

ANNUAL REPORT

2013



BUILT FOR PERFORMANCE



INSURANCE AND FINANCIAL SERVICES INC.

A partner you can trust.

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. operates throughout Canada as well as in the United States. The Company offers a complete range of insurance and investment solutions for both individuals and groups. Industrial Alliance is ranked among the top four life and health insurance companies in Canada and is one of the country's leading non-banking financial companies in the wealth management sector.

Industrial Alliance serves over four million clients and employs more than 4,500 people. At December 31, 2013, the Company was managing and administering nearly \$100 billion in assets. Industrial Alliance is one of Canada's largest public companies and trades on the Toronto Stock Exchange under the ticker symbol IAG.

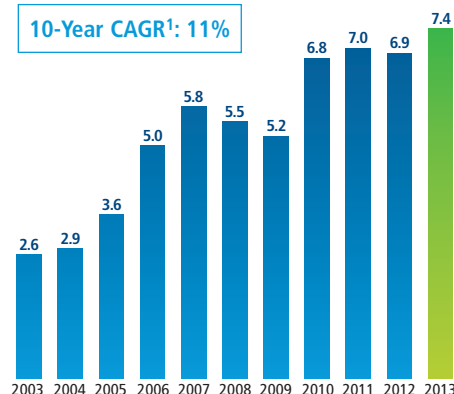
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Net Premiums, Premium Equivalents and Deposits

(\$Billion)

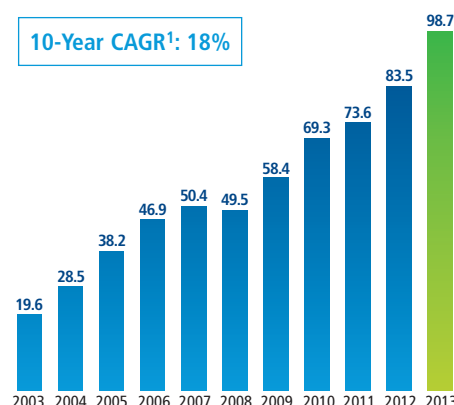
10-Year CAGR¹: 11%



Assets Under Management and Administration

(\$Billion, as at December 31)

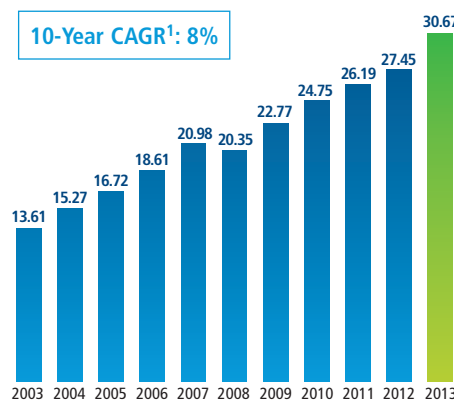
10-Year CAGR¹: 18%



Book Value per Common Share

(in \$, as at December 31)

10-Year CAGR¹: 8%



¹ CAGR: Compound Annual Growth Rate

FINANCIAL HIGHLIGHTS (Consolidated Financial Data¹)

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2013	2012	Variation
Profitability			
Net income attributed to common shareholders	349.9	303.6	15%
Earnings per common share (diluted)	\$3.57	\$3.22	\$0.35
Return on common shareholders' equity	12.6%	12.8%	(20 bps)
Business Growth			
Net premiums, premium equivalents and deposits by line of business			
Individual Insurance	1,425.2	1,339.3	6%
Individual Wealth Management	3,358.8	3,100.6	8%
Group Insurance	1,389.5	1,395.3	0%
Group Savings and Retirement	1,001.0	848.9	18%
General Insurance	258.4	220.0	17%
Total	7,432.9	6,904.1	8%
Sales by line of business			
Individual Insurance	234.3	243.3	(4%)
Individual Wealth Management			
General fund	119.2	325.1	(63%)
Segregated funds	987.7	1,126.0	(12%)
Mutual funds	2,251.9	1,649.5	37%
Total	3,358.8	3,100.6	8%
Group Insurance			
Employee Plans	59.4	46.1	29%
Dealer Services – Creditor Insurance	382.4	351.7	9%
Dealer Services – P&C	143.0	127.7	12%
Special Markets Solutions	170.9	154.0	11%
Group Savings and Retirement	1,025.0	868.4	18%
Assets under management and administration			
Assets under management	69,403.3	59,631.9	16%
Assets under administration	29,289.7	23,833.3	23%
Total	98,693.0	83,465.2	18%
Financial Position (as at December 31)			
Book value per common share	\$30.67	\$27.45	12%
Capitalization	4,166.0	3,972.0	5%
Solvency ratio	217%	217%	0%
Debt ratios			
Debentures/capital structure	12.0%	18.9%	---
Debentures and preferred shares/capital structure	25.8%	35.9%	---
Quality of Investments (as at December 31)			
Net impaired investments as a % of total investments	0.06%	0.04%	---
Bonds: BB and lower as a % of the portfolio	0.18%	0.10%	---
Mortgages: delinquency rate	0.34%	0.22%	---
Occupancy rate on investment properties	93.5%	95.2%	---
Share Information (as at December 31)			
Number of common shares outstanding (in millions)	99.3	91.0	9%
Weighted average number of common shares – diluted (in millions)	97.9	96.2	2%
Share price	\$46.95	\$31.38	50%
Market capitalization	4,664.1	2,856.3	63%
Human Resources			
Number of employees	4,526	4,314	212

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

2013 IN REVIEW

Industrial Alliance's strength was confirmed once again in 2013. The Company generated record profits, primarily due to the increased profitability of the Individual Insurance sector, the contribution of less capital-intensive sectors and a more favourable macroeconomic environment. In terms of capital, the Company maintained a strong solvency ratio well above the target level. Premiums and deposits and assets under management and administration also reached new highs, and the Company completed a major acquisition (Jovian Capital Corporation). In tandem with these excellent results, steps were taken to improve the Company's financial flexibility.

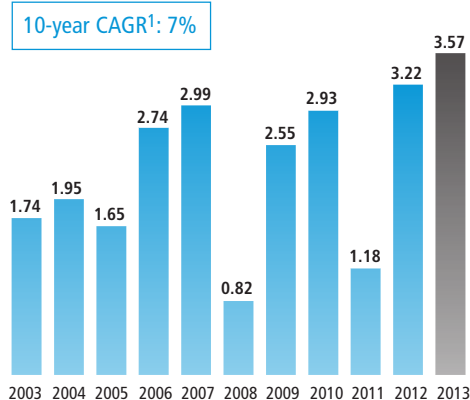
Lastly, on February 13, 2014, the Board of Directors approved an increase in the quarterly dividend payable to common shareholders. This was the first increase since the financial crisis of 2008.

EARNINGS PER SHARE SURPASS EXPECTATIONS

Industrial Alliance had set a target of \$3.00 to \$3.40 for its earnings per common share (EPS) in 2013. Not only did the Company surpass this target, it recorded the highest EPS in its history, at \$3.57. This can be attributed to the improved profitability of the Individual Insurance sector due to the decrease in new business strain. Strain as a percentage of new sales dropped from 53% in 2011 to 21% in 2013, which translates into an increase in earnings of over \$60 million before tax. The significant contribution of the less capital-intensive sectors had a positive impact on EPS in 2013, as did the strong stock market performance and the effectiveness of the segregated fund hedging program.

Earnings per Common Share

(in \$, on a diluted basis)



- › EPS was up 27% year over year, excluding the unusual gain resulting from the sale of the US annuity business in 2012.
- › The potential impact on net income of a 25% drop in the stock markets was considerably reduced, decreasing from \$283 million at the end of 2012 to \$93 million at the end of 2013.
- › The book value per common share was up 12% in 2013. In the last ten years, the book value has more than doubled.
- › The total return on Industrial Alliance stock, which corresponds to the increase in the stock price plus dividend payments, was 53% in 2013.

¹ CAGR: Compound Annual Growth Rate

GUIDANCE

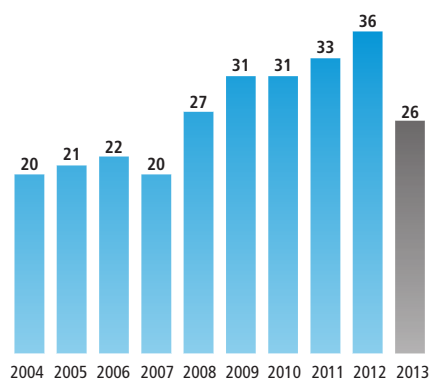
	2012		2013		2014
	Guidance	Result	Guidance	Result	Guidance
EPS (diluted)	\$2.50 to \$3.10	\$3.22	\$3.00 to \$3.40	\$3.57	\$3.40 to \$3.80
ROE	9.0% to 11.0%	12.8%	10.5% to 12.0%	12.6%	11.0% to 12.5%
Solvency Ratio	175% to 200%	217%	175% to 200%	217%	175% to 200%
Dividend Payout	25% to 35%	29%	25% to 35%	27%	25% to 35%

IMPROVED FINANCIAL FLEXIBILITY

In 2013, Industrial Alliance redeemed \$350 million in debentures and preferred shares. The positive impact of these redemptions was twofold. Not only did they reduce the Company's debt ratio, they also increased its coverage ratio. In addition to being positively perceived by the rating agencies, the improvement of these ratios represents a decrease in the Company's debt financing expenses, giving Industrial Alliance more leeway to consider potential acquisitions or other business opportunities.

Debt Ratio

(sum of the debt and the preferred shares over the capital structure, as a %, at December 31)



- › The redemption of the debentures in 2013 led to a reduction in the interest expense on debt instruments, which decreased from \$42.4 million in 2012 to \$32.8 million in 2013.
- › Preferred share dividends are expected to decrease in 2014 given the surrender of the Series C shares in December 2013.
- › The Company ended the year with a coverage ratio of 6.2x, which is similar to the end of 2012. However, if the financing expenses for the financial instruments redeemed in 2013 are excluded, the coverage ratio at the end of 2013 was 7.4x.

A SOLID, STABLE SOLVENCY RATIO

The solvency ratio is a key indicator of an insurance company's financial strength. This ratio measures a company's capital adequacy in relation to the risks it assumes in the normal course of business, including insurance and market risk. Industrial Alliance targets a solvency ratio of 175% to 200%, which is well above the minimum regulatory requirements.

Solvency Ratio

(as a %, at December 31)



- › Despite the redemption of certain financial instruments and a major acquisition, the Company's solvency ratio continued to be above the target range in 2013.
- › The Company has the ability to absorb significant macroeconomic shocks before its solvency ratio decreases to the minimum regulatory requirement. At December 31, 2013, the Company was capable of absorbing a 48% drop in the stock markets before its solvency ratio would have decreased to 150%.
- › At the beginning of 2014, the Company's financial position enabled the Board of Directors to approve a 6% increase in the quarterly dividend payable to common shareholders.

MESSAGE FROM THE CHAIRMAN OF THE BOARD



INDUSTRIAL ALLIANCE IS NOW REAPING THE REWARDS OF ITS EFFORTS OVER THE PAST FEW YEARS.

The Company's performance in 2013 was characterized by strong growth and a significant increase in the stock price during the year. Of course, the macroeconomic environment as a whole was more favourable in 2013 thanks to strong stock market performances and an increase in long-term interest rates. But that only partly accounts for Industrial Alliance's success.

In the past two years, senior management has had to make some difficult and sometimes bold decisions to ensure the Company's profitability and further strengthen its capital.

Today, there's no question that they made the right decisions. And despite the challenges posed by the macroeconomic environment of the past few years, Industrial Alliance never deviated from its long-term vision.

HIGHLIGHTS

Industrial Alliance achieved strong business growth in 2013. Once again, results were higher than the previous year for almost all lines of business and subsidiaries. The Company also completed an acquisition that considerably expanded its wealth management platform, bringing total assets under management and administration to almost \$100 billion. In terms of profitability, the Company generated record results.

Industrial Alliance emerged from 2013 with a strong capital position and excellent financial flexibility. The Board of Directors would like to congratulate senior management on these exceptional results.

2013 was the first full year of operation for the common shareholders' Dividend Reinvestment and Share Purchase Plan. Under the plan, participants can automatically reinvest their dividend payments in Industrial Alliance common shares and make cash purchases of additional common shares from the Company. The high rate of participation in this plan attests to the interest it has generated among Company shareholders.

Based on Industrial Alliance's overall performance in 2013, the Board of Directors has approved the payment of a quarterly dividend of \$0.260 per common share, 6% higher than the dividend announced in the third quarter. The dividend is payable on March 17, 2014.

From a corporate governance standpoint, Industrial Alliance is one of the top companies in Canada. This is no accident. It's a result of the Company's true culture of ethics, respect and sound governance that guides the day-to-day actions of all employees.

The Board of Directors also applauds the social footprint of Industrial Alliance which, together with its employees, is committed to acting at all times in a socially responsible manner.

BOARD ACTIVITIES

The Board of Directors met nine times in 2013, and the Board's various committees held a total of sixteen meetings. The participation rate was 97.6% in Board meetings, and 98.7% in Board committee meetings.

I can personally confirm that every Industrial Alliance director is firmly committed to ensuring the Company's success and longevity, and works with dedication and conviction toward achieving that goal.

I'd like to acknowledge three Board members who stepped down in 2013.

David R. Peterson is leaving the Board in accordance with the Company's retirement age policy for Board members. Mr. Peterson has been on the Board since 1991 and was also a member of the Ethics Committee.

Board members Lise Lachapelle and Anne Bélec decided not to seek another term of office, both for personal reasons. Ms. Lachapelle has been on the Board since 1995, and was a member of the Audit Committee and the Investment Committee. Prior to that, she was also a member of the Human Resources and Governance Committee. Ms. Bélec joined the Board in 2006 and was a member of the Ethics Committee.

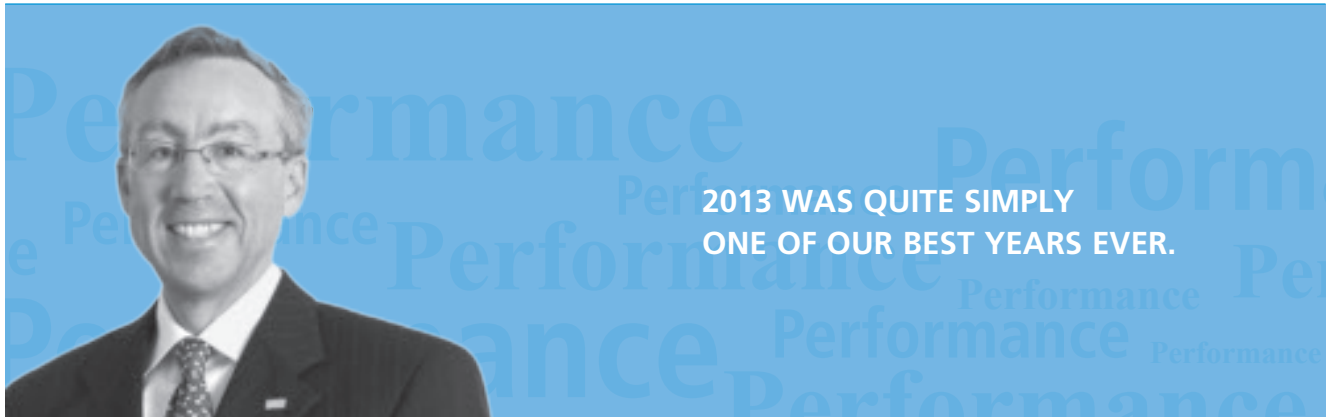
On behalf of the Board of Directors, I'd like to sincerely thank these individuals for their tremendous contribution to the Board and to the success of Industrial Alliance.

In conclusion, I'd like to congratulate senior management and all employees of Industrial Alliance who, through their unwavering professionalism, commitment and determination, have once again brought the Company to new heights.

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

John LeBoutillier
Chairman of the Board

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT



**2013 WAS QUITE SIMPLY
ONE OF OUR BEST YEARS EVER.**

Our 2013 success was the result of initiatives carried out over the last two years to improve our core profitability and capital position, enabling us to deliver strong results for our shareholders.

For the year ended December 31, 2013, net earnings reached an all-time high of \$350 million, earnings per share amounted to \$3.57 and return on shareholders' equity was 12.6%. All of these results exceeded the targets we had announced at the beginning of the year.

Our year-end balance sheet was very solid. Thanks to the redemption of debentures in 2013, financial flexibility is well within the levels expected of a company with our strong credit ratings. In addition, both our reserves and our solvency ratio can withstand a sizeable drop in the equity markets, an equally important factor in these times of macroeconomic volatility.

Business growth continued at a rapid pace with notable results from our wealth management and group insurance business. We also added a new segment to our wealth management platform with the acquisition of Jovian Capital Corporation, which gives us the opportunity to serve the private wealth management market.

At the end of the day, investors choose Industrial Alliance for its ability to deliver strong returns over the long term. In the last ten years, we've more than doubled our book value. As for stock performance, our shares delivered a total return of 53% in 2013. I believe we can say that Industrial Alliance is truly built for performance.

MAIN PROFITABILITY FACTORS IN 2013

In 2013 we reaped the rewards of our efforts to improve profitability in the Individual Insurance sector. These efforts focused on reducing the expense related to issuing new policies, otherwise known as "strain" in the insurance business. In mid-2012, we set a goal to reduce strain by half. We obtained a 56% reduction over two years. In this respect, we can say "mission accomplished."

Another source of satisfaction in 2013 was the solid contribution that our other, less capital-intensive sectors continued to make to our results. Individual Wealth Management stands out in this regard, accounting for more than one third of our total operating profit.

Stock market growth and the effectiveness of our hedging program had a positive impact on profitability in the Individual Wealth Management sector. Mutual fund sales, which were excellent again this year, were also a strong factor. Growth of assets under management is the primary source of long-term profit growth in this sector. In the last five years, assets under management have doubled despite stock market volatility and strong competition in this sector. This is no accident. It reflects our ability to maintain steady sales growth and take advantage of business opportunities. In the last quarter of the year, we took advantage of a good opportunity to accelerate our growth with the acquisition of Jovian.

Lastly, another highlight of the last year was the rise in interest rates. After decreasing for several years, including a sharp drop in 2011, Canadian long-term interest rates increased by 90 basis points in 2013. This is a very positive turning point for a life insurance company like ours, since a large portion of our financial commitments, and therefore our investments, extend over a long period of time. The increase in interest rates had a significant impact on the year-end review of the actuarial reserves.

STRONG BUSINESS GROWTH IN 2013

Business growth was strong in 2013; premiums and deposits reached a new high and total assets under management and administration are now approaching the \$100 billion mark. The solid asset growth is due in part to the return on investments, but also to strong overall sales and the Jovian acquisition.

Our Individual Wealth Management sector has once again proven the growth potential it offers our shareholders. Gross and net sales of mutual funds were excellent, with significant increases over the previous year. Our IA Clarington subsidiary continues to successfully roll out its business strategy across Canada. In terms of segregated funds, we maintained our market shares for gross sales and assets in 2013. Development of a new guaranteed withdrawal product in 2014 will no doubt spur growth in this sector.

We acquired Jovian Capital Corporation to position ourselves in the fast-growing private wealth management segment. This acquisition increased the Company's assets by over \$6 billion and expanded our securities brokerage distribution channel. All of our distribution subsidiaries (Investia, FundEX and IA Securities) had a successful year in 2013, with their combined assets increasing by 13%.

Further rate adjustments in the industry reflected the dynamics of an Individual Insurance market in transformation. Even though premiums in this sector continued to grow, sales were down slightly from the record year in 2012. The strong performance by our Excellence subsidiary led to an increase in the sector's health and disability insurance sales. Excellence will continue its Canada-wide expansion in 2014.

Our Industrial Alliance Auto and Home Insurance subsidiary obtained excellent top-line growth again in 2013. Direct written premiums grew by over 10% for a fifth consecutive year, while the industry grew by an average of 2% over the same period. The success of this subsidiary rests in part on a referral system that benefits from Industrial Alliance's vast distribution network and on innovative development, including the automobile insurance program that uses telematics technology.

Sales were up sharply in all three of our Group Insurance divisions. Increased sales in the Employee Plans division reflect the effectiveness of an action plan implemented in 2013. For Dealer Services and Special Markets Solutions, the success in 2013 was driven by strong momentum from previous years. In 2014, Dealer Services will focus on extended warranties and expanding the automobile financing segment. Special Markets Solutions will target expansion through the development of new market niches.

Group Savings and Retirement sales were up by almost 20% for a second consecutive year. Growth of recurring premiums, which are the core of the sector's strategy, account for a large part of this performance. For 2014, the sector is preparing to offer its clients the new voluntary retirement savings plan in Quebec and eventually the pooled registered pension plan in the rest of Canada.

We achieved strong business growth in 2013, particularly in terms of less capital-intensive products such as mutual funds, creditor insurance, property and casualty insurance and disability insurance. These results have set the stage for another year of solid growth in 2014.

BUILT FOR PERFORMANCE

We look forward to 2014 with a sense of anticipation and excitement. We've worked hard in recent years to adjust to challenges arising primarily from the low interest rate environment. Today I can confidently say that Industrial Alliance is stronger than ever.

The lessons of recent years won't be easily forgotten. If we compare our situation today with just two years ago, it's clear that we've gained considerable experience and confidence in our ability to operate in a low interest rate environment. In addition, with the rebound in the equity markets over the last year, our reserves are better positioned to absorb a sizeable correction. We're not completely immune to future macroeconomic turbulence, but we're certainly feeling more comfortable today and look forward to the future with a renewed sense of optimism.

In closing, I'd like to thank our shareholders, our clients, our distributors as well as each and every one of our employees for their loyalty and their steadfast support of our common goal: to deliver value for our shareholders.

I respectfully sign this text on behalf of senior management and all employees.



Yvon Charest
President and Chief Executive Officer

INDUSTRIAL ALLIANCE PLANNING COMMITTEE



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

President and Chief
Executive Officer

Industrial Alliance



Normand Pépin
F.S.A., F.C.I.A.

Executive Vice-President
Life Subsidiaries and Individual
Insurance and Annuities

Industrial Alliance



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

Executive Vice-President
and Chief Investment Officer

Industrial Alliance



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

President
Western Canada Operations

Industrial Alliance



David Scandiffio
B.Sc., CFA

Senior Vice-President
Wealth Management

Industrial Alliance



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

President

IA American



René Chabot
F.S.A., F.C.I.A.

Senior Vice-President
and Chief Actuary

Industrial Alliance



Denis Ricard
F.S.A., F.C.I.A.

Senior Vice-President
Business Development

Industrial Alliance

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Notes to reader

- › 2012 data have been restated for comparison purposes following the adoption of the IFRS-10 accounting standard and the amendment to the IAS-19 accounting standard on January 1, 2013. For more information, refer to note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies".
- › In this *Management's Discussion and Analysis*, historical financial data for 2010 and subsequent years are stated on an IFRS basis, and data prior to 2010 are stated on a GAAP basis.

GENERAL INFORMATION

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

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

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

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2013, or for the period ended on that date.

Unless otherwise indicated, all amounts that appear in the Management's Discussion and Analysis are denominated in Canadian dollars. The financial information is presented in accordance with International Financial Reporting Standards (IFRS), as they apply to life insurance companies in Canada, and with the accounting requirements prescribed by the regulatory authorities.

The Management's Discussion and Analysis is dated February 13, 2014.

NON-IFRS FINANCIAL MEASURES

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

The Company believes that these non-IFRS financial measures provide investors and analysts with additional information to better understand the Company's financial results as well as assess its growth and earnings potential. Since non-IFRS financial measures do not have a standardized definition, they may differ from the non-IFRS financial measures used by other institutions. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure.

FORWARD-LOOKING STATEMENTS

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

Although Industrial Alliance believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: general business and economic conditions; level of competition and consolidation; changes in laws and regulations including tax laws; liquidity of Industrial Alliance including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by Industrial Alliance; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases and acts of terrorism.

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

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

DOCUMENTS RELATED TO THE FINANCIAL RESULTS

All documents related to the financial results of Industrial Alliance are available on the Company's website at www.inalco.com, in the *Investor Relations* section, under *Financial Reports*. More information about the Company can be found on the SEDAR website at www.sedar.com, as well as in the Company's Annual Information Form, which can be found on the Company website or the SEDAR website.

DESCRIPTION OF INDUSTRIAL ALLIANCE

DEVELOPMENTS OBJECTIVES ORIENTATIONS STRATEGIES

A DESCRIPTION OF INDUSTRIAL ALLIANCE

Founded in 1892, Industrial Alliance is committed to ensuring the financial wellbeing of its clients by offering them personal insurance coverage and investment solutions to help them achieve their personal goals.

Industrial Alliance has four main lines of business: Individual Insurance, Individual Wealth Management, Group Insurance and Group Savings and Retirement. The Company controls a large network of subsidiaries including Industrial Alliance Auto and Home Insurance, IA American, IA Clarington Investments and IA Excellence.

Industrial Alliance stands out through the strength, diversity, efficiency and size of its distribution networks, which are comprised of over 25,000 representatives across all lines of business. Through these networks, the Industrial Alliance Group offers a wide range of financial products and services to individuals and groups throughout Canada and the United States.

The Company offers a variety of life and health insurance products, savings and retirement plans, mutual and segregated funds, securities, auto and home insurance, mortgage loans, creditor insurance and other financial products and services on both an individual and group basis.

Thanks to a prudent investment policy, sound management of capital and a solid risk management culture, the Company has the flexibility and financial strength to consider various opportunities for growth and the ability, if need be, to absorb significant macroeconomic shocks.

One of the four largest life and health insurance companies in Canada with close to \$100 billion in assets under management and under administration, Industrial Alliance serves over 4 million individuals and employs over 4,500 people.

Industrial Alliance is one of the largest public companies in Canada, and is listed on the Toronto Stock Exchange under the ticker symbol IAG. The Company has close to 65,000 shareholders and nearly 100 million issued and outstanding common shares. Its market capitalization was close to \$4.7 billion at December 31, 2013.

Lastly, from a sustainable development standpoint, Industrial Alliance is conscious of its social and environmental footprint. It plays an active role in communities through various donation and sponsorship programs and through volunteer support programs for its employees.

Legal Constitution

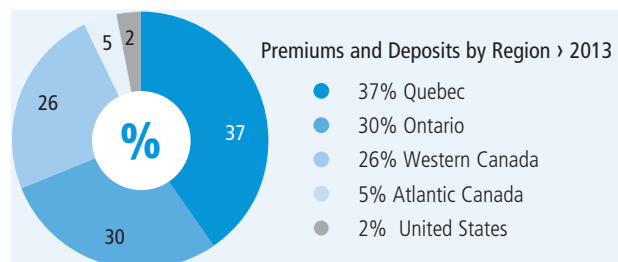
Industrial Alliance is a Quebec-chartered life and health insurance company and is regulated by the *Autorité des marchés financiers*. Industrial Alliance and its subsidiaries are authorized by the appropriate regulatory authorities to operate in all provinces and territories of Canada, and most of the United States. Industrial Alliance is also an issuer subject to the various securities laws in effect in the provinces of Canada.

In February 2000, Industrial Alliance became a public company incorporated under a private law, the *Act respecting Industrial Alliance Life Insurance Company*. The law was enacted by the Quebec National Assembly on November 26, 1999, and stipulates that no shareholder can acquire, either directly or indirectly, 10% or more of the Company's voting shares. In the event the allowable limit is surpassed, the Act provides that the voting rights attached to all of the acquired shares cannot be exercised.

B GEOGRAPHICAL PRESENCE

Thanks to a sound business development strategy that focuses on a combination of organic growth and acquisitions, Industrial Alliance has increased its North American presence considerably over the years. The Company now has operations nationwide in all market segments, and stands out through the size and diversity of its distribution networks. It also has operations in the US, and distributes its products in a few target segments of the United States.

The Company has major offices in Quebec City, Montreal, Toronto, Vancouver, Waco (Texas) and Scottsdale (Arizona).



C BUSINESS LINES, DIVISIONS AND SUBSIDIARIES

Industrial Alliance operates in four main sectors. As shown in the table on the following page, two of these sectors, Individual Insurance and Individual Wealth Management, address the needs of retail customers, and the other two, Group Insurance and Group Savings and Retirement, address those of groups and businesses. Together, these sectors provide insurance coverage as well as investment, savings and retirement products.

As the table on the following page also shows, the Company is at the head of a network of subsidiaries with operations in a number of financial services sectors. Some of the bigger subsidiaries include:

- › In the Individual Insurance sector: The Excellence Life Insurance Company and IA American Life Insurance Company (including American-Amicable).

Note that a representative or advisor may be registered under more than one distribution network. These numbers are approximations as at December 31, 2013, and may vary over time.

Activities	Divisions, Subsidiaries and Networks	Number of Representatives/Advisors
Personal lines of business: Individual Insurance and Individual Wealth Management	Career	1,790
	General Agents	13,000
	National Accounts	1,400
	Independent Advisors	7,000
	Independent Marketing Organizations in the US	4,400
	Investia Financial Services Inc.	1,970
	FundEX Investments Inc.	600
	IA Securities	189
	Jovian Capital Corporation	137
Group lines of business	Employee Plans	300
	Special Markets Solutions	725
	Dealer Services	3,700
	Group Savings and Retirement	1,000
General Insurance	IAAH, direct agents	220

- › In the Individual Wealth Management sector: IA Clarington Investments Inc., a mutual fund manager; three distribution subsidiaries, namely Investia Financial Services Inc. and FundEX Investments Inc., which operate in the mutual fund brokerage field, and Industrial Alliance Securities Inc., which operates in the securities brokerage field; and lastly, Jovian Capital Corporation, which was acquired in 2013.

Note that the financial results of the Company's general insurance operations, which are provided through its subsidiary Industrial Alliance Auto and Home Insurance Inc. (IAAH), are presented as part of the parent company's income on capital and subsequently allocated among the four business lines as its operations do not constitute a separate line of business for the purpose of presenting the financial results.

D DISTRIBUTION NETWORKS

The size of Industrial Alliance's distribution networks enables it to distribute a comprehensive range of products and services in all market segments in Canada and in a few target markets in the US.

In Canada, the Company has a diversified network of dedicated agents (the Career network) who are primarily located in Quebec.

In the US, the Company distributes individual insurance coverage through independent marketing organizations (IMOs), managing general agents (MGAs) and independent brokers.

To remain a leader in distribution, the Company is continuing its efforts to recruit new agents in all its distribution networks. In addition, the Company never rules out the possibility of expanding its opportunities through acquisitions or by signing new distribution agreements.

