	2008	2007	Change
Personal auto						
Claims ratio (excluding MYA)	78.5%	72.1%	6.4 pts	71.2%	69.8%	1.4 pts
Expense ratio	24.4%	23.8%	0.6 pts	24.7%	24.7%	0.0 pts
Combined ratio (excluding MYA)	102.9%	95.9%	7.0 pts	95.9%	94.5%	1.4 pts
Personal property						
Claims ratio (excluding MYA)	80.7%	64.7%	16.0 pts	80.2%	68.6%	11.6 pts
Expense ratio	33.4%	33.2%	0.2 pts	33.4%	33.6%	(0.2) pts
Combined ratio (excluding MYA)	114.1%	97.9%	16.2 pts	113.6%	102.2%	11.4 pts
Personal lines – total						
Claims ratio (excluding MYA)	79.2%	69.9%	9.3 pts	73.9%	69.4%	4.5 pts
Expense ratio	27.1%	26.6%	0.5 pts	27.3%	27.3%	0.0 pts
Combined ratio (excluding MYA)	106.3%	96.5%	9.8 pts	101.2%	96.7%	4.5 pts

4.2 Explanation of financial results

Fourth quarter 2008

In personal auto, direct premiums written were down slightly in the fourth quarter as rate increases resulted in a decrease in written insured risks. Underwriting results in personal auto decreased year-over-year due to lower favourable prior year claims development, which normally fluctuates from quarter to quarter, and higher claims severity. Rates in personal auto have been increasing particularly in certain geographic regions to reflect an increase in claims experience.

In personal property, direct premiums written were up 5.2% due to increases in insured amounts and higher rates. Overall, personal property sustained an underwriting loss of \$32.0 million reflecting higher current year claims associated with severe storms in Ontario and Québec in the fourth quarter. We have been increasing direct written rates and enhancing our pricing segmentation to reflect an increase in water-related property claims. In addition, we are adjusting insured values to ensure that higher material costs and labour rates are factored into our premiums and our customers retain adequate coverage.

Full year 2008

In personal auto, direct premiums written were flat in 2008 reflecting the competitive impact of raising rates on unit growth in the near-term, as well as the run-off of a large group agreement in the first half of 2008. The group agreement was large in terms of the number of policies but had a low average premium and margin. In 2008, current accident year results in personal auto were relatively stable, despite severe snow, hail and excessive rain in Central Canada. Personal auto generated underwriting income of \$84.7 million in 2008 versus \$111.4 million in 2007 with a healthy combined ratio of 95.9%.

In personal property, higher average insured amounts and higher rates resulted in a 5.4% increase in direct premiums written. Overall, personal property sustained an underwriting loss of \$120.7 million compared to a loss of \$18.7 million in 2007. 2008 results were negatively affected by higher claims associated with severe snow, hail, rain and wind storms in Central Canada, compared to significantly lower levels of precipitation in the same region over the comparable period of 2007. Actions are being taken to build strength and sustainable advantage in home insurance through claims innovation, segmentation and better management of water losses, which now make up approximately 40% of personal property claims.

Personal lines – written insured risks

(in thousands)



Personal lines – direct premiums written

(in millions)



Personal lines – combined ratio

(excluding MYA, %)



SECTION 5 – Commercial lines

5.1 Financial results

TABLE 19

	Q4 2008	Q4 2007	Change	2008	2007	Change
Written insured risks (thousands)						
Automobile	63.0	62.8	0.3%	263.8	255.8	3.1%
Non-auto	57.0	57.7	(1.2)%	234.0	233.5	0.2%
Total	120.0	120.5	(0.4)%	497.8	489.3	1.7%
Direct premiums written						
Automobile	77.2	81.7	(5.5)%	317.8	321.2	(1.1)%
Non-auto	211.9	211.3	0.3%	817.8	825.3	(0.9)%
Total	289.1	293.0	(1.3)%	1,135.6	1,146.5	(1.0)%
Net premiums earned						
Automobile	80.1	80.7	(0.7)%	318.9	320.2	(0.4)%
Non-auto	190.7	191.1	(0.2)%	761.8	766.9	(0.7)%
Total	270.8	271.8	(0.4)%	1,080.7	1,087.1	(0.6)%
Net underwriting income (excluding MYA)						
Automobile	6.8	0.1	n/a	40.8	20.1	103.0%
Non-auto	51.0	42.2	20.9%	112.2	76.2	47.2%
Total	57.8	42.3	36.6%	153.0	96.3	58.9%
Market yield adjustment	(16.6)	(7.6)	(9.0)	(17.6)	7.2	(24.8)
Net underwriting income (including MYA)	41.2	34.7	6.5	135.4	103.5	31.9

TABLE 20 – UNDERWRITING RATIOS

	Q4 2008	Q4 2007	Change	2008	2007	Change
Commercial auto						
Claims ratio (excluding MYA)	63.9%	72.7%	(8.8) pts	59.9%	66.0%	(6.1) pts
Expense ratio	27.7%	27.2%	0.5 pts	27.3%	27.7%	(0.4) pts
Combined ratio (excluding MYA)	91.6%	99.9%	(8.3) pts	87.2%	93.7%	(6.5) pts
Commercial non-auto						
Claims ratio (excluding MYA)	36.4%	42.0%	(5.6) pts	49.7%	54.5%	(4.8) pts
Expense ratio	36.8%	35.9%	0.9 pts	35.6%	35.6%	0.0 pts
Combined ratio (excluding MYA)	73.2%	77.9%	(4.7) pts	85.3%	90.1%	(4.8) pts
Commercial lines – total						
Claims ratio (excluding MYA)	44.5%	51.1%	(6.6) pts	52.7%	57.9%	(5.2) pts
Expense ratio	34.2%	33.3%	0.9 pts	33.2%	33.2%	0.0 pts
Combined ratio (excluding MYA)	78.7%	84.4%	(5.7) pts	85.9%	91.1%	(5.2) pts

5.2 Explanation of financial results

Fourth quarter 2008

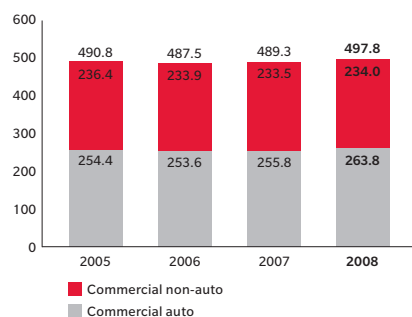
Direct premiums written in commercial lines were down slightly year-over-year reflecting lower average premiums and a small decrease in units. The portfolio continues to shift toward small- and medium-sized commercial accounts which are more profitable. Though the commercial market remained competitive in 2008, our commercial units remained stable as we maintained pricing discipline with only low single-digit rate decreases.

Commercial underwriting income increased by 36.6% year-over-year, with a combined ratio of 78.7% in the fourth quarter. The combined ratio for commercial auto was 91.6% and commercial non-auto was 73.2%, demonstrating strong execution of our targeted strategy in both commercial lines and commitment to maintaining a high-quality portfolio. 2008 results improved slightly year-over-year overall and favourable prior year claims development increased compared to the same quarter last year.

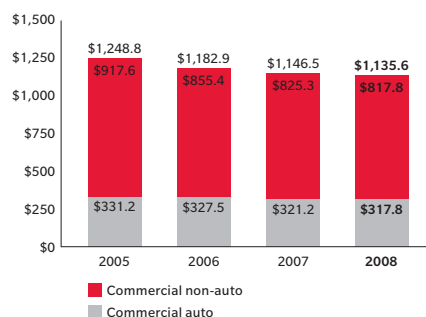
Full year 2008

Direct premiums written in commercial lines were down 1.0% reflecting the dynamics discussed above. In all lines of business, our priority is to price policies appropriately to maintain adequate margins. Underwriting income in commercial lines improved by \$56.7 million in 2008 with an overall combined ratio of 85.9%, notwithstanding \$18.5 million in catastrophe claims associated with seasonal storms in 2008. The increase in commercial underwriting income mainly reflects more favourable prior year claims development.

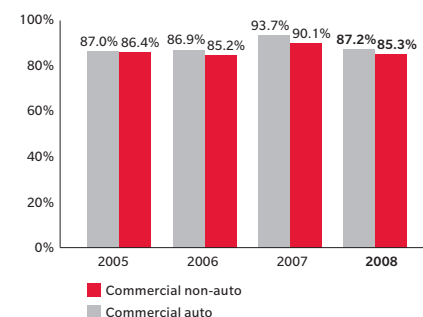
Commercial lines – written insured risks
(in thousands)



Commercial lines – direct premiums written
(in millions)



Commercial lines – combined ratio
(excluding MYA, %)



SECTION 6 – Corporate and distribution

6.1 Financial results

Our corporate and distribution segment primarily includes the results of the Company's affiliated distribution network (Canada Brokerlink, Grey Power and Equisure), and other activities.

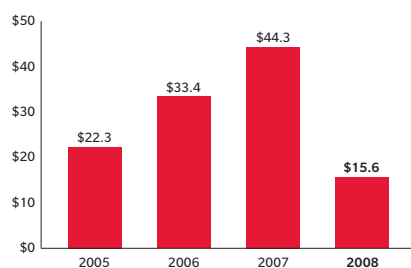
TABLE 21 – CORPORATE AND DISTRIBUTION INCOME

	Q4 2008	Q4 2007	Change	2008	2007	Change
Distribution income	20.5	26.9	(23.8)%	92.4	102.9	(10.2)%
Distribution expenses	19.5	21.4	(8.9)%	79.1	85.3	(7.3)%
Distribution earnings	1.0	5.5	(81.8)%	13.3	17.6	(24.4)%
Corporate income (loss), net	1.0	(3.6)	(127.8)%	2.3	26.7	(91.4)%
Corporate and distribution income before income taxes	2.0	1.9	5.3%	15.6	44.3	(64.8)%

6.2 Explanation of financial results

2008 full year corporate and distribution income decreased by \$28.7 million due to the release of a \$28 million provision in 2007 that was related to a prior year divestiture which became redundant. Distribution results were lower as higher combined ratios negatively impacted the profitability of the distribution network.

Corporate and distribution –
income before income taxes (in millions)



SECTION 7 – Financial condition

7.1 Balance sheet highlights

The table below shows the significant balance sheet items as reported on December 31, 2008 and December 31, 2007.

TABLE 22

	As at	
	December 31, 2008	December 31, 2007
Cash and cash equivalents	510.4	8.1
Invested assets		
Debt securities	3,832.5	3,886.7
Equity securities	2,015.1	3,140.3
Loans and equity investments	261.3	210.8
Total invested assets	6,108.9	7,237.8
Premiums receivable	1,469.4	1,440.8
Deferred acquisition costs and reinsurance assets	606.6	653.1
Income tax receivable	221.0	168.4
Future income tax asset	54.2	68.7
Intangible assets and goodwill	217.8	221.7
Other assets	585.1	591.1
Total assets	9,773.4	10,389.7
Claims liabilities	4,064.9	3,989.0
Unearned premiums	2,366.8	2,333.5
Other liabilities	701.7	862.6
Income taxes payable	7.4	32.5
Total liabilities	7,140.8	7,217.6
Shareholders' equity	2,632.6	3,172.1
Book value per share (dollars)	21.96	25.48

Invested assets and cash and cash equivalents, decreased by \$626.6 million notwithstanding cash flows generated from operations of \$619.7 million. This was mostly due to the decline in common and preferred share values in 2008 compared to 2007 in line with the general market declines in 2008. In addition, the Company paid \$176.0 million toward the NCIB in the first nine months of 2008.

Premiums receivables were higher than prior year, consistent with higher direct premiums written.

Deferred acquisition costs and reinsurance assets were lower in 2008 due to reinsurance assets which decreased due to higher treaty retention which reduced recoverable case reserves.

Income taxes receivable were higher due to the impact of lower investment market values which generated tax loss carry-backs to prior tax years.

Claims liabilities and **unearned premiums** were slightly higher when compared to 2007 due to a greater number of policies in force. Note 6 to the Audited Consolidated Financial Statements provides a reconciliation of the changes in claims liabilities and unearned premiums.

Other liabilities decreased compared to December 31, 2007 mainly due to the decrease in the fair value of the derivatives embedded in the Company's preferred shares, and the decrease in the accruals related to contingent profit commission.

Shareholders' equity was reduced as a result of the increased unrealized loss position included in AOCI as at December 31, 2008 as well as the NCIB that occurred during the year.

7.2 Portfolio of invested assets

The Company's portfolio of invested assets is managed by Intact Investment Management Inc. (formerly known as ING Investment Management, Inc.), which is a wholly-owned subsidiary of the Company. The assets are managed by Intact Investment Management Inc. in accordance with the IIC investment policy.

IIC has an investment policy that seeks to provide an attractive risk-return profile over the medium to long term. The investment policy takes into account the current and expected condition of capital markets, the historic return profiles of various asset classes and the variability of those returns over time, the availability of assets, diversification needs and benefits, regulatory capital required to support the various asset types, security ratings and other material variables likely to affect the overall performance of the Company's portfolio of invested assets. The overall risk profile of the portfolio is designed to balance the investment portfolio return needed to satisfy the Company's liabilities while optimizing the investment opportunities available in the marketplace. Management monitors and enforces compliance with the investment policy.

Mix of investment portfolio

TABLE 23

	As at December 31, 2008		As at December 31, 2007	
	FV	% of FV	FV	% of FV
Cash and cash equivalents	510.4	7.7%	8.1	0.1%
Short-term notes	293.8	4.4%	18.9	0.3%
Fixed income securities	3,538.7	53.2%	3,867.8	53.4%
Preferred shares	1,220.1	18.4%	1,430.8	19.7%
Common shares	795.0	12.0%	1,709.5	23.6%
Loans to brokers	271.5	4.1%	188.2	2.6%
Equity investments	19.0	0.2%	22.6	0.3%
Total invested assets and cash	6,648.5	100.0%	7,245.9	100.0%

The majority of the Company's portfolio is invested in high-quality Canadian securities that are actively traded. The fair value for most invested assets is based on quoted bid prices. In cases where an active market does not exist, the estimated fair values are based on recent transactions or current market prices for similar securities. In 2008, the value of invested assets declined reflecting the significant declines in capital markets during the year.

Fixed income securities

The Company invests in highly-rated fixed income securities mainly including corporate bonds and government bonds. The fixed income portfolio is mostly Canadian with 18.4% foreign content. Approximately 97% of the fixed income portfolio is rated 'A' or better. The Company did not have any direct investments in asset-backed commercial paper, collateralized debt obligations, hedge funds, monolines or U.S. mortgage loans as at the end of 2008. The Company had no exposure to leveraged capital notes in structured investment vehicles, directly or through the use of derivatives as at December 31, 2008 (December 2007 – \$19.8 million). The Company has \$285.0 million in asset-backed securities including mostly Canadian credit card loans and commercial mortgage-backed securities.

Common shares

Common equity exposure is focused primarily on high dividend-paying Canadian equities. The Company seeks enhanced returns by identifying and investing in shares that are likely to pay increased dividends or pay special dividends. Management undertakes intensive analysis of investment opportunities to identify special dividend candidates. Similar evaluations are conducted to assess securities most likely to increase dividends. In addition, the equity portfolios are actively managed to achieve additional dividend payments to maximize dividend income throughout the year.

Preferred shares

The Company's investment portfolio includes a large percentage of preferred shares to achieve its objective of maximizing dividend income, which is generally deductible in the calculation of taxable income. The preferred share portfolio is not actively managed and preferred shares are generally held until they are called. Consequently, the Company's net income is impacted only when preferred shares are impaired, or when the shares are called or sold. The preferred share portfolio is comprised entirely of Canadian securities with a significant portion of the portfolio invested in securities top-rated at either P1 or P2.

Derivatives

The Company uses derivative financial instruments for hedging purposes and to modify the risk profile of the portfolio of invested assets as long as the resulting exposures are within investment policy guidelines.

Cash and cash equivalents

In the latter half of 2008, to reduce exposure to volatile capital markets, the Company altered its asset-mix and strengthened the balance sheet by reinvesting the proceeds from the sale of common shares and interest and dividend income in Canada Treasury bills which by year end totalled \$776.9 million, of which \$483.1 million mature in less than 90 days and are included in cash and cash equivalents.

Credit ratings

As at December 31, 2008, the weighted average rating of the Company's fixed income portfolio was AA+ and the weighted average rating of its preferred share portfolio was P2, equivalent to a rating of BBB+ (ratings are by Standard & Poor's ("S&P") or Dominion Bond Rating Services). Approximately \$1.0 million of securities with a rating below investment grade were included in the fixed income and preferred share portfolios at December 31, 2008, compared to \$38.3 million as at December 31, 2007.

Sector exposures

The following shows the Company's total exposure to the largest industrial sectors.

TABLE 24

	As at December 31, 2008		As at December 31, 2007	
	FV	% of FV	FV	% of FV
Banks, insurance and diversified financial services	2,631.4	42.8%	2,873.4	39.7%
Government	2,452.5	40.0%	1,727.6	23.9%
Utilities	206.9	3.4%	472.8	6.5%
Other	847.3	13.8%	2,164.0	29.9%
Total invested assets	6,138.1	100.0%	7,237.8	100.0%

Sector exposures

(% of fair value)



■ Banks, insurance and diversified financial services	42.8%
■ Government	40.0%
■ Utilities	3.4%
■ Other	13.8%

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

The Company has higher exposure to banks, insurance companies and diversified financial services companies than its benchmark of P&C insurers reflecting IIC's strategy to maximize non-taxable dividend income through investments in preferred shares and active management of its common share portfolio. Though the Company's preferred share strategy continued to generate significant incremental dividend income in 2008, the continued widening of credit spreads in the year and the significant increase in the number of preferred issues towards the end of 2008 resulted in declines in the fair value of the preferred share portfolio.

Sector exposures by asset class

The following table shows sector exposures by asset class as a percentage of total cash and invested assets as at December 31, 2008.

TABLE 25

	Bonds and short positions	Preferred shares	Common shares	Total	S&P/TSX Weighting
Energy	2%	3%	21%	5%	27.4%
Materials	-	-	4%	-	17.6%
Industrials	2%	-	5%	2%	6.1%
Technology	-	-	-	-	3.3%
Telecom	1%	7%	11%	3%	6.0%
Consumer Disc.	1%	2%	10%	2%	4.7%
Staples	-	2%	4%	1%	3.4%
Healthcare	-	-	3%	0%	0.4%
Financial	23%	80%	36%	36%	29.2%
Utilities	3%	6%	6%	4%	1.9%
Government	68%	n/a	n/a	47%	n/a
Total	100%	100%	100%	100%	100%

Investment portfolio credit quality

The following table includes the credit quality of the fixed income portfolio as at December 31, 2008 and 2007.

TABLE 26

	As at December 31, 2008		As at December 31, 2007	
	FV	% of FV	FV	% of FV
Fixed income securities				
AAA	2,101.9	59.4%	2,025.8	52.4%
AA	583.3	16.5%	821.7	21.2%
A	751.1	21.2%	851.9	22.0%
BBB	102.4	2.9%	148.7	3.8%
BB	-	-	5.8	0.2%
<B	-	-	10.9	0.3%
Not rated	-	-	3.0	0.1%
Total	3,538.7	100.0%	3,867.8	100.0%

The following table includes the credit quality of the preferred share portfolio as at December 31, 2008 and 2007.

TABLE 27

	As at December 31, 2008		As at December 31, 2007	
	FV	% of FV	FV	% of FV
Preferred shares				
P1	795.0	65.2%	778.2	54.4%
P2	293.2	24.0%	456.5	31.9%
P3	130.9	10.7%	177.5	12.4%
P5	1.0	0.1%	4.2	0.3%
Not rated	-	-	8.2	0.6%
D	-	-	6.2	0.4%
Total	1,220.1	100.0%	1,430.8	100.0%

Credit quality of fixed income securities
(% of fair value)



■ AAA	59.4%
■ AA	16.5%
■ A	21.2%
■ BBB	2.9%

Credit quality of preferred shares
(% of fair value)



■ P1	65.2%
■ P2	24.0%
■ P3	10.7%
■ P5	0.1%

7.3 Claims liabilities

Assessing claims reserve adequacy

Effectively assessing claims reserve adequacy is a critical skill required to effectively manage any property and casualty insurance business and a strong determinant of the long-term viability of the organization. The objective of the claims reserve is to make a best estimate of the future total cost of incurred claims, which are a liability to the Company. The total claims reserve is made up of two main elements: 1) case reserves and 2) claims that are incurred but not reported ("IBNR"). IBNR reserves supplement the case reserves by taking into account:

- possible claims that have been incurred but not yet reported to the Company by policyholders;
- expected over/under estimation in case reserves based on historical patterns; and,
- other adjustment expenses not included in the initial case reserve.

Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account a provision for adverse deviation ("PfAD") and a discount for the time value of money (see "Market yield adjustment" on page 14). The discount is applied to the total claims reserve and adjusted on a regular basis based on changes in market yields. If market yields rise, the discount would increase and reduce total claims liabilities and therefore, positively impact underwriting income in that period, all else being equal. If market yields decline, it would have the opposite effect. IBNR and the PfAD are reviewed and adjusted periodically.

Historically, IIC's claims liabilities have had a 3% – 4% percent redundancy per year. This is commonly referred to as favourable prior year claims development. The rate of favourable prior year claims development was unusually high in 2005 and 2006 and does not represent a normal or expected level of reserve redundancy in a typical year.

The following table shows the development of claims liabilities for the 10 most recent accident years, with subsequent developments during the periods. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims as well as on current estimates of claims liabilities for claims still open or claims still unreported.

TABLE 28 – DEVELOPMENT OF CLAIMS LIABILITIES

		Accident year									
	Total	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998 & earlier
Original reserve											
Including MYA		1,282.2	1,178.0	1,118.8	1,117.7	973.2	838.6	729.0	655.5	587.0	1,400.3
Excluding MYA		1,288.4	1,173.3	1,118.8	1,117.7	973.2	838.6	729.0	655.5	587.0	1,400.3
(Favourable) unfavourable development during Q4 2008											
Including MYA	(19.3)	(8.1)	5.7	(0.8)	(1.6)	(15.5)	1.2	0.1	0.2	(0.1)	(0.5)
Excluding MYA	(52.2)	(17.9)	(1.5)	(5.6)	(4.9)	(18.3)	(0.4)	(0.9)	(0.5)	(0.5)	(1.7)
(Favourable) unfavourable development during YTD 2008											
Including MYA	(113.9)	10.7	(28.4)	(27.5)	(20.6)	(21.4)	(9.6)	(7.8)	(3.3)	(4.3)	(1.7)
Excluding MYA	(148.9)	0.3	(36.1)	(32.6)	(24.2)	(24.3)	(11.4)	(8.9)	(4.0)	(4.7)	(3.0)
Cumulative development											
Including MYA		10.7	(37.7)	(120.6)	(247.8)	(200.7)	(28.0)	32.5	31.4	32.7	(101.3)
As a % of original reserve		0.8%	(3.2)%	(10.8)%	(22.2)%	(20.6)%	(3.3)%	4.5%	4.8%	5.6%	(7.2)%

7.4 Reinsurance

At December 31, 2008, the Company had reinsurance treaties with a number of unaffiliated reinsurance companies substantially all of which meet the Company's financial strength rating requirements. Most of the Company's reinsured claims are ceded to these unaffiliated reinsurers with the exception of 11.0% which is ceded to ING Re.

IIC's goals related to ceded reinsurance are:

- 1) capital protection;
- 2) reduction of the results' volatility;
- 3) increase of underwriting capacity;
- 4) access to the expertise of reinsurers.

The reinsurers chosen to participate in the program have a minimum rating of A- from A.M. Best. The S&P's rating and the financial analysis performed by the Company's specialized reinsurance brokers are also considered. The treaties have a security review clause allowing the Company to change a reinsurer during the term of the agreement if its rating falls below the minimum required. Diversification of reinsurers is analyzed and implemented to avoid excessive concentration in a specific reinsurance group.

The placement of ceded reinsurance is done almost exclusively on an excess of loss basis (per event or per risk) as per practice, actuarial norms and regulatory guidelines. Under such programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes significant insurance risk related to the underlying reinsured policies and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance. A measure of transfer of risk is the variability of the potential negative impact of the reinsured losses on the reinsurer's underwriting results. Furthermore, the reinsurance treaties call for timely reimbursement of ceded losses.

For single risk events, net retention for property and liability for both 2008 and 2007 was generally \$5.0 million and \$7.0 million, respectively. In a number of cases, like special classes of business or types of risks, the retention would be lower through specific treaties or the use of facultative reinsurance. In 2008 and 2007, for multi-risk events or catastrophes, retention is \$25.0 million with a reinsurance coverage limit of \$1,250.0 million. For 2008, the Company retains overall 10% of the exposure between \$25.0 million and \$860.0 million. For 2007, the Company retained overall 10% of the exposure between \$25.0 million and \$750.0 million.

Reinsurance coverage is spread across many reinsurers to minimize risk to the Company in the event of a very large loss. A single catastrophic event such as an earthquake could be devastating to a reinsurer, so distribution of risk is a key reinsurance strategy for IIC.

Following industry practice, the Company's reinsurance recoverables with licensed Canadian reinsurers (December 31, 2008: \$175.4 million; December 31, 2007: \$215.3 million) are generally unsecured because Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer's subordinated creditors. Reinsurance recoverables with non-licensed reinsurers are secured with cash, letters of credit and/or assets held in trust accounts.

Reinsurance provided by ING-affiliated reinsurance companies

A related entity of ING Groep currently participates in IIC's reinsurance program. As a result of ING Groep's sale of IIC shares, the reinsurance provided by the ING-affiliated company will be placed with another provider. The existing reinsurance arrangements will continue for a transition period not expected to exceed 12 months, during which time IIC will implement a new reinsurance program. IIC does not anticipate a substantial change in the policy terms or costs going forward.

7.5 Shareholders' equity

Share capital

As at March 20, 2009, there were 119,906,566 common shares outstanding. Refer to the Company's Annual Information Form for more detailed information on the rights of common shareholders.

Shareholders' equity was reduced as a result of the normal course issuer bid share buyback during the year. The total consideration paid for the repurchase was \$176.0 million including fees. An amount of \$40.4 million was deducted from share capital and the remainder of \$135.6 million from retained earnings. The statements of changes in shareholders' equity provide a complete reconciliation of the changes that occurred during the year. There were 119,906,566 outstanding common shares on December 31, 2008.

Under the Company's long-term incentive plan ("LTIP"), certain employees were awarded performance units as part of their compensation. At the end of the performance cycle, the performance units will ultimately be converted to a certain number of restricted common shares determined by the Company's three-year average return on equity compared to the Canadian P&C industry average. In May 2008, the Company completed the award of pre-tax common shares, as required under the Plan for the three-year performance cycle of 2005-2007. For the current ongoing cycles, the total estimate is 306,864 common shares as at December 31, 2008. The LTIP expense is charged to contributed surplus.

Accumulated other comprehensive income (loss)

AOCI reflects the unrealized gains or losses related to available-for-sale assets.

TABLE 29

	December 31, 2008		
	Pre-tax	Taxes	After-tax
Opening AOCI balance on January 1, 2008	(176.3)	58.0	(118.3)
Changes in fair values during the period	(801.2)	236.0	(565.2)
Realized losses (gains) reclassified to income during the period	344.6	(107.2)	237.4
AOCI as at December 31, 2008	(632.9)	186.8	(446.1)

Unrealized losses on available-for-sale assets were \$176.3 million on January 1, 2008. During the year, the Company sold available-for-sale assets resulting in pre-tax realized net losses of \$344.6 million. These were transferred to net gains (losses) on invested assets and other gains in the income statement. Available-for-sale assets lost value during the year due to unfavourable capital market conditions, representing a pre-tax reduction of \$801.2 million in AOCI.

7.6 Liquidity and capital resources

Cash management

TABLE 30 – CASH FLOWS AND LIQUIDITIES

	Q4 2008	Q4 2007	Change	2008	2007	Change
Selected inflows and (outflows)						
Operating activities:						
Cash provided by operating activities	230.5	216.5	6.5%	619.7	620.3	(0.1)%
Investing activities:						
Proceeds from the sale of invested assets, net of (purchases)	261.5	(146.2)	(278.9)%	263.7	(42.7)	(717.6)%
Financing activities:						
Dividends paid	(37.2)	(33.6)	10.7%	(151.0)	(136.9)	10.3%
Common shares repurchased for cancellation	-	-	-	(176.0)	(501.2)	(64.9)%
Net cash and cash equivalents at the end of the period	510.4	8.1	n/a	510.4	8.1	n/a

The Company's cash flows from operations remain solid at \$230.5 million in the quarter and \$619.7 million for the year. The impairments taken in the fourth quarter had no impact on cash flows or liquidity. In the fourth quarter, cash provided from operating activities and from the sale of invested assets were held in short-term government debt securities, after allowing for the quarterly dividend. For the full year, cash was used to pay dividends and fund the NCIB with the balance kept in short-term securities.

Capital management

The Company's ability to use its cash reserves is limited by the minimum capital test ("MCT") required by the Office of the Superintendent of Financial Institutions ("OSFI") (150%). The Company's year-end MCT level was strong at 205% despite reflecting the significant decline in fair values in the fourth quarter, impairments of common shares and lower profitability. The sale of equities during the quarter substantially reduced the amount of capital required, reflected in the 5.1 point increase in the MCT ratio compared to the end of the third quarter of 2008. In addition, net capital injections into the P&C insurance companies of \$62.0 million contributed to the strong MCT level at year end.

The Company had approximately \$357.5 million in excess capital in its insurance subsidiaries on December 31, 2008 based on an MCT of 170% and liquid assets of \$70.0 million available at the holding company for a total excess capital of \$427.5 million at the end of December 2008. The Company had no debt on its books at year end.

The Company's significant excess capital could be used to: 1) support organic growth and/or growth through acquisitions as part of the Company's market consolidation strategy; 2) buy back shares in the future; or, 3) increase dividends.

The following table presents the minimum capital test of the Company's insurance subsidiaries with a total for all companies.

TABLE 31 – MINIMUM CAPITAL TEST

MCT – P&C Insurance Companies

	Intact Insurance	Belair Insurance	Nordic Insurance	Novex Insurance	Trafalgar Insurance	Total
At December 31, 2008						
Total capital available	867.5	186.1	673.3	196.3	173.3	2,096.5
Total capital required	454.0	84.2	359.4	66.5	58.9	1,023.0
Excess capital	413.5	101.9	314.0	129.8	114.4	1,073.6
MCT %	191.1%	221.1%	187.4%	295.2%	294.1%	205.0%
Excess at 150%	186.5	59.8	134.3	96.5	84.9	562.0
At December 31, 2007						
Total capital available	940.4	196.0	814.1	159.2	140.7	2,250.4
Total capital required	525.0	96.7	439.9	72.4	63.7	1,197.7
Excess capital	415.4	99.3	374.2	86.8	77.0	1,052.7
MCT %	179.1%	202.8%	185.0%	219.8%	220.9%	187.9%
Excess at 150%	152.8	51.0	154.1	50.6	45.2	453.7

On February 20, 2008, the Board of Directors increased the Company's quarterly dividend by \$0.04 to \$0.31, a 14.8% increase. A quarterly cash dividend of \$0.31 per common share was paid on March 31, 2008, June 30, 2008, September 30, 2008, and December 31, 2008.

MCT sensitivity

The MCT is impacted by many factors including changes in the 1) market value of the Company's invested assets; 2) mix of invested assets; and 3) combined ratio.

Based on the Company's MCT of 205% at year end, a 10% increase or decrease in the market value of IIC's portfolio of common shares would result in a 2.8 percentage point respective increase or decrease in the MCT, all else being equal. Similarly, a 10% increase or decrease in the market value of IIC's preferred share portfolio would have a 6.6 percentage point respective increase or decrease in the MCT, all else being equal.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

Credit ratings

ING Canada Inc. has a long-term issuer rating with Moody's Investors Services of A3 and the Company's five principal operating insurance subsidiaries are rated Aa3 for insurance financial strength (IFS). These ratings were affirmed on February 6, 2009.

ING Canada Group has an A+ (Superior) rating from A.M. Best, which was commented on by A.M. Best on February 4, 2009 as remaining unchanged following the disposal by ING Groep of their shareholding in ING Canada Inc. Although the Company does not have any senior unsecured debt, DBRS has assigned a rating of A (low).

Financing

The nature, size and timing of any financings will depend on the Company's assessment of its credit requirements and general market conditions. In 2007, ING Canada Inc. filed a preliminary short form base shelf prospectus for the issuance of debt, preferred or common share securities up to an aggregate of \$1 billion. If any securities covered by the base shelf prospectus are offered for sale, a prospectus supplement containing specific information about the terms of these securities will be provided.

Effective December 31, 2008, the Company obtained an unsecured, committed credit facility of \$150 million in replacement of the previous uncommitted credit facility of \$100 million. The credit facility was untapped at year end.

7.7 Contractual obligations

TABLE 32

	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Claims liabilities	4,064.9	1,337.3	1,325.2	727.6	674.8
Operating leases	363.4	59.6	95.9	78.6	129.3
Pension obligations ⁽¹⁾	20.8	3.7	5.4	3.1	8.6
Other long-term obligations	79.1	25.6	25.0	13.9	14.6
Total contractual obligations	4,528.2	1,426.2	1,451.5	823.2	827.3

(1) The amounts above are related to the current pension deficit based on a past actuarial valuation.

7.8 Off-balance sheet arrangement

The Company participates in a securities lending program managed by the Company's custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. Government securities with an estimated fair value of 105% of the fair value of the securities loaned are received as collateral from the Canadian financial institution.

8.1 Disclosure controls and procedures

IIC is committed to providing timely, accurate and balanced disclosure of all material information about the Company and to providing fair and equal access to such information. The Company's management is responsible for establishing and maintaining the Company's disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Company have been detected. The Company continues to evolve and enhance its system of controls and procedures.

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has evaluated the effectiveness of the Company's disclosure controls and procedures. The evaluation was conducted in accordance with the requirements of National Instrument 52-109 of the Canadian Securities Administrators. This evaluation confirmed, subject to the inherent limitations noted above, the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2008. The Company's management can therefore provide reasonable assurance that material information relating to the Company and its subsidiaries is reported to it on a timely basis so that it may provide investors with complete and reliable information.

8.2 Internal controls over financial reporting

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, has designed and is responsible for maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP and the requirements of National Instrument 52-109 of the Canadian Securities Administrators.

Management, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company, assessed the effectiveness of internal controls over financial reporting and, based on that assessment, concluded that internal controls over financial reporting were effective as at December 31, 2008. There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

8.3 Critical accounting estimates and assumptions

Our significant accounting policies are disclosed in Note 2 to the Company's Audited Consolidated Annual Financial Statements. The preparation of the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements. These estimates and assumptions principally relate to the establishment of the fair value of financial instruments, impairment losses, policy liabilities, income taxes, employee future benefits, stock-based compensation, goodwill and intangibles. As more information becomes known, these estimates and assumptions could change and impact future results. The most significant estimates and assumptions management makes in preparing the Company's financial statements are described below. There were no significant changes made to the Company's assumptions over the past two years, except for the fair value of financial instruments, as disclosed below.

Fair value of financial instruments

When they are initially recognized, all financial assets and liabilities, including derivative financial instruments are recorded at fair value in the consolidated balance sheet. In subsequent periods, they are measured at fair value, except for items that are classified as loans, which are measured at amortized cost. A more complete description of the accounting treatment for financial instruments is presented in Note 2 to the Audited Consolidated Annual Financial Statements.

The fair value of a financial instrument is the transaction price, the amount at which a financial instrument could be exchanged, in an arm's length transaction, between knowledgeable, willing parties who are under no compulsion to act. The existence of published price quotations in an active market is the best evidence of fair value and, when they exist, management uses them to measure the financial instruments. A financial instrument is regarded as quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's length basis. The fair value of a financial asset traded in an active market generally reflects the bid price and, that of a financial liability traded in an active market, the asking price.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

If a financial instrument's market is not active, its fair value is established using valuation techniques that make maximum use of prevailing market rates for instruments with similar characteristics and risk profiles. These valuation techniques include using available information concerning recent market transactions, discounted cash flow analysis, valuation models, and other valuation methods commonly used by market participants where it has been demonstrated that the technique provides reliable estimates.

In cases where the fair value is established using valuation models, management makes assumptions about the amount, the timing of estimated future cash flows and the discount rates used. In determining those assumptions, the external readily observable market inputs are primarily looked at, including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable. In limited circumstances, the Company uses input parameters that are not based on observable market data with an adjustment to reflect the uncertainty and to ensure that financial instruments are reported at fair values. Based on management's assessment, using possible alternative assumptions will not result in significantly different fair values. Liquidity adjustments are calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market. Liquidity adjustments are also calculated to reflect the cost of unwinding a larger than normal market size risk position.

Establishing fair value is a critical accounting estimate and has an impact on held-for-trading securities, available-for-sale financial assets and liabilities and loans and receivables in the consolidated financial statements. This estimate also has an impact on *Interest income* and *Net (losses) gains on invested assets and other gains* in the consolidated statement of income and *Other comprehensive income* in the consolidated statement of comprehensive income.

Impairment losses

Financial assets other than held-for-trading are assessed for impairment at each balance sheet date. Impairment exists when there is objective evidence of an other-than-temporarily ("OTT") decline in fair value below cost.

The Company assesses impairment, as follows: for common shares, a quantitative assessment is made to identify shares which have had a significant or prolonged decline in fair value. Management then applies judgment based on each issuer's financial condition to determine whether objective evidence of impairment exists. Debt securities and preferred shares are considered to be impaired when there is evidence which suggests that the issuer will fail to make the contractual interest or principal payments due under the terms of the instrument. Possible indicators of this include significant financial difficulty, a downgrade in credit rating or bankruptcy and financial reorganization.

Members of the Company's investment and accounting departments meet quarterly to assess impairments. Management assesses which of these securities are OTT impaired. Any impairment is recognized when the assessment concludes that there is objective evidence of impairment. Each quarter, any security with an unrealized loss that is determined to have been OTT impaired is written down to its expected recoverable amount, with the amount of the write-down reflected in the Company's statement of income for that quarter. Previously impaired securities continue to be monitored quarterly, with additional write-downs taken quarterly, if necessary. There are inherent risks and uncertainties involved in making these judgments.

Policy liabilities

Policy liabilities consist of provisions for claims liabilities and premium liabilities, net of reinsurance. The provision for policy liabilities is discounted to take into account the time value of money. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. The appointed actuary of the Company's P&C insurance subsidiaries, using appropriate actuarial techniques, evaluates the adequacy of its claims liabilities.

Claims liabilities are maintained to cover the Company's estimated ultimate amount to settle 1) insured losses with respect to reported and unreported claims incurred as of the end of each accounting period and 2) claims expenses. The provision for claims liabilities is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also considers future possible development of claims. Such reserves do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. The estimates used are related to 1) expectations of the ultimate cost of settlement and administration of claims based on management's assessment of facts and circumstances then known; 2) its review of historical settlement patterns; 3) estimates of trends in claims severity and frequency; 4) legal theories of liability and other factors.

Net claims liabilities are discounted using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate. Accordingly, the Company improved the calculation of the market yield estimate in the fourth quarter to better match the varied duration of liabilities. The calculation previously used a blended rate for all durations which proved inappropriate under current economic conditions.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. Reserve estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of income of the period in which such estimates are updated. See table 6.7 in the Audited Consolidated Annual Financial Statements.

Premium liabilities are considered adequate when the unearned premiums reserve (after deducting any deferred acquisition cost asset) is at least equal to the present value, at the balance sheet date, of cash flows of the claims, expenses and taxes to be incurred after that date on account of the policies in force at that date or at an earlier date. Deferred acquisition costs comprise commissions, premium taxes and expenses directly related to the acquisition of premiums. They are deferred to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims, expenses and invested assets income in respect of these premiums. Deferred acquisition costs are amortized on the same basis as the premiums are recognized in income.

A premium deficiency would be recognized immediately by a charge to the statement of income as a reduction of deferred acquisition costs to the extent that the unearned premiums reserve, plus anticipated invested assets income, is not adequate to recover all deferred acquisition costs and related claims and expenses. If the premium deficiency was greater than unamortized deferred acquisition costs, a liability would be accrued for the excess deficiency.

Reinsurance recoverables include amounts for expected recoveries related to claims liabilities as well as the portion of the reinsurance premium which has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claims liabilities and are reported in the Company's consolidated balance sheet. The ceding of insurance does not discharge the Company's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income taxes

Management exercises judgment in estimating the provision for income taxes. The Company is subject to income tax laws in various jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

The income tax expense is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting book values of assets and liabilities and their respective tax bases. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not.

Employee future benefits

We sponsor a number of defined benefits and defined contribution plans providing pension and other benefits to eligible employees after retirement. The pension plans provide benefits based on years of service, contributions and average earnings at retirement. Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality and termination rates. All assumptions are determined by management and are reviewed annually by the actuaries. The discount rate assumption used in determining pension and other post employment benefit obligations and net benefit expense reflects the market yields, as of the measurement date on high-quality debt instruments with cash flows that match expected benefit payments. The expected return on plan assets assumption is based on expected returns for the various asset classes by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered reflecting expected future inflation and expected real yields on fixed income securities and equities. Other assumptions are based on actual plan experience and our best estimates.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

The table below summarizes some key pension and other employee benefits data as at December 31, 2008 and 2007.