The table on the following page provides an overview of the Company's activities, and the table below provides a summary of the number of representatives and advisors for most of its distribution networks.

BUSINESS OVERVIEW

	Activities	Products and Services
Business Lines for Individuals	<ul style="list-style-type: none"> ■ Individual Insurance 	<ul style="list-style-type: none"> ● Life insurance (Universal Life, permanent and term) ● Critical illness insurance ● Short and long-term disability insurance ● Mortgage insurance ● Accidental death and dismemberment (AD&D)
	<ul style="list-style-type: none"> ■ Individual Wealth Management 	<ul style="list-style-type: none"> ● Segregated funds ● Mutual funds ● Securities ● Life and fixed-term annuities ● Registered savings plans (RRSP, RESP, TFSA and RRIF) ● Investment advice
Business Lines for Groups	<ul style="list-style-type: none"> ■ Group Insurance: 	
	<ul style="list-style-type: none"> ● Employee Plans 	<ul style="list-style-type: none"> ● Life and health insurance, accidental death and dismemberment (AD&D) insurance, dental care insurance, short and long-term disability insurance, critical illness insurance and home care insurance ● Voluntary benefits (life, AD&D and critical illness insurance) ● Out-of-Canada medical insurance
	<ul style="list-style-type: none"> ● Dealer Services 	<ul style="list-style-type: none"> ● Creditor insurance (life, disability and critical illness insurance) ● P&C products (replacement insurance, extended warranties and other ancillary products)
	<ul style="list-style-type: none"> ● Special Markets Solutions 	<ul style="list-style-type: none"> ● Accidental death and dismemberment (AD&D) insurance, travel and health insurance and term life insurance ● Other specialized insurance products for employers and associations
	<ul style="list-style-type: none"> ■ Group Savings and Retirement 	<ul style="list-style-type: none"> ● Defined contribution and defined benefit plans ● Institutional money management services ● Insured annuities
	<ul style="list-style-type: none"> ■ General Insurance 	<ul style="list-style-type: none"> ● Auto and home insurance

■ Business Line ● Division

Distribution Networks	Manufacturers and Subsidiaries
<ul style="list-style-type: none"> ● Career (IA) ● General Agents ● National Accounts ● Michel Rhéaume et associés ● Solicour Inc. ● Independent marketing organizations in the US ● Independent advisors 	<ul style="list-style-type: none"> ● Industrial Alliance and its affiliated network: <ul style="list-style-type: none"> ● The Excellence Life Insurance Company ● IA American ● IA American Life Insurance Company (including American-Amicable)
<ul style="list-style-type: none"> ● Career (IA) ● General Agents ● Professional associations ● National Accounts ● IA affiliated entities ● Independent advisors 	<ul style="list-style-type: none"> ● Industrial Alliance and its affiliated network: <ul style="list-style-type: none"> ● IA Clarington Investments Inc. ● Industrial Alliance Trust Inc. ● Industrial Alliance Investment Management Inc. ● Investia Financial Services Inc. ● FundEX Investments Inc. ● Industrial Alliance Securities Inc. ● Jovian Capital Corporation
<ul style="list-style-type: none"> ● Specialized brokers ● Actuarial consulting firms 	<ul style="list-style-type: none"> ● Industrial Alliance
<ul style="list-style-type: none"> ● Direct distribution network for automobile and other motor vehicle dealers 	<ul style="list-style-type: none"> ● Industrial Alliance and its affiliated network: <ul style="list-style-type: none"> ● SAL ● National Warranties MRWV Limited ● Communications & Références Multi Assurance Direct inc. ● Industrial Alliance Pacific General Insurance Corporation (IAPG)
<ul style="list-style-type: none"> ● Distribution partners ● Mortgage brokers 	<ul style="list-style-type: none"> ● Industrial Alliance
<ul style="list-style-type: none"> ● Specialized brokers ● Actuarial consulting firms ● Career (IA) ● General Agents 	<ul style="list-style-type: none"> ● Industrial Alliance
<ul style="list-style-type: none"> ● Direct sales ● Referrals from the IA networks 	<ul style="list-style-type: none"> ● Industrial Alliance Auto and Home Insurance Inc.

E ORIENTATION AND GLOBAL DEVELOPMENT STRATEGY

Industrial Alliance continues to excel through the sound, disciplined execution of its business model. Designed to generate steady organic growth, this model is focused on reaching and meeting the needs of a wide range of clients through:

- › diversification of its distribution networks;
- › diversification of its geographical presence in both Canada and the US; and
- › diversification of its market segments.

With a view to maximizing sales opportunities, Industrial Alliance also focuses on cross-selling strategies and other business development synergies between the parent company and its various subsidiaries and business lines.

This business model also rests on the Company's ability to generate growth through strategic acquisitions that are fairly priced and profitable in the second year following acquisition. Since 2000, Industrial Alliance has completed 34 acquisitions, including 19 in the wealth management sector.

To ensure the long-term development and success of the organization, Industrial Alliance uses sound risk management practices that are rooted in prudence, a long-term approach and a solid balance sheet. Industrial Alliance also stands out through the development and retention of its staff and management team. Members of the Company's management committee average 22 years with the Company, providing continuity and in-depth knowledge of the organization.

Industrial Alliance has a proven ability to adapt to new situations. The turbulent macroeconomic environment and heightened regulatory oversight of the past few years has created new challenges that the Company has addressed through bold, deliberate, informed actions including rate increases and the withdrawal of certain products. The Company also began converting its product line to products with less costly guarantees and lighter capital requirements.

Industrial Alliance benefits from strong employee engagement in the pursuit of its fundamental goals, the first of which is to focus its business processes on a client and distributor-based approach. This is designed to continually improve the Company's product offering and business processes, while assuring its position as a preferred employer.

F DEVELOPMENT STRATEGY BY LINE OF BUSINESS AND DIVISION

INDIVIDUAL INSURANCE Sector

In the Individual Insurance sector, the Company's strategy mainly focuses on:

› Offering a comprehensive range of competitive, innovative products

- › The Company offers a comprehensive range of insurance coverage, including life, critical illness, disability and mortgage insurance.
- › The Company continually adapts to the competitive environment, the needs of its clients and the macroeconomic situation. In 2013,

the low interest rate environment forced the Company, like many of its industry peers, to raise premiums on its permanent products. The Company also continued to transition to products that are less capital intensive and have less exposure to macroeconomic fluctuations while continuing to meet the needs of its clients.

› Building efficient distribution networks through which the Company can distribute its products across Canada

- › The strength, diversity, efficiency and size of the Company's distribution networks are a major asset in the distribution of this sector's products and services. These networks enable the Company to offer its products in all parts of the country and to reach all markets and all segments of the population.

› Increasing US market activities

- › From its main offices in Scottsdale, Arizona and Waco, Texas, Industrial Alliance continues to conduct its US activities through its subsidiary American-Amicable.
- › The US subsidiary has chosen to focus on expanding its distribution networks and on the low to mid-income market segments with its simplified issue, whole life and Universal Life insurance coverage.
- › Its organic growth will be supported by a disciplined approach, pricing adjustments when necessary and a decrease in unit costs generated by sustained growth.

INDIVIDUAL WEALTH MANAGEMENT Sector

The Individual Wealth Management sector has experienced significant growth in recent years. The Company's strategy in this market focuses mainly on:

› Offering a comprehensive range of products and services

- › The Company offers a broad range of competitive products to meet the various needs of its clients. These products include mutual funds, segregated funds (investment funds with guaranteed capital at death or at maturity), securities, guaranteed interest investments, life annuities and fixed-term annuities.
- › Clients can invest in these products through registered retirement savings plans (RRSPs), registered education savings plans (RESPs), tax-free savings accounts (TFSA), registered retirement income funds (RRIFs) or non-registered plans.
- › In 2012, the macroeconomic environment forced the Company and many competitors to stop marketing the segregated fund product that offered a guaranteed minimum withdrawal benefit (GMWB). Industrial Alliance has kept its promise to remain a partner of choice at all phases of retirement planning with the 2013 launch of a new version of its savings product that offers lower management fees and improved guarantees.

› Capitalizing on the scope and synergy of the distribution networks

- › As with the Individual Insurance sector, the size of the Company's distribution networks is a major asset that enables it to reach all regions of the country and all market segments. In 2013, the Company gradually implemented a new visibility strategy and is currently testing it in the Atlantic provinces.

- › Industrial Alliance wants to reap the full benefits of the possible synergies between the parent company and its subsidiaries. For instance, the Company's segregated fund products are distributed through several IA Clarington Investments brokers. Some other possible synergies include combining the administration and compliance activities of the mutual fund and securities distribution subsidiaries (FundEX, Investia and Industrial Alliance Securities).
- › The 2013 acquisition of Jovian Capital Corporation, which serves the private wealth management market through a portfolio of financial services companies, should enable Industrial Alliance to increase the products and services offered to distributors and to expand its distribution network of IIROC¹ dealer members.

GROUP INSURANCE Sector

The Company offers a wide range of insurance coverage to businesses and groups through the Group Insurance sector, which includes three divisions: Employee Plans, Dealer Services and Special Markets Solutions.

› EMPLOYEE PLANS Division

In this highly competitive market, the Company needs to remain competitive in terms of price and unit costs while continuing to provide quality service. This global strategy is primarily based on:

› Continuing to focus on business development

- › Groups with 50 to 2000 employees are the Company's primary source of new business.
- › For companies with fewer than 50 employees and more importantly, larger companies, the goal is to increase Industrial Alliance's market share more gradually. To do this, the Company will promote the quality of its relationships with clients and benefits advisors.

› Enhancing the quality of the service offer

- › Ongoing improvement projects help to significantly increase the quality and efficiency of the business processes and to provide superior service.
- › In response to plan sponsor concerns about the growing cost of employee coverage, the Company is continuing to promote solutions for controlling plan costs, particularly with respect to disability insurance and medical expenses.
- › The focus will continue to be on technological development in order to improve the experience of plan administrators, members and benefits advisors.

› DEALER SERVICES Division

Industrial Alliance distributes creditor insurance and P&C products through its Dealer Services division. The success of this division is based on the following strategy:

› Capitalizing on the division's competitive advantages

- › It is a leader in the motor vehicle dealers market, with a leading market share and strong brand recognition.

- › It is the only company with an exclusive Canada-wide direct distribution network.
- › It has low unit costs owing to economies of scale based on company size and strong cost management.
- › It offers a full range of creditor and ancillary products in addition to a full range of service and training programs to meet the demands of the market.

› Focusing on its solid position as a provider of a comprehensive range of products and services, including:

- › Creditor insurance (life, disability and critical illness coverage)
- › P&C products (extended warranties and replacement insurance)
- › Auto financing through IA Trust
- › Other ancillary products
- › The division also provides referrals for auto insurance coverage through Industrial Alliance Auto and Home Insurance (IAAH)

› SPECIAL MARKETS SOLUTIONS Division

The Special Markets Solutions division specializes in certain niche markets that are not well served by traditional group insurance providers. The division's development strategy is centred around:

› Building on the division's primary strengths:

- › The quality of its customer service
- › Solutions tailored to the various special risks and the specific needs of its clients
- › Its coast-to-coast presence

› Pursuing business development in the following four areas:

- › Increasing the market share of certain products targeted by management
- › Developing relationships with new distributors of specialized insurance products
- › Growing the Life Insurance line for certain target markets through concerted marketing initiatives
- › Exploiting new niche markets that are not well serviced by traditional insurance carriers

› Continuing to expand:

- › By capitalizing on its considerable expertise and its relationships
- › By expanding and enhancing its product offering

¹ Investment Industry Regulatory Organization of Canada

GROUP SAVINGS AND RETIREMENT Sector

In the Group Savings and Retirement sector, the Company operates in two market segments: accumulation products and insured annuities (disbursement products). The sector's growth strategy is based on:

- › **Continuing to capitalize on accumulation products**
 - › The sector focuses its business development efforts on accumulation products, or in other words, savings products like defined contribution or defined benefit plans, as well as institutional money management services.
 - › Insured annuities are products with high capital requirements, primarily due to the long-term longevity risk. As a result, the sector is aiming for selective, prudent growth in this market.
- › **Bringing new group pension plans and products to market**
 - › In December 2013, the Quebec government passed a bill to allow the sale of voluntary retirement savings plans (VRSPs). This new type of plan will be available starting July 1, 2014.
 - › An attractive new savings option was introduced in October 2013 for the Company's group RRSPs and deferred profit sharing plans (DPSPs). This option allows plan members to build a guaranteed lifetime retirement income by using their group retirement savings plan contributions to purchase deferred annuities.
- › **Pursuing Canada-wide development and improving the client experience**
 - › The sector's goal is to continue growing its business coast to coast.
 - › In order to stand out from its competitors, the sector is continuing to develop state-of-the-art tools to meet client needs and is enhancing its product and service offer, particularly in terms of technology, communication and investment tools.

INDUSTRIAL ALLIANCE AUTO AND HOME INSURANCE (IAAH)

The IAAH subsidiary carries out the Company's general insurance operations, primarily providing auto and home insurance coverage. Its business strategy essentially focuses on:

- › **Contributing to the growth of the Industrial Alliance Group and its distribution networks**
 - › Like many of its peers, IAAH is striving to achieve a strong media presence through TV advertising campaigns designed to attract clients directly.
 - › From a competitive standpoint, IAAH stands out through the client referrals generated by Industrial Alliance's distribution networks.
 - › Over the next few years, IAAH will be strengthening its partnership with the Career network and with the network of automobile dealers affiliated with the parent company.
- › **Finding unique ways of meeting consumer needs**
 - › To set itself apart from other general insurers, the Company strives to provide exceptional service to its clients at all times.
 - › The Company uses the Client Recommendation Index (CRI) to measure client satisfaction. It calculates this index periodically and makes any necessary adjustments to improve results.
 - › In August 2013, according to renowned firm J.D. Power & Associates, IAAH was ranked number one in client satisfaction for home insurance in Quebec.
- › **Dealing with the shortage of qualified general insurance agents**
 - › In the mid-2000s, IAAH introduced a major initiative that extends over a number of years and aims to significantly improve its internal efficiency. The initiative is based on the "Lean" approach, which over the years has helped IAAH become a recognized leader for internal efficiency in the service industry.

2013 HIGHLIGHTS

Industrial Alliance generated record profits in 2013 and made a significant acquisition during the year. The Company maintained a solvency ratio above its target ratio while increasing its financial flexibility through debt and preferred share redemptions. Business growth was good, with premiums and deposits increasing 8% and assets under management and under administration reaching a new high of nearly \$100 billion. The investment portfolio continues to be of the highest quality. Lastly, on February 13, 2014, the Board of Directors approved an increase in the quarterly dividend payable to common shareholders.

A) PROFITABILITY

Net income attributed to common shareholders amounted to \$349.9 million in 2013, compared to \$303.6 million in 2012 (the 2012 result included an unusual gain of \$37.4 million from the sale of the US annuity business). Refer to the Profitability section for more information on the Company's profitability in 2013.

B) BUSINESS GROWTH

Industrial Alliance performed well in terms of premiums and deposits, total assets and sales in 2013, a testament to the Company's solid business growth. Premiums and deposits were up 8%, with virtually all sectors contributing to this good growth. Total assets under management and under administration approached the \$100 billion mark, with 18% growth over one year. Lastly, 2013 was a strong year for sales, particularly for mutual funds in the Individual Wealth Management sector, the three Group Insurance divisions and Group Savings and Retirement. Refer to the following sections for more information on business growth by line of business.

Premiums and Deposits¹

(In millions of dollars, unless otherwise indicated)	2013	2012	Variation
Individual Insurance	1,425.2	1,339.3	6%
Individual Wealth Management	3,358.8	3,100.6	8%
Group Insurance	1,389.5	1,395.3	0%
Group Savings and Retirement	1,001.0	848.9	18%
General Insurance	258.4	220.0	17%
Total	7,432.9	6,904.1	8%

Sales by Line of Business²

(In millions of dollars, unless otherwise indicated)	2013	2012	Variation
Individual Insurance			
Minimum premiums	193.7	200.9	(4%)
Excess premiums	40.6	42.4	(4%)
Total	234.3	243.3	(4%)
Individual Wealth Management			
General fund	119.2	325.1	(63%)
Segregated funds	987.7	1,126.0	(12%)
Mutual funds	2,251.9	1,649.5	37%
Total	3,358.8	3,100.6	8%
Group Insurance			
Employee Plans	59.4	46.1	29%
Dealer Services	525.4	479.4	10%
Special Markets Solutions	170.9	154.0	11%
Group Savings and Retirement	1,025.0	868.4	18%

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

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

Assets Under Management and Under Administration

(In millions of dollars, unless otherwise indicated)	As at December 31		
	2013	2012	Variation
Assets under management	69,403.3	59,631.9	16%
Assets under administration	29,289.7	23,833.3	23%
Total	98,693.0	83,465.2	18%

C) FINANCIAL STRENGTH

The solvency ratio amounted to 217% at December 31, 2013, which is above the Company's 175% to 200% target range. At the same time, the Company's capital reached nearly \$4.2 billion and equity accounted for 87% of total capital.

The book value per common share showed good growth, increasing 12% in 2013.

The coverage ratio, which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, remained fairly stable at 6.2x (6.1x at the end of 2012).

For detailed comments on financial strength, refer to the Capitalization and Solvency section of this report.

Solvency and Capitalization

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2013	2012
Solvency ratio	217%	217%
Capitalization ³	4,166.0	3,972.0
Book value per common share	\$30.67	\$27.45
Debt ratio		
Debentures/capital	12.0%	18.9%
Debentures and preferred shares/capital	25.8%	35.9%
Coverage ratio	6.2x	6.1x

D) ACQUISITION OF JOVIAN CAPITAL CORPORATION

In 2013, the Company acquired the interests in a portfolio of financial services companies owned by Jovian Capital Corporation, including Leon Frazer & Associates Inc., T.E. Investment Counsel Inc., Hahn Investment Stewards & Company Inc., JovFinancial Solutions Inc. and IIROC dealer MGI Securities Inc. At the time of acquisition, Jovian Capital Corporation had combined assets under management and under administration of nearly \$7 billion.

This transaction instantly provided the critical mass needed to serve the rapidly growing private wealth management market segment. It also expanded the IIROC dealer distribution network and increased the Company's presence coast to coast. The completion of the acquisition was announced on October 1, 2013.

E) DIVIDEND

In 2013, the Company paid a quarterly dividend of \$0.2450 to its common shareholders. Then, on February 13, 2014, the Board of Directors approved an increase in the quarterly dividend payable to common shareholders. As a result, a dividend of \$0.2600 will be paid on March 17, 2014, to the shareholders of record on February 28, 2014.

³ Capitalization includes equity, debt securities and the participating policyholders' account.

F) QUALITY OF INVESTMENTS

The quality of the Company's investment portfolio continued to be excellent in 2013. The proportion of net impaired investments continues to be very low at 0.06% of total investments, bonds rated BB and lower account for just 0.18% of the bond portfolio, the delinquency rate on mortgage loans remains low at 0.34% and the occupancy rate of the real estate portfolio remains high at 93.5%. In 2013, the value of the Company's investment properties was up \$126.1 million following the reappraisal of the real estate holdings and the acquisition of two new properties.

The following table shows the main quality indices.

Investment Quality Indices

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2013	2012
Net impaired investments	13.8	9.0
Net impaired investments as a % of total investments	0.06%	0.04%
Bonds – Proportion rated BB and lower	0.18%	0.10%
Mortgage loans – Delinquency rate	0.34%	0.22%
Investment properties – Occupancy rate	93.5%	95.2%

G) SENSITIVITY ANALYSIS

The analysis of the Company's sensitivity to macroeconomic fluctuations was updated at the end of 2013. The main results are shown in the table below and explanations on the results of this analysis are provided under Investment Risk in the Risk Management section of this Management's Discussion and Analysis.

Sensitivity Analysis

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2013	2012
Drop in the S&P/TSX ¹ index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities	23%	14%
Drop in the S&P/TSX ¹ index that would decrease the solvency ratio to 175%	36%	35%
Drop in the S&P/TSX ¹ index that would decrease the solvency ratio to 150%	48%	46%
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(25)	(23)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	(20)	(18)
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(59)	(66)

H) EMBEDDED VALUE AND VALUE OF NEW BUSINESS

Industrial Alliance's embedded value amounted to \$4.7 billion at December 31, 2013, a year-over-year increase of 32.2%. The contribution of 2013 sales to the increase in the Company's embedded value was \$181 million, up 18.3% over 2012.

For more detailed comments on these topics, refer to the Embedded Value section of this report.

Embedded Value

	2013	2012
Embedded value (in billions of dollars)	4.7	3.6
Embedded value per common share	\$47.32	\$39.08
Embedded value/book value ratio	1.54x	1.38x
Increase in embedded value in 2013	32.2%	

MARKET GUIDANCE FOR 2014

Return on common shareholders' equity – New target range of 11.0% to 12.5%.

Earnings per common share – New target of \$3.40 to \$3.80.

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

Dividend payout ratio – Maintain the 25% to 35% target range in the medium term. The Company expects the ratio to be in the middle of this range in 2014.

Effective tax rate – New target range of 18% to 22%.

New business strain – 25% of sales in Individual Insurance.

The guidance for the return on equity and earnings per share exclude any variations that could result from changes in actuarial assumptions in 2014.

¹ Decrease compared to the actual index values at December 31 of the indicated years.

PROFITABILITY

A) 2013 HIGHLIGHTS

Net income to common shareholders amounted to \$349.9 million in 2013, compared to \$303.6 million in 2012 (the 2012 result included an unusual gain of \$37.4 million from the sale of the US annuity business). Net income for 2013 translates into diluted earnings per common share (EPS) of \$3.57 (\$3.22 in 2012) and a return on common shareholders' equity of 12.6%¹ (12.8% in 2012).

Profitability

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Income attributed to shareholders	384.5	333.7	127.2	276.3	219.6
Less: dividends to preferred shareholders	34.6	30.1	23.9	22.9	13.8
Net income attributed to common shareholders	349.9	303.6	103.3	253.4	205.8
Net earnings per common share					
Basic	\$3.60	\$3.35	\$1.20	\$3.04	\$2.56
Diluted	\$3.57	\$3.22 ²	\$1.18	\$2.93	\$2.55
Return on common shareholders' equity	12.6%	12.8%	4.7%	12.8%	11.9%

Net income was up in 2013 despite a strengthening of the provisions for future policy benefits by \$6.1 million after tax (-\$0.06 per share) and the acquisition of Jovian Capital Corporation, which generated expenses of \$6.2 million after tax (-\$0.07 per share). The acquisition expenses for Jovian include a restructuring expense provision of \$4.6 million after tax (-\$0.05 per share).

In addition to the above items, below are a few highlights of 2013 in terms of profitability:

- › *Stock markets* – Good stock market performances generated a gain of \$22.4 million after tax (+\$0.23 per share) compared to expectations. This gain was distributed across two lines of business: Individual Insurance and Individual Wealth Management.
- › *Hedging program* – This program generated gains of \$28.5 million after tax (+\$0.30 per share) compared to expectations. The program had a positive impact in 2013 despite being primarily designed to reduce the sensitivity of net income to the volatility of the financial markets with respect to the capital guarantees offered on certain segregated funds.
- › *Individual insurance strain* – This expense decreased by \$46.4 million before tax compared to 2012, which is slightly lower than expected.
- › *Redemption of debentures* – The early redemption of debentures during the year led to the prepayment of \$9.3 million in fees before tax.

B) SOURCES OF EARNINGS

The table and comments that follow highlight the main items that had an impact on the financial results for the year:

Expected profit on in-force – Expected profit on in-force amounted to \$398.6 million in 2013, a year-over-year increase of \$21.8 million before tax. This increase primarily comes from the Individual Insurance and Individual Wealth Management sectors.

The expected profit on in-force reflects the best estimates determined by management when the 2013 budget was prepared.

Experience gains or losses compared to expected profit – Experience gains or losses represent the difference between the expected profit on in-force and the realized profit. These gains or losses emerge when actual results differ from those derived from the assumptions used to calculate expected profit.

The Company ended the year with experience gains of \$66.6 million before tax, compared to experience losses of \$2.4 million in 2012. Most of the gains realized in 2013 came from the Individual Wealth Management sector. The paragraphs that follow comment on the experience gains (losses) for each line of business.

- › *Individual Insurance* – The sector posted a positive variance of \$16.6 million before tax (\$12.6 million after tax or \$0.12 per common share) compared to estimates. This variance is essentially due to the stock market upswing, which helped to increase the profit by the equivalent of \$12.0 million after tax (+\$0.12 per share). There were also experience gains in mortality, morbidity, expenses and investment income, but they were offset by negative variances in terms of policy lapses.
- › *Individual Wealth Management* – A gain of \$36.1 million before tax (\$26.5 million after tax or \$0.28 per share) was recorded in 2013. The hedging program generated a gain of \$28.5 million after tax (+\$0.30 per share), mainly because investment funds performed better than their benchmark indices. Other items that affected profitability for the sector include stock market growth, which generated a positive variance of \$10.4 million or +\$0.11 per share, and the acquisition of Jovian, which reduced income by \$6.2 million or -\$0.07 per share. Non-recurring expenses led to a negative variance of \$4.1 million (-\$0.04 per share) and various other items reduced the net income by \$2.1 million (-\$0.02 per share).
- › *Group Insurance* – The sector realized a gain of \$4.3 million before tax, compared to a loss of \$24.1 million before tax in 2012. After tax, the gain realized in 2013 amounts to \$3.0 million or \$0.03 per share. In 2013, the Dealer Services and Special Markets Solutions divisions both achieved higher than expected results. The Employee Plans division achieved good results for life and disability insurance but was impacted by negative variances for health and dental insurance.
- › *Group Savings and Retirement* – The sector posted a before-tax gain of \$9.6 million in 2013. This was due to a number of positive factors during the year, including annuitant longevity and behaviour, investment income and fees arising from a large service contract in the last quarter. The total after-tax gain for the year amounted to \$7.1 million or \$0.07 per share.

¹ The issuance of common shares on February 27, 2013, for which the net proceeds of \$227.9 million were added to common shareholders' equity, decreased the return on equity in 2013.

² The diluted EPS for 2012 was \$3.34 excluding the dilution related to the Industrial Alliance Trust Securities (IATS) that were redeemed on June 30, 2013.

Sources of Earnings¹

(In millions of dollars)	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Expected profit on in-force	233.6	219.0	111.4	97.0	37.7	47.1	15.9	13.7	398.6	376.8
Experience gains (losses)	16.6	0.4	36.1	20.3	4.3	(24.1)	9.6	1.0	66.6	(2.4)
Gain (strain) on sales	(49.2)	(95.6)	(2.5)	(9.7)	0.0	0.0	(3.1)	(0.6)	(54.8)	(105.9)
Changes in assumptions	(2.8)	(39.8)	(0.3)	10.3	(5.0)	(0.3)	0.2	0.2	(7.9)	(29.6)
Operating profit	198.2	84.0	144.7	117.9	37.0	22.7	22.6	14.3	402.5	238.9
Income on capital	59.6	84.0	2.1	(1.0)	14.4	8.9	7.8	7.0	83.9	98.9
Income taxes	(41.9)	(0.2)	(39.9)	(27.7)	(12.4)	(8.5)	(7.7)	(5.1)	(101.9)	(41.5)
Net income attributed to shareholders on regular operations	215.9	167.8	106.9	89.2	39.0	23.1	22.7	16.2	384.5	296.3
Less: preferred share dividends	24.0	25.1	6.0	0.9	3.0	2.7	1.6	1.4	34.6	30.1
Net income attributed to common shareholders on regular operations	191.9	142.7	100.9	88.3	36.0	20.4	21.1	14.8	349.9	266.2
Other items ²	0.0	8.9	0.0	28.5	0.0	0.0	0.0	0.0	0.0	37.4
Net income attributed to common shareholders	191.9	151.6	100.9	116.8	36.0	20.4	21.1	14.8	349.9	303.6
Additional information according to the financial statements:										
Net premiums (excluding general insurance)	1,425.2	1,339.3	1,106.9	1,451.1	1,272.6	1,219.0	943.6	766.6	4,748.3	4,776.0
Net income attributed to shareholders	215.9	176.7	106.9	117.7	39.0	23.1	22.7	16.2	384.5	333.7
Less: preferred share dividends	24.0	25.1	6.0	0.9	3.0	2.7	1.6	1.4	34.6	30.1
Net income attributed to common shareholders	191.9	151.6	100.9	116.8	36.0	20.4	21.1	14.8	349.9	303.6

¹ The operating profit and income taxes presented in this table are not defined by IFRS. A reconciliation between non-IFRS financial measures and IFRS is presented in the Accounting Matters and Additional Information section of this Management's Discussion and Analysis. Comments for each line of business are also presented in other sections of this Management's Discussion and Analysis which describe each sector's activities in detail.

² After-tax gain on the sale of the US annuity business in the third quarter of 2012.

Gain (strain) on sales – In a life insurance company, sales can produce a gain or strain that can affect profits for a given fiscal year. Strain emerges when the provisions for adverse deviation incorporated into the provisions for future policy benefits are higher than the profit margins incorporated into product prices. Sales of insurance products generally produce a strain, particularly in the Individual Insurance sector, where commitments can extend over very long periods. Furthermore, certain products offered in this sector have features that make them more strain intensive than others. Over the years, the provisions for adverse deviation are recovered in the form of profits as the assumptions used for pricing materialize.

In the Individual Insurance sector, new business strain was \$49.2 million in 2013, which is 49% lower than the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 21% in 2013 compared to 38% in 2012. This decrease is primarily due to a more favourable sales mix and rate increases on certain products in recent years to counter the impact of low interest rates.

Given the current product pricing structure and the current macroeconomic environment, the Company believes the strain percentage should be around 25% in 2014.

Changes in assumptions – At the end of each quarter, the Company ensures the sufficiency of its provisions given the existing economic environment. It also does a complete update of all of its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience in terms of mortality, morbidity, lapse rates, unit costs and other factors.

Following the update carried out at the end of 2013, the Company strengthened its provisions for future policy benefits by \$7.9 million before tax, which is equal to \$6.1 million after tax or \$0.06 per common share.

Some of the positive factors considered in the update process include the ongoing improvement in mortality rates, strategies to optimize returns and improve asset/liability matching, and the increase in long-term interest rates over the past year. These factors offset the impact of two negative factors, namely the decrease in the ultimate reinvestment rate and the change in policy lapse rate assumptions, which were revised to take into account recent experience.