TABLE 33

	Pension plans		Post retirement benefits	
	2008	2007	2008	2007
Benefit obligation	(448.7)	(553.2)	(15.3)	(15.8)
Fair value of plan assets	459.7	586.4	-	-
Surplus (deficit)	11.0	33.2	(15.3)	(15.8)
Unrecognized amounts:				
Actuarial gains	97.9	84.3	3.5	4.1
Past service costs	2.6	3.1	(4.7)	(5.1)
Transition (asset) obligation	(31.6)	(42.1)	0.7	0.8
Valuation allowance	(0.8)	(1.2)	-	-
Current expense	12.4	9.8	0.7	0.7

For accounting purposes, at the end of 2008, the Company's pension plans were in a surplus position of \$11.0 million compared to a surplus of \$33.2 million last year. The change is due essentially to the negative returns on the plan assets which were not entirely offset by gains on the liabilities due to increased discount rates. Actuarial valuations of the plans based on plan assets and membership information as at December 31, 2008 will be performed during 2009 and may or may not result in mandatory funding requirements depending on which legislative changes are finally adopted. Our best estimate of annual mandatory funding, if any, is in the range of 1% and 3% of total assets, payable over five to 10 years.

TABLE 34 - IMPACT OF CHANGES IN KEY ASSUMPTIONS ON PENSION AND POST RETIREMENT BENEFITS OBLIGATION

	Obligation	
	Pension plans	Post retirement benefits
Impact of a change in 1% in key assumptions:		
Discount rate:		
Increase	(74.7)	(1.5)
Decrease	89.9	1.6
Rate of compensation increase:		
Increase	25.5	n/a
Decrease	(24.0)	n/a

Please refer to Note 11 to the Company's Audited Consolidated Annual Financial Statements for more details on the Company's pension plans and other post retirement benefits.

Stock-based compensation

Stock option awards to non-employees, direct awards of stock, awards that call for settlement in cash or other assets or stock appreciation right awards to employees are measured based on the fair value of the options at the grant date and a compensation expense is recognized over the related vesting period, or the period between the grant date to the date the employee becomes eligible to retire if shorter, with a corresponding increase in contributed surplus for those awards granted to employees and to liabilities for directors.

Goodwill and intangibles

Under GAAP, goodwill is not amortized but is tested annually for impairment of value on a reporting unit basis. Management's judgment is required to identify reporting units with similar economic characteristics and to select an appropriate valuation model. In the P&C insurance industry and the P&C insurance brokerage industry, it is common for companies to be acquired at a multiple of revenue or book value, adjusted for net assets other than intangibles. A range of values used to evaluate the multiple is developed using discounted cash flow valuation techniques. The models used reflect several management assumptions such as the growth rates, and expected returns. Consideration is also given to economic conditions, and general outlook for the industry and markets in

which the reporting unit operates. When establishing these assumptions, management adopts a very conservative approach. When the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. When the carrying value of the reporting unit exceeds its fair value, the fair value of the goodwill is compared with its carrying value to determine the amount of impairment, if any. When the carrying value of goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in the consolidated statements of income in an amount equal to the excess. The Company performed its impairment test of goodwill for years ended December 31, 2008 and 2007 and no impairment was identified. An intangible asset is recognized separately from goodwill when it results from contractual or other legal rights or when it is capable of being separated from the acquired enterprise and sold, transferred, licensed, rented, or exchanged. Finite life intangible assets are amortized to the consolidated statements of income over their useful lives whereas infinite life intangible assets are not subject to amortization.

8.4 Impact of new accounting standards

Financial instruments and capital

Effective January 1, 2008, the Company applied the new Canadian Institute of Chartered Accountants' ("CICA") Handbook Sections 3862 *Financial Instruments – Disclosure*, 3863 *Financial Instruments – Presentation* and 1535 *Capital Disclosures* revising and enhancing disclosure requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks and require the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

8.5 Future accounting changes not yet applied

Goodwill and intangibles

Effective January 1, 2009, the Company began applying the recommendations of the CICA of Section 3064 *Goodwill and Intangible Assets*. This Section replaces Section 3062 *Goodwill and Other Intangible Assets*, and Section 3450 *Research and Development Costs*, which establish standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IAS 38, *Intangible Assets*, of International Financial Reporting Standards ("IFRS"). The Company is currently analyzing the impact this change will have on its consolidated financial statements; however, the Company does not expect it to be significant.

International financial reporting standards

The Canadian Accounting Standards Board ("AcSB") has confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises.

In order to prepare for the conversion to IFRS, the Company is developing an IFRS changeover plan. This plan will address key elements of the Company's conversion to IFRS including:

- Accounting policy changes
- Information technology and data systems impacts
- Education and training requirements
- Internal control over financial reporting
- Financial reporting requirements
- Impacts on business activities, and
- Actuarial and regulatory implications

The Company has established a cross-functional IFRS team that will be providing training to key employees. The plan highlights the need to identify key accounting policy changes as the first step in the conversion process. Once these changes have been identified, other elements of the plan will be addressed. In order to facilitate this identification process, the plan will provide for education and training to be provided to selected employees involved in the transition.

As implications of the conversion are identified, information technology and data systems impacts will be assessed. Similarly, impacts on business activities will be assessed as differences are identified between the Company's current accounting policies and IFRS.

SECTION 9 – Risk management

9.1 Risk management principles and responsibilities

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. In order to make sound decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that company management has put appropriate risk management programs in place. The Board, directly and in particular through its Audit and Risk Review Committee (“Audit Committee”), oversees the Company’s risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the risk management department, Chief Risk Officer, internal auditors and the independent auditors. A summary of the risks the Company is exposed to and the processes for managing them are outlined below.

Please refer to the Company’s 2008 Annual Information Form for more information on the Company’s risks and risk management strategies.

Product design and pricing risk

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

New products are reviewed by senior management and 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 and/or the various options offered by the reinsurance market are utilized.

Underwriting risk

Underwriting risk is the risk of financial loss resulting from the selection of risks to be insured and management of contract clauses. Unfavourable results in these areas can lead to deviations from the estimates based on the actuarial assumptions.

The Company has adopted policies which specify the Company’s retention limits and risk tolerance. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

Insolvency risk

Insolvency risk is the risk that the Company will not be able to meet the demands of future claims as they arise. The regulatory authorities closely monitor the solvency of insurance companies by requiring them to comply with strict solvency standards based on the risk assumed by each company with respect to asset composition, liability composition, and the matching between these two components. The Company is required to submit regular reports to the regulatory authorities regarding its solvency, and publish its solvency ratio every quarter.

The minimum solvency ratio targeted by the Company is 160.0%, which is much higher than the regulatory MCT requirement of 150.0%. To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary must present an annual report to the Audit Committee and management on the Company’s current and future solvency. This report indicates a number of mitigating measures.

Reinsurance risk

Even though the Company relies on reinsurance to manage the underwriting risk, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers.

The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers.

Interest rate and equity market fluctuations

Movements in short-term and long-term interest rates, as well as fluctuations in the value of equity securities, affect the level and timing of recognition of gains and losses on securities the Company holds, and cause changes in realized and unrealized gains and losses. Generally, the Company's interest and dividend income will be reduced during sustained periods of lower interest rates and will likely result in unrealized gains in the value of fixed income securities the Company continues to hold, as well as realized gains to the extent the relevant securities are sold. During periods of rising interest rates, the market value of the Company's existing fixed income securities will generally decrease and its realized gains on fixed income securities will likely be reduced or result in realized losses. General economic conditions, political conditions and many other factors can also adversely affect the stock markets and, consequently, the value of the equity securities the Company owns.

To mitigate these risks, the Company establishes an investment policy which is approved by the investment committee. The policy sets forth limits for each type of investment and compliance with the policy is closely monitored. The Company manages market risk through asset class diversification and in some cases, the use of total return swaps whereby the return of a basket of securities is sold in exchange for interest receipts.

Impact of changes in interest rates

For our available-for-sale debt or preferred securities a 100 basis point increase in interest rates would increase income before income taxes by approximately \$3.6 million. A 100 basis point increase would also decrease OCI by approximately \$163.4 million. Conversely, a 100 basis point decrease in interest rates would lower income before income taxes and increase OCI by the same amounts, respectively.

Impact of changes in equity prices

As at December 31, 2008, management estimates that a 10.0% increase in equity markets would have no impact on income before income taxes and increase OCI by \$52.2 million. Excluding the impact of any impairments, a 10.0% decrease in equity prices would have the corresponding opposite effect.

Key assumptions

The analysis of the impact of changes in interest rates and equity prices is based on the following assumptions: 1) the securities in the Company's portfolio are not impaired; 2) interest rates and equity prices move independently; 3) shifts in the yield curve are parallel; 4) credit and liquidity risks have not been considered; and 5) all of our debt securities and preferred shares are available-for-sale.

For our HFT debt securities, which are marked-to-market through the P&L, the estimated impact on income before income taxes of a 100 basis point increase or decrease in interest rates is assumed to be offset by the MYA. In addition, it is important to note that AFS securities in an unrealized loss position, as reflected in OCI, may at some point in the future be realized either through a sale or impairment. See section 3.6, Gains and losses on invested assets and other gains.

Credit risk

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they become due. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to us. The Company's credit risk exposure is concentrated primarily in its fixed income and preferred share portfolios and, to a lesser extent, in its reinsurance recoverables.

The Company's risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing fixed income portfolio limits on individual corporate issuers based upon credit quality.

Foreign exchange risk

Foreign exchange risk is the possibility that changes in exchange rates produce an unintended effect on earnings and equity when measured in domestic currency. This risk is larger when assets backing liabilities are payable in one currency and are invested in financial instruments of another currency. Although the Company is exposed to some foreign exchange risk arising from securities in some of its U.S. dollar-denominated assets, the general policy is to minimize foreign currency exposure.

The Company mitigates foreign exchange rate risk by buying or selling successive monthly foreign exchange forward contracts.

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments.

To manage its cash flow requirements, the Company maintains a portion of its invested assets in liquid securities.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The Company mitigates cash flow risk by entering into foreign exchange swaps, whereby foreign-denominated principal and fixed interest receipts are sold in exchange for Canadian dollars. These swaps are transacted in over-the-counter markets.

Derivatives

The Company uses certain derivatives to mitigate certain of the above mentioned risks and it uses other derivatives for trading purposes. The Company's use of derivative exposes it to a number of risks, including credit risk and interest rate and equity market fluctuations. The credit risk for any derivative transaction is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, credit risk related to derivatives is represented by the positive fair value of the instruments and is normally a small fraction of the contract's notional amount.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master agreements. The master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. Trading derivatives also exposes the Company to additional interest rate and equity market fluctuations. The Company manages those additional risks in accordance with the risk management policies specified above.

Human resources risk

Human resources risk is the risk relating to attracting and retaining skilled resources.

The Company has developed a focused recruiting strategy to aggressively market careers and opportunities at ING Canada. This includes an updated web site, focused external recruiting, campaigns, rebranding with the use of employee value proposition and targeted advertising. This also includes partnering with four universities on graduate recruiting plus commercial and personal lines trainee program recruiting.

Talent identification, management training in talent development programming and practice have been implemented to retain and grow existing talents. We have ingrained succession planning and development leaders in the organization through a competency based assessment and leadership development programs. Integrated thinking on talent management includes total rewards planning and development of programs that are competitive with market.

Distribution risk

Distribution risk is the risk relating to distribution of the Company's P&C insurance products. It includes inherent risk of dealing with independent distributors, the risk related to new entrants and it also includes the risk related to the multiple distribution channel strategy which is in place.

The Company has established and is maintaining very close relationships with its independent distributors and has invested through equity, loans, technology, training, etc., to strengthen its position. It monitors closely pricing gaps between its various channels and manages the different channels under different brand names.

9.2 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. It includes events like unauthorized activity, internal and external criminal activity, information security failure, etc.

We believe that managing operational risks related to the Company's business activities significantly reduces losses resulting from failed processes, procedures or controls, inadequate systems, human errors, fraud or external events such as natural disasters. To manage this risk, the Company follows a specific framework that is composed of four major steps: identification, measurement, monitoring and mitigation. The scope of operational risk management covers the security of people, assets and information, as well as the continuity of the Company's operations and recovery of its technology during a crisis.

For early detection and clear insight of the Company's key operational risks, it periodically performs Risk & Control Self-Assessments of the Company's critical functions with the collaboration of management. Management also monitors and measures the Company's risks on an ongoing basis through key risk indicators which enable management to proactively initiate effective actions. The Company has also developed clear incident reporting channels within the organization to systematically report, manage and monitor operational incidents leading to financial losses or reputation damage. Ongoing training and exercises provided to all employees also contribute to increase the operational risk awareness culture within the organization and minimize the occurrence of incidents.

In order to maintain the integrity and continuity of the Company's operations in the event of a crisis, IIC has developed personalized alert and mobilization procedures as well as communication protocols. For example, emergency action plans, business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis.

The implementation of the overall operational risk management program relies on management. In addition, the operational risk management department is there to assist them in monitoring the operational risk processes and ensuring that appropriate actions are taken when necessary. The operational risk department reports to the Risk Management Committee, which is comprised of executive members appointed by the Board of Directors. The Committee has the oversight responsibility for all enterprise risks and governance within the organization. Finally, to ensure transparency, the Risk Management Committee provides regular updates of its operations to the Senior Management Committee, the Audit Committee and the Board of Directors.

9.3 Corporate governance and compliance

IIC believes that good corporate governance and compliance with all legal and regulatory requirements are essential for maintaining investor confidence. Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from non-fulfilment of a contract. The Company is subject to strict regulatory requirements and detailed monitoring of its operations in all provinces where it conducts business, either directly or through its subsidiaries. The Company's corporate governance and compliance program is built on the following foundations:

IIC's Board of Directors and its Committees are structured in accordance with sound corporate governance standards. Directors are presented with significant information in all areas of the Company's operations to enable them to effectively supervise the Company's management, business objectives and risks.

Disclosure controls and processes have been put into place so that relevant information is obtained and communicated to senior management and directors of the Board to ensure that the Company meets its disclosure obligations and to protect the confidentiality of information. A decision-making process is also in place to facilitate timely and accurate public disclosure.

Effective corporate governance is dependent on strong corporate compliance structures and processes. To this end, IIC has established an enterprise-wide Compliance Policy and framework including procedures and policies necessary to ensure adherence to laws, regulations and related obligations. Compliance activities include identification, mitigation and monitoring of compliance/reputation risks, as well as communication, education, and activities to promote a culture of compliance and ethical business conduct.

The Board of Directors and the Audit Committee of IIC, as well as that of its subsidiaries, periodically receive reports on all important litigation, whether they be in the normal course of business, where the contesting of certain claims appears normal, or outside the normal course of business. To manage this risk, the Company has specialized resources in its Legal Department as well as experts outside the Company, and provisions are taken when deemed necessary.

While senior management has ultimate responsibility for compliance, compliance is a responsibility that each individual employee shares. This responsibility is clearly set out in the Company's Business Principles and Code of Conduct and employees are asked to sign annually that they have reviewed and complied with them.

9.4 Industry standards

IIC is committed to maintaining its reputation as a corporation with integrity and ethical business conduct that extends to how the Company treats its customers. In this light, the Company is currently working with the Insurance Bureau of Canada ("IBC") in reviewing the principles set out in IBC's Standards of Sound Marketplace Practice ("Standards"), which includes concepts such as information disclosure, timely and fair settlement of claims, adequate systems of complaint handling, and knowledgeable intermediaries. IIC has subscribed to the underlying principles of the Standards for many years and already has practices in place to ensure appropriate levels of consumer service. Operational and compliance teams are reviewing the Standards to see what gaps, if any, exist and how the Company can enhance its practices. This self-regulation effort is in addition to the Code of Consumer Rights and Responsibilities already adopted by the Company.

An additional best practices initiative is the CCIR/CISRO's (industry regulators) three principle-based recommendations designed to promote customer confidence in the insurance industry (i.e. priority of client's interest, disclosure of conflicts or potential conflicts of interest, and product suitability). IIC supports this initiative and is working with the insurance industry to determine best practices.

10.1 Related-party transactions

The Company has ongoing transactions with related parties consisting mostly of:

- 1) management and advisory services from ING Groep and affiliated companies; following ING Group's sale of IIC shares, IIC will transition all essential services provided under this agreement either in-house or to other third-party providers over a period not expected to exceed 12 months;
- 2) reinsurance by an affiliated company (see Section 7.4); and,
- 3) financing.

In addition, the Company has related party transactions with investees accounted for as long-term investments. These transactions consist primarily of loans and commission expenses.

These transactions are carried out in the normal course of operations and are measured at the amount of consideration paid or received as established and agreed by the related parties. Management believes that such exchange amounts approximate fair value.

Notes 1, 7 and 19 to the accompanying Audited Consolidated Annual Financial Statements provide additional information on related party transactions.

10.2 Cautionary note regarding forward-looking statements

Certain of the statements included or incorporated by reference in this Management's Discussion and Analysis for the year ended December 31, 2008 ("Annual MD&A") about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by management in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances. Many factors could cause our actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors: our ability to implement our strategy or operate our business as we currently expect; our ability to accurately assess the risks associated with the insurance policies that we write; unfavourable capital market developments or other factors which may affect our investments and our funding obligations under our pension plans; the cyclical nature of the property and casualty insurance industry; our ability to accurately predict future claims frequency; government regulations; litigation and regulatory actions; periodic negative publicity regarding the insurance industry; intense competition; our reliance on brokers and third parties to sell our products; our ability to successfully pursue our acquisition strategy; our ability to execute our business strategy; our participation in the Facility Association (a mandatory pooling arrangement among all industry participants); terrorist attacks and ensuing events; the occurrence of catastrophic events; our ability to maintain our financial strength ratings; our ability to alleviate risk through reinsurance; our ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); our reliance on information technology and telecommunications systems; our dependence on key employees; general economic, financial and political conditions; our dependence on the results of operations of our subsidiaries; the volatility of the stock market and other factors affecting our share price; and future sales of a substantial number of the Common Shares. All of the forward-looking statements included or incorporated by reference in this Management's Discussion and Analysis are qualified by these cautionary statements and those made in the "Risk Factors" section of our annual information form and those made in the "Risk Management" section of our Annual MD&A and those made in our other filings with the securities commissions or similar authorities in Canada that are incorporated by reference in this Annual MD&A. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in the documents incorporated herein by reference. We have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

SECTION 11 – Additional information

The following tables present the income (loss) and comprehensive income (loss) information, shareholders' equity and cash flows.

TABLE 35

	For the quarter ended, December 31		For the year ended, December 31	
	2008	2007	2008	2007
Revenues				
Premiums written				
Direct	970.5	959.7	4,170.5	4,100.0
Ceded	25.4	25.3	98.4	97.6
Net	945.1	934.4	4,072.1	4,002.4
Changes in net unearned premiums	74.1	70.3	(32.7)	(70.4)
Net premiums earned	1,019.2	1,004.7	4,039.4	3,932.0
Interest and dividend income	82.2	91.3	345.1	364.3
Net (losses) gains on invested assets and other gains	(152.2)	(3.3)	(288.0)	73.6
Distribution and other	6.8	4.0	35.2	70.0
	956.0	1,096.7	4,131.7	4,439.9
Expenses				
Underwriting				
Claims	760.5	671.7	2,806.3	2,584.3
Commissions, premium taxes and general expenses	295.1	285.5	1,166.1	1,138.9
	1,055.6	957.2	3,972.4	3,723.2
Distribution and other	8.6	6.9	35.7	45.1
	1,064.2	964.1	4,008.1	3,768.3
Income (loss) before income taxes	(108.2)	132.6	123.6	671.6
Income tax (benefit) expense	(44.1)	36.8	(4.6)	163.3
Net income (loss)	(64.1)	95.8	128.2	508.3
Earnings per share, basic and diluted (dollars)	(0.53)	0.77	1.05	4.01
Dividends per share (dollars)	0.31	0.27	1.24	1.08
Basic and diluted average number of common shares (in millions)	119.9	124.5	122.0	126.7

TABLE 36

	For the quarter ended, December 31		For the year ended, December 31	
	2008	2007	2008	2007
Net income (loss)	(64.1)	95.8	128.2	508.3
Unrealized losses on available-for-sale securities				
Change during the period	(431.8)	(198.6)	(801.2)	(296.3)
Income taxes	118.7	62.3	236.0	95.9
	(313.1)	(136.3)	(565.2)	(200.4)
Reclassified to income				
From available-for-sale securities	216.4	68.2	344.6	(54.5)
Income taxes	(65.3)	(19.2)	(107.2)	27.5
	151.1	49.0	237.4	(27.0)
Other comprehensive loss	(162.0)	(87.3)	(327.8)	(227.4)
Comprehensive (loss) income	(226.1)	8.5	(199.6)	280.9

TABLE 37

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance as at December 31, 2007	1,101.9	97.2	2,091.3	(118.3)	3,172.1
Comprehensive income (loss)	-	-	128.2	(327.8)	(199.6)
Common shares repurchased for cancellation	(40.4)	-	(135.6)	-	(176.0)
Dividends paid	-	-	(151.0)	-	(151.0)
Stock-based compensation	-	(8.9)	(4.0)	-	(12.9)
Balance as at December 31, 2008	1,061.5	88.3	1,928.9	(446.1)	2,632.6
Balance as at December 31, 2006	1,183.9	93.5	2,143.4	-	3,420.8
Transition adjustments	-	-	(4.3)	109.1	104.8
Comprehensive income (loss)	-	-	508.3	(227.4)	280.9
Common shares repurchased for cancellation	(82.0)	-	(419.2)	-	(501.2)
Dividends paid	-	-	(136.9)	-	(136.9)
Stock-based compensation	-	3.7	-	-	3.7
Balance as at December 31, 2007	1,101.9	97.2	2,091.3	(118.3)	3,172.1

Management's discussion and analysis

(in millions of Canadian dollars, except as noted)

TABLE 38

	For the quarter ended, December 31		For the year ended, December 31	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Net income (loss)	(64.1)	95.8	128.2	508.3
Adjustments for non-cash items	37.4	(111.1)	378.3	14.6
Changes in net claims liabilities	43.8	4.6	125.8	163.0
Changes in other operating assets and liabilities	213.4	227.2	(12.6)	(65.6)
Cash provided by operating activities	230.5	216.5	619.7	620.3
Cash flows from (used in) investing activities				
Proceeds from sale of invested assets	991.8	1,337.7	5,278.6	10,802.9
Purchase of invested assets	(730.3)	(1,483.9)	(5,014.9)	(10,845.6)
Purchase of brokerages and books of business, net	(1.3)	(0.3)	(6.7)	(12.4)
Sale of brokerages and books of business	-	-	2.1	2.4
Purchase of property and equipment and other	(11.8)	(29.7)	(49.6)	(47.4)
Cash provided by (used in) investing activities	248.4	(176.2)	209.6	(100.1)
Cash flows from (used in) financing activities				
Common shares repurchased for cancellation	-	-	(176.0)	(501.2)
Dividends paid	(37.2)	(33.6)	(151.0)	(136.9)
Cash used in financing activities	(37.2)	(33.6)	(327.0)	(638.1)
Net increase (decrease) in cash and cash equivalents	441.7	6.7	502.3	(117.9)
Cash and cash equivalents, beginning of period	68.7	1.4	8.1	126.0
Cash and cash equivalents, end of period	510.4	8.1	510.4	8.1

Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the consolidated financial statements of ING Canada Inc. and its subsidiaries, collectively known as "the Company". This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with Canadian generally accepted accounting principles.

In meeting its responsibility for the reliability of consolidated financial statements, the Company maintains and relies on a comprehensive system of internal control comprising organizational procedural controls and internal accounting controls. The Company's system of internal control includes the communication of policies and of the Company's Code of Conduct, comprehensive business planning, proper segregation of duties, delegation of authority for transactions and personal accountability, selection and training of personnel, safeguarding of assets and maintenance of records. The Company's internal auditors review and evaluate the system of internal control.

The Company's Board of Directors, acting through the Audit and Risk Review Committee, which is composed entirely of Directors, who are neither officers nor employees of the Company, oversees management's responsibility for the design and operation of effective financial reporting and internal control systems, the preparation and presentation of financial information and the management of risk areas.

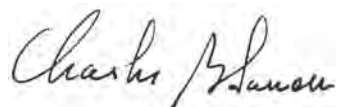
The Audit and Risk Review Committee conducts such review and inquiry of management and the internal and external auditors as it deems necessary to establish that the Company employs an appropriate system of internal control, adheres to legislative and regulatory requirements and applies the Company's Code of Conduct. The internal and external auditors, as well as the Actuary, have full and unrestricted access to the Audit and Risk Review Committee, with and without the presence of management.

Pursuant to the Insurance Companies Act of Canada or to the Insurance Act ("Québec") ("the Acts"), the Actuary, who is a member of management, is appointed by the Board of Directors. The Actuary is responsible for discharging the various actuarial responsibilities required by the Acts and conducts a valuation of policy liabilities, in accordance with Canadian generally accepted actuarial standards, reporting his results to management and the Audit and Risk Review Committee.

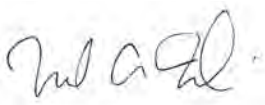
The Office of the Superintendent of Financial Institutions Canada for the federally regulated property and casualty ("P&C") subsidiaries and l'Autorité des marchés financiers for the Québec regulated P&C subsidiary make such examinations and inquiries into the affairs of the P&C subsidiaries as deemed necessary.

The Company's external auditors, Ernst & Young LLP, Chartered Accountants, are appointed by the shareholders to conduct an independent audit of the consolidated financial statements of the Company and meet separately with both management and the Audit and Risk Review Committee to discuss the results of their audit, financial reporting and related matters. The auditors' report to shareholders appears on page 48.

February 16, 2009



Charles Brindamour
President and Chief Executive Officer



Mark A. Tullis
Chief Financial Officer

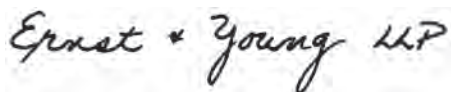
Auditors' report

To the Shareholders of ING Canada Inc.

We have audited the consolidated balance sheets of ING Canada Inc. (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of income and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 16, 2009

TABLE OF CONTENTS

Consolidated financial statements

- 50 Consolidated balance sheets
- 51 Consolidated statements of income
- 51 Consolidated statements of comprehensive income (loss)
- 52 Consolidated statements of changes in shareholders' equity
- 52 Consolidated statements of cash flows

Notes to consolidated financial statements

- 53 Note 1 Status of the Company
- 53 Note 2 Summary of significant accounting policies
- 59 Note 3 Invested assets
- 63 Note 4 Derivative financial instruments
- 66 Note 5 Additional disclosures on financial instruments
- 70 Note 6 Policy liabilities
- 74 Note 7 Related-party transactions
- 74 Note 8 Income taxes
- 76 Note 9 Goodwill and intangible assets
- 76 Note 10 Other assets
- 77 Note 11 Employee future benefits
- 81 Note 12 Debt outstanding
- 81 Note 13 Share capital and capital management
- 84 Note 14 Additional information on the statements of cash flows
- 84 Note 15 Acquisitions and divestitures
- 85 Note 16 Disclosures on rate regulation
- 86 Note 17 Contingencies, commitments and guarantees
- 86 Note 18 Segmented information
- 87 Note 19 Subsequent events

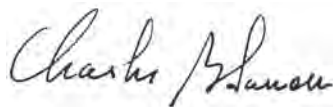
Consolidated balance sheets

(in millions of Canadian dollars, except as noted)

As at December 31,	2008	2007
Assets		
Cash and cash equivalents	510.4	8.1
Invested assets (note 3)		
Debt securities	3,832.5	3,886.7
Equity securities	2,015.1	3,140.3
Loans and equity investments	261.3	210.8
	6,108.9	7,237.8
Premium receivables	1,469.4	1,440.8
Accrued interest and dividend income	34.7	46.2
Other receivables	247.0	264.8
Deferred acquisition costs	382.4	379.6
Reinsurance assets (note 6)	224.2	273.5
Other assets (note 10)	303.4	280.1
Income taxes receivable	221.0	168.4
Future income tax asset (note 8)	54.2	68.7
Intangible assets (note 9)	57.0	61.8
Goodwill (note 9)	160.8	159.9
	9,773.4	10,389.7
Liabilities		
Claims liabilities (note 6)	4,064.9	3,989.0
Unearned premiums (note 6)	2,366.8	2,333.5
Other liabilities	701.7	862.6
Income taxes payable	7.4	32.5
	7,140.8	7,217.6
Contingencies, commitments and guarantees (note 17)		
Shareholders' equity		
Share capital (note 13)	1,061.5	1,101.9
Contributed surplus	88.3	97.2
Retained earnings	1,928.9	2,091.3
Accumulated other comprehensive loss	(446.1)	(118.3)
	2,632.6	3,172.1
	9,773.4	10,389.7

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Charles Brindamour
Director



Ivan E.H. Duvar
Director

Consolidated statements of income

(in millions of Canadian dollars, except as noted)

For the years ended December 31,	2008	2007
Revenues		
Premiums written		
Direct	4,170.5	4,100.0
Ceded	98.4	97.6
Net	4,072.1	4,002.4
Changes in net unearned premiums	(32.7)	(70.4)
Net premiums earned	4,039.4	3,932.0
Interest and dividend income (note 5)	345.1	364.3
Net (losses) gains on invested assets and other gains	(288.0)	73.6
Distribution and other	35.2	70.0
	4,131.7	4,439.9
Expenses		
Underwriting		
Claims	2,806.3	2,584.3
Commissions, premium taxes and general expenses (note 7)	1,166.1	1,138.9
	3,972.4	3,723.2
Distribution and other	35.7	45.1
	4,008.1	3,768.3
Income before income taxes	123.6	671.6
Income tax (benefit) expense (note 8)	(4.6)	163.3
Net income	128.2	508.3
Earnings per share, basic and diluted (dollars)	1.05	4.01
Dividends per share (dollars)	1.24	1.08
Basic and diluted average number of common shares (in millions)	122.0	126.7

See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income (loss)

(in millions of Canadian dollars, except as noted)

For the years ended December 31,	2008	2007
Net income	128.2	508.3
Unrealized losses on available-for-sale securities		
Change during the period	(801.2)	(296.3)
Income taxes	236.0	95.9
	(565.2)	(200.4)
Reclassified to income		
From available-for-sale securities	344.6	(54.5)
Income taxes	(107.2)	27.5
	237.4	(27.0)
Other comprehensive loss	(327.8)	(227.4)
Comprehensive income (loss)	(199.6)	280.9

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in shareholders' equity

(in millions of Canadian dollars, except as noted)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance as at December 31, 2007	1,101.9	97.2	2,091.3	(118.3)	3,172.1
Comprehensive income (loss)	-	-	128.2	(327.8)	(199.6)
Common shares repurchased for cancellation (note 13)	(40.4)	-	(135.6)	-	(176.0)
Dividends paid	-	-	(151.0)	-	(151.0)
Stock-based compensation	-	(8.9)	(4.0)	-	(12.9)
Balance as at December 31, 2008	1,061.5	88.3	1,928.9	(446.1)	2,632.6
Balance as at December 31, 2006	1,183.9	93.5	2,143.4	-	3,420.8
Transition adjustments	-	-	(4.3)	109.1	104.8
Comprehensive income (loss)	-	-	508.3	(227.4)	280.9
Common shares repurchased for cancellation (note 13)	(82.0)	-	(419.2)	-	(501.2)
Dividends paid	-	-	(136.9)	-	(136.9)
Stock-based compensation	-	3.7	-	-	3.7
Balance as at December 31, 2007	1,101.9	97.2	2,091.3	(118.3)	3,172.1

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(in millions of Canadian dollars, except as noted)

For the years ended December 31,	2008	2007
Cash flows from (used in) operating activities		
Net income	128.2	508.3
Adjustments for non-cash items (note 14)	378.3	14.6
Changes in net claims liabilities	125.8	163.0
Changes in other operating assets and liabilities (note 14)	(12.6)	(65.6)
Cash provided by operating activities	619.7	620.3
Cash flows from (used in) investing activities		
Proceeds from sale of invested assets	5,278.6	10,802.9
Purchase of invested assets	(5,014.9)	(10,845.6)
Purchase of brokerages and books of business, net (note 15)	(6.7)	(12.4)
Sale of brokerages and books of business	2.1	2.4
Purchase of property and equipment and other	(49.6)	(47.4)
Cash provided by (used in) investing activities	209.6	(100.1)
Cash flows from (used in) financing activities		
Common shares repurchased for cancellation	(176.0)	(501.2)
Dividends paid	(151.0)	(136.9)
Cash used in financing activities	(327.0)	(638.1)
Net increase (decrease) in cash and cash equivalents	502.3	(117.9)
Cash and cash equivalents, beginning of year	8.1	126.0
Cash and cash equivalents, end of year (note 14)	510.4	8.1

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

NOTE 1 – Status of the Company

ING Canada Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act*. The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty (“P&C”) insurance market. The Company’s significant subsidiaries are ING Insurance Company of Canada, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, ING Novex Insurance Company of Canada, Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc. and Grey Power Insurance Inc.

ING Groep of the Netherlands (“ING Groep”) both as the owner of 70% of the Company’s outstanding common shares and the Special Share (note 13) and as a party to the Co-Operation Agreement (the “Agreement”) has substantial influence over the ongoing business and operation of the Company. The Agreement provides, among other things, that for so long as ING Groep holds not less than one-third of the Company’s outstanding common shares, the Company may not carry out certain corporate acts, including entering into business combinations with unaffiliated third parties or making acquisitions or dispositions above certain monetary thresholds or changing the dividend policy without the prior written approval of ING Groep. See *Subsequent events* (note 19).

NOTE 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting policies used to prepare the financial statements of the Company’s regulated insurance subsidiaries must also comply with the accounting requirements of their respective regulators.

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements, the reported amounts of revenue and expenses for the years presented, as well as the disclosure of contingent assets and liabilities (note 17). These estimates are subject to uncertainty. Significant estimates include policy liabilities (note 6), the fair value of financial instruments (notes 3 and 5), impairment of financial assets (notes 5 and 9), income taxes (note 8), employee future benefits (note 11), stock-based compensation (note 13), goodwill and intangible assets (note 15). Changes in estimates are recorded in the accounting period in which they occur.

The significant accounting policies used in preparing these consolidated financial statements, including those specified by the insurance regulators, are, in all material respects, in accordance with Canadian GAAP and are summarized below. These policies have been consistently applied except as described in the *Significant accounting changes* section below.

Significant accounting changes

Financial instruments and capital

Effective January 1, 2008, the Company applied the new Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Sections 3862 *Financial Instruments – Disclosure*, 3863 *Financial Instruments – Presentation* and 1535 *Capital Disclosures* revising and enhancing disclosure requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks and require the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital.

Significant accounting policies

Basis of consolidation

The Company consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses due to other than temporary (“OTT”) impairments are recognized immediately.

Policy liabilities

Policy liabilities consist of unearned premiums and claims liabilities, net of the reinsurers’ share. The appointed actuary, using appropriate actuarial techniques, evaluates the adequacy of policy liabilities.

Claims liabilities are first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. Included in claims liabilities is a provision to account for the future development of these claims, including claims incurred but not reported by policy holders (“IBNR”), as well as a provision for adverse deviations, as required by accepted actuarial practice in Canada. Claims liabilities are discounted to take into account the time value of money.

In estimating claims liabilities, standard actuarial techniques are used. These techniques are based on historical loss development factors and payment patterns. They require the use of assumptions such as loss and payment development factors, future rates of claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies.

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written. The unearned premiums estimate is validated through standard actuarial techniques to ensure that these premiums are sufficient to cover the estimated future costs of servicing these policies and related claims.

Net claims liabilities are discounted using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities. Several actuarial assumptions are used to calculate this discount rate. These may change from period to period in order to arrive at the most accurate and representative market yield based discount rate.

Financial instruments

The Company has classified or designated all its financial assets and liabilities in the following categories:

- available-for-sale (“AFS”)
- held-for-trading (“HFT”)
- loans and receivables

AFS financial assets

AFS financial assets are recorded at fair value on the consolidated balance sheet on the trade date and changes in fair values are recorded, net of income taxes, in other comprehensive income (loss) (“OCI”) until the financial asset is disposed of, or has become OTT impaired (see current *Fair value and unrealized gains and losses* in table 3.3). When the asset is disposed of, or has become OTT impaired, the gain or loss is recognized in the consolidated statement of income as net gains (losses) on invested assets and other gains and the amount is deducted from OCI. Gains and losses on the sale of AFS fixed income and equity securities are calculated on a first in, first out basis and on an average cost basis, respectively.

HFT financial assets and liabilities

HFT financial assets and liabilities are carried at fair value on the consolidated balance sheet from the trade date and the changes in fair values are recorded in the consolidated statement of income as net gains (losses) on invested assets and other gains.

HFT financial assets and liabilities are purchased or incurred with the intention of generating profits in the near term (“classified as HFT”) or are voluntarily so designated by the Company (“designated as HFT”).

The Company designated a portion of its fixed income securities that are supporting net claims liabilities as HFT. This designation reduces the volatility of the consolidated statement of income related to the fluctuations in fair values of underlying net claims liabilities. To comply with regulatory guidelines, the Company ensures that the duration weighted fair value of the fixed income securities designated as HFT is approximately equal to the fair value of the net claims liabilities.

Derivative financial instruments and hedge accounting

Derivative financial instruments are used for risk management (“non-trading”) purposes and for trading purposes. Currency swaps and forwards, and certain total return swaps are held for non-trading purposes to mitigate foreign exchange and market risks. Interest rate futures, options and swaps, credit derivatives and certain total return swaps are held for trading purposes.

For derivative financial instruments held for non-trading purposes where hedge accounting is applied, the accounting policy is as follows:

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking its hedge transactions and the method to be used to measure its effectiveness. The Company also formally assesses, both at inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are effective in offsetting changes in fair values of hedged items.

Hedge accounting is discontinued prospectively when the derivative financial instrument no longer qualifies as an effective hedge or the derivative financial instrument is terminated or sold. The cumulative adjustment to the carrying amount of the hedged item is amortized to the consolidated statement of income based on a recalculated effective interest rate over the residual period to maturity; unless the hedged item has been derecognized in which case it is released to the consolidated statement of income as net gains (losses) on invested assets and other gains immediately.

The Company uses hedge accounting only for certain currency swaps used to manage foreign exchange risk related to certain private placements in U.S. dollars. The derivative financial instruments are carried at fair value in the consolidated balance sheet and changes in their fair value are recorded in the consolidated statement of income. The hedged assets are carried at fair value in the consolidated balance sheet and the changes in their fair value attributable to the hedged risk, according to the accounting treatment of the hedging instrument, are recognized also in the consolidated statement of income and the changes in the fair value attributable to other risks are recognized in OCI. Any gain or loss in fair value relating to the ineffective portion of the hedging relationship is recognized immediately in the consolidated statement of income.

For derivative financial instruments held for non-trading purposes where hedge accounting is not applied and for derivative financial instruments held for trading purposes, the instruments are recognized at their fair value, with changes in the fair value reflected in the consolidated statement of income as net gains (losses) on invested assets and other gains during the period in which they arise.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the “host instrument”). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not designated or classified as HFT. Embedded derivatives are accounted for as HFT financial assets and liabilities (see table 5.6).

Loans and receivables

Certain financial assets are designated as loans and receivables. These financial assets are accounted for at amortized cost using the effective interest rate method. As long as a loan or receivable is held and not impaired, the gains and losses are not recognized in the consolidated statement of income.

Fair value

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

The table below summarizes how fair values were determined:

TABLE 2.1

	AFS assets	HFT assets	Loans	HFT liabilities
Valued using quoted market prices	4,026.4	1,829.2	-	-
Valued based on observable market data	11.0	9.0	-	4.2
Valued using valuation models	-	-	271.5	-

Subsequent to initial recognition, the fair values are determined based on available information:

When a quoted active market exists, the fair values of financial assets are based on bid prices and the fair values of financial liabilities are based on ask prices. Where bid or ask price is unavailable, the closing price of the most recent transaction of the instrument subject to a liquidity adjustment is used.

In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or the fair values are determined by using valuation techniques commonly used by market participants, which refer to observable market data. Valuation techniques commonly used by market participants includes comparisons with similar instruments where observable market prices exist, discounted cash flow analysis and option pricing models.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the external readily observable market inputs are primarily looked at, including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable. In limited circumstances, the Company uses input parameters that are not based on observable market data with an adjustment to reflect the uncertainty and to ensure that financial instruments are reported at fair values. Based on management's assessment, using possible alternative assumptions will not result in significantly different fair values. Liquidity adjustments are calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market. Liquidity adjustments are also calculated to reflect the cost of unwinding a larger than normal market size risk position.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive at which time it is recorded as a financial asset, or it is extinguished. These changes in classifications occur mainly to derivative financial instruments (see current classification in the consolidated balance sheet of derivative financial instruments in table 4.1). Derivative financial instruments with positive fair values are recorded as other receivables and those with negative fair values are recorded as other liabilities.