The ultimate reinvestment rate used to calculate the provisions for future policy benefits was lowered 10 basis points to 3.10%. This rate is lower than the maximum rate of 3.20% at December 31, 2013, based on the formula prescribed by the Canadian Institute of Actuaries.

Income on capital – Income on capital represents the income derived from the investments backing the Company's capital, minus any expenses incurred to generate this income. The Company also includes the net profits of subsidiaries that do not operate in one of its four lines of business.

Income on capital reached \$83.9 million before tax in 2013, down \$15.0 million or 15% compared to 2012. The decrease in income on capital during the year reflects a reduction in profit by the IAAH subsidiary and the payment of \$9.3 million in fees for the redemption of debentures.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and include tax payable and deferred income taxes. A life insurer's investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purpose of calculating the operating profit.

Income taxes totalled \$101.9 million in 2013, which translates into an effective tax rate of 21%. This is at the lower end of the Company's expected range of 21% to 24% for 2013.

CAPITALIZATION AND SOLVENCY

A) CAPITALIZATION

Industrial Alliance's capital structure can be divided into three categories: equity, debentures, and the participating policyholders' account. At December 31, 2013, the Company's capital reached \$4.2 billion, a year-over-year increase of 5%, with equity accounting for 87% of total capital.

The main factors that contributed to this increase were the issuance of common shares for a net amount of \$227.9 million in February 2013 and the growth in retained earnings (the net income realized during the year, net of dividends paid to common shareholders). The redemption of preferred shares and debentures had a negative impact on capital in 2013, but to a lesser extent.

Capital structure

(In millions of dollars)	As at December 31				
	2013	2012	2011	2010	2009
Equity					
Common shares	1,183.5	878.6	860.7	652.5	545.7
Preferred shares	575.0	675.0	425.0	425.0	325.0
Retained earnings	1,857.4	1,553.5	1,418.6	1,341.5	1,254.8
Contributed surplus	19.8	23.5	23.6	23.3	21.6
AOCI ¹	(15.3)	39.3	64.4	59.3	10.5
Subtotal	3,620.4	3,169.9	2,792.3	2,501.6	2,157.6
Debentures	498.5	757.9	747.7	499.1	519.8
Participating policyholders' account	47.1	44.2	41.3	26.9	25.7
Total	4,166.0	3,972.0	3,581.3	3,027.6	2,703.1

B) FINANCIAL LEVERAGE AND COVERAGE RATIO

The debt ratio, measured by debentures over the capital structure, was 12.0% at December 31, 2013. If the preferred shares are added to the debentures, the ratio was 25.8%. The issuance of common shares in the first quarter, the redemption of debentures in the second quarter and the redemption of preferred shares in the last quarter all contributed to the decrease in the debt ratios for 2013.

At December 31, 2013, the coverage ratio was 6.2x, compared to 6.1x at December 31, 2012. In 2013, the ratio benefited from an increase in pre-tax earnings and the decrease in financing expenses (resulting from the redemption of debentures during the year). These items were partially offset by the increase in preferred share dividends. The coverage ratio represents the pre-tax income and interest financing expenses compared to the interest financing expenses and dividends.

Debt Ratios and Coverage Ratio

	As at December 31				
	2013	2012	2011	2010	2009
Debt ratios					
Debentures/capital structure	12.0%	18.9%	21.2%	16.5%	19.2%
Debentures and preferred shares/capital structure	25.8%	35.9%	33.3%	30.5%	31.3%
Coverage ratio (number of times)	6.2	6.1	2.8	6.2	6.3

C) SOLVENCY

The solvency ratio remained stable year over year, amounting to 217% at December 31, 2013. This ratio is above the Company's 175% to 200% target range.

The net impact of macroeconomic variations, including the increase in long-term interest rates and stock market represents a 7 percentage point increase in the solvency ratio, offset by the impact of the Jovian acquisition (-5 percentage point) and the amendment to IAS-19 (2 percentage points).

The other items that impacted the solvency ratio offset each other. The easing of regulatory capital requirements for lapse risk caused the ratio to increase by about 13 percentage points, but this increase was offset by the variation in the cost of capital guarantees on segregated funds. The contribution of net income to the available capital led to a 16 percentage point increase, but this increase was almost entirely offset by the net effect of downward variations in capital during the year and the additional capital requirements due to business growth.

Solvency

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2013	2012	2011	2010	2009
Available capital					
Tier 1 (net)	3,166.3	2,956.1	2,461.7	2,303.8	1,961.9
Tier 2 (net)	496.7	640.0	587.4	340.9	343.1
Total	3,663.0	3,596.1	3,049.1	2,644.7	2,305.0
Required capital	1,687.2	1,657.7	1,613.8	1,306.8	1,107.2
Solvency ratio	217%	217%	189%	202%	208%

D) DIVIDENDS

The Company paid out a dividend of \$0.2450 per common share in each of the four quarters of 2013, for a total annual dividend of \$0.98 per common share. In total, the Company paid out \$96.2 million in dividends to common shareholders in 2013. The dividend payout ratio for 2013 was 27% of the net income attributed to common shareholders.

Dividends

	2013	2012	2011	2010	2009
Dividends paid per common share	\$0.98	\$0.98	\$0.98	\$0.98	\$0.98
Dividend payout ratio	27%	29%	82%	32%	38%

E) OUTSTANDING SHARES

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

¹ AOCI: Accumulated other comprehensive income

The number of issued and outstanding common shares as at December 31, 2013 was 99,341,908, an increase of 8,317,815 compared to December 31, 2012. This increase is explained by four items: the issuance of over 6 million common shares in the first quarter, the issuance of common shares following the exercise of options under the Share Purchase Plan for Senior Managers of the Industrial Alliance Group, the issuance of common shares upon the acquisition of Jovian Capital Corporation and the issuance of common shares under the Dividend Reinvestment and Share Purchase Plan.

The Company did not buy back any of its common shares in 2013.

Common shares

(In millions)	As at December 31				
	2013	2012	2011	2010	2009
Number of common shares outstanding	99.3	91.0	90.4	83.9	80.5

F) STOCK PRICE AND MARKET CAPITALIZATION

Industrial Alliance became a stock company in February 2000. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of \$7.88, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005.

Industrial Alliance stock closed 2013 at \$46.95, for a market capitalization of \$4.7 billion.

Stock Price and Market Capitalization

(In millions of dollars, unless otherwise indicated)	End of period				
	2013	2012	2011	2010	2009
Stock price	\$46.95	\$31.38	\$26.29	\$36.81	\$32.20
Market capitalization	4,664.1	2,856.3	2,376.2	3,087.9	2,592.5

G) BOOK VALUE PER COMMON SHARE

The book value per common share was \$30.67 at the end of 2013, up 12% during the year. This growth comes primarily from the issuance of common shares and the increase in retained earnings.

Book value per common share

	As at December 31				
	2013	2012	2011	2010	2009
Book value per common share	\$30.67	\$27.45	\$26.19	\$24.75	\$22.77

H) REDEMPTION OF FINANCIAL INSTRUMENTS

In 2013, the Company redeemed the following three financial instruments:

- › April 1: All subordinated debentures at 8.25% maturing on March 27, 2019, for a nominal value of \$100 million.
- › June 30: All outstanding Industrial Alliance Trust Securities – Series A ("IATS"), for a nominal value of \$150 million.
- › December 31: All Class A Preferred Shares Series C, with a book value of \$100 million.

These redemptions, along with the public offering of common shares for net proceeds of \$227.9 million, which closed on February 27, were part of a financial strategy that aims to improve the Company's debt and coverage ratios.

I) PREFERRED SHARES

In 2013, the Company paid \$34.6 million in dividends to preferred shareholders with Class A Shares, Series B, C, E, F and G. As indicated earlier, Series C was redeemed at the end of the year. The Company's capital currently includes four series of Class A Preferred Shares, as shown in the table on the following page.

J) DEBENTURES

The Company had three series of debentures on its balance sheet at December 31, 2013, with a total book value of \$498.5 million, as shown in the table on the following page. These debentures were classified as "other financial liabilities," at their amortized cost based on their effective interest rate. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors.

In 2013, the financing expense on the debentures included \$32.8 million in interest and a \$9.3 million redemption charge. In 2012, the financing expense, made up of interest only, amounted to \$42.4 million.

K) SHARE PURCHASE PLAN

In accordance with the Share Purchase Plan for Senior Managers of the Industrial Alliance Group adopted by the Board of Directors in 2001, the Human Resources and Governance Committee issued 498,000 new share purchase options in 2013. These new options, which will expire in 2023, were granted at an average weighted exercise price of \$35.51. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 3,418,000, or 3.4% of the number of issued and outstanding shares as at December 31, 2013.

L) DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

2013 was the first full year of operation for the Dividend Reinvestment and Share Purchase Plan for common shareholders. The plan allows participants to have their dividend payments automatically reinvested in Industrial Alliance common shares, as well as to make cash purchases of additional common shares from the Company. This plan led to the issuance of 711,096 common shares in 2013.

Preferred Shares and Debentures

Class A Preferred Shares – Series B

Number:	5,000,000
Book value:	Shares recognized at their acquisition value
Nominal value:	\$125.0 million
Dividend:	Fixed non-cumulative quarterly dividend of \$0.2875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the <i>Autorité des marchés financiers</i> (AMF), on or after March 31, 2011

Class A Preferred Shares – Series E

Number:	4,000,000
Book value:	Shares recognized at their acquisition value
Nominal value:	\$100.0 million
Dividend:	Fixed non-cumulative quarterly dividend of \$0.3750 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on or after December 31, 2014

Class A Preferred Shares – Series F

Number:	4,000,000
Book value:	Shares recognized at their acquisition value
Nominal value:	\$100.0 million
Dividend:	Fixed non-cumulative quarterly dividend of \$0.36875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on or after March 31, 2015

Class A Preferred Shares – Series G

Number:	10,000,000
Book value:	Shares recognized at their acquisition value
Nominal value:	\$250.0 million
Dividend:	Non-cumulative 5-year rate reset quarterly dividend in cash at an initial annual rate of \$1.0750 per preferred share
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Shares – Series H on or after June 30, 2017
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on or after June 30, 2017

Subordinated debentures maturing on June 30, 2019 (issued on March 11, 2004)

Book value:	\$150.0 million
Nominal value:	\$150.0 million
Maturity:	June 30, 2019 (issued on March 11, 2004)
Interest:	5.13% from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1%, payable quarterly.
Redemption and repayment:	Redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the AMF, at a redemption price equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem the debentures in whole, but not in part, on each payment date of quarterly interest, at the par value, subject to prior approval by the AMF.

Subordinated debentures maturing on December 14, 2021 (issued on December 14, 2011)

Book value:	\$248.6 million
Nominal value:	\$250.0 million
Maturity:	December 14, 2021 (issued on December 14, 2011)
Interest:	4.75% until December 14, 2016. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 3.20% for the last five years, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after December 14, 2016, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of \$1 million.

Subordinated debentures maturing on August 1, 2023 (issued on August 1, 2008)

Book value:	\$99.9 million
Nominal value:	\$100.0 million
Maturity:	August 1, 2023 (issued on August 1, 2008)
Interest:	For the principal debenture of \$88.0 million: 5.63% payable semi-annually until August 1, 2018; for the secondary debenture of \$12.0 million: 7.00% payable semi-annually until August 1, 2013, and interest of 5.63% payable semi-annually until August 1, 2018. After that date, the interest rate on the principal and secondary debentures will be equal to the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of the quarter, and payable semi-annually.
Redemption and repayment:	Redeemable at par by the Company on or after August 1, 2018, in whole but not in part, subject to prior approval by the AMF.

More information about the features of the preferred shares and debentures can be found in the prospectuses available on the Company's website, at www.inalco.com, in the *Investor Relations* section, under *Prospectus*.

M) DECLARATION OF FOURTH QUARTER DIVIDENDS

Following are the amounts and dates of payment and closing of registers for the Company's common shares and the various categories of its preferred shares.

The Board of Directors has declared the payment of a quarterly dividend of \$0.2600 per common share, an increase of 6% over the previous quarter. The dividend is payable in cash on March 17, 2014, to the common shareholders of record as at February 28, 2014.

The Board of Directors has declared the payment of a quarterly dividend of \$0.2875 per non-cumulative Class A Preferred Share, Series B. The dividend is payable in cash on March 31, 2014, to the preferred shareholders of record as at February 28, 2014.

The Board of Directors has declared the payment of a quarterly dividend of \$0.3750 per non-cumulative Class A Preferred Share, Series E. The dividend is payable in cash on March 31, 2014, to the preferred shareholders of record as at February 28, 2014.

The Board of Directors has declared the payment of a quarterly dividend of \$0.36875 per non-cumulative Class A Preferred Share, Series F. The dividend is payable in cash on March 31, 2014, to the preferred shareholders of record as at February 28, 2014.

The Board of Directors has declared the payment of a quarterly dividend of \$0.26875 per non-cumulative Class A Preferred Share, Series G. The dividend is payable in cash on March 31, 2014, to the preferred shareholders of record as at February 28, 2014.

For the purposes of the *Income Tax Act* (Canada) and any corresponding provincial and territorial tax legislation, all dividends paid by Industrial Alliance on its common and preferred shares are considered to be eligible dividends.

N) CREDIT RATINGS

In 2013, the three independent credit agencies that rate Industrial Alliance maintained all of their ratings for the Company at the same level as the previous year, with a stable outlook. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

Credit Ratings

Agency	Type of Evaluation	Rating
Standard & Poor's	Financial Strength	A+ (Strong)
	Issuer Credit Rating	A+ (Strong)
	Subordinated Debentures	A
	Preferred Shares	
	Canadian scale	P-1 (Low)
	Global scale	A-
DBRS	Claims Paying Ability	IC-2
	Subordinated Debentures	A
	Preferred Shares	Pfd-2 (high)
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a+
	Subordinated Debentures	a-
	Preferred Shares	bbb+

PERSONAL FINANCIAL SERVICES

Industrial Alliance offers insurance and wealth management products to individuals through two major lines of business: Individual Insurance and Individual Wealth Management. It also markets auto and home insurance products in Quebec through its Industrial Alliance Auto and Home Insurance Inc. subsidiary.

INDIVIDUAL INSURANCE

A) DESCRIPTION OF SECTOR

In the Individual Insurance sector, the Company distributes a wide range of life insurance (universal, permanent and term), health insurance, disability insurance and mortgage insurance products.

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

In this regard, the Company will continue to design and promote sales tools for use by selected distributors in order to increase its penetration in certain niche markets, including the high net worth market. Also, in view of the very competitive environment in the individual insurance market, the Company needs to monitor sales trends closely and make any necessary adjustments in an ongoing effort to maintain a balance between business growth and profitability objectives.

Industrial Alliance has some large subsidiaries in the US and Canada, including The Excellence Life Insurance Company, which is responsible for marketing the Company's disability insurance products nationwide.

B) BUSINESS GROWTH

The insurance industry benefited from a positive macroeconomic environment in 2013, including a moderate increase in long-term interest rates. Despite this recent increase, however, long-term interest rates are still low and continue to have a particular impact on permanent insurance products due to the very long-term nature of the commitments. In 2013, the industry was much less active with respect to rate increases on permanent insurance products than it was in 2012. The Company increased its rates for permanent critical illness insurance in January 2013 and for permanent life insurance in March 2013. The goal was to achieve sustainable profitability without unduly compromising the Company's competitive position.

Below is a history of the Company's business growth for this sector:

Individual Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Sales ¹					
Minimum premiums ²	193.7	200.9	174.4	150.9	126.4
Excess premiums ²	40.6	42.4	35.0	35.7	20.7
Total	234.3	243.3	209.4	186.6	147.1
Growth	(4%)	16%	12%	27%	0%
Premiums	1,425.2	1,339.3	1,248.2	1,112.9	938.4
Growth	6%	7%	12%	---	2%
Number of policies	105,927	112,618	114,046	117,091	112,335
Growth	(6%)	(1%)	(3%)	4%	5%

Carried by new sales and good business persistency, premium income in the Individual Insurance sector grew 6% in 2013, surpassing the \$1.4 billion mark.

Growth in premium income is important because, with the control of new business strain, it is the key long-term profitability driver for the sector. Growth in premium income is dependent on the business persistency rate and growth of new sales. New sales in turn are dependent on the ongoing growth of the population (and its growing need for protection), the collective enrichment of the population, the size of the Company's distribution networks and new emerging niches for insurance products.

The sector ended the year with \$234.3 million in sales, down 4% from the previous year. This slight decline from the historical high recorded in 2012 can be explained by the decreased popularity of Universal Life insurance in favour of participating whole life insurance, a market that is currently untapped by the Company. Note that the recent rate increases on guaranteed permanent insurance products reduced the price spread between these products and participating whole life insurance, making the latter a more attractive option.

Excess premiums were also down slightly, dropping 4% in 2013 despite steady growth in the high net worth market. This decrease can be explained by two factors: the withdrawal of minimum interest guarantees on Universal Life fixed-term accounts and the uncertainty surrounding the compliance of life insurance policies that allow the funds accumulated in the policy to be used as collateral for a loan.

Relative to the industry, Industrial Alliance is still doing very well in Canada, ranking fourth in sales for the first nine months of 2013 with a market share of 12.3%, and continuing to rank first for Universal Life insurance sales with a market share of 24.4%.

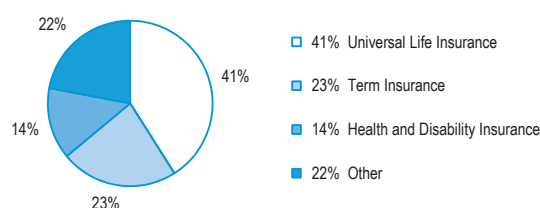
¹ In the Individual Insurance sector, sales are defined as first-year annualized premiums.

² Minimum premiums are the portion of the premium used to cover the insurance risks under an individual insurance contract and are an important way to measure the sector's performance. Excess premiums are the portion of the premium allocated to additional savings. The option to pay an excess premium is only available with Universal Life insurance products.

³ 2010 premiums cannot be compared to 2009 premiums due to the transition to IFRS accounting standards.

Sales by Product

2013



Universal Life sales were down 12% despite stronger sales in the high net worth market. Recent rate increases and the withdrawal of the minimum interest guarantees from Universal Life fixed-term accounts most likely contributed to this decline. Nevertheless, Universal Life policies continue to be the Company's most popular product, accounting for 41% of the sector's sales in 2013 (45% in 2012). Universal Life products accounted for 31% of industry sales for the first nine months of the year, compared to 38% for the same period in 2012. This can be explained by the general shift from Universal Life products to participating whole life policies.

At Industrial Alliance, the proportion of Universal Life policies sold with a yearly renewable term (YRT) increased from 43% in 2012 to 49% in 2013. This increase helped to improve the sector's profitability since the YRT version of the product is less strain intensive.

Term insurance sales grew by 4% in 2013. This type of insurance now accounts for 23% of sales for the sector.

In terms of health and disability insurance, sales grew by 5% in 2013. This increase was driven by the growth in sales outside Quebec by the Excellence subsidiary, which specializes in health and disability insurance, and by the popularity of Industrial Alliance's critical illness product.

C) PROFITABILITY

Excluding the impact of the year-end changes in valuation assumptions, the sector recorded an operating profit of \$201.0 million before tax, a 62% increase over 2012.

The results were positive for most profitability parameters, except policy lapses. In addition, new business strain was down thanks to a more favourable sales mix during the year.

D) WHAT'S NEW IN 2013?

Following are the main initiatives introduced in 2013:

- › *Pricing adjustments to permanent insurance products* – As indicated above, the Company increased its rates for critical illness insurance in January 2013 and for permanent life insurance in March 2013.
- › *Pricing adjustments to term insurance products* – In its desire to maintain a competitive position, the Company lowered its rates for this type of product in March 2013 and January 2014.
- › *Universal Life insurance* – In order to continue its breakthrough into the high net worth market, the Company continued its business relationship with a major distributor that targets this market.

- › *Disability insurance* – Excellence product sales continued to grow outside Quebec in 2013, now accounting for over 29% of total sales. The new Cancer Guard product also contributed to the increase in sales for the year.
- › *Launch of a new permanent life insurance product with adjustable premiums based on long-term interest rates* – This new product was launched on June 3, 2013, with two goals in mind: to offer consumers the opportunity to take advantage of a potential increase in long-term interest rates and to reduce the Company's exposure to interest rate risk.
- › *10/8 concept* – As a result of certain restrictions arising from a bill passed in December 2013, an alternative to the 10/8 concept was developed. New options were also added to in-force policies, including a new collateral loan option that complies with the legislation and a new market index account with stabilized returns. As at December 31, 2013, approximately 70% of the block of business had been converted to the new concept. The conversions will continue in 2014. So far, a relatively small percentage of clients have cancelled their policy.

INDIVIDUAL WEALTH MANAGEMENT

A) DESCRIPTION OF SECTOR

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products, including mutual funds, segregated funds (investment funds with guaranteed capital at death or at maturity), securities, guaranteed interest investments, life annuities and fixed-term annuities. Clients can invest in these products through registered retirement savings plans (RRSPs), registered education savings plans (RESPs), tax-free savings accounts (TFSA), registered retirement income funds (RRIFs) or non-registered plans.

B) BUSINESS GROWTH

The Individual Wealth Management sector made close to \$3.4 billion in gross sales in 2013, up 8% from the previous year.

For guaranteed return products (essentially guaranteed interest accumulation products and annuities), which are found in the Company's general fund, sales were down 64%, primarily due to a repositioning of the Company's strategy and clients' renewed interest in mutual funds.

Gross mutual fund sales were up 37%, while gross segregated fund sales were down 12% in part because the Company stopped selling the guaranteed minimum withdrawal benefit product.

Individual Wealth Management Sales¹

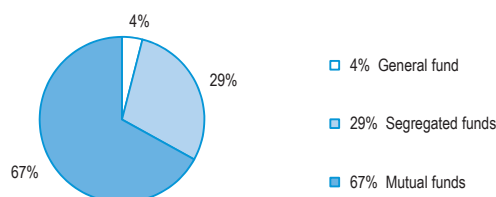
(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
General fund	119.2	325.1	403.6	441.1	404.3
Segregated funds	987.7	1,126.0	1,362.3	1,488.0	866.2
Mutual funds	2,251.9	1,649.5	1,777.7	1,747.2	1,079.5
Total	3,358.8	3,100.6	3,543.6	3,676.3	2,350.0
Growth	8%	(13%)	(4%)	56%	(3%)

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

The following chart shows the breakdown of gross sales by product.

Gross Sales by Product

2013



Net mutual fund sales in Canada totalled \$673.9 million in 2013, a 48% increase over 2012. This exceptional growth is due in part to the strong performance of world stock markets in 2013. At year-end, the Company was ranked ninth¹ in terms of net sales.

Net segregated fund sales were negative in 2013, coming in at -\$88.7 million despite the Company's consistent history of positive yearly results. It is important to note, however, that net segregated fund sales were negative industry-wide in 2013², reflecting the general tendency for clients to favour mutual funds over segregated funds when the stock markets are strong, as they were in 2013.

Investment Funds

Net Sales

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Segregated funds	(88.7)	308.7	768.6	925.0	476.4
Mutual funds	673.9	455.7	729.5	797.1	281.4
Total	585.2	764.4	1,498.1	1,722.1	757.8
As a percentage of sales	18%	28%	48%	53%	39%

Funds under management totalled \$26.5 billion at December 31, 2013, a year-over-year increase of 32%. The acquisition of Jovian contributed \$3.8 billion to this growth (including \$0.8 billion in mutual funds). Stock market growth and net mutual fund sales also contributed to the increase in funds under management. The Company was ranked fourth² in Canada in terms of segregated fund assets at December 31, 2013, with 10.7% of the market (10.4% at December 31, 2012), and thirteenth¹ for mutual fund assets (thirteenth in 2012).

Individual Wealth Management

Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2013	2012	2011	2010	2009
General fund	1,226.9	1,274.5	1,848.9	1,751.4	1,672.8
Segregated funds	10,809.0	9,858.1	9,098.7	8,794.6	7,204.5
Mutual funds ^{3, 4}	11,413.2	8,978.9	8,138.6	7,910.8	6,601.9
Other ⁴	3,061.7	---	---	---	---
Total	26,510.8	20,111.5	19,086.2	18,456.8	15,479.2
Growth	32%	5%	3%	21%	24%

¹ Source: IFIC

² Source: Investor Economics

³ Data from 2010 to 2012 have been restated to reflect a change in interfund eliminations.

⁴ Includes assets acquired with Jovian Capital Corporation on October 1, 2013.

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

C) PROFITABILITY

The sector's operating profit amounted to \$144.7 million before tax, an increase of 23% over 2012, primarily due to growth in assets under management (driven by strong stock market performances and the contribution of positive net sales) and the gains generated by the dynamic hedging program for the segregated fund guarantees.

D) WHAT'S NEW IN 2013?

In the Individual Wealth Management sector, the Company revamped its segregated fund offer by lowering certain management fees and offering more flexibility in choosing the capital guarantees. The Company also launched five new fund portfolios in December, with the underlying funds mostly consisting of IA Clarington funds. Lastly, a new distribution network support strategy was introduced in 2013 which is currently in the process of being rolled out.

AUTO AND HOME INSURANCE OPERATIONS

A) DESCRIPTION OF ACTIVITIES

Industrial Alliance markets its auto and home insurance products in Quebec through its Industrial Alliance Auto and Home Insurance Inc. (IAAH) subsidiary, whose mission in the group is to help Industrial Alliance and its distribution networks attract new clients through the direct sale of general insurance products to individuals.

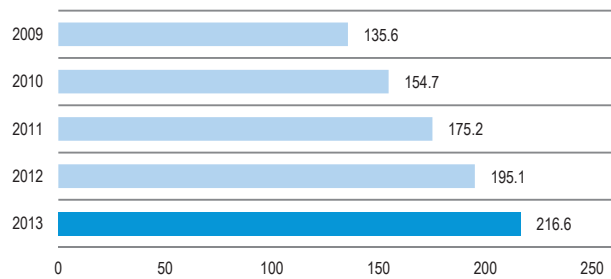
For a number of years now, IAAH has been developing innovative solutions drawn from an in-depth analysis of client needs and its own business processes. Its objective is threefold: to provide exceptional service to its clients at all times, to offer its employees a fulfilling work environment and to use its expertise to contribute to the betterment of the community.

One of the advantages that sets IAAH apart is the referral of clients by Industrial Alliance's distribution networks, providing a business development opportunity that's unique in the industry. The strong, positive reputation of the "Industrial Alliance" brand in Quebec, bolstered by IAAH's mass advertising campaigns, has also contributed to the subsidiary's growth in the past few years.

B) BUSINESS GROWTH

On April 1, 2013, the "Replacement Insurance" product that had been underwritten for the group by IAAH since October 1, 2010, was taken over by Dealer Services, a division of Industrial Alliance's Group Insurance sector. Excluding the "temporary" impact the replacement insurance had on IAAH's business volume, growth in direct written premiums was greater than 10% for the fifth straight year, compared to average industry growth of 2% for the same period. IAAH's business volume now amounts to \$216.6 million.

Direct Written Premiums (Excluding Warranties and Replacement Insurance) (\$Million)

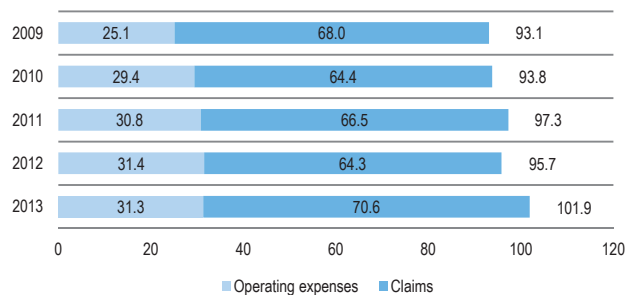


C) PROFITABILITY

Profitability was impacted by a deterioration in the claims rate compared to 2012, primarily due to poor weather conditions throughout the year. In fact, each of the four quarters of 2013 was plagued by a catastrophic event, and these four events alone drove the claims rate up by nearly 4 percentage points.

In terms of operating expenses, IAAH's operating expense to premium ratio remained relatively stable in 2013, down 0.1 percentage points to reach 31.3%. This brings the combined rate (claims plus operating expenses) to 101.9%.

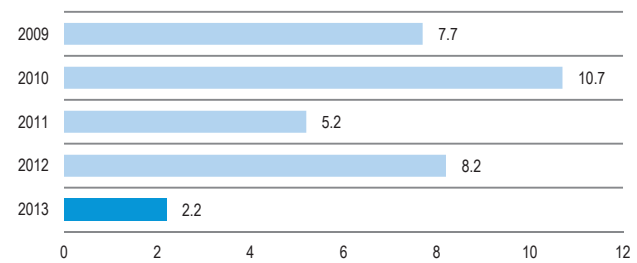
Combined Rate¹ (%)



In addition to claims and operating expenses, investment income is the third item that has an impact on a general insurance company's profit. In 2013, IAAH's investment income was significantly higher than the previous year.

IAAH earned net income (before accumulated other comprehensive income (AOCI)) of \$2.2 million in 2013.

Net Income (Before AOCI)² (\$Million)



D) WHAT'S NEW IN 2013?

In April 2012, IAAH launched Mobiliz, an innovative auto insurance program supported by telematic technology. The Mobiliz program, the first of its kind in Canada, is a social initiative introduced by IAAH to help save lives by promoting safe driving behaviour and discouraging speeding, primarily among drivers aged 16 to 24. In 2013, other insurers in Quebec and Canada began using telematics for auto insurance as well, confirming IAAH's visionary leadership in this regard. At the end of the year, IAAH signed a partnership agreement with Tecnic Driving Schools, which will be installing the Mobiliz product on all their driving school vehicles. Rooted in a cause that is important to both organizations, this partnership will help teach new drivers responsible behaviour and familiarize them with this innovative product from their first moments behind the wheel.

¹ Data for 2010, 2011 and 2012 are revised.

² AOCI: Accumulated other comprehensive income

GROUP PRODUCTS AND SERVICES

The Company offers a wide range of products to businesses and groups through the Group Insurance sector, which includes three divisions (Employee Plans, Dealer Services and Special Markets Solutions), and through the Group Savings and Retirement sector.

GROUP INSURANCE EMPLOYEE PLANS

A) DESCRIPTION OF DIVISION

The Company's Group Insurance Employee Plans division distributes a broad range of life and health insurance, accidental death and dismemberment (AD&D) insurance, dental care insurance, short and long-term disability insurance, critical illness and home care insurance, and out-of-Canada medical insurance. In 2013, a new suite of optional insurance products was launched for plan members, making it even easier for them to enrol in life, AD&D and critical illness coverage.

In addition, the Company offers a number of tools and services for the effective administration of group insurance plans. These include a health spending account and support programs for employees and employers like the employee assistance program and the workforce management program. Industrial Alliance also offers the Health & Wellness Companion, a website designed to promote the health and wellness of employees and their dependents. A number of alternatives are available to help clients manage their health and dental claims effectively, particularly prescription drug claims.

Lastly, the Company has a state-of-the-art transaction-driven website for plan administrators, members and benefits advisors.

The Company's products and services are available on an insured or administrative services only (ASO) contract basis.

The products are marketed Canada-wide through specialized brokers and actuarial consulting firms. The division has over 500 employees, has signed agreements with some 2,600 groups, and serves over 670,000 plan members. The Company has sales and service offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

The division's goal is to make Industrial Alliance the best group insurance carrier on the market. Naturally, the Company needs to remain competitive in terms of pricing and unit costs, but understands that employees and employers place just as much importance on service quality. It also knows that employers consider their employee benefit plans a key part of their business strategy.

B) BUSINESS GROWTH

The Group Insurance Employee Plans division posted sales of \$59.4 million in 2013, up 29% from 2012. For the Company's target market of groups with 50 to 2,000 employees, sales were up 26% compared to the previous year. Gross sales growth is primarily dependent on the size of the Company's distribution network and the quotation success rate.

Premiums, premium equivalents and investment contracts totalled \$925.9 million in 2013, down slightly from 2012. Growth in premiums and premium equivalents is a function of the increase in gross sales, in-force business persistency and growth in premiums from renewed contracts. Premiums from renewed groups are a function of the change in the number of employees within in-force groups, salary growth and changes in group experience.

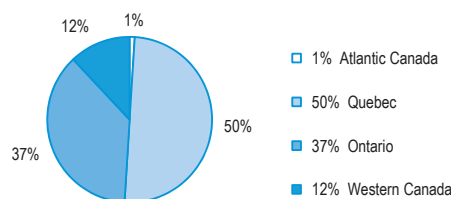
Group Insurance – Employee Plans Business Growth

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Sales ¹	59.4	46.1	131.9	72.2	75.0
Growth	29%	(65%)	83%	(4%)	(19%)
Premiums	809.0	788.7	788.3	714.6	727.7
Premium equivalents ²	43.9	48.2	43.9	51.0	115.9
Investment contracts ³	73.0	128.1	122.7	115.6	---
Total	925.9	965.0	954.9	881.2	843.6
Growth	(4%)	1%	8%	---	7%

The following chart shows a breakdown of sales by region in Canada, dominated by Quebec and Ontario.

Sales by Region

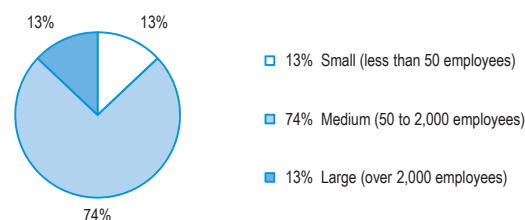
2013



By group size, there was an increase in the proportion of sales in the Company's target market, namely groups with 50 to 2,000 employees, compared to 2012.

Sales by Group Size

2013



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

² Premium equivalents are income from administrative services only (ASO) contracts.

³ Premiums from Hold Harmless Agreements

For 2013, industry sales were down 25% from 2012. However, this decrease comes mainly from one insurer that had made a big sale in 2012. Excluding the impact of this big sale, the market decrease would have been 7%. In terms of market share, Industrial Alliance is ranked tenth¹ in Canada, with 2.5% of the market (tenth in 2012, with 2.0% of the market). In the market that most closely resembles the division's target market, namely groups with 50 to 999 employees, industry sales were down 8% for the same period. This left Industrial Alliance in eighth position, with 5.4% of the market (eighth also in 2012, with 3.9% of the market).

C) PROFITABILITY

The division's profitability was up in 2013, with some benefits posting gains and others posting losses. Disability insurance, for one, showed improved claims experience. Profitability is expected to improve further in 2014 as a result of certain adjustments and initiatives carried out in 2013.

D) WHAT'S NEW IN 2013?

Guided by the division's strategy, a number of initiatives were introduced in 2013:

- › A number of business processes were improved as part of the Lean initiative, including the following major processes: 1) management of health and dental claims; 2) management of initial disability claims; and 3) the new group implementation process. The changes that were made will help us simplify and improve customer service by reducing both turnaround times and administrative requirements.
- › New options for controlling drug insurance costs were put in place in 2013, resulting in significant client savings.
- › A new handheld application was launched that includes the most popular features of the plan member website. Plan members can now use their handheld device to look at details of their claim, submit a new claim and contact Industrial Alliance directly. They can also use their handheld as a group insurance card. The application has already been very well received.
- › The quality of the division's customer service has improved, according to the periodic surveys carried out by the Company. These surveys are used to calculate changes in the Net Promoter Score and in turn, measure the impact of the Company's service initiatives.
- › A new service was launched for several health care providers that allows them to submit claims directly to Industrial Alliance, on behalf of their patients, using an online portal.
- › New optional insurance benefits were developed that will be offered to existing clients and new groups in 2014. These benefits offer a simplified enrolment process and require minimal intervention by plan administrators. They will also be portable, meaning that plan members can continue their coverage even if their group insurance contract is terminated.

GROUP INSURANCE DEALER SERVICES

A) DESCRIPTION OF DIVISION

In addition to the products sold through its Employee Plans and Special Markets Solutions divisions, the Group Insurance sector also distributes creditor insurance products (life, disability and critical illness) and P&C protection (extended warranties, replacement insurance and a full range of P&C ancillary products) through the Dealer Services division.

The Dealer Services division has over 340 employees, has signed agreements with more than 3,700 organizations and insures over 500,000 individuals. The products are offered through an exclusive Canada-wide direct distribution network to automobile and other motor vehicle dealers and are distributed from seven sales offices: Halifax, Saskatoon, Montreal, Toronto, Winnipeg, Edmonton and Vancouver.

The Dealer Services division also uses synergies with other Industrial Alliance entities to offer financing through IA Trust and motor vehicle P&C coverage through Industrial Alliance Auto and Home Insurance (IAAH).

Industrial Alliance's success in the motor vehicle dealers market is based on several competitive advantages, including a strong brand recognition and reputation, an exclusive Canada-wide direct distribution network, low unit costs and a comprehensive range of products, services and training programs to meet the demands of the market.

Dealers and distributors demand "one-stop shopping" for their after-market needs and through the Dealer Services division, Industrial Alliance is one of the few companies that can meet this demand.

B) BUSINESS GROWTH

Dealer Services – Creditor Insurance

Creditor insurance operations posted strong gains in 2013 for all regions, with sales reaching \$382.4 million, up 8.7% from 2012. Sales growth has significantly outperformed auto industry growth. The Canadian light vehicle industry shows light vehicle sales up only 4.0%² compared to 2012.

Dealer Services – Creditor Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Sales	382.4	351.7	284.8	201.7	173.8
Reinsurance	47.7	39.9	35.4	34.5	30.9
Premiums	334.7	311.8	249.4	167.2	142.9
Growth	7%	25%	49%	17%	(20%)

¹ Source: LIMRA

² Source: DesRosiers Automotive Consultants Inc., November 2013 YTD information

Dealer Services – P&C

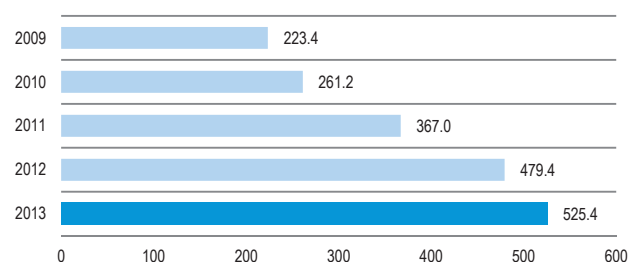
P&C sales with motor vehicle dealers were very strong in 2013, up 12% from 2012 to reach \$143.0 million. Mechanical warranty sales were extremely strong as well, with sales up 15% over last year.

Dealer Services – P&C¹

Business Growth

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Underwritten	138.4	122.8	77.0	54.0	45.1
Non-Underwritten	4.6	4.9	5.2	5.5	4.5
Total	143.0	127.7	82.2	59.5	49.6
Growth	12%	55%	38%	20%	36%

Dealer Services – Creditor Insurance and P&C Total Sales² (\$Million)



C) PROFITABILITY

Sales growth is the main profitability driver for the Dealer Services division. Sales are mainly reliant on the number of new vehicles sold, the expansion of the distribution network and, to a lesser degree, the demand for credit products such as mortgage loans and personal loans.

Dealer Services profitability was good in 2013 despite a highly competitive environment.

D) WHAT'S NEW IN 2013?

In addition to strong sales gains, there were other positive developments in 2013:

- › VAG (Vision Avant-Garde Inc.) was successfully merged with Industrial Alliance.
- › A.M. Best Co. assigned a financial strength rating of A (Excellent) and an issuer credit rating of "a" to Industrial Alliance Pacific General Insurance Corporation (IAPG), which underwrites Dealer Services P&C business.
- › IAPG commenced writing replacement insurance business, which was written under IAAH in the past. The in-force replacement insurance business was reinsured from IAAH to IAPG retroactively effective January 1, 2013.

¹ P&C premiums include replacement insurance business, which was underwritten by IAAH in 2012 and 2011.

² Creditor insurance sales are defined as premiums before reinsurance and cancellations and P&C sales are defined as direct written premiums.

GROUP INSURANCE SPECIAL MARKETS SOLUTIONS

A) DESCRIPTION OF DIVISION

Special Markets Solutions is a division of Industrial Alliance that specializes in niche insurance markets that are not well served by traditional group insurance carriers. The division primarily offers accidental death & dismemberment (AD&D) insurance and other specialized insurance products (to employers and associations), as well as travel and health insurance (through distribution partners), creditor insurance (primarily through mortgage broker organizations) and term life insurance (to alumni associations and other affinity groups).

Special Markets Solutions has over seventy employees, has signed agreements with over 4,000 groups and associations, and insures hundreds of thousands of individuals. The division distributes its products from four regional offices, each with its own dedicated sales staff. The four offices are located in Vancouver, Calgary, Toronto and Montreal.

B) BUSINESS GROWTH

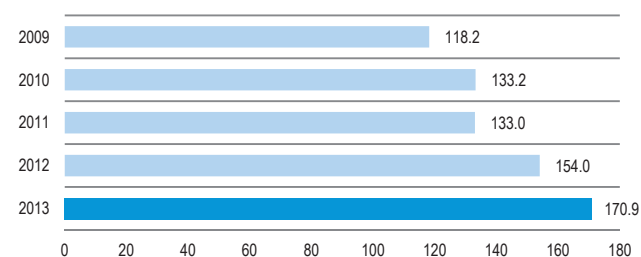
Sales growth of 11% allowed the division to achieve \$170.9 million in gross premium sales in 2013. This is \$16.9 million above the 2012 result. The travel medical line of business experienced very good growth in 2013, while the life, critical illness and group medical lines also grew well.

Special Markets Solutions

Business Growth

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Sales (gross premiums)	170.9	154.0	133.0	133.2	118.2
Growth	11%	16%	0%	13%	1%

Sales (Gross Premiums) (\$Million)



Similarly, net sales, defined here as gross premiums net of reinsurance, experienced good growth in 2013. Net sales in 2013 were \$159.7 million, which is \$15.9 million (11%) above 2012 net sales.

C) PROFITABILITY

The Special Markets Solutions division achieved before-tax profitability of \$16.3 million in 2013. This is equivalent to 9.5% of gross premiums. Steady profits from nearly all lines of business contributed to this good result, with the AD&D and life lines performing particularly well.

D) WHAT'S NEW IN 2013?

- › In 2013, the Special Markets Solutions division expanded its already sizable presence in the travel medical line of business through a new partnership.
- › Critical illness product enhancements and premium rate reductions were implemented to maintain a competitive edge in this growing segment of the market.
- › Product and pricing changes to a component of disability business to rectify poor profitability experience were finalized in late 2013. Full implementation is expected in early 2014.
- › The 2013/2014 Kids Plus Accident Insurance marketing campaign in late 2013 had a greater focus on online marketing, including increased email marketing to existing customers who are due to renew coverage and the acquisition of new customers via online advertising and social media.
- › The division's Marketing team commenced a complete redesign of the Special Markets Solutions website in 2013 to support the brand and increase awareness among clients. Projects were also undertaken to expand the division's capabilities in online applications.
- › Various Lean initiatives were undertaken in 2013, including one to streamline the creation of marketing material through the standardization of textual content. Positive impacts are already being seen from these initiatives.

GROUP SAVINGS AND RETIREMENT

A) DESCRIPTION OF SECTOR

The Group Savings and Retirement sector offers a wide range of products and services that are adapted to the needs of companies and their employees. The products offered can be broken down into two categories: accumulation products (savings products, such as defined contribution or defined benefit plans, and institutional money management services) and disbursement products (essentially insured annuities).

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

The Group Savings and Retirement sector has approximately 160 employees, has signed agreements with nearly 8,800 groups, and serves approximately 270,000 plan members. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

B) BUSINESS GROWTH

Group Savings and Retirement ended the year with \$1,025.0 million in premiums, an increase of 18% compared to the previous year. Fund entries can fluctuate substantially from one year to another in the Group Savings and Retirement sector due to the size of the mandates granted.

Group Savings and Retirement

Premiums (Sales)

(In millions of dollars, unless otherwise indicated)	2013	2012	2011	2010	2009
Accumulation Products					
Recurring premiums	550.7	482.9	435.2	405.1	366.0
Transfers	344.6	276.2	107.1	203.2	353.7
Premium equivalents	57.4	82.3	71.8	55.5	---
Subtotal	952.7	841.4	614.1	663.8	719.7
Insured Annuities	72.3	27.0	114.6	56.2	120.1
Total	1,025.0	868.4	728.7	720.0	839.8
Growth ¹	18%	19%	1%	---	(25%)

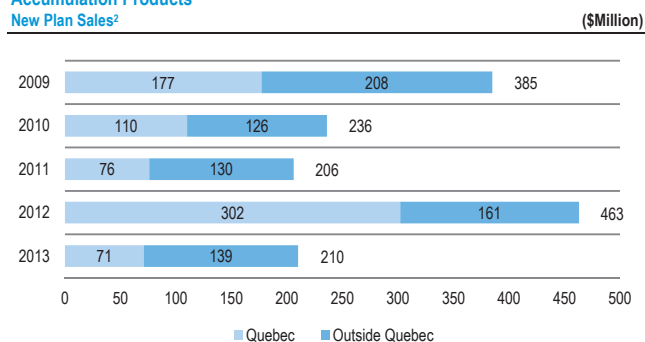
Accumulation Products

Three factors contributed to the growth in accumulation product sales, which totalled \$952.7 million in 2013:

- › Recurring premiums, which were up 14% from 2012. Recurring premiums are the core of the sector's strategy, since they represent sustainable business development. They correspond to regular member contributions, which are collected from in-force group clients.
- › New group transfers, which were up 25% from 2012.
- › Premium equivalents, which were down 30% from 2012.

Accumulation Products

New Plan Sales²



For the sector to successfully grow its business volume, it is essential to sell new plans and maintain existing plans. New plan sales totalled \$210.4 million in annualized premiums², which is down from the previous year.

One of the sector's goals is to increase business volume outside Quebec. In keeping with this goal, 66% of new plan sales were made outside Quebec in 2013.

Accumulation Products

Net Fund Entries

(In millions of dollars)	2013	2012	2011	2010	2009
Entries	952.7	841.4	614.1	663.8	719.7
Disbursements	632.5	604.1	597.9	469.3	351.6
Net entries	320.2	237.3	16.2	194.5	368.1

Net fund entries were 35% higher than the previous year, mainly due to growth in premiums and deposits.

¹ 2010 data cannot be compared to 2009 data due to the transition to IFRS accounting standards.

² New plan sales are measured by first-year annualized premiums, which equals the total of the initial asset transfer and recurring first-year annualized premiums.

Insured Annuities

In the insured annuities segment, the year ended with \$72.3 million in sales. The Company continues to aim for selective, prudent growth by focusing on appropriate risk management, primarily in terms of mortality.

Funds Under Management

Funds under management amounted to \$10.2 billion in 2013, an increase of 9% compared to 2012. This is primarily due to the upswing in the financial markets and net fund entries. Growth in assets under management is important because it is the key long-term profitability driver for the sector.

Group Savings and Retirement

Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2013	2012 ¹	2011	2010	2009
Accumulation Products	7,234.6	6,285.4	5,350.0	5,356.1	4,339.6
Insured Annuities	2,998.4	3,128.7	3,147.8	2,941.8	2,852.0
Total	10,233.0	9,414.1	8,497.8	8,297.9	7,191.6
Growth	9%	11%	2%	15%	17%

C) PROFITABILITY

The Group Savings and Retirement sector recorded an operating profit of \$22.6 million in 2013, compared to \$14.3 million in 2012.

D) WHAT'S NEW IN 2013?

Following are the main initiatives introduced in 2013:

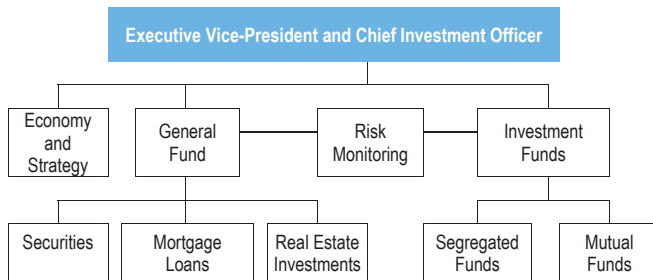
- › Evaluation of the new plan member statement by Dalbar, an internationally recognized independent financial services research firm, which ranked the statement number one in Canada.
- › Rollout of a new secure website for plan members. This completely revamped extranet site simplifies and enhances the user experience with the addition of new transactional and retirement planning tools. A mobile version is also available to plan members.
- › Redesign of the online enrolment tool and complete overhaul of the enrolment process for accumulation plans, making it easier and more efficient for plan members.
- › Launch of the new SecurOption product, an option available under group RRSPs and deferred profit sharing plans (DPSPs) that allows members to build a guaranteed lifetime retirement income by using their group retirement savings plan contributions to purchase deferred annuities.
- › Addition of the pooled registered pension plan (PRPP) to the range of group retirement plans. The sector will be distributing this product once authorization is received from the government authorities.
- › In December 2013, the Quebec government passed a bill to allow the sale of voluntary retirement savings plans (VRSPs). The new plan will be available starting July 1, 2014.
- › The Client Recommendation Index (CRI), a tool for measuring customer satisfaction, was calculated for the second year in a row using the results of a client survey. As part of an ongoing strategy to improve the Company's overall service offer, the goal of the index is to see a continual improvement in survey results. The results of the survey exceeded the sector's expectations in 2013.

¹ 2012 data have been restated to be comparable to 2013 data.

INVESTMENTS

A) DESCRIPTION OF SECTOR

The Investments sector has two main functions: managing the Company's general fund investments and managing the segregated and mutual fund investments offered to its clients. All of Industrial Alliance's investment activities, including those associated with the US business, are combined under a single authority and share a common philosophy. The investment management structure is illustrated below.



The Investments sector management teams are based in four main cities: Quebec City, Montreal, Toronto and Vancouver. This structure makes optimal use of resources, allows all companies in the Industrial Alliance Group to benefit from one another's knowledge and expertise and provides a better understanding of the markets in which the Company invests.

The general fund experts manage a diverse range of investments, including bonds, stocks, residential and commercial mortgage loans, real estate investments, short-term investments and derivatives.

The investment risk monitoring team is responsible for developing a global vision for the control and monitoring of the various investment risks (interest rate, stock market, foreign exchange, credit, liquidity, etc.). In addition to analyzing and quantifying the risks, the team is responsible for putting strategies in place for managing these risks effectively.

In terms of investment funds, a team of some forty investment professionals at Industrial Alliance Investment Management Inc. is in charge of asset allocation and securities selection for several segregated and mutual funds, in addition to supervising all external fund managers.

In December 2012, Industrial Alliance hired renowned economist Clément Gignac, who joined the Investments team as Senior Vice-President and Chief Economist. Mr. Gignac brings with him a wealth of knowledge and expertise in the area of economic and market analysis. In addition to directly managing certain investment funds, namely diversified segregated funds where asset allocation plays a key role, Mr. Gignac acts as a spokesperson on economic matters to both the Company's wealth management marketing networks and their clients, as well as to the media.

B) ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

At December 31, 2013, Industrial Alliance had \$98.7 billion in assets under management and administration, an increase of 18% over the previous year.

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as "Other"), were up 16% in 2013. All components of assets under management contributed to this growth, particularly assets managed for third parties, whose growth is primarily explained by the acquisition of Jovian Capital Corporation (Jovian).

Assets under administration were up 23% thanks to the positive contribution of all the financial product subsidiaries. Assets under administration primarily include third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services Inc. and FundEX Investments Inc.), the securities brokerage company (Industrial Alliance Securities Inc.) and the trust company (Industrial Alliance Trust Inc.). As of the last quarter of 2013, assets under administration also include amounts that were formerly administered by Jovian's financial services companies.

Assets Under Management and Under Administration

(In millions of dollars)	As at December 31				
	2013	2012	2011 ¹	2010 ¹	2009
Assets under management					
General fund	27,108.2	26,697.3	23,718.1	20,544.6	17,626.5
Segregated funds	16,921.4	15,021.2	13,722.9	13,563.7	11,450.3
Mutual funds ^{2,3}	11,413.2	8,978.9	8,151.0	7,922.4	6,615.7
Other ³	13,960.5	8,934.5	6,199.8	5,010.6 ⁴	563.3
Subtotal	69,403.3	59,631.9	51,791.8	47,041.3	36,255.8
Assets under administration ^{2,3}	29,289.7	23,833.3	21,858.1	22,223.3	22,150.8
Total	98,693.0	83,465.2	73,649.9	69,264.6	58,406.6

C) EVOLUTION OF FINANCIAL MARKETS IN 2013

2013 saw a gradual return of investor optimism toward the equity markets.

The "Great Rotation" from bonds into stocks had been anticipated for some time. In May, Federal Reserve Chairman Ben Bernanke hinted at a tapering of the quantitative easing policy, signalling that the long rise in the bond market that began 30 years ago was coming to an end.

Although the shift in the US monetary policy wasn't officially announced until year-end, 2013 was a very challenging year for bonds amid fears of reduced quantitative easing, a fear felt on both sides of the border due to the strong link between US and Canadian markets. For 2013, only corporate bonds and short-term bonds posted gains (+0.8% and +1.7% respectively), with the DEX Universe Bond Index and long-term bonds posting losses (-1.2% and -6.2% respectively). The biggest losses were posted on real return bonds, which were down 13.1%.

¹ For 2010 and 2011, seed capital was reclassified under the general fund rather than segregated funds in order to be consistent with the consolidated financial statements.

² Data from 2010 to 2012 have been restated to reflect a change in interfund eliminations.

³ Includes assets acquired with Jovian Capital Corporation on October 1, 2013.

⁴ Reflects a reclassification of assets managed for third parties.

In contrast to the bond market, the equity market performed very well. The resilience of the US economy in a time of political uncertainty helped strengthen investor confidence and push the stock market to historical highs. The US Stock Exchange had one of the best years in its history with a total return of the S&P 500 of 32.4% (41.5% in Canadian dollars). Cyclical sectors were the drivers of 2013, led by Consumer Discretionary (+41.0%) and Industrials (+37.6%).

Despite a good second half of the year that ended with a total return of 13.0% for 2013, the Canadian stock market (represented by the S&P/TSX index) performed well below the US Stock Exchange for the second year in a row. This relative under-performance can largely be explained by difficulties in the resource sector, which is a heavily weighted sector in the Canadian economy. The sectors that performed the best during the year were Health Care (+71.7%), Consumer Discretionary (+39.5%) and Information Technology (+36.2%). Only two sectors were down in 2013: Materials (-30.6%), which unfortunately represent close to 12.0% of the Canadian index, and Utilities (-8.6%).

Most stock markets outside North America posted significant gains as well, particularly in Japan where the plan of Abe's government to reverse the deflationary trend drove the Nikkei index up 56.7% (37.4% in Canadian dollars). European stock markets welcomed the emergence from the recession, with the MSCI Europe index closing the year up 34.7% (in Canadian dollars). Emerging markets, which continue to depend on foreign investments, were only up 5.3% (in Canadian dollars) during the year.

GENERAL FUND

2013 HIGHLIGHTS

- › Active management of investments
 - › Successful strategy for the stock portfolio
 - › Decreased exposure to the risk of a stock market downturn
 - › Effectiveness of the hedging program
 - › Diversification of the bond portfolio
 - › Increase in mortgage loans managed for third parties
- › Net impaired investments very low: 0.06% of investments
- › Bond portfolio
 - › Bonds rated BB and lower: just 0.2%
 - › No new defaulted bonds at December 31, 2013
- › Mortgage loan portfolio
 - › Delinquency rate: 0.34%
 - › Proportion of insured loans: 73.0%
- › Real estate portfolio
 - › Occupancy rate: 93.5%
 - › Value of investment properties up \$126.1 million following the reappraisal of the real estate holdings and the acquisition of two new properties

A) NOTABLE ACHIEVEMENTS IN 2013

Managers in the Investments sector continued to work hard in 2013, with the results of their efforts including above-target returns on the various portfolios, increased diversification and decreased exposure to the risk of a stock market downturn.

One of their major achievements was the effectiveness of the hedging program. The program was designed to reduce the sensitivity of net income to financial market volatility given the Company's capital guarantees on certain segregated funds. The program was expanded in 2013 to include additional funds that were not previously covered.

In addition, the sector successfully achieved its goals of optimizing returns and improving asset/liability matching in order to neutralize the impact of the expected decrease in the ultimate reinvestment rate (URR) on insurance contract liabilities.

Bond managers also had a busy year in 2013, taking advantage of market opportunities and increasing diversification by region and type of issuer without compromising the quality of the portfolio.

Lastly, the Mortgage Loans division, which gradually started managing loans on behalf of third parties a few years ago, continued to expand its service offer in 2013, capitalizing on its underwriting, compliance, customer service and management expertise.

B) COMPOSITION OF GENERAL FUND INVESTMENTS

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

Most of the assets related to the Company's insurance and annuity operations are invested in fixed-income securities, such as bonds and mortgages, and to a lesser extent, in equity securities (stocks). The assets related to the Company's capital are solely invested in fixed-income securities and preferred shares.

At the end of 2013, 65.0% of the Company's investments were invested in bonds and 11.2% in mortgages, for a total of 76.2% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 75% and 78% over the last five years, while stocks have varied between 11% and 13%.

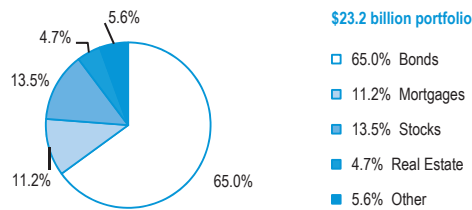
General Fund Investments

(In millions of dollars)	As at December 31				
	2013	2012	2011	2010	2009 ¹
Bonds	15,106.7	14,643.1	13,676.8	11,121.2	9,409.5
Mortgages	2,596.6	2,603.6	3,251.4	3,334.5	3,405.0
Stocks	3,120.2	2,794.6	2,408.5	2,195.2	1,896.4
Real estate	1,079.2	953.1	788.5	716.1	649.0
Other invested assets	1,287.1	1,989.1	1,589.4	1,356.7	1,130.3
Total	23,189.8	22,983.5	21,714.6	18,723.7	16,490.2

¹ The data for 2009 exclude derivatives.

Investments by Asset Category

As at December 31, 2013



C) OVERALL QUALITY OF INVESTMENTS

The overall quality of investments continued to be very good in 2013 despite a slight increase in net impaired investments (\$13.8 million at December 31, 2013, compared to \$9.0 million at December 31, 2012). Impaired investments represent just 0.06% of total investments (0.04% at December 31, 2012).

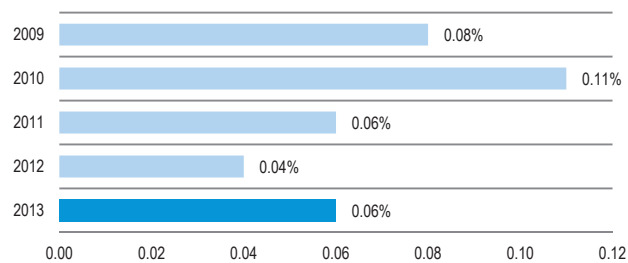
Net Impaired Investments (Excluding Insured Loans)

(In millions of dollars)	As at December 31				
	2013	2012	2011	2010	2009
Bonds	7.3	8.0	8.4	8.4	4.5
Mortgages	6.5	1.0	4.7	13.1	6.9
Repossessed properties	---	---	---	---	1.6
Total	13.8	9.0	13.1	21.5	13.0

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

Net Impaired Investments as a Percentage of Total Investments

As at December 31



In recent years, the Company has had very little exposure to government or corporate-issued bonds from countries that have experienced financial or political difficulties.

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as "available for sale" amounted to just \$18.3 million at December 31, 2013 (\$0.3 million at December 31, 2012).

At the end of 2013, the Company did not hold any bonds whose market value was 20% or more lower than the nominal value for six or more months.

D) BOND PORTFOLIO

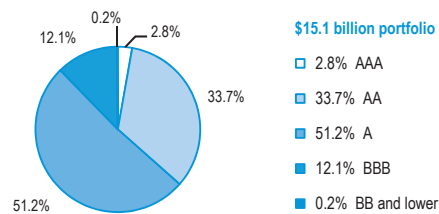
The quality of the bond portfolio, which totalled \$15.1 billion at December 31, 2013, continued to be very good and did not contain any new defaulted bonds on that date.

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

The proportion of bonds rated A or higher represented 87.7% of the portfolio at the end of 2013, compared to 90.3% of the portfolio at the end of 2012. At December 31, 2013, bonds rated BB and lower represented just \$27.1 million (0.2% of the portfolio), compared to \$15.1 million at December 31, 2012 (0.1% of the portfolio).