Impairment of financial assets

Financial assets other than HFT are assessed for impairment at each balance sheet date. Impairment exists when there is objective evidence of an OTT decline in fair value below cost. The Company assesses impairment, as follows:

Common shares: A quantitative assessment is made to identify shares which have had a significant or prolonged decline in fair value. Management then applies judgment based on each issuer's financial condition to determine whether objective evidence of impairment exists.

Debt securities and preferred shares: These financial assets are impaired when there is evidence which suggests that the issuer will fail to make the contractual interest or principal payments due under the terms of the instrument. Possible indicators include significant financial difficulty, a downgrade in credit rating or bankruptcy and financial reorganization.

All impairment losses are recorded in the consolidated statements of income in the period in which they occur.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, the income tax expense is calculated based on income tax laws and rates substantively enacted as at the consolidated balance sheet dates. The income tax expense is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting book values of assets and liabilities and their respective tax bases. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not.

Employee future benefits

For defined benefit pension and other retirement plans, the accrued benefit obligations, net of the fair value of plan assets and unamortized items, are accrued. The unamortized items are the past service costs, the transitional asset/obligation, the transitional valuation allowance and the net actuarial gains or losses. To match costs and services, these items are amortized on a straight-line basis over the expected average remaining service lifetime ("EARSL") of active members expected to receive benefits under the pension plans and over the expected average lifetime of the retirees receiving benefits under the other retirement plans. Changes in the valuation allowance are not deferred.

For each plan, the Company has adopted the following policies:

The actuarial determination of the accrued obligations for pensions and other retirement benefits uses the projected benefit method based on services provided by employees and management's best estimate assumptions.

For the purpose of calculating the expected return on plan assets, plan assets are valued at fair value.

Only gains or losses in excess of 10% of the greater of the accrued benefit obligations or the fair value of plan assets are amortized over the EARSL for pension plans and over the expected average lifetime of the retirees receiving benefits under the other retirement plans.

Past service costs arising from plan amendments are amortized on a straight-line basis over the EARSL for pension plans and over the expected average lifetime of the retirees receiving benefits under the other retirement plans.

The Company amortizes the transitional asset/obligation arising from the adoption on January 1, 2000 of the CICA Handbook Section 3461 using the prospective application method on a straight-line basis over the EARSL as of January 1, 2000.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Stock-based compensation

Stock option awards to non-employees, direct awards of stock, awards that call for settlement in cash or other assets or stock appreciation right awards to employees are measured based on the fair value of the options at the grant date and a compensation expense is recognized over the related vesting period, or the period between the grant date to the date the employee becomes eligible to retire if shorter, with a corresponding increase in contributed surplus for those awards granted to employees and to liabilities for directors.

Goodwill and intangible assets

The excess of the purchase price over the fair value of the underlying net tangible assets is initially allocated to intangible assets, as appropriate, and the residual to goodwill. An intangible asset is recognized separately from goodwill when it results from contractual or other legal rights or when it is capable of being separated from the acquired enterprise and sold, transferred, licensed, rented, or exchanged. Finite life intangible assets are amortized to the consolidated statements of income over their useful lives whereas infinite life intangible assets and goodwill are not subject to amortization. Goodwill is tested annually for impairment of value on a reporting unit basis. Judgment is required to identify reporting units with similar economic characteristics and to select a valuation model. Accordingly, the Company assesses the book value of its net assets on this basis. Impairment, if any, identified through this assessment is charged to the consolidated statements of income as a result of a reduction in the book value of the goodwill.

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

Revenue and expense recognition

Premiums written are deferred as unearned premiums and recognized as revenue, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually twelve months and no longer than twenty-four months. Other revenues, mainly commissions and advisory fees, are recorded on an accrual basis.

Transaction costs associated with financial instruments classified or designated as HFT, are expensed as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method. Premiums or discounts earned or incurred for loans and AFS securities, are also amortized using the effective interest method.

Foreign currency translation

Assets, liabilities, revenue and expenses arising from a foreign currency transaction are translated into Canadian dollars using the exchange rate prevailing at the date of the transaction. Monetary items denominated in a foreign currency are adjusted to reflect the exchange rate at December 31 and the foreign currency adjustments are reflected in the consolidated statements of income. Realized gains and losses on foreign currency transactions are recognized in the consolidated statements of income at the transaction date.

Earnings per share

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if the holders of securities or contracts entitling them to obtain common shares in exchange for their securities or contracts exercised their right to obtain common shares.

Reinsurance

Reinsurance assets include reinsurers' share of claims liabilities and unearned premiums. The Company presents third party reinsurance balances in the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a net basis in the consolidated statements of income. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities.

Deferred acquisition costs

Deferred acquisition costs comprise commissions, premium taxes and expenses directly related to the acquisition of premiums. They are deferred to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims, expenses and interest and dividend income in respect of these premiums. They are amortized on the same basis as the premiums are recognized in the consolidated statements of income.

Cash equivalents

Cash equivalents consist of highly liquid invested assets that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less from the date of acquisition.

Property and equipment

Property and equipment are carried at cost less accumulated amortization. Amortization rates are established to depreciate the cost of the assets over their estimated useful lives. Amortization methods and rates are shown below.

	Method	Rate or term
Computer equipment	Straight-line	30 – 36 months
Furniture and equipment	Declining balance and straight-line	20% and 60 months, respectively
Leasehold improvements	Straight-line	Terms of related leases
Buildings	Declining balance	3% – 8%

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

Future accounting changes not yet applied

Goodwill and intangible assets

Effective January 1, 2009, the Company will apply the recommendations of the CICA of Section 3064, *Goodwill and Intangible Assets*. This Section will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, which establish standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IAS 38, *Intangible Assets*, of International Financial Reporting Standards (“IFRS”). The Company is currently analyzing the impact this change will have on its consolidated financial statements, however, the Company does not expect it to be significant.

NOTE 3 – Invested assets

Invested assets by classification

TABLE 3.1

As at December 31, 2008	AFS	Classified as HFT	Designated as HFT	Loans	Total
Debt securities					
Short-term notes	293.8	–	–	–	293.8
Fixed income					
Investment grade					
Government, government-guaranteed and supranationals	1,058.9	–	1,099.7	–	2,158.6
Corporate	405.1	–	657.8	–	1,062.9
Private placements	32.2	–	–	–	32.2
Asset-backed	285.0	–	–	–	285.0
Below investment grade	–	–	–	–	–
Not rated	–	–	–	–	–
Total fixed income	1,781.2	–	1,757.5	–	3,538.7
Equity securities					
Preferred shares					
Investment grade	1,219.1	–	–	–	1,219.1
Below investment grade	1.0	–	–	–	1.0
Total preferred shares	1,220.1	–	–	–	1,220.1
Common shares	723.3	–	71.7	–	795.0
Loans and equity investments	19.0	–	–	242.3	261.3
	4,037.4	–	1,829.2	242.3	6,108.9

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

TABLE 3.2

As at December 31, 2007	AFS	Classified as HFT	Designated as HFT	Loans	Total
Debt securities					
Short-term notes	18.9	-	-	-	18.9
Fixed income					
Investment grade					
Government, government-guaranteed and supranationals	932.7	-	775.9	-	1,708.6
Corporate	820.1	-	928.1	-	1,748.2
Private placements	32.5	-	-	-	32.5
Asset-backed	358.8	-	-	-	358.8
Below investment grade	16.7	-	-	-	16.7
Not rated	2.0	-	1.0	-	3.0
Total fixed income	2,162.8	-	1,705.0	-	3,867.8
Equity securities					
Preferred shares					
Investment grade	1,412.2	-	-	-	1,412.2
Below investment grade	18.6	-	-	-	18.6
Total preferred shares	1,430.8	-	-	-	1,430.8
Common shares	1,427.6	72.9	209.0	-	1,709.5
Loans and equity investments	22.6	-	-	188.2	210.8
	5,062.7	72.9	1,914.0	188.2	7,237.8

Fair value and unrealized gains and losses

The following tables summarize the Company's invested assets. Fixed income securities and preferred shares are classified by investment grade and type of issuer.

TABLE 3.3

As at December 31, 2008	HFT invested assets at fair value	Other invested assets			Total invested assets at fair value
		Unamortized cost	Unrealized gains	Unrealized losses	
Debt securities					
Short-term notes	-	293.8	-	-	293.8
Fixed income					
Investment grade					
Government, government-guaranteed and supranationals	1,099.7	1,014.9	47.9	3.9	2,158.6
Corporate	657.8	419.1	5.6	19.6	1,062.9
Private placements	-	30.2	2.0	-	32.2
Asset-backed	-	286.6	1.6	3.2	285.0
Below investment grade or not rated					
Corporate	-	-	-	-	-
Private placements	-	-	-	-	-
Total fixed income	1,757.5	1,750.8	57.1	26.7	3,538.7
Equity securities					
Preferred shares					
Investment grade	-	1,741.1	1.8	523.8	1,219.1
Below investment grade	-	1.5	-	0.5	1.0
Total preferred shares	-	1,742.6	1.8	524.3	1,220.1
Common shares	71.7	857.1	10.5	144.3	795.0
Loans and equity investments	-	268.2	29.2	6.9	290.5
	1,829.2	4,912.5	98.6	702.2	6,138.1
Net unrealized losses			(603.6)		

TABLE 3.4

As at December 31, 2007	HFT invested assets at fair value	Other invested assets			Total invested assets at fair value
		Unamortized cost	Unrealized gains	Unrealized losses	
Debt securities					
Short-term notes	–	18.9	–	–	18.9
Fixed income					
Investment grade					
Government, government-guaranteed and supranationals	775.9	919.9	14.3	1.5	1,708.6
Corporate	928.1	826.2	5.0	11.1	1,748.2
Private placements	–	31.3	1.5	0.3	32.5
Asset-backed	–	364.2	0.3	5.7	358.8
Below investment grade or not rated					
Corporate	1.0	7.7	0.1	–	8.8
Private placements	–	10.9	–	–	10.9
Total fixed income	1,705.0	2,160.2	21.2	18.6	3,867.8
Equity securities					
Preferred shares					
Investment grade	–	1,553.6	8.4	149.8	1,412.2
Below investment grade	–	18.2	0.4	–	18.6
Total preferred shares	–	1,571.8	8.8	149.8	1,430.8
Common shares	281.9	1,464.5	74.3	111.2	1,709.5
Loans and equity investments	–	211.7	–	0.9	210.8
	1,986.9	5,427.1	104.3	280.5	7,237.8
Net unrealized losses			(176.2)		

The Company presents its mutual funds and income trust units with its common shares. The Company has no exposure to leveraged capital notes in structured investment vehicles, directly or through the use of derivatives as at December 31, 2008 (2007 – \$19.8).

As of December 31, 2008, asset-backed securities consisted of auto loans receivable, credit card receivables and commercial mortgage-backed securities; 98.5% are AAA rated.

Included in loans and equity investments are loans carried at cost for which there are unrealized gains of \$29.2 as at December 31, 2008 (2007 – nil).

The Company uses Dominion Bond Rating Services (“DBRS”) and Standard & Poor’s (“S&P”) to rate fixed income securities and preferred shares. Fixed income securities with a rating equal to or above BBB- are classified as investment grade and other rated fixed income securities are classified as below investment grade. Preferred shares with a rating equal to or above P3 low are classified as investment grade and other rated preferred shares are classified as below investment grade.

Equities sold short

The Company had assets invested in certain common shares and income trust units pursuant to a market neutral strategy. The objective of this strategy, which consists of having both long and short equity positions, was to maximize the value added from active portfolio management. Long positions were included in invested assets. Short positions were presented as other liabilities.

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

The following table summarizes the Company's long and short positions pursuant to the market neutral strategy.

TABLE 3.5

	2008		2007	
	Fair value	Fixed income securities pledged as collateral	Fair value	Fixed income securities pledged as collateral
Long positions	-	-	62.1	-
Short positions	-	-	62.0	63.7

Maturity of invested assets

TABLE 3.6

As at December 31, 2008	One year or less	One year to five years	Over five years	No specific maturity	Total
Short-term notes	293.8	-	-	-	293.8
Fixed income securities	179.2	2,236.8	1,122.7	-	3,538.7
Preferred shares	17.1	208.9	104.6	889.5	1,220.1
Common shares	-	-	-	795.0	795.0
Loans and equity investments	22.3	114.7	77.2	47.1	261.3
	512.4	2,560.4	1,304.5	1,731.6	6,108.9

TABLE 3.7

As at December 31, 2007	One year or less	One year to five years	Over five years	No specific maturity	Total
Short-term notes	18.9	-	-	-	18.9
Fixed income securities	236.6	2,130.4	1,500.8	-	3,867.8
Preferred shares	46.3	134.2	256.3	994.0	1,430.8
Common shares	-	-	-	1,709.5	1,709.5
Loans and equity investments	23.4	90.3	60.0	37.1	210.8
	325.2	2,354.9	1,817.1	2,740.6	7,237.8

NOTE 4 – Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Fair value of derivatives

Positive fair values are recorded as other receivables and negative fair values are recorded as other liabilities.

TABLE 4.1

	2008			2007		
	Positive fair value	Negative fair value	Net	Positive fair value	Negative fair value	Net
Held for non-trading purposes						
Where hedge accounting is applied						
Currency swaps	–	1.9	(1.9)	2.4	–	2.4
Where hedge accounting is not applied						
Foreign exchange contracts						
Currency forwards sold	–	0.2	(0.2)	–	–	–
Currency swaps	0.1	–	0.1	0.3	–	0.3
Total return swaps	3.7	–	3.7	3.7	0.1	3.6
Held for trading purposes						
Interest rate contracts						
Swaps	4.4	–	4.4	–	1.7	(1.7)
Total return swaps	–	–	–	–	16.2	(16.2)
Credit derivatives	0.8	2.1	(1.3)	0.7	0.4	0.3
	9.0	4.2	4.8	7.1	18.4	(11.3)

Notional amounts of derivatives by term to maturity

TABLE 4.2

As at December 31, 2008	One year or less	One year to five years	Over five years	Total
Held for non-trading purposes				
Where hedge accounting is applied				
Currency swaps	-	22.9	-	22.9
Where hedge accounting is not applied				
Foreign exchange contracts				
Currency forwards sold	20.3	-	-	20.3
Currency swaps	0.4	-	-	0.4
Total return swaps	151.4	-	-	151.4
Held for trading purposes				
Interest rate contracts				
Options purchased	-	-	-	-
Swaps	-	103.0	-	103.0
Futures bought	-	-	-	-
Futures sold	28.9	-	-	28.9
Total return swaps	-	-	-	-
Credit derivatives	-	61.7	-	61.7
	201.0	187.6	-	388.6

TABLE 4.3

As at December 31, 2007	One year or less	One year to five years	Over five years	Total
Held for non-trading purposes				
Where hedge accounting is applied				
Currency swaps	-	22.9	-	22.9
Where hedge accounting is not applied				
Foreign exchange contracts				
Currency forwards sold	25.6	-	-	25.6
Currency swaps	-	0.9	-	0.9
Total return swaps	438.3	-	-	438.3
Held for trading purposes				
Interest rate contracts				
Options purchased	0.9	-	-	0.9
Swaps	-	103.0	-	103.0
Futures bought	811.1	-	-	811.1
Futures sold	377.6	-	-	377.6
Total return swaps	19.7	24.7	-	44.4
Credit derivatives	-	49.3	-	49.3
	1,673.2	200.8	-	1,874.0

Types of derivatives

Forwards and futures

Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter market. Futures are standardized contracts with respect to amounts and settlement dates, and are traded on regular future exchanges.

Interest rate forwards and futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another on a predetermined future date.

The Company uses forwards and futures for risk management purposes. Forwards are used to mitigate the risk arising from foreign currency fluctuations and futures are used to alter exposure to interest rate fluctuations.

Swaps

Swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates applied to a notional amount.

Currency swaps include single currency, cross currency and cross currency interest rate swaps. Single currency swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Total return swaps are contracts in which two counterparties agree to exchange cash flows based on changes in the value of an equity index, a basket of stocks or a single stock. Some total return swaps include credit derivative features.

The Company uses swaps for risk management purposes; mainly in conjunction with other financial instruments to synthetically alter its cash flows.

Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument from one counterparty to another.

The Company uses credit derivatives for risk management purposes, mainly to alter credit exposure to specific bond issuers.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable.

NOTE 5 – Additional disclosures on financial instruments

Risk management

The Company has an investment policy and applies the prudent person approach to investment management. Management monitors compliance with that policy. The majority of the invested assets portfolio is invested in well-established, active and liquid markets. For more information, refer to the *Risk management* section of the 2008 Management Discussion and Analysis related to these financial statements.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk mostly arises from assets invested in fixed income securities and preferred shares.

The Company's investment policy requires that, at the time of the investment, substantially all fixed income securities have a minimum credit rating of BBB and preferred shares have a minimum credit rating of P3. Management monitors subsequent credit rating changes on a regular basis.

The Company also has loans amounting to \$242.3 as at December 31, 2008. The Company receives guarantees for these loans.

Assets invested in any entity or group of related entities are limited to 5% of the Company's assets. The Company also monitors concentrations of credit risk by country of issuance and by industry (see table 5.3).

Derivative-related credit risk

Credit risk from derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The Company subjects its derivative-related credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the financial obligations to the same counterparty can be set off against obligations of the counterparty to us. The Company maximizes the use of master netting agreements to reduce derivative-related credit exposure. The overall exposure to credit risk that is reduced through master netting agreements may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates.

The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk. Mark-to-market provisions in the Company's agreements with some counterparties provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivatives positions when the value passes a specified threshold amount.

Replacement cost represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements. The amounts in the table below exclude fair value relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risk.

The credit equivalent amount is the sum of the replacement cost plus an add-on amount for potential future credit exposure as defined by the Office of the Superintendent of Financial Institutions Canada ("OSFI").

The risk-adjusted balance is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

TABLE 5.1

As at December 31, 2008	Replacement cost	Credit equivalent amount	Risk adjusted balance
Currency swaps – hedge accounting	–	1.1	–
Currency swaps – non hedge accounting	0.1	0.1	–
Currency forwards	–	0.2	–
Interest rate swaps	4.4	5.0	–
Total return swaps	3.7	14.1	0.1
Credit derivatives	0.8	8.3	–
Total derivative financial instruments	9.0	28.8	0.1
Less: Impact of master netting agreements	(2.0)	–	–
Less: cash collateral	(1.6)	–	–
Total derivatives after netting agreements	5.4	28.8	0.1

TABLE 5.2

As at December 31, 2007	Replacement cost	Credit equivalent amount	Risk adjusted balance
Currency swaps – hedge accounting	2.4	3.5	–
Currency swaps – non hedge accounting	0.3	0.3	–
Currency forwards	–	0.3	–
Interest rate swaps	–	0.5	–
Total return swaps	3.7	43.5	0.2
Credit derivatives	0.7	6.6	0.1
Total derivative financial instruments	7.1	54.7	0.3
Less: Impact of master netting agreements	(0.9)	–	–
Less: cash collateral	–	–	–
Total derivatives after netting agreements	6.2	54.7	0.3

Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's invested assets could be sensitive to changing conditions in specific geographic regions or specific industries.

TABLE 5.3 – DEBT SECURITIES AND LOANS

	2008	2007
By country of issuer		
Canada	84.0%	81.3%
US	1.6%	3.8%
Other	14.4%	14.9%
Total	100.0%	100.0%
By industry		
Government	60.2%	42.8%
Banks, insurance and diversified financial services	30.4%	43.0%
Utilities	2.4%	5.1%
Other	7.0%	9.1%
Total	100.0%	100.0%

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

Interest rate risk

The Company's exposure to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates is detailed in table 5.4.