Bonds by Credit Rating

As at December 31, 2013



In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company like Industrial Alliance. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2013, private issue bonds accounted for \$2.5 billion, which represents 16.5% of the bond portfolio.

In 2013, bond managers continued to increase the portfolio's diversification by region and by type of issuer without compromising the very good quality of the portfolio.

Bond Portfolio

	As at December 31				
	2013	2012	2011	2010	2009
Book value of the portfolio (\$Million)	15,106.7	14,643.1	13,676.8	11,121.2	9,409.5
Distribution by category of issuer (%)					
Governments ¹	55.2	60.5	59.0	63.2	63.3
Municipalities	4.1	3.9	3.0	1.5	1.3
Corporates – Public issues	24.2	20.3	23.6	21.1	20.8
Corporates – Private issues	16.5	15.3	14.4	14.2	14.6
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.00	0.01	0.01	0.01	0.00

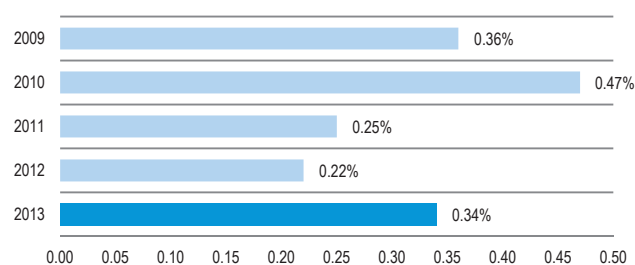
¹ Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

E) MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio continued to be excellent in 2013 despite a slight increase in the delinquency rate, which rose from 0.22% at December 31, 2012 to 0.34% at December 31, 2013. In total, at December 31, 2013, delinquent loans represented just \$7.2 million of a \$2.6 billion portfolio.

Delinquency Rate as a Percentage of Mortgage Loans

As at December 31



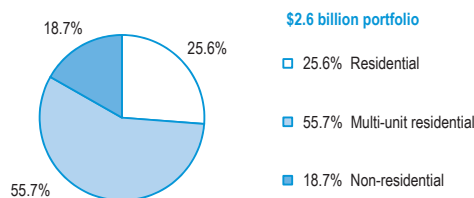
The proportion of insured loans continues to be high, at 73.0%. Once again this year, the proportion of loans secured by single-family or multi-unit residential properties was over 80% (81.3% at December 31, 2013).

Mortgage Loan Portfolio

	As at December 31				
	2013	2012	2011	2010	2009
Book value of the portfolio (\$Million)	2,596.6	2,603.6	3,251.4	3,334.5	3,405.0
Distribution by type of loan (%)					
Insured loans	73.0	73.4	64.8	68.4	71.8
Conventional loans	27.0	26.6	35.2	31.6	28.2
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.34	0.22	0.25	0.47	0.36

Mortgage Loans by Type of Property

As at December 31, 2013



The mortgage loan portfolio was down slightly in 2013 (\$7.0 million) but the portfolio of loans managed for third parties increased, bringing the total portfolio under management to \$7.8 billion at December 31, 2013. Note that the Mortgage Loans division gradually began managing loans for third parties in 2005, and has been managing more and more of these loans in the past few years. The division continued to expand its service offer in 2013, capitalizing on its underwriting, compliance, customer service and management expertise.

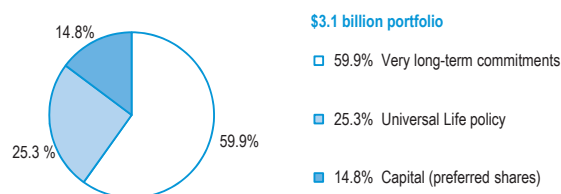
F) STOCK PORTFOLIO

At December 31, 2013, investments in equity securities amounted to \$3.1 billion, or 13.5% of the Company's total investments, compared to \$2.8 billion or 12.2% a year earlier.

Investments in equity securities are used to match long-term insurance contract liabilities to cover the commitments on certain Universal Life policies. Preferred shares are used to invest a portion of the Company's capital.

Stock Portfolio by Type of Matching

As at December 31, 2013



The management strategy used for the stock portfolio aims to optimize the return through investments in preferred shares, high dividend shares, market indices and investment funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its exposure to concentration risk and to participate in the growth of all primary economic sectors.

Over the last year, the Company continued to invest in US and private equities. In addition, managers continued to be active in the high dividend share market, which generally tends to produce better returns in the long term while offering a certain amount of protection against a stock market downturn. These strategies proved to be successful in 2013. The return of the stock portfolio surpassed both the return used for the actuarial reserve assumptions (for stocks matched to long-term insurance contract liabilities) and the return targeted by the portfolio managers.

At December 31, 2013, of all the assets backing the long-term insurance contract liabilities, 20% were made up of stocks.

Stock Portfolio

	As at December 31				
	2013	2012	2011	2010	2009
Book value of the portfolio (\$Million)	3,120.2	2,794.6	2,408.5	2,195.2	1,896.4
Distribution by category of stock (%)					
Common shares and investment fund units	60.4	59.8	58.4	47.4	45.8
Preferred shares	16.7	15.5	8.3	8.6	8.8
Market indices	18.4	21.2	30.2	41.5	43.2
Private equities	4.5	3.5	3.1	2.5	2.2
Total	100.0	100.0	100.0	100.0	100.0

G) REAL ESTATE PORTFOLIO

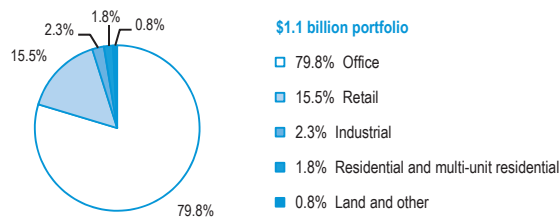
At December 31, 2013, the book value of investment properties totalled \$1.1 billion, which represents an increase of \$126.1 million compared to the end of 2012. Approximately 60% of this growth is due to the net amount of acquisitions and dispositions, with the remainder reflecting the increase in the fair value of investment properties that were reappraised during the year. Real estate investments represented 4.7% of total investments at December 31, 2013, compared with 4.1% at December 31, 2012.

The Company recognizes investment properties at fair value, while own-use properties are valued at cost (net carrying value of \$92.0 million at December 31, 2013).

The occupancy rate of the Company's investment properties was down slightly in 2013 (93.5% at December 31, 2013 compared to 95.2% at December 31, 2012), but continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for over three quarters of real estate investments.

Investment Properties by Category of Property As at December 31, 2013



Investment Properties

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2013	2012	2011	2010	2009
Book value of the portfolio	1,079.2	953.1	788.5	716.1	649.0
Occupancy rate	93.5%	95.2%	94.6%	92.9%	94.4%

H) DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments in the normal course of managing its exposure to fluctuations in interest rates, equity markets, currencies and credit. These instruments are made up of interest rate, equity and foreign exchange swaps, as well as futures and forward contracts.

The Company's derivative financial instruments are primarily used as part of its hedging program, which is designed to reduce the sensitivity of the capital guarantees on certain segregated fund products to interest rate and stock market fluctuations.

The Company also uses derivatives in the implementation of strategies to improve the long-term return on the investment portfolio and to hedge the risk associated with the Universal Life policy funds.

The table below presents certain values pertaining to the Company's financial instruments. For more information, refer to notes 5 and 7 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

(In millions of dollars)	As at December 31	
	2013	2012
Net fair value ¹	(216)	92
Notional amount ²	7,375	6,175

I) OTHER INVESTED ASSETS

The Other Invested Assets category (5.6% of the investment portfolio) is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), short-term investments and other investments.

J) ASSET AND LIABILITY MATCHING

In addition to carrying out regular, careful monitoring of its investments, the Company maintains a sophisticated matching process that looks at the structure of the asset and liability cash flows and the availability of appropriate assets on the market.

For more information about the asset/liability matching process and the measures used by the Company to reduce the risks associated with this process, refer to the Risk Management section of this Management's Discussion and Analysis.

K) LIQUIDITY

In order to maintain enough liquidity at all times to honour its commitments, the Company holds a good proportion of easily marketable securities and strictly manages cash flows and matching.

Given the volatility of the financial markets, the Company carries out simulations to measure its liquidity needs under different scenarios, some of which could be described as extreme. In light of these simulations, and given the quality of its investment portfolio, the Company does not believe its current liquidity level to be an issue.

For more information about liquidity risk and how this risk is managed, refer to the Risk Management section of this Management's Discussion and Analysis.

L) LINES OF CREDIT

The Company has lines of credit to facilitate financing of its day-to-day operations and meet its temporary working capital requirements. At December 31, 2013, the maximum amount authorized for these lines of credit was \$57.0 million (\$57.4 million at December 31, 2012). As at December 31, 2013, none of the lines of credit were used.

INVESTMENT FUNDS (Segregated Funds and Mutual Funds)

A) INVESTMENT FUND ASSETS

Investment fund assets for the Industrial Alliance Group totalled \$28.3 billion at December 31, 2013 (\$16.9 billion in segregated funds and \$11.4 billion in mutual funds), which represents an increase of 18% over 2012. This growth is explained by strong stock market performances, the positive contribution of net mutual fund sales and the addition of the mutual funds acquired from Jovian (\$0.8 billion) in the last quarter of 2013.

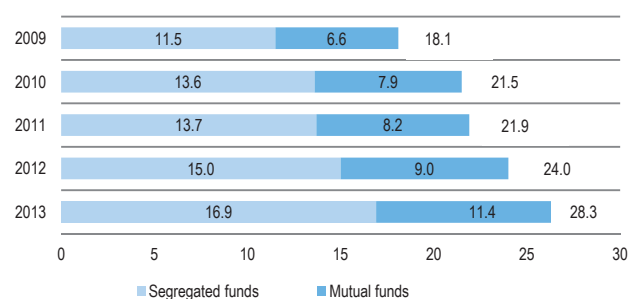
Relying on a broad, diversified range of funds and a vast distribution network, Industrial Alliance continues to develop its business in the wealth management market and to secure its position among the fifteen largest fund managers (mutual funds and segregated funds combined) in Canada.

¹ Positive fair value of the derivative financial instruments presented under Assets in the Consolidated Statements of Financial Position, minus the negative fair value presented under Liabilities.

² Amount used to determine the contractual amount of the cash flows to be exchanged.

Segregated Fund and Mutual Fund Assets as at December 31

(\$Billion)



B) RANGE OF FUNDS

Industrial Alliance offers a broad range of segregated funds designed for its individual and group clients. At December 31, 2013, Individual Wealth Management was offering its clients 81 funds open to new premiums, while Group Savings and Retirement was offering 84.

The main families of segregated funds offered by each line of business (individual and group) offer excellent diversification in terms of asset class, management style, geographic region and choice of management firm. In keeping with its philosophy of ongoing improvement, the Company continued to make adjustments to its fund families in 2013, and in cooperation with IA Clarington, announced a few changes to its mutual fund lineup.

In the Individual Wealth Management sector, the Company launched five new portfolio segregated funds at the end of the year. These new funds give clients the opportunity for greater diversification and allow the Company to capitalize on new synergies with its IA Clarington subsidiary.

IA Clarington launched three new mutual funds in the past year, bringing the number of funds it offers to 64 at the end of 2013. The new funds include a floating rate income fund, a Canadian mid cap dividend fund and a fund that invests in US companies with a specific profile.

The Group Savings and Retirement sector launched fourteen new funds in the past year to further diversify the choice of strategies available. Some of these funds are alternative or specialized funds.

At December 31, 2013, 51.3% of the Industrial Alliance Group's investment fund assets (divided among 95 funds) was managed by the Company's in-house managers, while 48.7% (137 funds) was managed by external fund managers. The Industrial Alliance Group has strategic alliances with over 40 external managers.

Leon Frazer & Associates Inc., formerly an external manager for the Company, is now part of Industrial Alliance's in-house management team following the acquisition of Jovian Capital Corporation's financial services companies in the last quarter of 2013.

Industrial Alliance Group's Active Investment Funds

	As at December 31, 2013			
	Number of funds	Assets (\$Billion)	Distribution of assets	Proportion of assets managed in-house ¹
Segregated funds	168	16.9	59.7%	64.5%
Mutual funds	64	11.4	40.3%	30.9%
Total	232	28.3	100.0%	51.3%

C) INVESTMENT FUND PERFORMANCE

Thanks to strong stock market performances in 2013, many of the Company's investment funds had very good nominal returns. A number of large funds continued to add value—sometimes considerable value—compared to their benchmark indexes.

However, the nominal returns were not high enough to stand out from the competition. On a relative basis, 2013 was fairly unremarkable, with approximately half of investment fund assets surpassing their respective medians.

The returns on all of the Company's investment funds and the detailed financial information associated with these funds are presented in the investment funds' financial reports prepared by Industrial Alliance. The returns on the mutual funds offered by IA Clarington and the detailed financial information associated with these funds are presented in the financial reports prepared by IA Clarington.

¹ Includes multi-management funds that are managed and rebalanced in-house.

RISK MANAGEMENT

The Risk Management section of the Management's Discussion and Analysis contains certain information required under IFRS-7 *Financial Instruments: Disclosures* and IFRS-4 *Insurance Contracts* of the International Financial Reporting Standards (IFRS) regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2013, given that the standard permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally what is found in the financial statements.

As a financial institution, Industrial Alliance assumes a variety of risks inherent in the conduct of its business. The Company's challenge is to manage these risks as effectively as possible in order to enhance long-term profitability and shareholder value, while continuing to meet the needs of policyholders and comply with regulatory requirements.

The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required by the regulatory authorities.

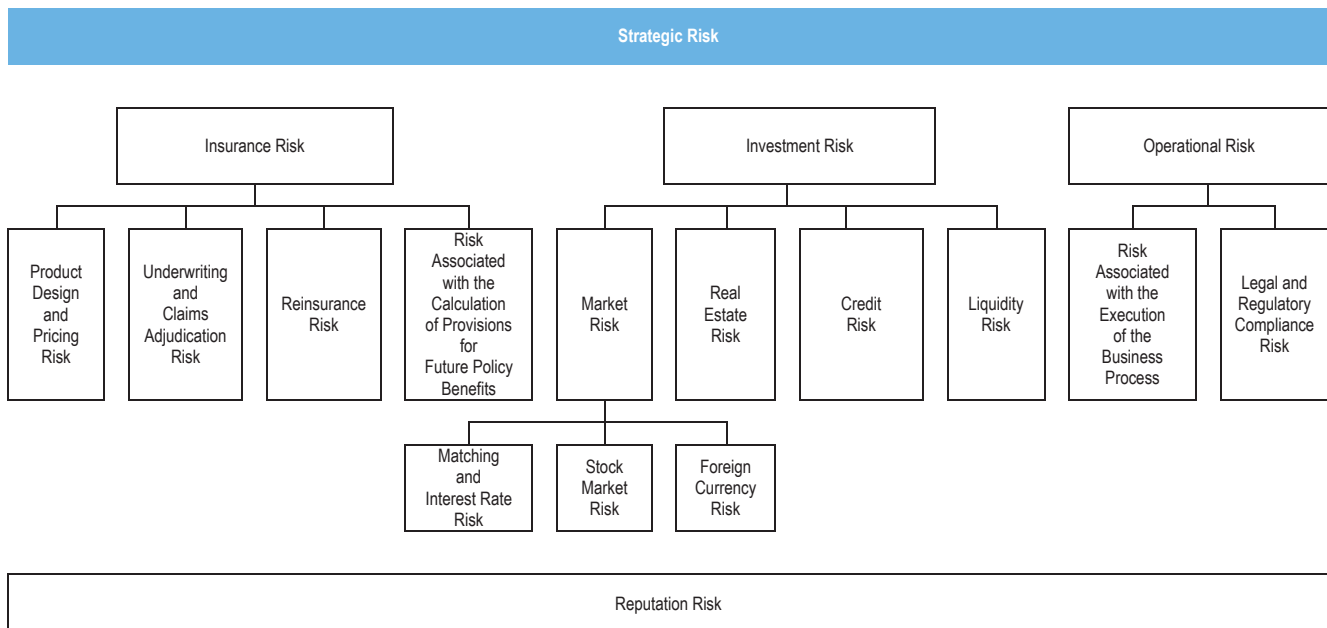
A) RISK CATEGORIES

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

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

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

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



B) RISK MANAGEMENT PRINCIPLES AND RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

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

The enterprise risk management program is also applied in the Company's subsidiaries. The boards of directors of the subsidiaries, which are made up of members renowned for their expertise in their respective fields and may also include members of the parent company's Management Committee, also play an important role in risk management.



C) INSURANCE RISK

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

Product Design and Pricing Risk

Product design and pricing risk is the risk that the established price is or becomes insufficient to ensure an adequate return as compared to the Company's profitability objectives. This risk may be due to a poor estimate of the future experience of several factors, such as mortality, morbidity, lapse experience, future returns on investments, expenses and taxes.

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

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

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

Underwriting and Claims Adjudication Risk

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

Given the geographic diversity of our clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company's mortality risk is in Canada.

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

A catastrophe reinsurance treaty is used to protect against the possibility that an event will give rise to losses in excess of a predetermined limit. More specifically, this treaty applies to events that may produce losses in excess of \$50 million, up to a maximum of \$150 million, which is equivalent to coverage where the maximum claim could be up to \$100 million. This treaty is renewed annually and covers all types of terrorist activities, including nuclear, biological and chemical.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. Maximum benefit amounts, which vary by line of business, are established for life and health insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations.

To reduce the credit risk related to reinsurance, the reinsurance agreements are with well-established, well-rated reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. If need be, it can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts.

Risk Associated with the Calculation of Provisions for Future Policy Benefits

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

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

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

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

The Company's Sensitivity to Certain Insurance Risks

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

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

In millions of dollars	2013	2012
Insurance risk: adverse deviation of 5%		
Mortality rate ¹	131	128
Lapse rate ²	158	168
Unit costs ³	34	33
Morbidity rate ⁴	36	40

Favourable variances from the assumptions would have the same impact, but in the opposite direction.

D) INVESTMENT RISK

The Company is exposed to various investment risks, i.e. the risk that its investments will sustain losses or will not produce the expected returns. The Company has established investment policies that contain a variety of quantitative measures designed to limit the impact of these risks. The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors' Investment Committee at least quarterly.

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

Market Risk

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

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

² The adverse deviation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.

³ Adjusted to reflect the adjustability of certain products.

⁴ The adverse deviation is expressed assuming 95% of the termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active, adjusted to reflect the adjustability of certain products.

Matching and Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. Matching and interest rate risk is the risk of financial loss that can occur if the asset cash flows cannot be reinvested at high enough interest rates compared to the interest rates on the corresponding liabilities, or if an asset needs to be liquidated in order to match the liability cash flows and a loss in market value of the liquidated asset occurs due to rising interest rates. This risk depends on asset allocation as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

In order to mitigate this risk, the Company has developed a strict matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

The Company's investment policy clearly defines the type of matching that is appropriate for each type of liability, as well as the constraints and guidelines to follow for choosing the assets. To illustrate the application of this policy, the liabilities are divided into three main categories, as presented below, based on the structure of the underlying financial commitments.

Liabilities According to Type of Matching

	As at December 31			
	2013		2012	
	\$M	%	\$M	%
Immunized liabilities				
On a cash flow basis	8,465	44%	9,104	46%
Universal Life policy accounts	1,429	7%	1,312	7%
Subtotal	9,894	51%	10,416	53%
Non-immunized liabilities	9,394	49%	9,412	47%
Total	19,288	100%	19,828	100%

1) Liabilities Immunized on a Cash Flow Basis

This category represents 44% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than thirty years.

For liabilities immunized on a cash flow basis, the primary objective of the matching is to minimize the volatility of the deviations that can occur between the returns realized on the assets and those expected for the liabilities. In terms of the liabilities, the expected returns include the interest rates credited to client contracts and the fluctuation margins set out in the actuarial valuation of the policy liabilities. To appropriately monitor matching, investments are segmented by blocks based on the cash flow structure of the liabilities, and these blocks are grouped together by line of business. A careful examination of these matching blocks is carried out once a month, and a number of techniques are used to assess the quality of the matching in order to guide the selection of investments.

To measure the sensitivity to interest rate fluctuations, the Company uses metrics recognized by immunization experts, such as duration and dispersion. The investment policy sets out a maximum spread between the result of the measures applied to the assets and the corresponding result obtained for the liabilities. These results are provided to the Investment Committee on a quarterly basis.

The Company also carries out sensitivity analyses to assess the financial impact that would result from various types of fluctuations in the interest rate yield curve. These analyses are carried out using stochastic scenarios that are used to quantify the residual risks that may remain in the portfolios. Simulations based on predefined scenarios are also analyzed to measure the impact of specific fluctuations. The sensitivity analyses are also used to assess the behaviour of the future fluctuation margins projected in the actuarial valuation of the policy liabilities. The matching policy sets limits as to the sensitivity of these margins.

In addition, in order to minimize the reinvestment risk that can arise when the maturity of the assets does not match the maturity of the corresponding liabilities, the investment policy also requires that an effort be made to ensure that the asset cash flows correspond to the liability cash flows. To this end, the policy sets relative and absolute limits regarding the size of the cumulative net cash flows, both for all the matching blocks combined and for each individual block.

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

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

2) Immunized Liabilities Linked to Universal Life Policy Accounts

This category represents 7% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities may either be based on a guaranteed interest rate account, or determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

For accounts where the return varies based on an index, the impact on net income of a change in the stock markets applied to the assets would be negligible, since an equivalent change would be applied to the corresponding liabilities.

3) Non-Immunized Liabilities

This category corresponds to 49% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets.

To cover these commitments, the Company uses high-quality investments, primarily made up of long-term fixed-income securities, equity securities (common and preferred shares, market indexes and investment fund units), and real estate. The asset class allocation aims to achieve an optimal return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and performance of the stock markets. At the same time, the strategy takes into account the constraints imposed by the investment policy, particularly with regard to diversification of the portfolio.

For this liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the attendant increase in policy liabilities. If interest rates were to decrease, the reinvested cash flows would generate lower investment income for the total duration of the investment. A decrease in interest rates could lead to a downward adjustment of the initial reinvestment rate (IRR) assumption or the ultimate reinvestment rate (URR) assumption used to calculate the policy liabilities.

During the period ended December 31, 2013, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate variations, the Company used hedge accounting through derivative instruments with a nominal value of \$119 million in 2013 (\$174 million in 2012). For more information, refer to notes 6 and 7 of the Company's consolidated financial statements as at December 31, 2013.

Stock Market Risk – Stock market risk represents the risk that a stock market downturn could have an adverse impact on the Company's results. The Company is exposed to this risk in various ways as part of its regular operations through the items shown below.

Illustration of the Impact of a 10% Drop in the Stock Markets¹ on the Company's Net Income and Accumulated Other Comprehensive Income

In millions of dollars	2013	2012
Decrease in net income		
Fee income collected on the investment funds managed by the Company	17	16
Discounted future revenues on Universal Life policy funds	8	7
Income on capital generated by the assets backing the Company's capital	0	0
Strengthening of the provisions for future policy benefits	0	0
Total	25	23
Decrease in accumulated other comprehensive income	34	0

Illustration of the Impact of a 25% Drop in the Stock Markets¹ on the Company's Net Income and Accumulated Other Comprehensive Income

In millions of dollars	2013	2012
Decrease in net income		
Fee income collected on the investment funds managed by the Company	43	42
Discounted future revenues on Universal Life policy funds	19	16
Income on capital generated by the assets backing the Company's capital	0	1
Strengthening of the provisions for future policy benefits	31	224
Total	93	283
Decrease in accumulated other comprehensive income	85	0

An upward market variance of 10% would have had the same impact on net income, but in the opposite direction. If the markets were to drop more than 23% from their levels at December 31, 2013 (14% at December 31, 2012), the Company would have to strengthen its provisions for future policy benefits.

In addition to the impact on the Company's income, a stock market downturn could also have an impact on the Company's solvency ratio.

Sensitivity of the Solvency Ratio to Variances in the S&P/TSX Index

	2013	2012
Solvency ratio as at December 31	217%	217%
S&P/TSX Index as at December 31	13,622	12,434
Level of S&P/TSX index for the solvency ratio to be at 175%	8,700	8,100
Level of S&P/TSX index for the solvency ratio to be at 150%	7,000	6,700

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2013, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

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

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

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

The following table provides information on the segregated fund assets under management in the Individual Wealth Management sector.

Individual Wealth Management
Segregated Fund Assets Under Management

In millions of dollars	2013	2012
Assets under management	10,809	9,858
Guaranteed minimum value	9,406	9,225
Value of assets underlying the hedged guarantees	6,861	2,980
Value of assets underlying the minimum guarantees ¹	1,025	569
Proportion of hedged guarantees excluding minimum guarantees	70%	32%

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

Hence, a large part of the variations in the economic worth of the liability are offset by variations in assets held under the hedging program. In the last eight quarters, the quarterly effectiveness of our hedging program fluctuated between 89% and 95% depending on the volatility of the financial markets. In addition, it has had a 92% effectiveness rate since it was implemented in October 2010, which is excellent.

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

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

- › The program is based on dynamic rebalancing of the derivative hedging instruments. A decrease in the liquidity of these instruments would have an adverse impact on the effectiveness of the program.
- › The use of derivative hedging instruments entails a counterparty risk.
- › There may be a favourable or unfavourable variance between the returns realized on the segregated funds and those realized on the hedge positions held to cover the guarantees associated with these funds.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies clearly define quantitative and qualitative limits for the use of equity securities. The target asset mix in the form of equity securities is designed to maximize the Company's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

The Company's investment policy also stipulates that derivative financial instruments may be used in hedge accounting to minimize the adverse impact that stock market fluctuations could have on its results. However, no hedge accounting was used in 2013 for stock market risk.

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

During the period ended December 31, 2013, derivative financial instruments were used as part of the hedging program for segregated fund guarantees and to hedge the risk associated with Universal Life policy funds.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2013, the Company was not exposed to any material foreign currency risk.

Note that the Company used hedge accounting in 2013 for foreign currency risk. For more information, refer to notes 6 and 7 of the Company's consolidated financial statements as at December 31, 2013.

The Company's Sensitivity to Certain Market Risks

The following tables provide a summary of the impact on net income attributed to common shareholders and on accumulated other comprehensive income of certain investment risks.

¹ Represents the value of assets for which the catastrophe risk of the guarantees is limited and which we decided not to include in the hedging program.

Decrease in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations

In millions of dollars	2013	2012
Investment Risk		
25 basis point decrease in the initial reinvestment rate (IRR) ¹	49	46
10 basis point decrease in the ultimate reinvestment rate (URR)	59	66
10% drop in the stock markets ²	25	23
25 basis point drop in interest rates ³	(0)	(1)

Increase in Accumulated Other Comprehensive Income Resulting From Interest Rate Fluctuations

In millions of dollars	2013	2012
Investment Risk		
25 basis point drop in interest rates ³	10	16

Similar increases in the IRR, URR and interest rates would have the same impact as corresponding decreases, but in the opposite direction. Similarly, a sudden 10% increase in the stock markets at the beginning of 2013, followed by market growth in line with expectations, would have a similar impact to a 10% decrease, but in the opposite direction.

To test for market sensitivity, the Company uses an interest rate variance of 25 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2013.

Real Estate Risk

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

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

Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if certain counterparties or debtors do not meet their commitments to the Company. This risk originates mainly from credit granted in the form of mortgage loans and private placements, but also from exposure to derivative financial instruments.

The Company uses derivative products under its investment policy, primarily swaps and futures contracts. These contracts are not used for speculation purposes but for matching assets and liabilities, and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

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

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. More information about concentration risk is presented in note 6 of the consolidated financial statements as at December 31, 2013.

The Company's investment policies aim to mitigate concentration risk by promoting the sound diversification of investments, by limiting exposure to any one issuer and by seeking a relatively high quality of issuers. They also impose limits by groups of related issuers, by activity sector and by geographic region. These limits depend on the credit quality of the issuers.

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

Liquidity Risk

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

This risk is managed through strict matching of assets with financial liabilities, and strict cash flow management. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable securities. One of the tools used to monitor the liquidity risk is a report prepared by the Investment department's managers once a month, which indicates the liquidity adequacy according to different adverse scenarios. This report is sent to the Investment Committee on a quarterly basis.

In the course of its operations, the Company is gradually increasing the use of derivative instruments to better control the risks it is exposed to. This requires that securities be sent as collateral to clearing houses and derivative counterparties in order to mitigate the credit risk. Simulations are carried out to measure the liquidity needs that could arise due to interest rate and stock market turmoil in order to assess the liquidity that needs to be maintained to meet those requirements.

In addition to the requirements mentioned above, the Company needs to have additional liquidity available for possible surrenders and contract terminations. A number of scenarios are analyzed in order to plan for all eventualities.

¹ These estimates do not take into account any compensatory measures to alleviate the impact of an interest rate decrease. The Company could reconsider the investment allocation for each asset class backing the very long-term commitments. Also, the Company might have to review its URR assumption following a 25 basis point decrease in the IRR.

² Assuming a sudden drop in the stock markets at the beginning of the following year, followed by market growth in line with expectations for the rest of the year.

³ Excluding any downward adjustment of the IRR or URR.

The Company also carries out additional simulations to take into account a potential stock market crisis. These simulations take into account a lower level of liquidity for certain asset categories that are normally considered very liquid. For each combination of asset and liability scenarios, the Company calculates a liquidity ratio and ensures that this ratio is higher than a certain minimum ratio.

Given the quality of its investment portfolio, and despite the financial market volatility, the Company does not believe its current liquidity level is cause for concern.

E) OPERATIONAL RISK

Operational risk includes risk associated with the execution of the business process, and legal and regulatory compliance risk.

Risk Associated with the Execution of the Business Process

Risk associated with the execution of the business process means the risk of loss that can arise from faulty or inadequate internal processes, human error or external events. This risk is present in all the Company's activities and can come from different sources: the Company's breach of duties or obligations as a trustee, technology failure, interruption of activities, an unsuccessful integration of a newly acquired company, inadequate management of human resources, failure to be environmentally responsible, a legal dispute, theft or fraud, and damage to property. The risk can take the form of financial losses, loss of competitive position, or injury to reputation.

To manage the risk associated with the execution of the business process, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are implemented, and by utilizing competent, well-trained employees at all levels. The Company also makes it a priority to revise its policies and develop stricter standards, where necessary, in light of any new expertise it acquires in the course of its operations.

In addition, through its enterprise risk management program, the Company makes all managers accountable by asking them to confirm their sector's compliance with procedures, describe the processes in place for ensuring this compliance, and confirm that policies and procedures are up to date. The risks that could arise are also assessed and quantified, as well as the measures taken to manage the most material risks.

Reliable, secure and sophisticated information and communications technologies ("ICTs") are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. In fact, it has set up a comprehensive plan for controlling the risk of ICT failure. Inspired by the ISO international standard on information technologies, the Company has broken down the main risks that could adversely affect its operations into four main categories: risk associated with the non-availability of essential components (this risk is controlled by the implementation of technology solutions to ensure the availability of the components and by the development of a detailed business continuity plan); risk of outside penetration of systems (this risk is controlled by the presence of firewalls); risk of loss of data integrity (this risk is controlled through anti-virus management and the use of proven data management solutions); and risk of unauthorized access to information (this risk is controlled by the use of security protocols). The management of these risks is reviewed regularly in order to adapt to changing technologies and Company needs.

The Company's crisis management structure covers all the potential risks the Company may be exposed to, including the risk associated with the physical occupancy of the premises and disruptions in service in the event of a natural disaster, pandemic or other type of disaster. The Company has implemented an extensive business continuity plan and has procedures in place in all of its business offices to minimize service recovery wait times. Both the business continuity plan and the related procedures are reviewed and tested on a regular basis.

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

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

The competency of human resources is an essential factor in implementing business strategies. In this regard, the Company has well-defined policies with respect to compensation, recruiting, training, employment equity and occupational health and safety. Designed to attract and retain the best candidates at every level of the Company, these policies are kept up to date and submitted for approval to the Human Resources and Governance Committee of the Board of Directors. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Legal and Regulatory Compliance Risk

The Company and its subsidiaries operate in Canada and the United States. They are subject to strict regulatory requirements and close monitoring of their operations in all provinces or states where they conduct business. Legal and regulatory compliance risk arises from non-compliance with the laws, regulations or guidelines applicable to the Company as well as the risk of loss resulting from non-fulfilment of a contract.

The Company ensures the sound management of this risk by being proactive in its approach, and by integrating the Company's legal and regulatory obligations into its day-to-day activities and stressing the importance of legal and regulatory compliance issues through regular employee communications. To achieve this, the Company has specialized resources in its Legal department, as well as external resources, and works together with the industry to implement the procedures required to comply with any new legislation or guidelines, and to analyze and process the execution of the contracts. Managing the aspects pertaining to regulatory compliance risk allows the Company to proactively establish and understand the events arising from non-compliance with the regulations that could have an impact on the operations and reputation of the Company and its subsidiaries, and to put strategies in place to mitigate this possibility. It also provides reasonable assurance that the Company is in compliance with the legal and regulatory requirements pertaining to its operations.

The Company also maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). This program uses a "risk based" approach where the level of attention received by the Company's activities is proportional to their relative level of risk. Under this program, the managers of each business line of the parent company and its subsidiaries evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A summary report is submitted annually to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

ACCOUNTING MATTERS AND ADDITIONAL INFORMATION

A) FOURTH QUARTER 2013

The Company showed strong profitability in the fourth quarter, with net income to common shareholders of \$91.1 million, compared to a net income of \$72.1 million in the fourth quarter of 2012. Diluted earnings per common share (EPS) amounted to \$0.91 (\$0.76 in the fourth quarter of 2012). The annualized return on common shareholders' equity was 12.2% for the quarter, compared to 11.7% in the fourth quarter of 2012.

Fourth quarter income was weakened by a \$6.1 million strengthening of the provisions for future policy benefits (\$0.06 per common share) and the recognition of a \$4.6 million provision (\$0.05 per common share) for restructuring associated with the acquisition of Jovian Capital Corporation.

The performance for the quarter benefited from stock market growth, a gain arising from the hedging program and lower than expected new business strain for individual insurance. Better tax efficiency and a greater proportion of income derived from real estate gains also led to income tax savings.

In terms of business growth, net premiums, deposits and premium equivalents were up 5% in the fourth quarter compared to the same period in 2012.

Highlights

(In millions of dollars, unless otherwise indicated)	Fourth quarter		Year	
	2013	2012	2013	2012
Net income attributed to shareholders	99.8	80.7	384.5	333.7
Less: dividends on preferred shares	8.7	8.6	34.6	30.1
Net income attributed to common shareholders	91.1	72.1	349.9	303.6
Earnings per common share (diluted)	\$0.91	\$0.76	\$3.57	\$3.22
Return on common shareholders' equity	12.2%	11.7%	12.6%	12.8%
Net premiums, premium equivalents and deposits	1,835.8	1,751.4	7,432.9	6,904.1
	December 31 2013	December 31 2012¹	December 31 2011¹	
Assets under management and under administration	98,693.0	83,465.2	73,649.9	

B) QUARTERLY RESULTS

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

Net premiums (which include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds) are generally higher in the first quarter of each year due to the tendency of clients to concentrate their deposits in registered retirement savings products during the first 60 days of each calendar year. However, other factors can cause premiums to fluctuate from one quarter to another, including stock market behaviour and the signing of new agreements with large groups in the sectors that distribute their products to groups and businesses.

Net premiums amounted to nearly \$1.3 billion in the fourth quarter, up slightly (4%) from the same period last year. Net premiums at the end of 2013 remained fairly stable compared to the end of 2012.

In 2013, investment income decreased by nearly \$1.5 billion year over year, primarily due to the impact of interest rates on the fair value of the bond portfolio. Macroeconomic factors also had a negative impact on the fair value of derivative financial instruments. However, the impact on net income of these decreases in fair value was largely neutralized by a corresponding decrease in insurance contract liabilities. From an accounting standpoint, the majority of stocks and bonds are classified as "Designated at fair value through profit or loss" and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities. Investment income is made up of investment income as such (including interest income, dividends and rental income from real estate), gains realized and losses sustained on the disposition of assets available for sale and changes in the fair value of assets designated at fair value through profit or loss.

Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and loans managed for third parties.

Other revenues varied between \$223.9 million and \$252.2 million for the four quarters of the year, totalling \$931.3 million in 2013 compared to \$934.2 million in 2012. Note that an unusual gain had been recorded in the third quarter of 2012 following the sale of the US annuities business.

¹ A change in inter-fund eliminations in 2013 led to a retroactive adjustment for 2012 and 2011.

Quarterly Results

(In millions of dollars, unless otherwise indicated)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Net premiums	1,256.3	1,152.6	1,292.1	1,305.7	1,208.9	1,279.1	1,195.6	1,312.4
Investment income	341.5	86.9	(550.1)	206.4	335.0	561.7	555.3	97.3
Other revenues	252.2	228.0	227.2	223.9	217.4	320.4	190.5	205.9
Total	1,850.0	1,467.5	969.2	1,736.0	1,761.3	2,161.2	1,941.4	1,615.6
Income before income taxes	124.1	149.4	107.1	109.9	90.3	186.4	89.9	79.4
Income taxes	(22.8)	(34.8)	(24.7)	(20.7)	(8.9)	(73.8)	(16.4)	(10.0)
Net income	101.3	114.6	82.4	89.2	81.4	112.6	73.5	69.4
Less: net income attributed to participating policyholders	1.5	0.2	0.5	0.8	0.7	0.3	1.0	1.2
Net income attributed to shareholders	99.8	114.4	81.9	88.4	80.7	112.3	72.5	68.2
Less: preferred share dividends	8.7	8.6	8.6	8.7	8.6	9.0	6.5	6.0
Net income attributed to common shareholders	91.1	105.8	73.3	79.7	72.1	103.3	66.0	62.2
Earnings per common share								
Basic	\$0.92	\$1.08	\$0.75	\$0.85	\$0.79	\$1.14	\$0.73	\$0.69
Diluted	\$0.91	\$1.07	\$0.74	\$0.83	\$0.76	\$1.09	\$0.69	\$0.66
Premiums invested in segregated funds	73.2	(40.7)	112.5	63.5	92.3	162.3	49.9	200.1
Increase (decrease) in insurance contract liabilities	29.6	57.2	(925.6)	210.5	396.7	525.0	495.5	(23.1)
Increase (decrease) in investment contract liabilities	3.8	3.5	(4.0)	5.4	3.7	6.3	7.3	2.5
Total general fund assets	27,108.2	26,872.6	26,796.6	27,816.5	26,697.3	25,736.3	24,647.9	23,843.4
Segregated fund net assets	16,921.4	15,997.5	15,556.8	15,617.0	15,021.2	14,727.5	14,105.6	14,360.6

C) CASH FLOWS

A review of the cash flows allows us to determine the Company's sources of funds and how these funds are used. The Company's main sources of funds are premiums collected under in-force insurance and annuity contracts, proceeds from the sale or recovery of investments, income collected on the investment portfolio and other revenues primarily composed of management fees for segregated funds and mutual funds.

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

In 2013, operating activities required cash flows of \$195.2 million, compared to cash flows of \$451.9 million generated in 2012. This difference reflects the normal evolution of working capital and regular investment activities (purchase and sale of securities) during the period.

Investing activities required net cash flows of \$139.7 million in 2013, compared to \$55.1 million in 2012, a difference of \$84.6 million. This difference is explained by the acquisition of Jovian Capital Corporation in the last quarter.

Financing activities used cash flows of \$240.1 million, compared to cash flows of \$103.0 million generated in 2012. In 2013, the Company issued common shares for a net amount of \$240.6 million, including \$12.7 million as part of the Jovian Capital Corporation acquisition, and redeemed all Industrial Alliance Trust Securities (IATS) for a nominal value of \$150 million as well as subordinated debentures (at 8.25%) for a nominal value of \$100 million.

The Company also redeemed Class A Preferred Shares, Series C for a book value of \$100 million. In 2012, the Company had issued \$250 million in preferred shares. Dividends paid to common shareholders amounted to \$67.8 million in 2013 (\$82.8 million in 2012), while dividends paid to preferred shareholders increased during the year, amounting to \$34.6 million (\$30.1 million in 2012).

Cash Flows

(In millions of dollars)	2013	2012
Cash flows related to the following activities:		
Operating	(195.2)	451.9
Investing	(139.7)	(55.1)
Financing	(240.1)	103.0
Foreign currency gains (losses) on cash	2.3	0.3
Increase (decrease) in cash and short-term investments	(572.7)	500.1
Cash and short-term investments at the beginning of the year	1,095.8	595.7
Cash and short-term investments at the end of the year	523.1	1,095.8

D) RELATED PARTY TRANSACTIONS

In the normal course of its operations, the Company also carried out transactions with an entity subject to significant influence and a variable interest entity, Industrial Alliance Capital Trust. These transactions are measured at the exchange value, which corresponds to the amount of the consideration established and accepted by the related parties.

The value of the related party transactions is presented in note 27 of the Company's consolidated financial statements.

E) SIGNIFICANT ACCOUNTING AND ACTUARIAL POLICIES

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

The preparation of the financial statements requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results may differ from management's estimates. The estimates and assumptions are revised periodically based on changes in relevant facts and circumstances. The changes are then accounted for in the period in which the revisions are made and in all subsequent periods affected by the revisions. The most significant estimates and judgments pertain to the classification of contracts and the determination of policy liabilities. These estimates are described below.

F) POLICY LIABILITIES

Policy liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries. Policy liabilities represent the estimated value of assets that the Company must hold to be able to honour its future commitments to holders of all in-force policies and to pay the related expenses, commissions and other charges. The calculation of policy liabilities takes into account estimated future premiums, fees and investment income.

Policy liabilities are comprised of insurance contract liabilities and contract liabilities for other types of contracts presented in the financial statements.

The Company evaluates its provisions for future policy benefits using the Canadian Asset Liability Method, which is in accordance with accepted actuarial practice in Canada. This method involves the projection of future events and the use of the best estimate assumptions with respect to a certain number of key factors, including future mortality and morbidity rates, investment income, lapse rates, operating expenses, as well as certain taxes.

To take into account the uncertainty related to the establishment of the best estimate assumptions and a potential deterioration of the expected claims experience, the Company applies a margin for adverse deviation to each of its assumptions. These margins led to an increase in the provisions for future policy benefits and provide a reasonable degree of assurance that the amount of assets backing the liabilities is sufficient to honour the Company's future commitments. The margins for adverse deviation used by the Company are within the target range established by the Canadian Institute of Actuaries.

The margins for adverse deviation reduce the income that is recognized when a new contract is sold. Over time, the uncertainty regarding the estimates decreases and the provisions for adverse deviation that are no longer required are released to the income statement, thereby increasing the income recognized in future periods.

According to the standards established by the Canadian Institute of Actuaries, the assumptions and margins underlying the calculation of the provisions for future policy benefits are examined periodically and modified when deemed necessary and prudent, in light of the most recent trends in claims experience and any changes in the Company's risk profile.

G) BEST ESTIMATE ASSUMPTIONS AND MAIN RISK FACTORS

The Company uses a well-established method to determine the assumptions to be used in the valuation of policy liabilities. The nature of each risk factor and the process for setting the assumptions used for the valuation are analyzed below. A summary of the impact on the Company's net income of a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

Mortality – Mortality refers to the occurrence of death in a given population. The Company establishes its mortality assumptions based on its own claims experience of the last few years and those of the insurance industry, and based on changes in mortality. The assumptions vary according to sex, risk category, policy type and geographic market. Actual mortality rates are compared to the assumptions separately for each sector. The calculation of the liabilities takes into account a future decrease in mortality rates.

In the normal course of business and risk management, the Company uses reinsurance to limit its risk on every life insured. Maximum benefit amounts, which vary by line of business, are established for life and health insurance. In addition, the longevity risk associated with the insured annuities portfolio is partially reinsured. The Company also has reinsurance treaties covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

Reinsurance assets are posted on the balance sheet. These assets totaled \$1,591.2 million at December 31, 2013, compared to \$1,967.8 million at the end of 2012. The decrease in reinsurance assets in the last year is primarily due to the change of an assumption reinsurance agreement for certain US business.

The Company's recent mortality studies show a significant decrease in mortality rates. The results of these studies are in line with the trends observed in the most recent work done by the industry, including work by the Canadian Institute of Actuaries. This decrease in mortality rates has major, but diverging effects on the Company's various blocks of business, benefiting the Individual Insurance business, but adversely affecting the annuity business (Group Savings and Retirement and Individual Wealth Management). Overall, since the Company's insurance operations are much larger than its annuity operations, the Company benefits from lower mortality rates. The Company also retains a higher proportion of mortality risk than the industry, which adds to the income that the Company draws from improved life expectancy. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

Morbidity – Morbidity refers to the occurrence of accidents and sickness in a given population. The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect Company experience. Compared to the assumptions, the Company's morbidity experience in 2013 was favourable in Individual Insurance but unfavourable in Group Insurance Employee Plans.

Lapse – Lapse refers to the lapse rate of contracts, or in other words, the termination of policies due to non-payment of premiums. Policies may also be terminated by their policyholders through a policy surrender. Lapse rate assumptions are generally based on the Company's recent lapse experience. These assumptions are adjusted, however, to take into account industry experience where the Company's experience is limited, and include margins for conservatism. The assumptions are determined based on the type of product contained in each policy. Overall, 2013 lapse results were not favourable in comparison with the Company's assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

Expenses and Taxes – The operating expense assumptions reflect the projected costs for servicing and maintaining in-force policies, including any associated overhead expenses. The expenses are calculated based on the Company's internal expense studies.

Expenses are projected based on a provision for inflation, whereas no productivity gains are projected. Actual expenses are compared to the assumptions separately for each sector. Overall, 2013 results were not favourable in comparison with the Company's assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

Taxes reflect the assumptions regarding future premium taxes, as well as other non-income related taxes. Moreover, given that the Company's accounting treatment of its income taxes is based on the deferred income tax liability method, and that it holds assets to back the deferred income tax liability recorded in its balance sheet, the policy liabilities are reduced to take into consideration the investment income related to these assets. This reduction in the policy liabilities complies with the standards of the Canadian Institute of Actuaries. For more details concerning the Company's accounting method for income taxes, refer to note 22 of Industrial Alliance's consolidated financial statements.

Investment Return – The Company segments the assets backing liabilities by sector and geographic market, and establishes investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with the projected cash flows from the future asset purchases/sales to determine expected rates of return for future periods. The reinvestment strategies are based on the Company's target investment policies for each segment, and are derived from current market rates for fixed interest investments and the Company's projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed-income assets. In 2013, the losses on mortgages and defaults on bonds were lower than those projected in the Company's assumptions.

A decrease in interest rates or a stock market downturn can have a negative impact on the Company's income. Overall, the impact of interest rates and the stock markets on the Company's 2013 income was favourable compared to the assumptions. The sensitivity of the Company's net income to an unfavourable variance in interest rates or the stock markets compared to the assumptions is described in the Risk Management section of this report.

Adjustable Features of Contracts – When policies have features that allow the impact of changes in experience to be passed on to the policyholders through dividends, experience rating refunds, credited rates or other adjustable features, the projected benefits used to evaluate policy liabilities are adjusted accordingly.

H) ACCOUNTING STANDARDS AND POLICIES

Changes to Accounting Policies in 2013 and Future Accounting Changes

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2013. The standard that has the most significant impact is IAS-19 – *Employee Benefits*. For more information on the impact of these amendments and new standards, refer to note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies".

I) RECONCILIATION OF CERTAIN NON-IFRS MEASURES WITH IFRS MEASURES

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

Reconciliation of the Sources of Earnings with IFRS

(In millions of dollars)	2013	2012
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	402.5	238.9
Income on capital (according to sources of earnings)	83.9	98.9
Income attributable to participating contracts and other items ¹	4.1	108.2
Earnings before taxes according to the financial statements	490.5	446.0
Income taxes:		
On the operating profit and on income on capital	(101.9)	(41.5)
Amount for participating contracts and other items ¹	(1.1)	(67.6)
Income taxes according to financial statements	(103.0)	(109.1)
Net income according to financial statements	387.5	336.9

J) CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The Company's President and Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2013, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance that the Company's financial reporting is reliable and that, for the purposes of publishing its financial information, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

¹ Other items include income tax adjustments and the sale of the US annuities business in 2012.

The Company's President and Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2013, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the Internal Control – Integrated Framework report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the period, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

K) SELECTED ANNUAL INFORMATION – LONG-TERM FINANCIAL LIABILITIES

The following table presents information taken from Industrial Alliance's consolidated financial statements.

Long-Term Financial Liabilities

(In millions of dollars)	As at December 31		
	2013	2012	2011
Debentures	498.5	757.9	747.7
Preferred shares	575.0	675.0	425.0
Total	1,073.5	1,432.9	1,172.7

L) ACQUISITIONS OF BUSINESS

On October 1, 2013, the Company acquired 100% of the shares of Jovian Capital Corporation (Jovian). Jovian owns a number of financial services companies that specialize in wealth management. Its major subsidiaries are MGI Securities Inc., T.E. Investment Counsel Inc., Leon Frazer & Associates Inc., Hahn Investment Stewards & Company Inc. and JovFinancial Solutions Inc.

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

M) DISPOSITIONS OF BUSINESS

No dispositions were made during the period.

N) BUSINESS MERGERS

No major mergers took place during the period.

O) CONTRACTUAL OBLIGATIONS

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

As at December 31, 2013, the Company's contractual obligations and commitments were as follows:

Contractual Obligations

Payments Due by Period

(In millions of dollars)	As at December 31, 2013			
	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures ¹	498.5	---	---	498.5
Capital lease	1.4	0.4	1.0	---
Operating lease	59.5	16.4	37.3	5.8
Purchasing commitments	173.9	40.0	95.5	38.4
Other long-term commitments ²	1,741.9	1,105.2	278.4	358.3
Total of contractual obligations	2,475.2	1,162.0	412.2	901.0

¹ The debentures can be redeemed at the Company's option on various dates. Interest is payable semi-annually. Refer to note 16 of Industrial Alliance's consolidated financial statements for more information on debentures.

² Includes long-term financial liabilities only.

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2013, these investment commitments totalled \$360.2 million (\$205.8 million in 2012), including \$212.3 million that will be maturing in the next year (\$154.0 million in 2012), and \$147.8 million that will be maturing in more than one year (\$51.8 million in 2012).

P) PREFERRED SHARES

On December 31, 2013, the Company redeemed 4,000,000 Class A Preferred Shares, Series C for a cash amount of \$100 million.

Q) OUTSTANDING SHARES

At February 13, 2014, Industrial Alliance had 99,341,908 issued and outstanding common shares.

The Company issued 6,330,000 shares for a net amount of \$227.9 million in February 2013.

In addition, on October 1, 2013, the Company issued 295,253 common shares for a value of \$12.7 million as payment for the acquisition of Jovian Capital Corporation.

For more information on these shares, refer to note 17 of Industrial Alliance's consolidated financial statements.

R) ANALYSIS OF INCOME ACCORDING TO THE FINANCIAL STATEMENTS

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

Consolidated Income Statement

(In millions of dollars, unless otherwise indicated)	2013	2012	2011
Revenues	6,022.7	7,479.5	8,037.7
Policy benefits and expenses	5,532.2	7,033.5	7,903.5
Income before income taxes	490.5	446.0	134.2
Less: income taxes	103.0	109.1	(7.4)
Net income	387.5	336.9	141.6
Less: net income attributed to participating policyholders	3.0	3.2	14.4
Net income attributed to shareholders	384.5	333.7	127.2
Less: dividends to preferred shareholders	34.6	30.1	23.9
Net income attributed to common shareholders	349.9	303.6	103.3
Earnings per common share			
Basic	\$3.60	\$3.35	\$1.20
Diluted	\$3.57	\$3.22	\$1.18

Revenues

Revenues, whose components are indicated in the following table, totalled \$6.0 billion in 2013, 19% lower than in 2012. This decrease was primarily due to investment income, as explained below.

Revenues

(In millions of dollars)	2013	2012	2011
Net premiums	5,006.7	4,996.0	4,992.4
Investment income	84.7	1,549.3	2,251.1
Other revenues	931.3	934.2	794.2
Total	6,022.7	7,479.5	8,037.7

Net premiums totalled \$5.0 billion in 2013, which is comparable to 2012. The decrease in premiums paid to segregated funds was offset by increases in all other lines of business.

Investment income amounted to \$84.7 million in 2013, compared to \$1.5 billion in 2012. As explained earlier, this decrease is primarily due to the decrease in value of the bond portfolio, a result of higher interest rates in 2013. Macroeconomic factors also had a downward impact on the fair value of derivative financial instruments. These decreases were largely neutralized, however, by a corresponding reduction in insurance contract liabilities, such that they had no impact on net income. From an accounting standpoint, most of the bonds are classified as "Designated at fair value through profit or loss" and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities.

Other revenues were similar to 2012, amounting to \$931.3 million in 2013. It's important to note that in 2012, this item included an unusual gain resulting from the sale of the US annuities business. Other revenues represent fees earned from the management of investment funds (segregated funds and mutual funds), income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and loans managed for third parties.

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

Net Premiums

(In millions of dollars)	2013	2012	2011
Net premiums			
General fund	3,167.6	3,145.3	3,114.4
Segregated funds	1,839.1	1,850.7	1,878.0
Total	5,006.7	4,996.0	4,992.4

Investment Income¹

(In millions of dollars)	2013	2012	2011
Investment income	906.9	841.8	727.3
Variation in the fair value of investment properties	43.6	117.5	12.4
Realized profits (losses) on assets available for sale	15.8	32.2	38.4
Variation in the fair value of assets designated at fair value through profit or loss	(879.7)	559.4	1,474.7
Change in provision for losses	(1.9)	(1.6)	(1.7)
Total	84.7	1,549.3	2,251.1

¹ The main items that make up investment income are: investment income as such (including interest income, dividends and property rental income), realized profits and losses on the disposition of assets available for sale and variations in the fair value of assets designated as held at fair value through profit or loss.

Policy Benefits and Expenses

Policy benefits and expenses totalled \$5.5 billion in 2013, down \$1.5 billion from 2012. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses

(In millions of dollars)	2013	2012	2011
Net policy benefits	3,477.5	3,289.6	2,912.4
Net transfer to segregated funds	208.5	504.6	893.7
Increase (decrease) in insurance contract liabilities	(628.3)	1,394.1	---
Increase (decrease) in investment contract liabilities	8.7	19.8	---
Change in provisions for future policy benefits ²	---	---	2,169.2
Decrease (increase) in reinsurance assets	465.8	(89.6)	106.6
Commissions	1,038.3	1,014.4	947.3
General expenses	815.8	764.5	663.3
Other	145.9	136.1	211.0
Total	5,532.2	7,033.5	7,903.5

Net policy benefits in 2013 were higher than in 2012 (by \$187.9 million), which reflects the normal course of operations. Net policy benefits include benefits paid due to death, disability, illness or contract terminations, as well as annuity payments.

Net transfers to segregated funds totalled \$208.5 million in 2013, which represents a decrease of \$296.1 million compared to 2012. Net transfers to segregated funds can fluctuate for various reasons. Certain contracts contain funds that can be invested in segregated portfolios according to the choices made by policyholders. As a result, net transfers to segregated funds are made up of amounts invested in segregated portfolios, less any amounts withdrawn from these portfolios. Net transfers to segregated funds can vary from one period to another depending on the demand from clients, who at times favour products that generally offer guaranteed returns, and at other times are more attracted by segregated fund products, whose return fluctuates with the markets. Also, in a sector like Group Savings and Retirement, segregated fund deposits can fluctuate substantially from one quarter to another according to the size of the mandates granted by certain groups.

Insurance contract liabilities decreased by \$628.3 million in 2013, compared to a \$1.4 billion increase in 2012, which represents a \$2.0 billion expense variation for this item on the consolidated income statement. This variation reflects the decrease in the fair value of the assets matching the provisions for future policy benefits (attributable to the impact of higher interest rates on the bond portfolio and on derivative financial instruments) and neutralizes the decrease in investment income related to these assets.

The variation in insurance contract liabilities is the result of several factors, including the increase in premiums (upward impact on the provisions for future policy benefits), the return on the assets matching the provisions for future policy benefits (increase), the increase in claims (decrease), the net transfer to segregated funds (decrease) and the variation in the fair value of the assets matched to the provisions for future policy benefits (increase or decrease).

² The presentation in the 2012 and 2013 financial statements was adjusted so that the change in provisions for future policy benefits was separated into two categories: Increase (decrease) in insurance contract liabilities and Increase (decrease) in investment contract liabilities.

Investment contract liabilities increased by \$8.7 million in 2013, an \$11.1 million decrease compared to 2012. This variation is the result of the normal evolution of business.

The Company reports reinsurance assets separately from insurance contract liabilities. However, the factors that have an impact on the change in insurance and investment contract liabilities generally impact reinsurance assets as well. In 2013, a positive amount of \$465.8 million was posted as a change in reinsurance assets, compared to a negative amount of \$89.6 million in 2012. This represents a difference of \$555.4 million. The variation is primarily due to the change of an assumption reinsurance agreement for certain US business in 2013.

Commissions increased by \$23.9 million in 2013, which primarily reflects the growth of the in-force block of business and higher sales in the Individual Wealth Management and Group Insurance sectors. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.

General expenses increased by \$51.3 million compared to 2012, totalling \$815.8 million in 2012. This increase is primarily explained by the increase in salary and employee benefit costs as well as other administrative expenses.

Income Taxes

The consolidated financial statements indicate an income tax expense of \$103.0 million in 2013 compared to \$109.1 million in 2012.

EMBEDDED VALUE

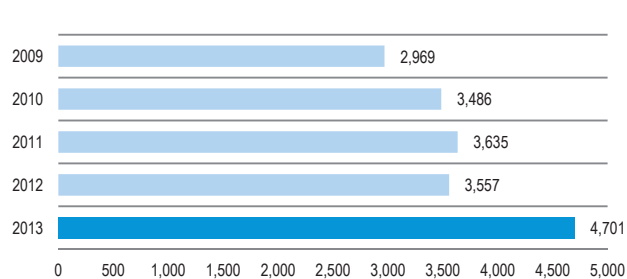
2013 HIGHLIGHTS

- › Embedded value of \$4.7 billion at December 31, 2013
- › Embedded value per common share of \$47.32 at December 31, 2013
- › Embedded value/book value ratio of 1.54 at December 31, 2013

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

At December 31, 2013, Industrial Alliance's embedded value was \$4.7 billion. This is up 32.2% from the value calculated at December 31, 2012. The embedded value at December 31, 2013 was up 21.1% to reach \$47.32 per common share, compared to \$39.08 at December 31, 2012.

Embedded Value as at December 31 (\$Million)

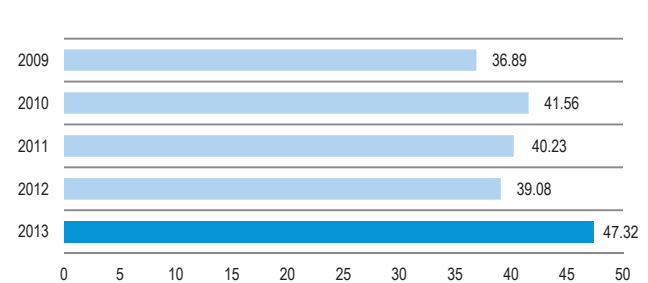


Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 10.0% in 2013 (9.7% in 2012). The recurring items are composed of the value added by new business and anticipated normal growth. Since the Company began calculating its embedded value, recurring items have always grown embedded value by more than 9%.

Certain non-recurring items also affect the growth of embedded value. These items had a significant impact on the Company's embedded value in 2013, causing it to increase by \$582 million (16.4%).

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



Among the non-recurring items in 2013, the best-estimate long-term return assumptions on investments backing the provisions for future policy benefits combined with an increase in the discount rate and the return on shareholders' equity used to calculate embedded value led to a \$355 million increase in embedded value.

Moreover, higher than expected stock market returns led to an increase in the Company's future profits, primarily due to the increase in management fees collected on segregated funds, mutual funds and Universal Life policy funds, and an increase in shareholders' equity. This led to a \$188 million increase in embedded value (5.3%). In 2012, the stock market performance resulted in a \$76 million decrease in embedded value (-2.1%).

The experience gains posted in 2013 combined with better than expected business retention in wealth management products increased embedded value by \$109 million (3.1%).

Changes to the capital structure in 2013 increased embedded value by \$301 million (8.5%).