On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown, represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The following table does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

TABLE 5.4

As at December 31, 2008	Floating rates	Under 12 months	Over 1 to 5 years	Over 5 years	Non-rate sensitive	Total
Assets						
Cash and cash equivalents	510.4	-	-	-	-	510.4
Short-term notes	-	293.8	-	-	-	293.8
Effective interest rate		1.24%				
Fixed income securities	170.0	173.5	2,072.5	1,122.7	-	3,538.7
Effective interest rate		3.4%	3.0%	5.03%		
Preferred shares	71.5	9.0	410.9	728.7	-	1,220.1
Effective interest rate		4.9%	6.2%	7.2%		
Common shares	-	-	-	-	795.0	795.0
Loans and equity investments	-	22.3	114.7	105.3	19.0	261.3
Effective interest rate		6.3%	6.3%	6.2%		
Reinsurance assets	-	68.1	104.5	34.4	17.2	224.2
Effective interest rate		4.24%	4.24%	4.24%		
Other assets	8.1	-	0.9	-	2,920.9	2,929.9
Total assets	760.0	566.7	2,703.5	1,991.1	3,752.1	9,773.4
Liabilities and shareholders' equity						
Claims liabilities	-	1,337.3	2,052.8	674.8	-	4,064.9
Effective interest rate		4.24%	4.24%	4.24%		
Other liabilities	0.9	0.2	5.1	2.9	3,066.8	3,075.9
Shareholders' equity	-	-	-	-	2,632.6	2,632.6
Total liabilities and shareholders' equity	0.9	1,337.5	2,057.9	677.7	5,699.4	9,773.4
Assets less liabilities and shareholders' equity	759.1	(770.8)	645.6	1,313.4	(1,947.3)	-

TABLE 5.5

As at December 31, 2007	Floating rates	Under 12 months	Over 1 to 5 years	Over 5 years	Non-rate sensitive	Total
Assets						
Cash and cash equivalents	8.1	–	–	–	–	8.1
Short-term notes	–	18.9	–	–	–	18.9
Effective interest rate		3.83%				
Fixed income securities	–	236.6	2,130.4	1,500.8	–	3,867.8
Effective interest rate		4.35%	4.62%	4.89%		
Preferred shares	122.0	46.4	240.4	1,022.0	–	1,430.8
Effective interest rate		4.68%	5.19%	5.00%		
Common shares	–	–	–	–	1,709.5	1,709.5
Loans and equity investments	–	23.4	90.3	76.5	20.6	210.8
Effective interest rate		6.48%	6.44%	6.28%		
Reinsurance assets	–	84.5	129.7	42.7	16.6	273.5
Effective interest rate		4.67%	4.67%	4.67%		
Other assets	0.2	–	–	–	2,870.1	2,870.3
Total assets	130.3	409.8	2,590.8	2,642.0	4,616.8	10,389.7
Liabilities and shareholders' equity						
Claims liabilities	–	1,312.4	2,014.4	662.2	–	3,989.0
Effective interest rate		4.67%	4.67%	4.67%		
Other liabilities	2.1	–	–	–	3,226.5	3,228.6
Shareholders' equity	–	–	–	–	3,172.1	3,172.1
Total liabilities and shareholders' equity	2.1	1,312.4	2,014.4	662.2	6,398.6	10,389.7
Assets less liabilities and shareholders' equity	128.2	(902.6)	576.4	1,979.8	(1,781.8)	–

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities. To manage its cash flow requirements, the Company maintains a portion of its invested assets in liquid securities.

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Company mitigates cash flow risk by entering into foreign exchange swaps, whereby foreign-denominated principal and fixed interest receipts are sold in exchange for Canadian dollars. These swaps are transacted in over-the-counter markets.

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the value of a foreign-denominated financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company mitigates foreign exchange rate risk by buying or selling successive monthly foreign exchange forward contracts. Foreign exchange forward contracts are commitments to buy or sell foreign currencies for delivery at a specified date in the future at a fixed rate. Forwards are transacted in over-the-counter markets. The Company is not significantly exposed to foreign exchange rate risk.

Market risk

Market risk is the risk of losses arising from movements in market prices. The Company manages most of its market risk through asset class diversification and some of its market risk through the use of total return swaps whereby the return of a basket of securities is sold in exchange for interest receipts. The impact of changes in risk variables such as market prices and interest rates are described in the *Risk management* section of the 2008 Management Discussion & Analysis related to these financial statements.

Securities lending

The Company participates in a securities lending program managed by the Company's custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. Government securities with an estimated fair value of 105% of the fair value of the securities loaned are received as collateral from the Canadian financial institution and amount to \$1,688.0 at December 31, 2008 (2007 – \$1,580.2).

Fair value disclosure

The fair value of invested assets and short securities, derivative financial instruments and policy liabilities are disclosed in notes 3, 4 and 6 respectively. The fair value of other financial assets and liabilities approximates their book value due to their short-term nature.

Consolidated statements of income amounts related to financial instruments

TABLE 5.6

	2008	2007
Income from HFT financial instruments		
Interest	79.8	76.1
Dividends	12.6	11.2
(Losses) gains		
Classified as HFT	(4.5)	5.6
Designated as HFT	(76.9)	(27.6)
Derivative financial instruments	81.8	7.4
Embedded derivatives	36.8	38.1
Income from AFS financial instruments		
Interest	104.7	117.7
Dividends	144.6	155.3
Realized (losses) gains	(64.4)	137.4
Impairments of fixed income securities	(10.9)	(37.3)
Impairments of common shares	(250.5)	(47.7)

NOTE 6 – Policy liabilities

Policy liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance policies at the consolidated balance sheet dates, including claims IBNR. The ultimate cost of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to the facts and circumstances of the claims incurred.

Movements

TABLE 6.1

As at December 31, 2008	Direct claims liabilities	Reinsurers' share	Net claims liabilities
Balance, beginning of year	3,989.0	256.9	3,732.1
Transition adjustment	–	–	–
Claims incurred	2,931.6	23.2	2,908.4
Prior year (favourable) claims development	(161.9)	(23.3)	(138.6)
Increase (decrease) due to changes in discount rate	38.7	2.3	36.4
Claims paid	(2,732.5)	(52.1)	(2,680.4)
Balance, end of year	4,064.9	207.0	3,857.9

TABLE 6.2

As at December 31, 2007	Direct claims liabilities	Reinsurers' share	Net claims liabilities
Balance, beginning of year	3,823.5	270.4	3,553.1
Transition adjustment	18.0	2.0	16.0
Claims incurred	2,717.1	10.8	2,706.3
Prior year (favourable) claims development	(92.0)	10.3	(102.3)
Increase (decrease) due to changes in discount rate	(22.0)	(2.3)	(19.7)
Claims paid	(2,455.6)	(34.3)	(2,421.3)
Balance, end of year	3,989.0	256.9	3,732.1

During 2008, the Company refined the calculation of the market rate estimate used to discount claims liabilities. These modifications resulted in a decrease of \$38.4 in the net claims liabilities for the year ended December 31, 2008 which is included in Increase (decrease) due to changes in discount rate above. The corresponding reduction in claims expenses has been recognized in the statements of income in the current period.

Amounts by line of business

TABLE 6.3 – CLAIMS LIABILITIES

December 31, 2008	Direct claims liabilities	Reinsurers' share	Net claims liabilities
Auto: liability	1,768.6	12.7	1,755.9
Auto: personal accident	770.5	17.1	753.4
Auto: other	118.9	2.2	116.7
Property Liability	642.9	70.7	572.2
Other	757.0	102.5	654.5
Other	7.0	1.8	5.2
Balance, end of year	4,064.9	207.0	3,857.9

TABLE 6.4 – CLAIMS LIABILITIES

December 31, 2007	Direct claims liabilities	Reinsurers' share	Net claims liabilities
Auto: liability	1,730.6	29.0	1,701.6
Auto: personal accident	747.5	31.2	716.3
Auto: other	110.0	0.2	109.8
Property Liability	601.8	77.9	523.9
Other	794.8	117.8	677.0
Other	4.3	0.8	3.5
Balance, end of year	3,989.0	256.9	3,732.1

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

TABLE 6.5 – UNEARNED PREMIUMS

December 31, 2008	Unearned premiums	Reinsurers' share	Net
Auto: liability	624.9	0.3	624.6
Auto: personal accident	203.9	0.1	203.8
Auto: other	544.3	–	544.3
Property	816.8	3.6	813.2
Liability	145.9	1.4	144.5
Other	31.0	11.8	19.2
Balance, end of year	2,366.8	17.2	2,349.6

TABLE 6.6 – UNEARNED PREMIUMS

December 31, 2007	Unearned premiums	Reinsurers' share	Net
Auto: liability	612.5	0.5	612.0
Auto: personal accident	200.7	0.1	200.6
Auto: other	553.9	–	553.9
Property	793.5	3.7	789.8
Liability	148.8	1.7	147.1
Other	24.1	10.6	13.5
Balance, end of year	2,333.5	16.6	2,316.9

Fair value of net claims liabilities

The Company estimates that the fair value of net claims liabilities approximate their book values. There was no premium deficiency at the consolidated balance sheet dates.

TABLE 6.7

	2008			2007		
	Claims liabilities	Reinsurers' share	Net	Claims liabilities	Reinsurers' share	Net
Undiscounted value	4,004.7	212.5	3,792.2	3,938.4	256.0	3,682.4
Effect of time value of money using a rate of 4.24% (2007 – 4.67%)	(370.5)	(25.6)	(344.9)	(401.1)	(33.7)	(367.4)
Provision for adverse deviation	430.7	20.1	410.6	451.7	34.6	417.1
Book value	4,064.9	207.0	3,857.9	3,989.0	256.9	3,732.1

Since the time value of money is considered when determining the claims liabilities estimate, an increase or decrease in the discount rate would result in a decrease or increase in claims liabilities, respectively. A 1% change in the discount rate would have an impact of \$85.0 on the fair value of claims liabilities at December 31, 2008 (2007 – \$82.1).

Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations. This risk is managed by acquiring annuities from highly rated Canadian life insurance companies. At December 31, 2008, none of the life insurers from which the Company had purchased annuities was in default and no provision for credit risk was required. A measure of the credit risk exposure is the original purchase price of \$391.1 (2007 – \$354.2) for the annuities.

Reinsurance

In the ordinary course of business, the Company reinsures certain risks with other reinsurers to limit its maximum loss in the event of catastrophes or other major losses. For single risk events, net retention for property and liability for both 2008 and 2007 was generally \$5.0 and \$7.0, respectively. In a number of cases, like special classes of business or types of risks, the retention would be lower through specific treaties or the use of facultative reinsurance. In 2008 and 2007, for multi-risk events or catastrophes, retention is \$25.0 with a reinsurance coverage limit of \$1,250.0. For 2008, the Company retains overall 10% of the exposure between \$25.0 and \$860.0. For 2007, the Company retained overall 10% of the exposure between \$25.0 and \$750.0.

Reinsurance contracts do not relieve the Company from its obligations towards policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurers' insolvencies. Substantially, all reinsurers are required to have a minimum credit rating of A- at inception of the treaty. Rating agencies used are A.M. Best and Standard & Poors. The Company also requires that most of its treaties have a security review clause allowing the Company to replace a reinsurer during the treaty period should the reinsurer's credit rating fall below the level acceptable to the Company. Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at the consolidated balance sheet dates.

The Company is the assigned beneficiary of collateral consisting of cash, trust accounts and letters of credit totaling \$84.5 at December 31, 2008 (2007 – \$78.7) as guarantee from unlicensed reinsurers. These amounts include \$56.9 (2007 – \$54.2) from an affiliated reinsurer. This collateral is held in support of policy liabilities of \$48.8 at December 31, 2008 (2007 – \$58.2) and could be used should these reinsurers be unable to meet their obligations.

The following table presents the impact of reinsurance on the consolidated statements of income.

TABLE 6.8

	2008	2007
Reduction in:		
Premiums earned	(97.8)	(98.6)
Claims	2.2	18.8
Commissions expense	15.6	16.4
Loss before income taxes	(80.0)	(63.4)

NOTE 7 – Related-party transactions

The Company enters into related-party transactions with the controlling shareholder, ING Groep, and with entities that are subject to common control or are the managed parties of a common managing party (“common management”). These transactions consist of reinsurance, management and advisory expenses, financing charges, as well as advisory fee income (see *Subsequent events* (note 19)). These transactions are carried out in the normal course of operations. Accordingly, they are measured at the amount of consideration paid or received, as established and agreed to by the related parties and are settled on a regular basis.

Revenues and expenses with related parties

TABLE 7.1

	2008	2007
Reinsurance ceded to related entities		
Ceded premiums earned	14.8	21.0
Ceded claims expenses	0.6	4.5
Expenses		
Commissions	39.2	37.3
General expenses	8.2	18.2

Balance sheet amounts with related parties

TABLE 7.2

	2008	2007
Reinsurance (payable) receivable	(0.4)	2.4
Loans	127.0	90.4

NOTE 8 – Income taxes

Income tax (benefit) expense

TABLE 8.1 – CONSOLIDATED STATEMENTS OF INCOME

	2008	2007
Current	(28.9)	169.4
Future	24.3	(6.1)
Income tax (benefit) expense	(4.6)	163.3

TABLE 8.2 – CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	2008	2007
Current	(123.5)	(116.3)
Future	(5.3)	(7.1)
Income tax (benefit) expense	(128.8)	(123.4)

Effective income tax rate

The consolidated statements of income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory tax rates.

The following table explains the difference, expressed in percentage terms, between the income tax expense and the amount that would have been computed if the federal and provincial statutory tax rates had been applied to income before income taxes.

TABLE 8.3

	2008 %	2007 %
Income tax expense calculated at statutory tax rates	32.2	34.2
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(35.8)	(7.5)
Benefit from tax rate differential applicable to losses carry back to prior years	(9.9)	-
Losses for which a benefit is not recognized or written off	7.9	-
Non-deductible (non-taxable) other loss (income)	3.3	(1.7)
(Non-taxable) non-deductible portion of capital (gains) losses	(0.5)	1.4
Recovery of tax asset not recognized	(1.0)	-
Impact of tax rate changes	-	0.4
Other	-	(2.5)
Effective income tax rate	(3.8)	24.3

Components of net future income tax asset

TABLE 8.4

	2008	2007
Future income tax asset		
Net claims liabilities	58.9	56.8
Invested assets	13.2	29.1
Expenses deferred for tax purposes	36.7	40.7
Property and equipment	1.2	7.4
Losses available for carry-forward	4.5	7.6
Total future income tax asset	114.5	141.6
Future income tax liability		
Deferred gains and losses on specified debt obligations	37.1	45.1
Pension and post retirement benefit plans	15.8	13.7
Other	7.4	14.1
Total future income tax liability	60.3	72.9
Net future income tax asset	54.2	68.7

The Company recognized a future tax asset for all of its unused non-capital losses as at December 31, 2008 and 2007.

At December 31, 2008 the Company had allowable capital losses of \$67.7 (2007 – \$33.4), which had not been recognized when computing the future tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

NOTE 9 – Goodwill and intangible assets

Goodwill

TABLE 9.1

	2008	2007
Balance, beginning of year	159.9	162.1
Goodwill purchased (note 15)	2.8	5.8
Goodwill disposed (note 15)	1.9	8.0
Balance, end of year	160.8	159.9

No impairment of goodwill was identified in either 2008 or 2007. Impairments are non-cash in nature and they do not affect the Company's liquidity or ability to discharge its liabilities.

Intangible assets

The intangible assets represent customer relationships and the rights to offer renewals. They are amortized on a straight-line basis over ten years.

TABLE 9.2

	2008	2007
Cost	83.2	80.0
Accumulated amortization	26.2	18.2
Book value	57.0	61.8

NOTE 10 – Other assets

Components of other assets

TABLE 10.1

	2008	2007
Property and equipment (table 10.2)	128.6	111.3
Prepaid pension asset (note 11)	102.2	98.9
Long-term investments (table 10.3)	64.1	51.1
Prepays	7.3	17.3
Other	1.2	1.5
	303.4	280.1

Property and equipment

TABLE 10.2

	2008			2007		
	Cost	Accumulated amortization	Book value	Cost	Accumulated amortization	Book value
Computer equipment	179.1	91.2	87.9	144.0	72.4	71.6
Furniture and equipment	59.3	36.4	22.9	53.3	32.3	21.0
Leasehold improvements	31.8	14.1	17.7	30.8	12.2	18.6
Land and buildings	0.1	–	0.1	0.1	–	0.1
	270.3	141.7	128.6	228.2	116.9	111.3

Long-term investments

The Company has investments in companies operating in the corporate and distribution segment that are recorded using the equity method. Under this method, the Company records its share of the net income of long-term investments. Net income from long-term investments is included in interest and dividend income in the consolidated statements of income. The following table presents the changes in the long-term investments during the year.

TABLE 10.3

	2008	2007
Balance, beginning of year	51.1	44.4
Net acquisitions	9.1	4.0
Income	9.7	9.5
Dividends	(5.8)	(6.8)
Balance, end of year	64.1	51.1

NOTE 11 – Employee future benefits

The Company has several final earnings defined benefit pension plans. For these plans, the measurement date is December 31 and the latest actuarial valuations were performed as of December 31, 2005 or later. The next actuarial valuations will be performed as of December 31, 2008.

The Company has several employer paid post retirement benefit (“PRB”) plans offering life insurance and health benefits to certain retirees, which are closed to active employees. The post retirement benefits are unfunded. The measurement date for post retirement benefits is December 31 and the latest actuarial valuations were performed as of December 31, 2006.

During the year, final settlements were made in the winding up of the Company’s pension plans acquired in the purchase of Allianz Insurance Company of Canada.

Pension plan movements

TABLE 11.1

	Benefit obligation	Plan assets	Unrecognized amounts	Total net assets (liabilities)	Expenses (revenue)
Balance as at December 31, 2007	(553.2)	586.4	44.1	77.3	-
Employer current service cost	(27.2)	-	-	(27.2)	27.2
Interest costs on benefit obligation	(29.4)	-	-	(29.4)	29.4
Actuarial assumptions movements					
Net actuarial gains	133.7	-	(133.7)	-	-
Actual return on assets	-	(113.4)	113.4	-	-
Expected return on assets	-	-	40.3	40.3	(40.3)
Past service cost	-	-	-	-	-
Change in valuation allowance	-	-	0.1	0.1	(0.1)
Amortization	-	-	7.1	7.1	(7.1)
Cash movements					
Employees contributions	(6.0)	6.0	-	-	-
Employer contributions	-	14.1	-	14.1	-
Benefits paid	21.9	(21.9)	-	-	-
Settlements	11.5	(11.5)	(3.3)	(3.3)	3.3
Balance as at December 31, 2008	(448.7)	459.7	68.0	79.0	12.4

TABLE 11.2

	Benefit obligation	Plan assets	Unrecognized amounts	Total net assets (liabilities)	Expenses (revenue)
Balance as at December 31, 2006	(515.1)	557.9	30.9	73.7	-
Employer current service cost	(26.0)	-	-	(26.0)	26.0
Interest costs on benefit obligation	(26.9)	-	-	(26.9)	26.9
Actuarial assumptions movements					
Net actuarial gains	1.4	-	(1.4)	-	-
Actual return on assets	-	33.1	(33.1)	-	-
Expected return on assets	-	-	39.0	39.0	(39.0)
Past service cost	(2.9)	-	2.9	-	-
Change in valuation allowance	-	-	0.1	0.1	(0.1)
Amortization	-	-	4.0	4.0	(4.0)
Cash movements					
Employees contributions	(5.6)	5.6	-	-	-
Employer contributions	-	13.4	-	13.4	-
Benefits paid	21.9	(21.9)	-	-	-
Settlements	-	(1.7)	1.7	-	-
Balance as at December 31, 2007	(553.2)	586.4	44.1	77.3	9.8

Funding status

TABLE 11.3

	Pension plans		Post retirement benefits	
	2008	2007	2008	2007
Benefit obligation	(448.7)	(553.2)	(15.3)	(15.8)
Fair value of plan assets	459.7	586.4	–	–
Surplus (deficit)	11.0	33.2	(15.3)	(15.8)
Unrecognized amounts:				
Actuarial gains	97.9	84.3	3.5	4.1
Past service costs	2.6	3.1	(4.7)	(5.1)
Transition (asset) obligation	(31.6)	(42.1)	0.7	0.8
Valuation allowance	(0.8)	(1.2)	–	–
Net prepaid asset (accrued liability) at the end of the year	79.1	77.3	(15.8)	(16.0)
Presented as:				
Other assets (note 10)	102.2	98.9	–	–
Other liabilities	23.1	21.6	15.8	16.0

Some of the Company's pension plans are not fully funded. For these plans, the aggregate amount of benefit obligation is \$272.6 in 2008 (\$335.9 in 2007), and the fair value of plan assets is \$227.7 in 2008 (\$278.8 in 2007), which results in a net deficit of \$44.9 in 2008 (\$57.1 in 2007).