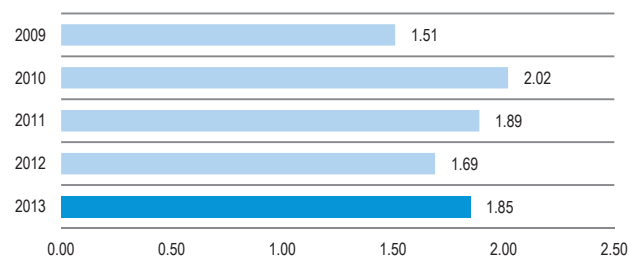
The Company also paid \$96 million in dividends to its common shareholders in 2013, which represents a 2.7% decrease in embedded value.

EMBEDDED VALUE OF NEW BUSINESS

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

In 2013, the contribution of new sales to the increase in Industrial Alliance's embedded value was \$181 million, or \$1.85 per common share. This is an increase of \$28 million (or 18.3%) compared to the previous year. Rate increases in 2013 and a favourable sales mix explain the increase over 2012.

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



EMBEDDED VALUE/BOOK VALUE RATIO

Another useful measure is the embedded value/book value ratio. This ratio measures the relative value of a life insurance company's stock. At the end of 2013, the embedded value represented 1.54x the Company's book value.

UNDERLYING ASSUMPTIONS

Embedded value is defined as being equal to the value of the Company's equity, adjusted to include the cost of the required capital and certain other items, plus the current value of shareholder net income that will be derived in the future from the in-force block of business. As a result, the discounting of future net income associated with in-force business involves the use of actuarial assumptions, and these assumptions must be consistent with the best estimates used by the appointed actuary in evaluating the provisions for future policy benefits. The main economic and capital assumptions used to calculate the embedded value over the last two years are presented in the following table.

Economic and Capital Assumptions

	As at December 31	
	2013	2012
Discount rate	6.25%	5.25%
Risk premium	3.00%	3.00%
Return on shareholders' equity	3.25%	2.25%
Inflation rate	1.50%	1.50%
Solvency ratio	150%	150%

Other assumptions are used to calculate the embedded value as well, including the future mortality rate assumption. Given that Industrial Alliance retains a higher portion of mortality risk than other insurers in the industry, the calculation of the Company's embedded value takes into account the current trend of mortality rates to improve over the years.

SENSITIVITY ANALYSIS

The following table shows the sensitivity of embedded value to different changes in assumptions.

Sensitivity Analysis Impact on Embedded Value

	As at December 31, 2013
1% increase in risk premium	(11%)
3% increase in risk premium	(33%)
Increase in the solvency ratio from 150% to 175%	(4%)
1% decrease in the tax rate	1%
No improvement in mortality	(9%)
1% increase in economic assumptions (no change to risk premium)	11%
10% drop in the stock markets	(5%)

Embedded Value

	Embedded Value (\$Million)	Contribution to Embedded Value (%)	Embedded Value per Common Share (\$)
Embedded value as at December 31, 2012	3,557		\$39.08
Recurring items			
Expected growth of embedded value	176	4.9%	\$1.93
New sales	181	5.1%	\$1.85 ¹
Subtotal	357	10.0%	\$3.78
Non-recurring items			
Experience gains (losses) – related to the equity markets	188	5.3%	\$2.07
Experience gains (losses) – other	109	3.1%	\$1.20
Changes in assumptions (including the discount rate and return on shareholders' equity)	355	10.0%	\$3.90
Acquisitions/Dispositions	(70)	(2.0%)	(\$0.77)
Subtotal	582	16.4%	\$6.40
Changes to the capital structure	301	8.5%	(\$0.96)
Embedded value as at December 31, 2013, before dividends	4,797		\$48.29
Dividends paid to common shareholders	(96)	(2.7%)	(\$0.98)
Embedded value as at December 31, 2013	4,701		\$47.32

¹ The embedded value per common share reflects the dilutive effect resulting from the share issuances during the year. These issuances are reflected in the changes to the capital structure.

TEN-YEAR HISTORY

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
PROFITABILITY										
Net income										
Net income	387.5	336.9	141.6	277.3	218.3	74.8	249.2	231.3	134.6	159.2
Less: net income (loss) attributed to participating policyholders	3.0	3.2	14.4	1.0	(1.3)	2.9	1.2	3.4	2.4	4.1
Net income attributed to shareholders	384.5	333.7	127.2	276.3	219.6	71.9	248.0	227.9	132.2	155.1
Less: preferred share dividends	34.6	30.1	23.9	22.9	13.8	5.8	5.8	4.9	---	0.1
Net income attributed to common shareholders	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0
Less: gain on unusual items ³	---	37.4	---	---	---	---	---	---	---	---
Net income attributed to common shareholders excluding unusual items	349.9	266.2	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0
Earnings per common share⁴										
Basic	\$3.60	\$3.35	\$1.20	\$3.04	\$2.56	\$0.82	\$3.02	\$2.77	\$1.66	\$1.96
Diluted	\$3.57	\$3.22	\$1.18	\$2.93	\$2.55	\$0.82	\$2.99	\$2.74	\$1.65	\$1.95
Diluted – adjusted for IATS ⁵	---	\$3.34	\$1.19	\$3.01	---	---	---	---	---	---
Diluted – adjusted for IATS ⁵ and unusual items ³	---	\$2.93	\$1.19	\$3.01	---	---	---	---	---	---
Return on common shareholders' equity⁶										
	12.6%	12.8%	4.7%	12.8%	11.9%	4.0%	15.1%	15.7%	10.3%	13.6%
Net income (loss) attributed to common shareholders by line of business										
Individual Insurance	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4	73.4
Individual Wealth Management	100.9	116.8	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)	33.3
Group Insurance	36.0	20.4	22.4	42.4	34.8	42.6	45.3	46.8	35.1	33.6
Group Savings and Retirement	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1	14.7
Total	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0
SPECIFIED ITEMS										
Impact on net income attributed to common shareholders										
Impact of credit										
Provision on investments	---	---	---	---	(2.6)	(3.6)	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	(0.1)	(10.8)	---	---	---	---
Decrease in value of non-bank-sponsored ABCP ⁷	---	---	---	---	---	(10.6)	(7.3)	---	---	---
Provision for the Norshield funds ⁸	---	---	---	---	---	---	---	---	(52.1)	---
Impact of market on expected earnings⁹										
Increase (decrease) in income on UL policies	12.0	2.7	(8.8)	2.2	3.8	(9.8)	---	---	---	---
Higher (lower) than expected management fees	10.4	(2.2)	(9.8)	(1.0)	8.7	(23.9)	---	---	---	---
Higher (lower) than expected income on capital	---	---	---	0.2	0.8	(4.6)	---	---	---	---
Impact of dynamic hedging	28.5	11.5	(8.9)	---	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	(5.4)	7.6	0.6	---	---	---
Changes in assumptions and management actions	(6.1)	(21.2)	(152.3)	(8.4)	(0.8)	(138.2)	(0.7)	0.4	(1.5)	(2.6)
Restructuring charges ¹⁰	(4.6)	---	---	---	---	---	---	(3.0)	(4.1)	(6.1)
Impact of the tax reduction on the deferred income tax liability	---	---	---	---	---	---	---	11.5	---	---
Change of reinsurer	---	---	---	---	---	---	---	---	4.2	---

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
SPECIFIED ITEMS (cont.)										
Impact on earnings per common share¹¹										
Impact of credit										
Provision on investments	---	---	---	---	(\$0.04)	(\$0.04)	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	---	(\$0.14)	---	---	---	---
Decrease in value of non-bank-sponsored ABCP ⁷	---	---	---	---	---	(\$0.13)	(\$0.09)	---	---	---
Provision for the Norshield funds ⁸	---	---	---	---	---	---	---	---	(\$0.65)	---
Impact of market on expected earnings⁹										
Increase (decrease) in income on UL policies	\$0.12	\$0.03	(\$0.10)	\$0.03	\$0.05	(\$0.12)	---	---	---	---
Higher (lower) than expected management fees	\$0.11	(\$0.02)	(\$0.11)	(\$0.01)	\$0.11	(\$0.30)	---	---	---	---
Higher (lower) than expected income on capital	---	---	---	---	\$0.01	(\$0.05)	---	---	---	---
Impact of dynamic hedging	\$0.30	\$0.13	(\$0.10)	---	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	(\$0.07)	\$0.09	\$0.01	---	---	---
Changes in assumptions and management actions	(\$0.06)	(\$0.23)	(\$1.76)	(\$0.10)	(\$0.01)	(\$1.71)	(\$0.01)	\$0.01	(\$0.02)	(\$0.03)
Restructuring charges ¹⁰	(\$0.05)	---	---	---	---	---	---	(\$0.04)	(\$0.05)	(\$0.08)
Impact of the tax reduction on the deferred income tax liability	---	---	---	---	---	---	---	\$0.14	---	---
Change of reinsurer	---	---	---	---	---	---	---	---	\$0.05	---
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit										
Expected profit on in-force	233.6	219.0	233.5	211.0	197.4	200.4	184.5	172.5	156.0	146.6
Experience gain (loss)	16.6	0.4	(27.4)	(4.7)	17.4	(34.2)	(8.9)	2.6	5.7	0.1
Strain on sales	(49.2)	(95.6)	(111.4)	(104.3)	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)	(70.3)
Changes in assumptions and management actions	(2.8)	(39.8)	(194.1)	(2.2)	68.6	(175.6)	(1.6)	(1.7)	(1.5)	(0.5)
Total	198.2	84.0	(99.4)	99.8	194.4	(91.0)	91.0	70.7	77.3	75.9
Income on capital	59.6	84.0	89.3	80.5	51.3	41.5	57.2	50.6	41.4	36.5
Income taxes	(41.9)	(0.2)	23.5	(40.7)	(68.1)	17.8	(42.2)	(40.6)	(37.4)	(34.2)
Net income (loss) attributed to shareholders, before other items	215.9	167.8	13.4	139.6	177.6	(31.7)	106.0	80.7	81.3	78.2
Less: preferred share dividends	24.0	25.1	18.5	16.1	8.0	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	191.9	142.7	(5.1)	123.5	169.6	(31.7)	106.0	80.7	81.3	78.2
Other items ¹²	---	8.9	---	---	(3.4)	4.8	0.3	5.1	(0.9)	(4.8)
Net income (loss) attributed to common shareholders	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4	73.4

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
SOURCES OF EARNINGS BY LINE OF BUSINESS (cont.)										
Individual Wealth Management										
Operating profit										
Expected profit on in-force	111.4	97.0	128.5	103.3	59.2	117.9	106.0	92.9	55.8	46.7
Experience gain (loss)	36.1	20.3	(15.9)	4.5	(4.4)	(32.1)	6.1	9.4	13.6	2.5
Strain on sales	(2.5)	(9.7)	(8.3)	(7.7)	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)	(11.9)
Changes in assumptions and management actions	(0.3)	10.3	(16.5)	(6.8)	(16.9)	(1.9)	(0.9)	1.4	(1.6)	(1.9)
Total	144.7	117.9	87.8	93.3	32.4	80.2	106.6	98.3	59.5	35.4
Income on capital	2.1	(1.0)	0.2	2.4	8.4	5.9	5.4	4.8	11.7	14.6
Income taxes	(39.9)	(27.7)	(16.5)	(22.3)	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)	(15.7)
Net income attributed to shareholders, before other items	106.9	89.2	71.5	73.4	29.1	62.5	77.8	76.9	49.0	34.3
Less: preferred share dividends	6.0	0.9	2.0	4.0	5.8	5.8	5.8	4.9	---	---
Net income attributed to common shareholders, before other items	100.9	88.3	69.5	69.4	23.3	56.7	72.0	72.0	49.0	34.3
Other items ¹²	---	28.5	---	---	(0.4)	0.6	0.1	0.9	(50.4)	(1.0)
Net income (loss) attributed to common shareholders	100.9	116.8	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)	33.3
Group Insurance										
Operating profit										
Expected profit on in-force	37.7	47.1	45.7	39.1	48.1	53.4	46.0	40.5	44.0	27.9
Experience gain (loss)	4.3	(24.1)	(15.0)	11.1	(10.4)	(8.3)	0.4	5.3	(0.3)	16.3
Strain on sales	---	---	---	---	---	---	---	---	---	---
Changes in assumptions and management actions	(5.0)	(0.3)	(8.2)	(2.3)	(0.9)	(1.0)	1.5	1.3	(1.1)	(1.3)
Total	37.0	22.7	22.5	47.9	36.8	44.1	47.9	47.1	42.6	42.9
Income on capital	14.4	8.9	10.8	11.4	12.6	9.0	15.1	13.2	10.1	8.0
Income taxes	(12.4)	(8.5)	(8.8)	(15.3)	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)	(17.0)
Net income attributed to shareholders, before other items	39.0	23.1	24.5	44.0	35.8	41.2	45.2	44.2	35.7	33.9
Less: preferred share dividends	3.0	2.7	2.1	1.6	---	---	---	---	---	---
Net income attributed to common shareholders before other items	36.0	20.4	22.4	42.4	35.8	41.2	45.2	44.2	35.7	33.9
Other items ¹²	---	---	---	---	(1.0)	1.4	0.1	2.6	(0.6)	(0.3)
Net income attributed to common shareholders	36.0	20.4	22.4	42.4	34.8	42.6	45.3	46.8	35.1	33.6
Group Savings and Retirement										
Operating profit (loss)										
Expected profit on in-force	15.9	13.7	17.0	14.4	15.8	19.7	16.2	15.3	12.5	10.5
Experience gain (loss)	9.6	1.0	1.4	3.5	1.3	(17.8)	1.7	1.4	---	(0.8)
Strain on sales	(3.1)	(0.6)	(1.2)	(0.2)	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)	(0.2)
Changes in assumptions and management actions	0.2	0.2	(0.9)	---	(51.9)	(16.7)	---	(0.4)	2.1	---
Total	22.6	14.3	16.3	17.7	(35.9)	(17.5)	15.8	15.0	13.4	9.5
Income on capital	7.8	7.0	5.9	8.2	7.4	6.0	9.2	9.4	11.3	10.7
Income taxes	(7.7)	(5.1)	(4.4)	(6.6)	11.0	3.8	(6.6)	(6.8)	(6.5)	(5.5)
Net income (loss) attributed to shareholders, before other items	22.7	16.2	17.8	19.3	(17.5)	(7.7)	18.4	17.6	18.2	14.7
Less: preferred share dividends	1.6	1.4	1.3	1.2	---	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	21.1	14.8	16.5	18.1	(17.5)	(7.7)	18.4	17.6	18.2	14.7
Other items ¹²	---	---	---	---	(0.6)	0.8	0.1	(0.1)	(0.1)	---
Net income (loss) attributed to common shareholders	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1	14.7

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
SOURCES OF EARNINGS BY LINE OF BUSINESS (cont.)										
Total company										
Operating profit										
Expected profit on in-force	398.6	376.8	424.7	367.8	320.5	391.4	352.7	321.2	268.3	231.7
Experience gain (loss)	66.6	(2.4)	(56.9)	14.4	3.9	(92.4)	(0.7)	18.7	19.0	18.1
Strain on sales	(54.8)	(105.9)	(120.9)	(112.2)	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)	(82.4)
Changes in assumptions and management actions	(7.9)	(29.6)	(219.7)	(11.3)	(1.1)	(195.2)	(1.0)	0.6	(2.1)	(3.7)
Total	402.5	238.9	27.2	258.7	227.7	15.8	261.3	231.1	192.8	163.7
Income on capital										
Investment income	65.5	66.9	67.8	80.3	73.3	58.8	78.0	---	---	---
Realized gains (losses) on assets available for sale	18.4	32.0	38.4	22.2	6.4	3.6	8.9	---	---	---
Total	83.9	98.9	106.2	102.5	79.7	62.4	86.9	78.0	74.5	69.8
Income taxes	(101.9)	(41.5)	(6.2)	(84.9)	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)	(72.4)
Net income attributed to shareholders, before other items	384.5	296.3	127.2	276.3	225.0	64.3	247.4	219.4	184.2	161.1
Less: preferred share dividends	34.6	30.1	23.9	22.9	13.8	5.8	5.8	4.9	0.0	0.0
Net income attributed to common shareholders, before other items	349.9	266.2	103.3	253.4	211.2	58.5	241.6	214.5	184.2	161.1
Other items ¹²	---	37.4	---	---	(5.4)	7.6	0.6	8.5	(52.0)	(6.1)
Net income attributed to common shareholders	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0

BUSINESS GROWTH

Net premiums, premium equivalents and deposits by line of business

Individual Insurance	1,425.2	1,339.3	1,248.2	1,112.9	---	---	---	---	---	---
Individual Wealth Management	3,358.8	3,100.6	3,543.6	3,676.3	---	---	---	---	---	---
Group Insurance	1,389.5	1,395.3	1,308.5	1,154.2	---	---	---	---	---	---
Group Savings and Retirement	1,001.0	848.9	708.6	657.1	---	---	---	---	---	---
General Insurance ¹³	258.4	220.0	199.6	150.7	---	---	---	---	---	---
Total	7,432.9	6,904.1	7,008.5	6,751.2	---	---	---	---	---	---

Net premiums and deposits by line of business

Individual Insurance	---	---	---	---	938.4	920.7	897.3	838.6	768.7	763.1
Individual Wealth Management	---	---	---	---	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8
Group Insurance	---	---	---	---	962.4	956.5	860.5	749.6	694.9	637.9
Group Savings and Retirement	---	---	---	---	839.8	1,114.9	828.3	820.1	564.8	461.1
General Insurance	---	---	---	---	140.6	128.4	118.2	107.2	95.1	83.5
Total	---	---	---	---	5,231.2	5,542.9	5,826.2	4,990.6	3,583.7	2,852.4

Individual Insurance

Sales¹⁴

Canada	192.7	199.6	178.2	170.8	145.6	145.8	155.1	147.6	136.5	137.0
United States	41.6	43.7	31.2	15.8	1.5	1.1	3.9	6.0	4.8	2.9
Total	234.3	243.3	209.4	186.6	147.1	146.9	159.0	153.6	141.3	139.9

Net premiums

Canada	1,287.6	1,206.2	1,117.6	1,055.6	923.6	907.1	880.5	820.0	751.0	745.8
United States	137.6	133.1	130.6	57.3	14.8	13.6	16.8	18.6	17.7	17.3
Total	1,425.2	1,339.3	1,248.2	1,112.9	938.4	920.7	897.3	838.6	768.7	763.1

Individual Wealth Management

Sales¹⁴

General fund	119.2	325.1	403.6	441.1	404.3	345.5	334.4	289.2	242.4	237.5
Segregated funds	987.7	1,126.0	1,362.3	1,488.0	866.2	815.7	990.6	958.3	805.2	669.3
Mutual funds	2,251.9	1,649.5	1,777.7	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---
Total	3,358.8	3,100.6	3,543.6	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
BUSINESS GROWTH (cont.)										
Individual Wealth Management										
Net investment fund sales										
Segregated funds	(88.7)	308.7	768.6	925.0	476.4	322.9	578.7	607.6	547.4	332.7
Mutual funds	673.9	455.7	729.5	797.1	281.4	289.5	799.2	267.0	148.7	---
Total	585.2	764.4	1,498.1	1,722.1	757.8	612.4	1,377.9	874.6	696.1	332.7
Assets under management										
General fund	1,226.9	1,274.5	1,848.9	1,751.4	1,672.8	1,627.9	1,584.4	1,631.7	1,695.5	1,770.9
Segregated funds	10,809.0	9,858.1	9,098.7	8,794.6	7,204.5	5,562.1	6,695.9	6,046.8	4,851.2	3,871.6
Mutual funds ^{15, 16}	11,413.2	8,978.9	8,138.6	8,124.1	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5
Other ¹⁶	3,061.7	---	---	---	---	---	---	---	---	---
Total	26,510.8	20,111.5	19,086.2	18,670.1	15,479.2	12,454.0	15,115.0	13,959.7	12,206.5	6,661.0
Group Insurance										
Sales ¹⁴										
Employee Plans	59.4	46.1	131.9	72.2	75.0	92.9	72.0	70.8	52.3	55.7
Dealer Services – Creditor Insurance ¹⁷	382.4	351.7	284.8	201.7	173.8	194.2	192.0	176.4	158.8	132.6
Dealer Services – P&C	143.0	127.7	82.2	59.5	49.6	34.4	n.a.	n.a.	n.a.	n.a.
Special Markets Solutions (SMS)	170.9	154.0	133.0	133.2	118.2	117.3	109.4	100.2	97.7	97.1
Net premiums and premium equivalents										
Employee Plans	809.0	788.7	788.3	714.6	727.7	684.1	594.8	509.2	475.4	448.4
Dealer Services – Creditor Insurance	303.9	286.5	230.5	148.8	121.5	159.5	161.3	147.8	132.1	109.8
Special Markets Solutions (SMS)	159.7	143.8	123.1	124.2	113.2	112.9	104.4	92.6	87.4	79.7
Total net premiums	1,272.6	1,219.0	1,141.9	987.6	962.4	956.5	860.5	749.6	694.9	637.9
Premium equivalents and deposits										
Administrative services only contracts (ASO)	43.9	48.2	43.9	51.0	115.9	101.9	94.7	124.1	102.9	96.1
Investment contracts	73.0	128.1	122.7	115.6	---	---	---	---	---	---
Total	1,389.5	1,395.3	1,308.5	1,154.2	1,078.3	1,058.4	955.2	873.7	797.8	734.0
Group Savings and Retirement										
Sales ¹⁴										
Accumulation contracts										
General fund	43.9	34.4	26.6	34.0	33.9	18.1	20.9	29.2	25.8	49.1
Segregated funds	851.4	724.7	515.7	574.3	685.8	845.9	575.0	595.7	384.7	312.2
Total	895.3	759.1	542.3	608.3	719.7	864.0	595.9	624.9	410.5	361.3
Insured annuities (general fund)	72.3	27.0	114.6	56.2	120.1	250.9	232.4	195.2	154.3	99.8
Deposits	57.4	82.3	71.8	55.5	---	---	---	---	---	---
Total sales	1,025.0	868.4	728.7	720.0	839.8	1,114.9	828.3	820.1	564.8	461.1
Assets under management										
Accumulation contracts										
General fund	252.2	232.5	235.6	236.8	212.8	181.7	181.1	178.8	185.1	192.1
Segregated funds	6,109.2	5,161.1	4,620.5	4,646.3	4,126.8	3,261.3	3,379.5	3,041.5	2,402.9	1,927.8
Other ¹⁸	873.2	891.8	493.9	473.0	---	---	---	---	---	---
Total	7,234.6	6,285.4	5,350.0	5,356.1	4,339.6	3,443.0	3,560.6	3,220.3	2,588.0	2,119.9
Insured annuities (general fund)	2,998.4	3,128.7	3,147.8	2,941.8	2,852.0	2,697.2	2,556.6	2,150.9	2,026.2	1,936.4
Total	10,233.0	9,414.1	8,497.8	8,297.9	7,191.6	6,140.2	6,117.2	5,371.2	4,614.2	4,056.3
General Insurance										
Sales ¹⁴										
IAAH (Auto & Home)	216.6	195.1	175.2	154.7	135.6	122.0	113.9	n.a.	n.a.	n.a.

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
BUSINESS GROWTH (cont.)										
Distribution of net premiums, premium equivalents and deposits by region										
Atlantic provinces	4.7%	4.3%	4.0%	4.6%	4.6%	4.7%	5.8%	4.7%	3.6%	3.6%
Quebec	36.7%	41.9%	40.6%	39.8%	44.9%	42.8%	43.1%	43.3%	51.5%	50.1%
Ontario	30.2%	27.2%	30.0%	29.4%	29.4%	31.8%	30.9%	31.6%	26.3%	25.0%
Western provinces	26.4%	23.9%	22.2%	23.1%	19.5%	19.6%	19.1%	18.9%	16.7%	18.6%
Outside Canada	2.0%	2.7%	3.2%	3.1%	1.6%	1.1%	1.1%	1.5%	1.9%	2.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Assets under management and administration										
Assets under management										
General fund	27,108.2	26,697.3	23,718.1	20,544.6	17,626.5	15,415.2	15,104.3	13,090.7	11,972.9	11,030.8
Segregated funds	16,921.4	15,021.2	13,722.9	13,563.7	11,450.3	8,924.2	10,210.9	9,204.1	7,348.8	5,913.6
Mutual funds ^{15, 16}	11,413.2	8,978.9	8,151.0	7,922.4	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7	1,018.5
Other ^{16, 19}	13,960.5	8,934.5	6,199.8	5,010.6	563.3	596.7	630.6	501.3	785.9	872.0
Total	69,403.3	59,631.9	51,791.8	47,041.3	36,255.8	30,213.8	32,792.7	29,091.5	25,780.3	18,834.9
Assets under administration^{15, 16}										
Total	29,289.7	23,833.3	21,858.1	22,223.3	22,150.8	19,258.4	17,618.9	17,812.6	12,390.9	9,641.1
Total	98,693.0	83,465.2	73,649.9	69,264.6	58,406.6	49,472.2	50,411.6	46,904.1	38,171.2	28,476.0
Human resources										
Number of employees	4,526	4,314	4,109	3,777	3,478	3,427	2,947	2,819	2,746	2,626
Number of Career representatives	1,791	1,838	1,860	1,761	1,688	1,597	1,608	1,550	1,445	1,379
INVESTED ASSETS										
Value and distribution of investments										
Book value of investment portfolio	23,189.8	22,983.5	21,714.6	18,723.7	16,490.2	14,396.3	14,214.3	12,256.2	11,226.9	10,589.6
Market value of investment portfolio	---	---	---	---	---	---	---	13,759.8	12,809.6	11,720.6
Market value/book value	---	---	---	---	---	---	---	112.3%	114.1%	110.7%
Distribution of investments by financial instrument category										
Available for sale	13.0%	10.9%	12.6%	12.4%	11.6%	10.0%	8.7%	---	---	---
Fair value through profit or loss	62.0%	64.5%	59.8%	55.6%	53.9%	51.3%	58.6%	---	---	---
Loans and receivables	20.2%	20.5%	23.9%	28.1%	30.5%	34.2%	27.8%	---	---	---
Investment properties	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%	---	---	---
Other	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	1.5%	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---
Distribution of investments by asset category										
Bonds	65.0%	63.7%	63.0%	59.6%	57.1%	55.2%	57.2%	58.6%	58.9%	57.4%
Mortgages	11.2%	11.3%	15.0%	17.8%	20.6%	24.3%	20.5%	20.1%	21.6%	23.5%
Stocks	13.5%	12.2%	11.1%	11.7%	11.5%	9.3%	12.4%	11.9%	10.4%	10.2%
Investment properties	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%	3.7%	4.0%	4.2%
Other	5.6%	8.7%	7.3%	7.1%	6.9%	6.8%	6.5%	5.7%	5.1%	4.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region										
Atlantic provinces	5.2%	5.6%	3.9%	4.0%	4.2%	3.9%	4.1%	3.9%	4.8%	5.1%
Quebec	34.5%	39.4%	42.5%	45.8%	46.9%	48.6%	48.1%	48.0%	49.5%	49.6%
Ontario	30.1%	26.6%	23.4%	21.0%	21.5%	20.5%	20.6%	20.6%	20.3%	20.7%
Western provinces	15.9%	16.4%	16.4%	16.9%	18.1%	17.5%	16.8%	16.6%	16.9%	17.3%
Outside Canada	14.3%	12.0%	13.8%	12.3%	9.3%	9.5%	10.4%	10.9%	8.5%	7.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
INVESTED ASSETS (cont.)										
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	17.6	11.2	17.8	25.6	16.7	14.0	20.7	95.2	96.8	47.6
Net impaired investments (excluding insured loans)										
Bonds	7.3	8.0	8.4	8.4	4.5	0.5	1.2	1.2	1.2	1.2
Mortgages	6.5	1.0	4.7	13.1	6.9	7.8	2.8	0.2	0.5	1.4
Real estate acquired to settle loans ²⁰	---	---	---	---	1.6	0.5	7.7	6.5	5.9	5.9
Total	13.8	9.0	13.1	21.5	13.0	8.8	11.7	7.9	7.6	8.5
Provisions for losses										
At beginning of period	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7
Increase for the period	1.8	2.0	2.8	2.7	3.6	5.3	0.3	0.3	78.2	0.0
Decrease for the period	(0.2)	(4.5)	(2.2)	(2.3)	(5.1)	(7.3)	0.0	(2.2)	(28.1)	(1.6)
Impact of financial instrument as at January 1, 2007	---	---	---	---	---	---	(78.6)	---	---	---
Transfer of provisions to investments	---	---	---	---	---	(1.8)	---	---	---	---
At end of period	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1
Provisions for losses by type of investments										
Bonds	2.5	2.0	2.9	2.9	3.0	5.0	5.2	4.8	4.6	32.4
Mortgages	1.3	0.2	1.8	1.2	0.7	0.2	0.1	0.8	3.0	3.0
Real estate acquired to settle loans ²⁰	---	---	---	---	---	---	3.7	3.7	3.7	3.7
Other ⁸	---	---	---	---	---	---	---	78.0	77.9	---
Total	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1
Net impaired investments as a % of total investments	0.06%	0.04%	0.06%	0.11%	0.08%	0.06%	0.08%	0.06%	0.07%	0.08%
Provisions as a % of gross impaired investments	21.4%	19.6%	26.4%	16.0%	22.2%	37.5%	43.6%	91.7%	92.1%	82.0%
Real estate acquired to settle loans ²⁰										
Real estate held for resale	10.7	9.7	5.7	1.3	---	---	---	---	---	---
Bonds										
Book value of the bond portfolio	15,106.7	14,643.1	13,676.8	11,121.2	9,409.5	7,942.2	8,127.2	7,189.4	6,619.6	6,074.5
Market value of the bond portfolio	---	---	---	---	---	---	---	8,409.3	7,997.0	7,046.8
Market value/book value	---	---	---	---	---	---	---	117.0%	120.8%	116.0%
Distribution by financial instrument category										
Available for sale	18.1%	15.6%	17.9%	18.1%	16.9%	14.7%	11.8%	---	---	---
Fair value through profit or loss	73.7%	76.5%	74.7%	72.9%	73.1%	74.7%	78.8%	---	---	---
Loans and receivables	8.2%	7.9%	7.4%	9.0%	10.0%	10.6%	9.4%	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---
Distribution by credit rating										
Rating – AAA	2.83%	8.67%	8.84%	10.83%	11.30%	11.80%	13.70%	17.40%	12.28%	9.81%
Rating – AA	33.67%	23.12%	20.12%	16.68%	15.83%	18.24%	19.80%	17.93%	16.31%	17.09%
Rating – A	51.25%	58.55%	61.10%	65.37%	66.36%	63.06%	60.53%	58.25%	63.77%	65.64%
Rating – BBB	12.07%	9.56%	9.82%	7.00%	6.44%	6.67%	5.86%	6.11%	7.28%	7.22%
Rating – BB and lower	0.18%	0.10%	0.12%	0.12%	0.07%	0.23%	0.11%	0.31%	0.36%	0.24%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
INVESTED ASSETS (cont.)										
Distribution by category of issuer										
Governments	55.2%	60.5%	59.0%	63.2%	63.3%	61.1%	59.7%	56.9%	60.4%	64.5%
Municipalities	4.1%	3.9%	3.0%	1.5%	1.3%	1.4%	1.8%	1.7%	1.6%	1.7%
Corporates – Public issues	24.2%	20.3%	23.6%	21.1%	20.8%	21.6%	23.4%	26.1%	25.1%	22.4%
Corporates – Private issues	16.5%	15.3%	14.4%	14.2%	14.6%	15.9%	15.1%	15.3%	12.9%	11.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate	0.00%	0.01%	0.01%	0.01%	0.00%	0.01%	0.02%	0.02%	0.02%	0.02%
Mortgages										
Book value of the mortgage portfolio	2,596.6	2,603.6	3,251.4	3,334.5	3,405.0	3,508.1	2,920.2	2,457.2	2,420.8	2,491.8
Market value of the mortgage portfolio	---	---	---	---	---	---	---	2,516.0	2,469.8	2,562.7
Market value/book value	---	---	---	---	---	---	---	102.4%	102.0%	102.8%
Distribution by financial instrument category										
Loans and receivables	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---
Distribution by type of property										
Residential	25.6%	21.8%	16.7%	19.3%	19.0%	19.4%	21.6%	20.4%	16.3%	16.4%
Multi-residential	55.7%	60.1%	63.6%	63.3%	65.2%	66.5%	60.2%	59.5%	58.9%	59.5%
Non-residential	18.7%	18.1%	19.7%	17.4%	15.8%	14.1%	18.2%	20.1%	24.8%	24.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of loan										
Insured	73.0%	73.4%	64.8%	68.4%	71.8%	71.3%	65.0%	60.2%	55.6%	52.8%
Conventional	27.0%	26.6%	35.2%	31.6%	28.2%	28.7%	35.0%	39.8%	44.4%	47.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate										
Insured loans	0.06%	0.24%	0.08%	0.06%	0.21%	0.08%	0.10%	0.09%	0.50%	0.50%
Conventional loans	1.17%	0.16%	0.57%	1.36%	0.72%	0.72%	0.27%	0.02%	0.05%	0.13%
Total	0.34%	0.22%	0.25%	0.47%	0.36%	0.26%	0.16%	0.06%	0.30%	0.32%
Delinquency rate, including real estate acquired to settle loans	0.76%	0.59%	0.43%	0.51%	0.40%	0.28%	0.55%	0.48%	0.69%	0.70%
Stocks										
Book value of the stock portfolio	3,120.2	2,794.6	2,408.5	2,195.2	1,896.4	1,340.2	1,764.2	1,453.5	1,162.4	1,081.1
Market value of the stock portfolio	---	---	---	---	---	---	---	1,599.7	1,255.1	1,130.5
Market value/book value	---	---	---	---	---	---	---	110.1%	108.0%	104.6%
Distribution by financial instrument category										
Available for sale	9.2%	8.5%	12.4%	13.7%	17.5%	19.2%	15.6%	---	---	---
Fair value through profit or loss	90.8%	91.5%	87.6%	86.3%	82.5%	80.8%	84.4%	---	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---
Distribution by category										
Common shares	46.0%	44.9%	39.0%	22.3%	13.5%	18.8% ²¹	5.7%	5.0%	4.9%	4.1%
Preferred shares	16.7%	15.5%	8.3%	8.6%	8.8%	10.3%	8.1%	10.9%	12.8%	21.6%
Market indices	18.4%	21.2%	30.2%	41.5%	43.2%	26.0%	25.6%	23.6%	18.2%	12.0%
Investment fund units and other	18.9%	18.4%	22.5%	27.6%	34.5%	44.9% ²¹	60.6%	60.5%	64.1%	62.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Real estate (IFRS)										
Investment properties	1,079.2	953.1	788.5	716.1	---	---	---	---	---	---
Linearization of rents	9.4	11.0	10.9	9.9	---	---	---	---	---	---
Fair value of investment properties	1,088.6	964.1	799.4	726.0	---	---	---	---	---	---
Occupancy rate on investment properties	93.5%	95.2%	94.6%	92.9%	---	---	---	---	---	---