Post retirement benefits plan movements

TABLE 11.4

	Benefit obligation	Plan assets	Unrecognized amounts	Total net assets (liabilities)	Expense (revenue)
Balance as at December 31, 2007	(15.8)	–	(0.2)	(16.0)	–
Interest costs on benefit obligation	(0.8)	–	–	(0.8)	0.8
Actuarial gains or losses	0.4	–	(0.4)	–	–
Amortization	–	–	0.1	0.1	(0.1)
Cash movements					
Employer contributions	–	0.9	–	0.9	–
Benefits paid	0.9	(0.9)	–	–	–
Balance as at December 31, 2008	(15.3)	–	(0.5)	(15.8)	0.7

TABLE 11.5

	Benefit obligation	Plan assets	Unrecognized amounts	Total net assets (liabilities)	Expense (revenue)
Balance as at December 31, 2006	(15.8)	–	(0.5)	(16.3)	–
Interest costs on benefit obligation	(0.8)	–	–	(0.8)	0.8
Actuarial gains or losses	(0.2)	–	0.2	–	–
Amortization	–	–	0.1	0.1	(0.1)
Cash movements					
Employer contributions	–	1.0	–	1.0	–
Benefits paid	1.0	(1.0)	–	–	–
Balance as at December 31, 2007	(15.8)	–	(0.2)	(16.0)	0.7

Composition of pension plan assets

TABLE 11.6

	2008	2007
Equity securities	49.4%	52.3%
Debt securities	50.1%	46.3%
Other invested assets	0.5%	1.4%

The pension plan assets composition does not take into account the impact of the pension plans' derivatives and short securities.

Components of the expense (revenue)

TABLE 11.7

	Pension plans		Post retirement benefits	
	2008	2007	2008	2007
Current service cost	27.2	26.0	-	-
Interest cost on benefit obligation	29.4	26.9	0.8	0.8
Past service costs	-	2.9	-	-
Actual return on plan assets	113.4	(33.1)	-	-
Net actuarial (gains) losses	(133.7)	(1.4)	(0.4)	0.2
Accrued benefit expense before adjustments to recognize the long-term nature of employee future benefit costs	36.3	21.3	0.4	1.0
Excess of actual return over expected return on plan assets for the year	(153.6)	(5.9)	-	-
Net actuarial gains (losses) arising during the year (table 11.8)	133.7	1.4	0.4	(0.2)
Past service costs	-	(2.9)	-	-
Change in valuation allowance	(0.1)	(0.1)	-	-
Amortization of past service cost	0.4	3.2	(0.4)	(0.4)
Amortization of transitional (asset) obligation	(10.5)	(10.5)	0.1	0.1
Amortization of net actuarial losses	3.2	3.6	0.2	0.2
Amortization of valuation allowance	(0.3)	(0.3)	-	-
Settlement loss	3.3	-	-	-
Total	12.4	9.8	0.7	0.7

Components of net actuarial gains or losses arising during the year

TABLE 11.8

	Pension plans		Post retirement benefits	
	2008	2007	2008	2007
Actuarial gains (losses) arising from the:				
Change in the discount rate used to measure the benefit obligation	135.0	20.5	1.2	0.3
Experience	(1.3)	(1.5)	(0.8)	-
Change in mortality table	-	(17.6)	-	(0.5)
Total	133.7	1.4	0.4	(0.2)

Assumptions used

The following table summarizes the key weighted average assumptions used for the measurement of the benefit obligations and benefit expense (revenue).

TABLE 11.9

	Pension plans		Post retirement benefits	
	2008	2007	2008	2007
To determine benefit obligation at end of year				
Discount rate	6.7%	5.2%	6.0%	5.2%
Rate of increase in future compensation	3.5%	3.5%	n/a	n/a
Health care cost trend rate	n/a	n/a	9.0%	10.0%
Dental care cost trend rate	n/a	n/a	4.5%	5.0%
To determine benefit expense (revenue) for the year				
Discount rate	5.2%	5.0%	5.2%	5.0%
Rate of increase in future compensation	3.5%	3.5%	n/a	n/a
Expected long-term rate of return on plan assets	7.0%	7.0%	n/a	n/a
Health care cost trend rate	n/a	n/a	10.0%	9.0%
Dental care cost trend rate	n/a	n/a	5.0%	5.0%

The impact of a 1% increase or decrease in the health care and dental care cost trend rate would not be significant on the Company's results or financial position.

NOTE 12 – Debt outstanding

The Company has an unsecured committed credit facility of \$150.0 (2007 – uncommitted \$100.0), which may be drawn as prime loans at the prime rate plus a margin or as bankers' acceptances at the bankers' acceptance rate plus a margin. As at December 31, 2008 the Company had not drawn down under the facility.

NOTE 13 – Share capital and capital management

Authorized, issued and outstanding

TABLE 13.1

Classes of shares	2008			2007		
	Authorized (shares)	Issued and outstanding (shares)	Amount	Authorized (shares)	Issued and outstanding (shares)	Amount
Common	Unlimited	119,906,566	1,061.5	Unlimited	124,472,761	1,101.9
Class A	Unlimited	–	–	Unlimited	–	–
Special	One	1	–	One	1	–

On February 22, 2008, the Company commenced its normal course issuer bid to purchase for cancellation during the ensuing 12-month period ending February 21, 2009, up to 6,223,638 common shares. The actual number of common shares which may be purchased and the timing of any such purchases will be determined by the Company. Under the terms of the normal course issuer bid, ING Canada's majority shareholder, ING Groep, is permitted to participate to maintain its proportionate share ownership at 70%. As at December 31, 2008, 4,566,195 common shares have been repurchased under the issuer bid at an average price of \$38.53 per share for a total consideration of \$176.0 and ING Groep participated proportionately. Total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of \$135.6 was charged to retained earnings.

Notes to consolidated financial statements

(in millions of Canadian dollars, except as noted)

On March 30, 2007, the Company completed a substantial issuer bid under which it purchased for cancellation 9,259,239 of its common shares at \$54.00 per share for a total consideration of \$500.0 plus fees of \$1.2 net of income taxes. The total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of \$419.2 was charged to retained earnings.

Issued and outstanding Class A shares would rank both with regards to dividends and return on capital in priority to the common shares.

The Special Share is convertible into one common share. The beneficial owner of the Special Share is entitled to nominate and elect a certain number of directors to the Board. The Chief Executive Officer is appointed by the board from among the directors elected by the holder of the special share, as determined by the number of common shares that the holder of the Special Share beneficially owns. See *Subsequent events* (note 19).

Capital management

The Company's objectives when managing capital consists of maintaining sufficient capital to support claims liabilities, meeting regulatory capital requirements, providing returns for its shareholders and benefits for its stakeholders, supporting its competitive pricing strategies and maintaining a leadership position in the P&C insurance industry.

The P&C insurance subsidiaries of the Company are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act* ("ICA"). OSFI has established a Minimum Capital Test guideline ("MCT") which sets out 100% as the minimum and 150% as the supervisory target MCT standards for P&C insurance companies.

The following table presents the aggregate minimum capital test for the Company's P&C insurance subsidiaries.

TABLE 13.2

As at December 31,

	2008	2007
Total capital available	2,096.5	2,250.4
Total capital required	1,023.0	1,197.7
Excess capital	1,073.5	1,052.7
MCT %	205.0%	187.9%
Excess at 150%	562.0	453.7

As at December 31, 2008, the Company's P&C insurance subsidiaries were in compliance with both OSFI and ICA requirements as well as internal targets.

Annually the Company performs Dynamic Capital Adequacy Testing on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios.

Stock-based compensation

Certain employees are entitled to a long-term incentive plan ("LTIP"). Under this plan, these employees are awarded performance units as a portion of their compensation. Each award vests and pays out at the end of a three-year performance cycle. The actual award varies based on a performance target by comparing the Company's three-year average return on equity relative to that of the Canadian P&C insurance industry. The actual award may only be in common shares restricted for transfer. Accordingly, this type of compensation is recognized as an expense with a corresponding increase to contributed surplus. The Company re-estimates the number of performance units that are expected to vest at each reporting period. At the time of the payout, the Company intends to purchase common shares in the market in an amount equal to the number of vested units.

TABLE 13.3

As at December 31, 2008	Number of units	Per unit fair value at grant date (in \$)	Amount
2006–2008 performance cycle	91,907	36.79	3.4
2007–2009 performance cycle	71,262	44.27	3.2
2008–2010 performance cycle	143,695	32.76	4.7
Total	306,864	36.64	11.3

TABLE 13.4

As at December 31, 2007	Number of units	Per unit fair value at grant date (in \$)	Amount
2005–2007 performance cycle	341,279	26.30	9.0
2006–2008 performance cycle	151,706	36.79	5.6
2007–2009 performance cycle	123,130	44.27	5.5
Total	616,115	32.47	20.1

Employees who are not eligible for the LTIP are entitled to make contributions in accordance with a voluntary employee share purchase plan (“ESPP”). Under the ESPP, eligible employees can contribute up to 10% of their base earnings through payroll deduction. As an incentive for participation in the plan, the Company will contribute an amount corresponding to 50% of the employee contribution. The common shares are purchased on the market by an independent broker at the end of each month and are held by a custodian on behalf of the employees. The common shares purchased with the Company’s contributions vest upon continued employment for a period of twelve months.

The amount charged to compensation expense for these plans was \$3.0 for the year ended December 31, 2008, (2007 – \$6.2). The LTIP expense is based on the fair value of the awards at the dates of the grants and represents management’s estimate of the payout by reference to the achievement of an expected performance target. The Company’s contributions under the ESPP are accrued when payable and are expensed over the vesting period of the restricted common shares.

TABLE 13.5

	2008 units	2007 units
LTIP (share equivalents)		
Outstanding, beginning of year	616,115	545,274
Net change in estimate during the year	(309,251)	70,841
Outstanding, end of year	306,864	616,115
LTIP (restricted common shares)		
Outstanding, end of year	289,236	–
ESPP (restricted common shares)		
Outstanding, beginning of year	66,228	22,892
Awarded during the year	87,144	63,146
Vested or forfeited during the year	(63,466)	(19,810)
Outstanding, end of year	89,906	66,228

NOTE 14 – Additional information on the statements of cash flows

TABLE 14.1

	2008	2007
Adjustment for non-cash items:		
Unearned premiums, net	32.7	70.4
Net losses (gains) on invested assets and other gains	288.0	(73.6)
Deferred acquisition costs, net	(2.3)	(6.8)
Future income taxes	24.3	(6.1)
Amortization of:		
Property and equipment	30.1	24.9
Intangible assets	8.0	8.0
Net premiums on fixed income securities	1.8	(4.0)
Increase in loan provision	0.5	0.3
Other	(4.8)	1.5
Total	378.3	14.6
Decrease in cash and cash equivalents due to changes in other operating assets and liabilities:		
Premium and other receivables	1.9	(42.3)
Income taxes	(77.7)	(105.7)
Other assets	7.0	(8.8)
Payables and other liabilities	56.4	91.2
Total	(12.6)	(65.6)
Income taxes (recovered) paid	(70.4)	158.8
Composition of cash and cash equivalents (as at December 31):		
Cash, net of bank overdrafts	27.3	1.8
Cash equivalents	483.1	6.3
Total	510.4	8.1

NOTE 15 – Acquisitions and divestitures

Acquisitions of businesses are accounted for using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangible assets and the liabilities assumed, based on their fair values at the date of acquisition. Any excess is then recorded as goodwill.

The Company's subsidiaries, by way of share or asset purchases, acquired or increased their ownership and disposed of certain other businesses.

The results of the acquired companies since their respective acquisition date are included in the Company's consolidated statements of income. The allocation of the net purchase price was established as follows:

TABLE 15.1

	2008	2007
Goodwill	0.9	(2.2)
Intangible assets	3.2	3.5
Future income taxes	(0.3)	(0.6)
Net tangible assets	0.8	9.3
Net cash consideration paid	4.6	10.0

The net goodwill acquired is non deductible for tax purposes.

In 2008, the Company paid \$4.3 (2007 – \$4.8) of accrued integration costs primarily related to discontinuance of information systems, redundant lease space and involuntary employee terminations. Furthermore, the provision for redundant lease space was nil for 2008 (2007 – \$1.6) with a corresponding charge in the consolidated statements of income.

NOTE 16 – Disclosures on rate regulation

The Company's insurance subsidiaries are licensed under insurance legislation in each of the provinces and territories in which they conduct business. Automobile insurance is a compulsory product and is subject to different regulations across the provinces and territories in Canada, including those with respect to rate setting. Rate setting mechanisms vary across the provinces and territories in Canada, but they generally fall under three categories: “use and file”, “file and use” and “file and approve”. Under “use and file”, rates are filed following use. Under “file and use”, insurers file their rates with the relevant authorities and wait for a prescribed period of time and then implement the proposed rates. Under “file and approve”, insurers must wait for specific approval of filed rates before they may be used.

Table 16.1 lists the provincial authorities which regulate automobile insurance rates. Automobile direct written premiums in these provinces totaled \$2,375.8 in 2008 (2007 – \$2,335.2) and represented approximately 99.0% (2007 – 98.5%) of direct automobile premiums written.

TABLE 16.1

Province	Rate filing	Regulatory authority
Alberta	File and approve or file and use	Alberta Automobile Insurance Rate Board
Ontario	File and approve	Financial Services Commission of Ontario
Quebec	Use and file	L'Autorité des marchés financiers
Nova Scotia	File and approve	Nova Scotia Utility and Review Board
New Brunswick	File and approve	New Brunswick Insurance Board
Prince Edward Island	File and approve	Island Regulatory Appeals Commission
Newfoundland	File and approve	Board of Commissioners of Public Utilities

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. At December 31, 2008 and 2007, the Company had no significant regulatory asset or liability.

NOTE 17 – Contingencies, commitments and guarantees

In the normal course of operations, various claims and legal proceedings are instituted against the Company. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Company has made adequate provision for, or has adequate insurance to cover all claims and legal proceedings. Consequently, any settlements reached should not have a material adverse effect on the Company's consolidated future operating results and financial position.

The Company provides indemnification agreements to directors and officers, to the extent permitted by law, against certain claims made against them as a result of their services to the Company. The Company has insurance coverage for these agreements.

The following table presents future minimum payments under long-term leases for premises and equipment.

TABLE 17.1

Year	Amount
2009	59.6
2010	50.5
2011	45.4
2012	42.5
2013	36.1
Thereafter	129.3
	363.4

NOTE 18 – Segmented information

The Company has two reportable segments, the underwriting segment and the corporate and distribution segment.

The Company's core business activity is P&C insurance underwriting. The underwriting segment includes two lines of business: personal lines and commercial lines. Personal lines include automobile and property while commercial lines include automobile and property and liability.

Corporate and distribution segment includes the results of the Company's broker operations and the results of other operations.

Results of the Company's reportable segments

TABLE 18.1

As at December 31, 2008	Underwriting	Corporate and distribution	Inter-segment eliminations	Total
Revenues	4,039.4	94.1	(58.8)	4,074.7
Expenses	3,972.4	78.2	(58.8)	3,991.8
Subtotal	67.0	15.9	-	82.9
Interest and dividend income, net of expenses				328.7
Net gains (losses) on invested assets and other gains				(288.0)
Total income before income taxes				123.6

TABLE 18.2

As at December 31, 2007	Underwriting	Corporate and distribution	Inter-segment eliminations	Total
Revenues	3,932.0	136.6	(66.6)	4,002.0
Expenses	3,723.2	86.0	(60.3)	3,748.9
Subtotal	208.8	50.6	(6.3)	253.1
Interest and dividend income, net of expenses				344.9
Net gains (losses) on invested assets and other gains				73.6
Total income before income taxes				671.6

TABLE 18.3 – ASSETS AND LIABILITIES OF THE COMPANY'S REPORTABLE SEGMENTS

As at December 31, 2008	Underwriting	Corporate and distribution	Inter-segment eliminations	Total
Goodwill	74.4	86.4	–	160.8
Invested assets	6,059.0	49.9	–	6,108.9
Other	3,207.4	303.4	(7.1)	3,503.7
Total assets	9,340.8	439.7	(7.1)	9,773.4

TABLE 18.4 – ASSETS AND LIABILITIES OF THE COMPANY'S REPORTABLE SEGMENTS

As at December 31, 2007	Underwriting	Corporate and distribution	Inter-segment eliminations	Total
Goodwill	74.4	85.5	–	159.9
Invested assets	6,737.1	501.9	(1.2)	7,237.8
Other	2,714.7	290.6	(13.3)	2,992.0
Total assets	9,526.2	878.0	(14.5)	10,389.7

Results by line of business

TABLE 18.5

	2008	2007
Direct premiums written		
Personal	3,034.5	2,952.7
Commercial	1,136.0	1,147.3
Underwriting income (loss)		
Personal	(68.4)	105.3
Commercial	135.4	103.5

NOTE 19 – Subsequent events

On February 19, 2009, ING Groep completed the disposal of its entire shareholding in the Company via the sale of 36,183,480 of the Company's common shares to a number of institutional investors on a private placement basis and the sale of 47,757,920 common shares pursuant to a "bought deal" secondary public offering. The Special share owned by ING Groep was immediately converted into one common share that was also disposed of through the secondary offering.

On the same date the Company and ING Groep entered into an Amended and Restated Co-Operation and Transition Services Agreement which governs among other things the transition of reinsurance and advisory and management services, including risk management, human resources, internal audit and information technology, over a period of up to twenty-four months.

Five-year annual review

(in millions of Canadian dollars, except as noted)

	2008	2007	2006	2005	2004
Consolidated performance					
Written insured risks (thousands)	4,601.5	4,679.9	4,565.1	4,417.9	3,857.6
Direct premiums written (excluding pools)	4,145.5	4,108.6	3,993.6	3,905.9	3,501.4
Net premiums earned	4,039.4	3,932.0	3,826.6	3,840.2	3,364.6
Prior year claims reserve development (favourable)	(113.9)	(115.9)	(169.9)	(277.6)	(74.2)
Net underwriting income (excluding MYA)	117.0	189.1	403.8	537.7	470.0
Combined ratio (excluding MYA)	97.1%	95.2%	89.4%	86.0%	86.0%
Interest and dividend income, net of expenses	328.8	344.8	321.3	307.5	249.1
Net gains on invested assets and other gains	(288.0)	73.6	193.5	223.5	132.4
Corporate and distribution income	15.6	44.3	33.4	22.3	4.3
Income before income taxes	123.6	671.6	952.0	1,091.0	855.8
Effective tax rate (%)	(3.8)%	24.3%	30.9%	28.3%	27.1%
Net operating income (excluding MYA)	360.7	457.0	530.5	612.3	532.3
Net income	128.2	508.3	658.1	781.8	624.2
Earnings per share (dollars)	1.05	4.01	4.92	5.85	6.51
Average number of shares outstanding	122.0	126.7	133.7	133.5	95.8
Return on equity (%)	4.4%	15.4%	20.8%	31.6%	40.9%
Personal lines – total					
Written insured risks (thousands)	4,103.7	4,190.5	4,077.6	3,927.4	3,397.1
Direct premiums written (excluding pools)	3,009.9	2,962.1	2,810.7	2,657.1	2,339.2
Net premiums earned	2,958.8	2,845.0	2,696.7	2,680.7	2,343.5
Combined ratio (excluding MYA)	101.2%	96.7%	91.0%	85.7%	85.5%
Net underwriting income (excluding MYA)	(36.0)	92.7	242.2	382.1	339.2
Personal auto					
Written insured risks (thousands)	2,449.3	2,514.4	2,440.1	2,336.0	1,959.8
Direct premiums written (excluding pools)	2,057.0	2,057.7	1,969.2	1,877.2	1,638.3
Net premiums earned	2,067.5	2,008.0	1,911.2	1,946.9	1,712.1
Combined ratio (excluding MYA)	95.9%	94.5%	87.3%	78.8%	82.9%
Net underwriting income (excluding MYA)	84.7	111.4	242.5	411.5	292.0
Personal property					
Written insured risks (thousands)	1,654.4	1,676.1	1,637.4	1,591.5	1,437.3
Direct premiums written (excluding pools)	952.9	904.4	841.5	779.9	700.9
Net premiums earned	891.3	837.0	785.5	733.8	631.4
Combined ratio (excluding MYA)	113.6%	102.2%	100.0%	104.0%	92.5%
Net underwriting income (excluding MYA)	(120.7)	(18.7)	(0.3)	(29.4)	47.2
Commercial lines – total					
Written insured risks (thousands)	497.8	489.3	487.5	490.6	460.5
Direct premiums written (excluding pools)	1,135.6	1,146.5	1,182.9	1,248.9	1,162.2
Net premiums earned	1,080.7	1,087.1	1,129.9	1,159.5	1,021.1
Combined ratio (excluding MYA)	85.9%	91.1%	85.7%	86.6%	87.2%
Net underwriting income (excluding MYA)	153.0	96.2	161.7	155.6	130.8
Commercial auto					
Written insured risks (thousands)	263.8	255.8	253.6	254.4	231.8
Direct premiums written (excluding pools)	317.8	321.2	327.5	331.2	302.5
Net premiums earned	318.9	320.2	326.8	334.4	290.5
Combined ratio (excluding MYA)	87.2%	93.7%	86.9%	87.0%	81.2%
Net underwriting income (excluding MYA)	40.8	20.1	43.0	43.6	54.7
Commercial non-auto					
Written insured risks (thousands)	234.0	233.5	233.9	236.4	228.7
Direct premiums written (excluding pools)	817.8	825.3	855.4	917.6	859.7
Net premiums earned	761.8	766.9	803.1	825.1	730.6
Combined ratio (excluding MYA)	85.3%	90.1%	85.2%	86.4%	89.6%
Net underwriting income (excluding MYA)	112.2	76.2	118.7	112.0	76.1
Financial condition					
Excess capital at holding company (over 170% MCT)	357.5	214.1	463.7	500.0	199.5
MCT %	205.0%	187.9%	210.0%	215.8%	188.8%
Cash generated from operations	619.7	620.3	431.0	637.4	1,392.2
Debt to shareholders' equity	0%	0%	0%	4.2%	11.1%
Book value per share (dollars)	21.96	25.48	25.58	21.63	15.40
Invested assets					
Performance					
Market-based investment yield	5.0%	5.1%	4.8%	4.7%	4.9%
Portfolio mix					
Total invested assets and cash	6,648.5	7,245.9	7,367.8	7,062.1	6,367.6
Cash and short-term investments	12.1%	0.4%	11.4%	11.1%	5.6%
Fixed income securities	53.2%	53.4%	44.2%	49.9%	57.9%
Common shares	12.0%	23.6%	21.5%	17.9%	15.7%
Preferred shares	18.4%	19.7%	19.8%	17.8%	16.8%
Other	4.3%	2.9%	3.1%	3.3%	4.1%

Two-year quarterly review

(in millions of Canadian dollars, except as noted)

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Consolidated performance								
Written insured risks (thousands)	1,034.3	1,240.7	1,380.6	945.8	1,056.7	1,273.1	1,399.7	950.4
Direct premiums written (excluding pools)	968.2	1,100.3	1,216.7	860.3	961.3	1,091.2	1,209.8	846.3
Net premiums earned	1,019.2	1,032.3	996.1	991.8	1,004.7	994.0	976.7	956.7
Prior year claims reserve development (favourable)	(19.3)	(62.7)	(70.3)	38.4	(45.4)	(20.7)	(37.6)	(12.2)
Net underwriting income (excluding MYA)	11.0	61.9	43.4	0.7	68.2	29.0	53.2	38.6
Combined ratio (excluding MYA)	98.9%	94.0%	95.6%	99.9%	93.2%	97.1%	94.6%	96.0%
Interest and dividend income, net of expenses	78.3	83.1	81.7	85.6	86.5	84.7	86.9	86.7
Net gains on invested assets and other gains	(152.2)	(81.3)	(28.7)	(25.8)	(3.3)	(2.8)	53.6	26.1
Corporate and distribution income	2.0	(2.1)	12.8	3.1	1.9	6.2	18.0	18.3
Income before income taxes	(108.2)	68.7	140.8	22.2	132.6	116.8	250.8	171.4
Effective tax rate (%)	40.7%	16.7%	20.5%	(3.8%)	27.8%	21.2%	22.5%	26.4%
Net operating income (excluding MYA)	75.1	106.3	109.3	70.2	116.4	95.5	132.5	112.8
Net income	(64.1)	57.3	112.0	23.0	95.8	92.0	194.3	126.2
Earnings per share (dollars)	(0.53)	0.47	0.91	0.19	0.77	0.74	1.56	0.95
Average number of shares outstanding	119.9	120.8	122.8	124.4	124.5	124.5	124.5	133.5
Return on equity (%)	4.4%	9.5%	10.3%	13.0%	15.4%	16.0%	18.3%	19.4%
Personal lines – total								
Written insured risks (thousands)	914.3	1,123.6	1,230.6	835.2	936.1	1,157.8	1,253.9	842.6
Direct premiums written (excluding pools)	679.1	835.1	891.2	604.5	668.3	824.4	879.3	590.2
Net premiums earned	748.5	758.0	728.1	724.2	732.8	719.4	706.3	686.5
Combined ratio (excluding MYA)	106.3%	97.2%	98.7%	102.8%	96.5%	99.2%	96.5%	94.8%
Net underwriting income (excluding MYA)	(46.9)	21.4	9.4	(19.9)	25.9	5.8	25.0	35.9
Personal auto								
Written insured risks (thousands)	528.7	659.0	751.8	509.8	541.5	681.1	771.2	520.5
Direct premiums written (excluding pools)	452.5	564.4	615.1	425.0	453.1	565.6	617.1	421.9
Net premiums earned	520.6	531.2	509.2	506.5	515.2	505.9	500.6	486.3
Combined ratio (excluding MYA)	102.9%	90.8%	89.2%	100.9%	95.9%	94.7%	89.9%	97.3%
Net underwriting income (excluding MYA)	(14.9)	49.0	55.1	(4.6)	21.3	26.6	50.6	12.9
Personal property								
Written insured risks (thousands)	385.6	464.6	478.8	325.4	394.6	476.7	482.7	322.1
Direct premiums written (excluding pools)	226.6	270.7	276.1	179.5	215.3	258.7	262.2	168.3
Net premiums earned	227.9	226.8	218.9	217.7	217.6	213.5	205.7	200.2
Combined ratio (excluding MYA)	114.0%	112.2%	120.9%	107.0%	97.9%	109.7%	112.4%	88.5%
Net underwriting income (excluding MYA)	(32.0)	(27.6)	(45.7)	(15.3)	4.7	(20.8)	(25.6)	23.0
Commercial lines – total								
Written insured risks (thousands)	120.0	117.2	150.1	110.6	120.5	115.3	145.7	107.8
Direct premiums written (excluding pools)	289.2	265.2	325.5	255.8	293.0	266.8	330.5	256.2
Net premiums earned	270.8	274.3	268.0	267.6	271.8	274.7	270.4	270.2
Combined ratio (excluding MYA)	78.7%	85.3%	87.3%	92.3%	84.4%	91.6%	89.6%	99.0%
Net underwriting income (excluding MYA)	57.8	40.4	34.1	20.6	42.4	23.2	28.1	2.7
Commercial auto								
Written insured risks (thousands)	63.0	60.5	83.0	57.3	62.8	58.8	79.2	55.0
Direct premiums written (excluding pools)	77.2	72.8	97.8	70.1	81.7	72.5	98.3	68.7
Net premiums earned	80.1	80.8	79.3	78.7	80.7	80.4	79.9	79.2
Combined ratio (excluding MYA)	91.6%	77.9%	86.9%	92.7%	99.9%	88.3%	91.6%	95.0%
Net underwriting income (excluding MYA)	6.7	17.9	10.5	5.7	0.1	9.4	6.7	3.9
Commercial non-auto								
Written insured risks (thousands)	57.0	56.7	67.1	53.3	57.7	56.5	66.5	52.8
Direct premiums written (excluding pools)	211.9	192.4	227.7	185.7	211.3	194.3	232.2	187.5
Net premiums earned	190.7	193.5	188.7	188.9	191.1	194.3	190.5	191.0
Combined ratio (excluding MYA)	73.2%	88.4%	87.5%	92.1%	77.9%	92.9%	88.8%	100.7%
Net underwriting income (excluding MYA)	51.0	22.6	23.7	14.9	42.3	13.9	21.4	(1.3)
Financial condition								
Excess capital at holding company (over 170% MCT)	357.5	339.0	328.4	238.5	214.1	217.7	216.8	283.8
MCT %	205.0%	199.9%	197.8%	190.2%	187.9%	188.0%	188.2%	194.7%
Cash generated from operations	230.5	191.0	240.5	(42.3)	216.5	299.2	202.2	(97.6)
Debt to shareholders' equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Book value per share (dollars)	21.96	24.15	25.19	25.19	25.48	25.70	25.55	25.05
Invested assets								
Performance								
Market-based investment yield	5.1%	4.9%	4.9%	5.1%	5.1%	5.1%	5.1%	5.0%
Portfolio mix								
Total invested assets and cash	6,648.5	6,911.0	7,092.4	7,090.6	7,245.9	7,268.1	7,065.1	7,024.9
Cash and short-term investments	12.1%	3.9%	0.9%	0.0%	0.4%	0.0%	0.1%	4.4%
Fixed income securities	53.2%	50.8%	49.7%	52.1%	53.4%	51.7%	49.6%	44.5%
Common shares	12.0%	19.7%	24.5%	24.1%	23.6%	24.4%	24.5%	24.1%
Preferred shares	18.4%	21.9%	21.6%	20.7%	19.7%	21.0%	22.3%	23.6%
Other	4.3%	3.7%	3.3%	3.1%	2.9%	2.8%	3.4%	3.4%

Glossary

Asset-backed security A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities.

Book value per share Represents shareholders' equity at the end of the period divided by the number of outstanding common shares on the same date.

Case reserves The liability established to reflect the estimated cost of unpaid claims that have been reported and claims expenses that the insurer will ultimately be required to pay.

Cash flow risk Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate.

Catastrophe A catastrophe is defined as one event leading to aggregate damages of \$5.0 million or more.

Claims expenses The direct and indirect expenses of settling claims.

Claims ratio Claims and claims expenses incurred during a defined period, net of reinsurance, expressed as a percentage of net premiums earned for the same period.

Claims reserve estimate or claims liabilities The total claims liabilities is made up of two main elements: 1) case reserves and 2) claims that are incurred but not reported (IBNR). Case reserves and IBNR should be sufficient to cover all expected claims liabilities for events that have already occurred, whether reported or not, taking into account a provision for adverse deviation ("PfAD") and discounting for the time value of money.

Combined ratio The sum of the claims ratio and the expenses ratio. A combined ratio below 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable result.

Corporate sustainability Corporate sustainability represents the way a company achieves enhanced ethical standards and a balance of economic, environmental and social imperatives addressing the concerns and expectations of its stakeholders.

Credit derivatives Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Some total return swaps are also credit derivatives.

Credit risk Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk mostly arises from assets invested in fixed income securities and preferred shares.

Derivative-related credit risk Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

Direct premiums written The total amount of premiums for new and renewal policies billed (written) during a specific reporting period from the primary insured.

Expense ratio Underwriting expenses including commissions, premium taxes and all general and administrative expenses, incurred in operating the underwriting business during a defined period and expressed as a percentage of net premiums earned for the same period.

Facility Association The Facility Association is an entity established by the automobile insurance industry to ensure that automobile insurance is available to all owners and licensed drivers of motor vehicles where such owners or drivers are unable to obtain automobile insurance through the private insurance market. The Facility Association serves the following provinces and territories: Alberta, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island and Yukon.

Foreign exchange rate risk Foreign exchange rate risk is the risk that the value of a foreign-denominated financial instrument will fluctuate as a result of changes in foreign exchange rates.

Forwards and futures derivatives Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts with respect to amounts and settlement dates, and are traded on regular future exchanges.

Interest rate forwards and futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.

Frequency (of claims) Total number of claims reported in a specific period.

Incurred but not reported (IBNR) claims reserve Reserves for estimated claims that have been incurred but not yet reported by policyholders and a reserve for future developments on claims which have been reported.

Industry pools Industry pools consist of the "residual market" as well as risk-sharing pools ("RSP") in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. These pools are managed by the Facility Association except for the Québec RSP.

Invested assets or investment portfolio Financial assets owned by the Company including debt and equity securities and loans.

Liquidity risk Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments.

Market-based yield Yield calculated using the interest and dividend income for the period divided by the average fair value of invested assets calculated monthly including cash equivalents but excluding cash balances.

Market yield adjustment (“MYA”) The impact of changes in the discount rate used to discount claims liabilities based on the change in market based yield of the underlying assets.

Market yield effect The difference between the MYA and the gains and losses on “held-for-trading” debt securities (the objective is that these two items offset each other with a minimal overall impact to net income).

Minimum capital test (“MCT”) Federally regulated property and casualty insurers, including our Canadian insurance subsidiaries, must meet a minimum capital test (“MCT”) that assesses the insurer’s available capital in relation to its required capital and requires that available capital equal at least the minimum capital requirement. OSFI expects insurers to establish a target capital level above the minimum requirement, and maintain ongoing capital, at no less than the supervisory target of 150% of required capital under MCT.

Net operating income The sum of underwriting income excluding the market yield adjustment (“MYA”), interest and dividend income and corporate and distribution income, after tax (this is a key profitability measure).

Net premiums earned The portion of premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written Direct premiums written for a given period less premiums ceded to reinsurers and retrocessionaires during such period.

Net underwriting income The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and general expenses. This is a key profitability measure.

Normal course issuer bid A program for the repurchase of our own common shares, for cancellation through a stock exchange, that is subject to the various rules of the relevant stock exchange and securities commission.

Notional amount The contract amount used as a reference point to calculate payments for derivatives.

Options Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) an interest rate at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser’s right. The seller (writer) receives a premium from the purchaser for this right.

Prior year claims development Prior year claims development is the change in total claims liabilities in a given period. A reduction to claims liabilities is called favourable prior year claims development. An increase in claims liabilities is called unfavourable prior year claims development.

Provision for adverse deviation An amount added to undiscounted case reserves and IBNR to account for adverse deviation from claims reserve estimates.

Reinsurer An insurance company that agreed to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company, under one or more policies.

Return on equity (ROE) Net income for the last 12 months divided by the average equity for the same period. The average is calculated by adding the beginning balance and the ending balance and dividing by two. The equity includes accumulated other comprehensive income.

Severity (of claims) Average cost of a claim calculated by dividing the total cost of claims by the total number of claims.

Shareholders’ equity Capital invested by the shareholders plus retained earnings.

Swaps Over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount.

Currency swaps Currency swaps include single currency, cross currency and cross currency interest rate swaps. Single currency swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Total return swaps Total return swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of an equity index, a basket of stocks or a single stock.

Written insured risks The number of vehicles in automobile insurance, the number of premises in personal property insurance and the number of policies in commercial insurance (excluding commercial auto insurance).

Board of directors

Charles Brindamour⁽⁴⁾

President and Chief Executive Officer

Yves Brouillette^{(2),(3)}

Corporate Director and President, Placements Beluca Inc.

Paul Cantor^{(1),(3)}

Director and Chair, Public Sector Pension Investment Board and Senior Advisor, Bennett Jones LLP

Marcel Côté^{(2),(3)}

Partner, Secor Consulting Inc.

Robert W. Crispin⁽⁴⁾

Corporate Director

Claude Dussault^{(2),(4)}

Chairman of the Board

Ivan E.H. Duvar^{(1),(2)}

President and Chief Executive Officer, MIJAC Inc.

Eileen Mercier^{(1),(2)}

Chair and Board Member, Ontario Teachers' Pension Plan

Robert Normand^{(1),(4)}

Corporate Director

Louise Roy⁽³⁾

Chancellor, Université de Montréal and Associate Fellow, Center for Interuniversity Research and Analysis on Organizations

Carol Stephenson⁽³⁾

Dean, Richard Ivey School of Business, University of Western Ontario

Notes:

(1) Denotes member of the Audit & Risk Review Committee

(2) Denotes member of the Conduct Review & Corporate Governance Committee

(3) Denotes member of the Human Resources Committee

(4) Denotes member of the Investment Committee

For complete biographies of the Board of Directors, please see the Annual Information Form which may be found online at www.sedar.com

Executive management

Charles Brindamour

President and Chief Executive Officer

Martin Beaulieu

Senior Vice President, Personal Lines

Susan Black

Senior Vice President, Strategic Planning and Chief Human Resources Officer

Alan Blair

Senior Vice President, Atlantic Canada

Debbie Coull-Cicchini

Senior Vice President, Ontario

Claude Désilets

Chief Risk Officer

Louis Gagnon

President, Intact Insurance

Denis Garneau

Senior Vice President, Québec

Françoise Guénette

Senior Vice President, Corporate and Legal Services and Secretary

Denis Guertin

Senior Vice President, belairdirect

Byron Hindle

Senior Vice President, Commercial Lines

Derek Iles

Vice Chair and Senior Vice President, Western Canada

Jack Ott

Senior Vice President and Chief Information Officer

Marc Pontbriand

Executive Vice President

Marc Provost

Senior Vice President, Managing Director and Chief Investment Officer, Intact Investment Management Inc.

Roger Randall

Senior Vice President, Affiliated Distribution Networks

Mark Tullis

Chief Financial Officer

Pete Weightman

Senior Vice President, Claims

For complete biographies of the executive management, please see the corporate governance section of the www.ingcanada.com web site.

Shareholder and corporate information

Financial strength rating

IIC's long-term issuer rating with Moody's Investors Services is A3 and the Company's five principal operating insurance subsidiaries are rated Aa3 for insurance financial strength (IFS). IIC's primary insurance subsidiaries are rated A+ by A.M. Best, and the Company's senior unsecured debt is rated A (low) by DBRS.

Toronto Stock Exchange (TSX) listing

Ticker symbol: IIC

The Company has announced its intention to change its ticker symbol from "IIC" to "IFC" following approval of the change in the Company's name to Intact Financial Corporation by its shareholders.

Annual Meeting of Shareholders

Date: Wednesday May 13, 2009

Time: 2:00 pm ET

Art Gallery of Ontario

Baillie Court

317 Dundas Street West

Toronto, Ontario M5T 1G4

Version française

Il existe une version française du présent rapport annuel à la section Relations investisseurs de notre site Web ingcanada.com.

Les intéressés peuvent obtenir une version imprimée en appelant au 1-866-778-0774 ou en envoyant un courriel à ir@ingcanada.com

Transfer agent and registrar

Computershare Investor Services Inc.

100 University Avenue, 9th Floor

Toronto, Ontario M5J 2Y1

1-800-564-6253

Auditors

Ernst & Young LLP

Investor Relations

Michelle Dodokin

Vice President, Investor Relations

416-344-8044

michelle.dodokin@ingcanada.com

Toll-free: 1-866-778-0774

Media Inquiries

Gilles Gratton

Vice President, Corporate Communications

416-217-7206

gilles.gratton@ingcanada.com

Dividend reinvestment

Shareholders can reinvest their cash dividends in common shares of ING Canada Inc. on a commission-free basis either through a broker, subject to eligibility as determined by the broker, or through Canadian ShareOwner Investments Inc. Full details can be obtained by visiting the Investor Relations section of the www.ingcanada.com web site.

Eligible dividend designation

For purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by ING Canada to Canadian residents on our common shares after December 31, 2005, are designated as eligible dividends. Unless stated otherwise, all dividends (and deemed dividends) paid by the Company hereafter are designated as eligible dividends for the purposes of such rules.

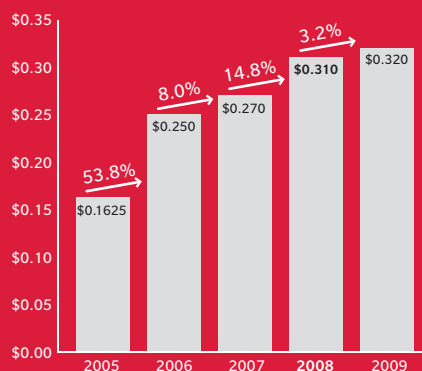
Information for shareholders outside of Canada

Dividends paid to residents in countries with which Canada has bilateral tax treaties are generally subject to the 15% Canadian non-resident withholding tax. There is no Canadian tax on gains from the sale of shares (assuming ownership of less than 25%) or debt instruments of the Company owned by non-residents not carrying on business in Canada. No government in Canada levies estate taxes or succession duties.

Common share prices and volume

	High	Low	Close	Volume
Q1	\$ 41.51	\$ 33.03	\$ 36.49	13,854,300
Q2	\$ 41.50	\$ 34.24	\$ 35.55	8,716,600
Q3	\$ 43.04	\$ 35.05	\$ 35.96	10,237,100
Q4	\$ 40.00	\$ 26.03	\$ 31.61	10,436,000
Year 2008	\$ 43.04	\$ 26.03	\$ 31.61	43,244,000
Q1	\$ 53.92	\$ 50.01	\$ 51.77	11,005,907
Q2	\$ 52.18	\$ 45.08	\$ 47.43	9,371,843
Q3	\$ 49.78	\$ 41.52	\$ 44.64	8,415,281
Q4	\$ 47.00	\$ 35.74	\$ 39.92	10,520,403
Year 2007	\$ 53.92	\$ 35.74	\$ 39.62	39,313,434

Quarterly dividend (%)



Our family of insurance brands



belairdirect.

GREY POWER