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

	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
INVESTED ASSETS (cont.)										
Real estate (CGAAP)										
Book value of the real estate portfolio	---	---	---	---	649.0	629.5	481.6	451.8	446.3	444.5
Market value of the real estate portfolio	---	---	---	---	823.5	814.6	623.7	530.5	509.9	482.9
Market value/book value	---	---	---	---	126.9%	129.4%	129.5%	117.4%	114.2%	108.6%
Occupancy rate of real estate portfolio	---	---	---	---	94.4%	94.0%	95.5%	95.5%	96.8%	95.2%
Other										
Provision for potential loss on fixed-income securities contained in the policy liabilities	235.5	234.7	204.6	138.0	95.8	83.4	78.3	73.1	77.7	97.5
SOLVENCY AND CAPITALIZATION										
Capital structure										
Debentures	498.5	757.9	747.7	499.1	519.8	385.9	309.8	310.1	373.0	150.0
Other debt (IATS ⁵)	---	---	---	---	---	---	---	---	---	150.0
Participating policyholders' account	47.1	44.2	41.3	26.9	25.7	27.0	24.1	23.1	19.7	17.3
Equity										
Common shares	1,183.5	878.6	860.7	652.5	545.7	541.0	513.1	507.7	510.6	458.1
Preferred shares	575.0	675.0	425.0	425.0	325.0	223.7	125.0	125.0	---	---
Contributed surplus	19.8	23.5	23.6	23.3	21.6	19.8	17.1	14.6	12.3	9.5
Retained earnings ²²	1,857.4	1,553.5	1,418.6	1,341.5	1,254.8	1,127.7	1,148.3	971.3	845.4	751.7
Accumulated other comprehensive income	(15.3)	39.3	64.4	59.3	10.5	(54.3)	(3.8)	---	---	---
Currency translation account	---	---	---	---	---	---	---	(6.8)	(7.1)	(5.8)
Total shareholders' equity	3,620.4	3,169.9	2,792.3	2,501.6	2,157.6	1,857.9	1,799.7	1,611.8	1,361.2	1,213.5
Total capital structure	4,166.0	3,972.0	3,581.3	3,027.6	2,703.1	2,270.8	2,133.6	1,945.0	1,753.9	1,530.8
Debt measures⁶										
Debentures ²³ /capital structure	12.0%	18.9%	21.2%	16.5%	19.2%	17.0%	14.5%	15.9%	21.3%	19.6%
Debentures ²³ and preferred shares/capital structure	25.8%	35.9%	33.3%	30.5%	31.3%	26.8%	20.4%	22.4%	21.3%	19.6%
Coverage ratio (in number of times) ²⁴	6.2	6.1	2.8	6.2	6.3	3.9	12.2	12.1	11.0	13.4
Solvency ratio⁶										
Available capital										
Tier 1 (net)	3,166.3	2,956.1	2,461.7	2,303.8	1,961.9	1,726.0	1,685.6	1,498.9	1,187.5	1,246.2
Tier 2 (net)	496.7	640.0	587.4	340.9	343.1	195.4	120.6	128.6	134.9	136.1
Total	3,663.0	3,596.1	3,049.1	2,644.7	2,305.0	1,921.4	1,806.2	1,627.5	1,322.4	1,382.3
Required capital	1,687.2	1,657.7	1,613.8	1,306.8	1,107.2	967.1	934.6	809.9	704.5	624.0
Solvency ratio	217%	217%	189%	202%	208%	199%	193%	201%	188%	222%
MISCELLANEOUS INFORMATION										
Market data⁴										
Common shares										
Share price										
High	\$49.99	\$32.91	\$42.02	\$37.40	\$32.70	\$42.64	\$43.75	\$37.28	\$29.82	\$27.93
Low	\$31.18	\$20.55	\$24.75	\$29.69	\$13.75	\$19.50	\$34.25	\$29.14	\$26.55	\$21.01
Share price at end of period	\$46.95	\$31.38	\$26.29	\$36.81	\$32.20	\$23.31	\$42.58	\$36.14	\$29.07	\$27.50
Average share price	\$40.05	\$26.92	\$34.22	\$33.73	\$24.63	\$32.11	\$38.28	\$32.42	\$28.49	\$23.44
Number of common shares outstanding (in millions)	99.3	91.0	90.4	83.9	80.5	80.3	79.8	79.9	81.4	79.5
Weighted average number of common shares (in millions)										
Basic	97.2	90.6	85.9	83.1	80.3	80.2	80.1	80.5	79.6	79.2
Diluted	97.9	96.2	92.5	88.3	80.7	81.0	81.1	81.3	80.2	79.7
Diluted - adjusted for IATS ⁵	---	90.8	86.5	83.9	---	---	---	---	---	---

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005	2004
MISCELLANEOUS INFORMATION (cont.)										
Dividends										
Dividends paid per common share	\$0.98	\$0.98	\$0.98	\$0.98	\$0.98	\$0.94	\$0.76	\$0.60	\$0.50	\$0.41
Dividend payout ratio	27%	29%	82%	32%	38%	115%	25%	22%	30%	21%
Company's worth										
Market capitalization	4,664.1	2,856.3	2,376.2	3,087.9	2,592.5	1,872.5	3,399.6	2,887.6	2,366.3	2,185.6
Book value per common share ⁶	\$30.67	\$27.45	\$26.19	\$24.75	\$22.77	\$20.35	\$20.98	\$18.61	\$16.72	\$15.27
Embedded value ⁶	4,701	3,557	3,635	3,486	2,969	2,510	2,787	2,448	2,133	2,138
Embedded value per common share ⁶	\$47.32	\$39.08	\$40.23	\$41.56	\$36.89	\$31.26	\$34.92	\$30.64	\$26.78	\$26.90
General expenses	815.8	764.5	663.3	611.6	399.9	358.4	333.5	314.0	273.1	257.8

For comparison purposes, certain previous data have been reclassified.

Cautionary Note regarding Non-IFRS Financial Measures

This document contains some non-IFRS financial measures. Terms by which non-IFRS financial measures are identified include, but are not limited to, "operating profit", "solvency ratio", "embedded value", "sales", and other similar expressions. Non-IFRS financial measures are used to provide management and investors with additional measures of performance. However, non-IFRS financial measures do not have standard meanings prescribed by IFRS and are not directly comparable to similar measures used by other companies.

Notes

- ¹ Except for the embedded value, the coverage ratio and the solvency ratio, the 2012 amounts and measures have been adjusted for the adoption of the amendment to IAS-19 and the adoption of IFRS-10 in 2013.
- ² Adoption of the new financial instruments accounting standards in 2007 and adoption of IFRS on January 1, 2010.
- ³ After-tax gain on the sale of the US annuity business.
- ⁴ For comparison purposes, the earnings per common share and the market data for 2004 have been recalculated to reflect the two-for-one split of the Company's common shares effective on May 16, 2005.
- ⁵ Since 2013, the company no longer makes adjustments for the potential dilutive impact of its innovative Tier 1 debt instruments (IATS) since these instruments were redeemed on June 30, 2013.
- ⁶ The increase in retained earnings at January 1, 2011 with respect to the deferred income tax liability was reflected retroactively in the 2011-2012 financial statements and book value per outstanding common share. All other measures and amounts were not modified. The modification was carried out at December 31, 2012.
- ⁷ ABCP: Asset-backed commercial paper.
- ⁸ In the third quarter of 2005, the Company decided to take a full provision on its entire investment in Norshield. This reduced the net earnings by \$77.9 million, with a tax offset of \$25.8 million, for a net reduction of \$52.1 million.
- ⁹ Approximate impact of market variations as compared to the expected net earnings that the Company would have earned under normal market conditions.
- ¹⁰ The restructuring charge for 2004, 2005 and 2006 results from integration of the operations of National Life with those of the parent company, and for 2013 from the acquisition of Jovian Capital Corporation on October 1.
- ¹¹ Based on diluted weighted average number of common shares as of 2013. Based on diluted and adjusted weighted average number of common shares in 2010, 2011 and 2012 (see note 5 above).
- ¹² Between 2007 and 2011, other items are composed of gains or losses related to the asymmetric evolution of the fair value of debt instruments and the underlying assets. In 2012, other items are composed of after tax gain on the US annuity business mentioned in note 3.
- ¹³ Includes IA Auto and Home premiums, Dealer services - P&C premiums as well as some minor consolidation adjustments.
- ¹⁴ Sales are defined as follows: Individual Insurance: first-year annualized premiums; Individual Wealth Management: net premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance – Employee Plans: first-year annualized premiums, including administrative services only contracts (ASO); Dealer Services, Creditor Insurance: premiums before reinsurance and cancellations; Dealer Services, P&C Insurance: direct written premiums; Special Markets Solutions; gross premiums (premiums before reinsurance); Group Savings and Retirement: premiums, before reinsurance, and deposits; IA Auto and Home Insurance: direct written premiums.
- ¹⁵ In 2013, a change in the interfund eliminations led to an adjustment reflected in 2010, 2011 and 2012.
- ¹⁶ Includes assets acquired with Jovian Capital Corporation on October 1, 2013.
- ¹⁷ As of 2013 and reflected until 2009, sales for Dealer Services – Creditor Insurance are now defined as premiums before reinsurance and cancellations.
- ¹⁸ Adjusted retroactively in 2013 to present an asset that was not previously presented.
- ¹⁹ Mainly assets managed for third parties.
- ²⁰ Since the conversion to IFRS on January 1, 2011, real estate acquired to settle loans is no longer included in the invested assets.
- ²¹ The variation is explained by the fact that some investments matching the savings portion of the UL policies have been transferred from the investment fund units to common stocks. The company's risk profile is unchanged.
- ²² The retained earnings are calculated according to the solvency rules. In 2013, the Company elected to take advantage of the transitional period in order to defer the impact of the amendment to IAS-19 accounting standards on available equity. The total value of the deferral is \$79 and will be amortized over the next eight quarters, until December 31, 2014.
- ²³ Debt includes debentures.
- ²⁴ The coverage ratio is obtained by dividing pre-tax income for the last twelve months, before financing expenses, by financing expenses.

CONSOLIDATED FINANCIAL STATEMENTS

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RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

The functions of the Audit Committee are to:

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

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

The Appointed Actuary is appointed by the Board of Directors pursuant to *An Act respecting insurance* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of insurance contract liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the insurance contract liabilities net of reinsurance assets at the Statement of Financial Position date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness analysis of Company assets for their ability to support the amount of insurance contract liabilities net of reinsurance assets are important elements of the work required to form this opinion.

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

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

On behalf of Management,



Yvon Charest
President and Chief Executive Officer
Quebec, February 13, 2014

APPOINTED ACTUARY'S REPORT

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

I have valued the policy liabilities and reinsurance recoverables of **Industrial Alliance Insurance and Financial Services Inc.** for its consolidated Statements of Financial Position as at December 31, 2013 and 2012 and their changes in the consolidated Income Statements for the years then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the Consolidated Financial Statements fairly present the results of the valuation.



René Chabot
Fellow of the Canadian Institute of Actuaries
Quebec, February 13, 2014

INDEPENDENT AUDITORS' REPORT

To the Policyholders and Shareholders of **Industrial Alliance Insurance and Financial Services Inc.**

We have audited the accompanying consolidated financial statements of Industrial Alliance Insurance and Financial Services Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated income statements, consolidated comprehensive income statements, consolidated equity statements and consolidated cash flows statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Industrial Alliance Insurance and Financial Services Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Deloitte LLP¹
February 13, 2014

¹ CPA auditor, CA, public accountancy permit no. A112991

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2013	2012 ¹
	\$	\$
Revenues		
Premiums		
Gross premiums	5,431	5,372
Premiums ceded	(424)	(376)
Net premiums (Note 23)	5,007	4,996
Investment Income (Note 5)		
Interest and other investment income	964	990
Change in fair value of financial assets classified at fair value through profit or loss	(879)	559
	85	1,549
Other revenues	931	934
	6,023	7,479
Policy benefits and expenses		
Gross benefits on contracts	3,795	3,560
Ceded benefits on contracts	(318)	(270)
Net transfer to segregated funds	208	505
Increase (decrease) in insurance contract liabilities	(628)	1,394
Increase (decrease) in investment contract liabilities	9	20
Decrease (increase) in reinsurance assets	466	(90)
	3,532	5,119
Commissions	1,038	1,014
General expenses (Note 20)	816	764
Premium and other taxes	86	84
Financing charges (Note 21)	60	52
	5,532	7,033
Income before income taxes	491	446
Income taxes (Note 22)	103	109
Net income	388	337
Net income attributed to participating policyholders	3	3
Net income attributed to shareholders	385	334
Dividends attributed to preferred shares (Note 17)	35	30
Net income attributed to common shareholders	350	304
Earnings per common share (in dollars) (Note 24)		
Basic	3.60	3.35
Diluted	3.57	3.22
Weighted average number of shares outstanding (in millions of units) (Note 24)		
Basic	97.2	90.6
Diluted	97.9	96.2
Dividends per common share (in dollars)	0.98	0.98

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	2013	2012 ¹
	\$	\$
Net income	388	337
Other comprehensive income, net of income taxes		
Items that will be reclassified subsequently to net income:		
Unrealized gains (losses) on available for sale financial assets	(50)	1
Reclassification of losses (gains) on available for sale financial assets included in net income	(10)	(23)
Unrealized gains (losses) on currency translation in foreign operations	20	(7)
Hedges of net investment in foreign operations	(14)	4
	(54)	(25)
Items that will not be reclassified subsequently to net income:		
Post-employment benefits	49	(27)
Total other comprehensive income	(5)	(52)
Comprehensive income	383	285
Comprehensive income attributed to participating policyholders	3	3
Comprehensive income attributed to shareholders	380	282

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME

Years ended December 31 (in millions of dollars)	2013	2012 ¹
	\$	\$
Income taxes related to:		
Items that will be reclassified subsequently to net income		
Unrealized gains (losses) on available for sale financial assets	17	(2)
Reclassification of losses (gains) on available for sale financial assets included in net income	6	10
Hedges of net investment in foreign operations	5	(1)
	28	7
Items that will not be reclassified subsequently to net income		
Post-employment benefits	(18)	11
Total income taxes included in other comprehensive income	10	18

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (in millions of dollars)	2013	2012 ¹
	\$	\$
Assets		
Cash and short-term investments	523	1,096
Bonds	15,107	14,643
Stocks	3,120	2,795
Mortgages	2,597	2,603
Derivative financial instruments (Note 7)	72	145
Policy loans	612	558
Other invested assets	80	190
Investment properties	1,079	953
Total investments (Note 5)	23,190	22,983
Other assets (Note 8)	1,432	951
Reinsurance assets (Notes 12 and 13)	1,591	1,968
Fixed assets (Note 9)	145	126
Deferred income tax assets (Note 22)	40	55
Intangible assets (Note 10)	530	461
Goodwill (Note 10)	181	153
General fund assets	27,109	26,697
Segregated funds net assets (Note 11)	16,921	15,021
Total assets	44,030	41,718
Liabilities		
Insurance contract liabilities (Note 12)	19,288	19,828
Investment contract liabilities (Note 13)	647	615
Derivative financial instruments (Note 7)	288	53
Other liabilities (Note 14)	2,520	2,008
Deferred income tax liabilities (Note 22)	199	221
Debentures (Note 16)	499	758
General fund liabilities	23,441	23,483
Segregated funds liabilities (Note 11)	16,921	15,021
Total liabilities	40,362	38,504
Equity		
Share capital and contributed surplus	1,779	1,577
Retained earnings and accumulated other comprehensive income	1,842	1,593
Participating policyholders' account	47	44
	3,668	3,214
Total liabilities and equity	44,030	41,718

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment and IFRS-10 standard. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

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



Yvon Charest
President and Chief Executive Officer



L.G. Serge Gadbois
Chairman of Audit Committee

CONSOLIDATED EQUITY STATEMENTS

Years ended December 31 (in millions of dollars)

	Participating policyholders' account	Common shares (Note 17)	Preferred shares (Note 17)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (Note 18)	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2011	41	861	425	24	1,419	64	2,834
Impact of adopting IAS-19	---	---	---	---	(47)	---	(47)
Balance as at January 1, 2012	41	861	425	24	1,372	64	2,787
Net income attributed to shareholders ¹	---	---	---	---	334	---	334
Net income attributed to participating policyholders' account	3	---	---	---	---	---	3
Other comprehensive income	---	---	---	---	---	(52)	(52)
Comprehensive income for the year	3	---	---	---	334	(52)	285
Transfer of post-employment benefits ¹	---	---	---	---	(27)	27	---
Equity transactions							
Stock option plan (Note 25)	---	---	---	2	---	---	2
Stock options exercised	---	---	---	(3)	---	---	(3)
Common shares issued (Note 17)	---	18	---	---	---	---	18
Preferred shares issued	---	---	250	---	---	---	250
Issue cost of shares (net of \$2 of income taxes)	---	---	---	---	(6)	---	(6)
Dividends on common shares (Note 17)	---	---	---	---	(89)	---	(89)
Dividends on preferred shares (Note 17)	---	---	---	---	(30)	---	(30)
Balance as at December 31, 2012	44	879	675	23	1,554	39	3,214
Net income attributed to shareholders	---	---	---	---	385	---	385
Net income attributed to participating policyholders' account	3	---	---	---	---	---	3
Other comprehensive income	---	---	---	---	---	(5)	(5)
Comprehensive income for the year	3	---	---	---	385	(5)	383
Transfer of post-employment benefits	---	---	---	---	49	(49)	---
Equity transactions							
Stock option plan (Note 25)	---	---	---	3	---	---	3
Stock options exercised	---	---	---	(6)	---	---	(6)
Common shares issued (Note 17)	---	305	---	---	---	---	305
Redemption of preferred shares	---	---	(100)	---	---	---	(100)
Dividends on common shares (Note 17)	---	---	---	---	(96)	---	(96)
Dividends on preferred shares (Note 17)	---	---	---	---	(35)	---	(35)
Balance as at December 31, 2013	47	1,184	575	20	1,857	(15)	3,668

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

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

CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars)	2013	2012 ¹
	\$	\$
Cash flows from operating activities		
Income before income taxes	491	446
Financing charges	60	52
Income taxes paid, net of refunds	(107)	(88)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	(662)	1,357
Increase (decrease) in investment contract liabilities	32	39
Decrease (increase) in reinsurance assets	456	(97)
Unrealized losses (gains) on investments	835	(676)
Amortization of premiums and discounts	15	11
Impairment of goodwill and intangible assets	2	24
Other depreciation	56	57
Gain on sale of annuity block of business	---	(120)
Other items not affecting cash	(33)	(74)
Operating activities affecting cash:		
Sales, maturities and repayments on investments	15,372	13,617
Purchase of investments	(16,739)	(14,414)
Realized losses (gains) on investment	(23)	(71)
Increase (decrease) in mortgage debt	11	(27)
Increase in securitization liabilities	149	152
Interest paid on mortgage debts and securitization of mortgages	(7)	(5)
Other items affecting cash	(103)	269
Cash flows from operating activities	(195)	452
Cash flows from investing activities		
Acquisition of business, net of cash	(62)	(1)
Other investment activities	(78)	(54)
Cash flows from investing activities	(140)	(55)
Cash flows from financing activities		
Issue of common shares	256	15
Issue of preferred shares (less issuance cost of \$6)	---	244
Redemption of debentures	(259)	---
Redemption of preferred shares	(100)	---
Dividends paid on common shares	(68)	(83)
Dividends paid on preferred shares	(35)	(30)
Interest paid on debentures	(34)	(43)
Cash flows from financing activities	(240)	103
Foreign currency gains (losses) on cash	2	---
Increase (decrease) in cash and short-term investments	(573)	500
Cash and short-term investments at beginning	1,096	596
Cash and short-term investments at end	523	1,096
Supplementary information:		
Cash	408	996
Short-term investments	115	100
Total cash and short-term investments	523	1,096

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012 (in millions of dollars, unless otherwise indicated)

1 › General Information

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

Publication of these financial statements was authorized for issue by the Company's Board of Directors on February 13, 2014.

2 › Significant Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards on December 31, 2013. The International Financial Reporting Standards (IFRS) are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC).

IFRS does not currently include an insurance contract measurement standard. Therefore, as permitted by IFRS-4 "Insurance Contracts", insurance contract liabilities and investment contract liabilities are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

The financial statements are presented in millions of Canadian dollars. The Canadian dollar is the Company's functional and reporting currency. The presentation order of the items included in the Statements of Financial Position is based on liquidity. Each line item includes both current and non-current balances, if applicable.

b) Important Estimates

The preparation of financial statements requires management to use judgement, make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and complementary information. The most significant estimates and judgments include the classification of contracts and measurement of insurance contract liabilities and investment contract liabilities, post-employment benefits liabilities, fair value of financial instruments, impairment of assets, derivative financial instruments, hedge accounting, goodwill and intangible assets impairment tests, fair value of investment properties, measurement of reinsurance assets, whether the substance of relationship between the Company and subsidiary, joint venture or associate constitutes control, joint control or significant influence, litigation and contingency provisions and income taxes.

Actual results could differ from management's best estimates. Estimates and assumptions are periodically reviewed according to changing circumstances and facts, and changes are recognized in the period in which the revision is made and future periods affected by this revision. The significant accounting policies, estimates and assumptions used are detailed in the following notes when it is meaningful and relevant.

c) Basis of Consolidation and Methods

Entities over which the Company exercises control are consolidated. Control is defined as being the exposure or the right to receive variable returns from the involvement with an entity and the ability to affect those returns through the power held over it. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. The Company uses uniform accounting methods in the consolidated financial statements for similar transactions and events. Intercompany balances, and revenues and expenses for intercompany transactions are eliminated on consolidation.

The Company uses the equity method to record entities over which it has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control over those policies. Significant influence is presumed to exist by holding over 20% of the voting rights. The Company records its share of the entity's net assets and financial results using uniform accounting policies for similar transactions and events.

d) Invested Assets and Investment Income

Invested assets include financial assets (such as cash and short-term investments, bonds, stocks, mortgages, derivative financial instruments and policy loans) as well as investment properties.

Financial assets are classified into one of the following categories:

- › assets at fair value through profit or loss, including assets held for trading and assets designated at fair value through profit or loss;
- › assets held to maturity, carried at amortized cost;
- › assets available for sale, carried at fair value and fair value variations are recognized in other comprehensive income;
- › loans and receivables, carried at amortized cost using the effective interest method.

Financial assets are classified according to their nature and use by the Company at the time of initial recognition. The fair value option of designating financial assets in the category assets at fair value through profit or loss is used by the Company for its assets matching the insurance contract liabilities and investment contract liabilities, except for mortgages and bonds that are not quoted on an active market. Thus, any changes in the fair value of underlying assets matched to the insurance contract liabilities and investment contract liabilities are directly reflected in the insurance contract liabilities and investment contract liabilities. Changes in fair value of assets matching these liabilities and changes in corresponding insurance contract and investment contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise.

Bonds and stocks that are not matched with insurance contract liabilities and investment contract liabilities are classified as available for sale. Mortgages and bonds not quoted in an active market are classified as loans and receivables. The Company does not hold any financial assets in the category held to maturity.

The Company applies the trade date accounting method for financial assets acquired or disposed of. Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred. Transaction costs related to financial assets available for sale are capitalized to the asset and, in the case of bonds, these costs are amortized using the effective interest method. Transaction costs related to loans and receivables are capitalized to the asset and amortized in the Income Statement using the effective interest method.

Invested assets are accounted for using the methods described below.

i) Cash and Short-Term Investments

Cash and short-term investments consist of cash, payments in transit and fixed income securities held for short-term commitment. Cash and payments in transit are classified as loans and receivables and accounted for at amortized cost. Fixed income securities are classified as held for trading and accounted for at fair value.

ii) Bonds

Designated at fair value through profit or loss

Bonds designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of financial assets classified at fair value through profit or loss* and interest income earned is accounted for in *Interest and other investment income*.

Available for sale

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

At each reporting date, bonds classified as available for sale are tested for impairment. The Company considers impairment when there is objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. When there is impairment, the cumulative loss recorded in *Accumulated other comprehensive income* is reclassified as an impairment loss in the Income Statement under investment income. Following impairment loss recognition, these bonds continue to be recorded at fair value. Subsequent decreases in fair value are recorded in the Income Statement and they are evaluated at each reporting date to determine whether there is a fair value increase. If there is a fair value increase, impairment loss recorded in the Income Statement could be reversed if the fair value increase can be objectively linked to an event occurring after the impairment loss was recognized.

Loans and receivables

Private bonds not traded in an active market are classified as loans and receivables and are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as loans and receivables are tested for impairment. The Company considers impairment if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents an objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of interest or principal. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the asset and the recoverable amount valued according to the estimated future cash flows discounted at the initial effective interest rate. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed and the changes related to provisions for losses are recorded in the Income Statement.

iii) Stocks

Designated at fair value through profit or loss

Stocks designated at fair value through profit or loss are measured at fair value with realized and unrealized gains and losses recognized immediately in *Change in fair value of financial assets classified at fair value through profit or loss* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

Available for sale

Stocks classified as available for sale are carried at fair value and unrealized gains and losses and variations of exchange rates are recognized in other comprehensive income. Upon realization, gains or losses are reclassified in *Interest and other investment income* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

On each reporting date, stocks classified as available for sale are tested for impairment. The Company records impairment if evidence of impairment exists, such as observable data about the issuer's significant financial difficulty or changes in the technological, economic or legal environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

When there is impairment, the cumulative losses previously accounted for in accumulated other comprehensive income are reclassified as impairment losses under *Interest and other investment income* in the Income Statement. These stocks continue to be recorded at fair value. Any decline in value subsequent to impairment is recorded in the Income Statement, while increases are recorded in the other comprehensive income. An increase in value of an impaired security is only recorded in the Income Statement when the security is sold or derecognized.

iv) Mortgages

Mortgages are classified as loans and receivables and are carried at amortized cost using the effective interest method, net of a provision for credit losses. Interest and realized gains or losses on disposition of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, the Company performs an impairment test on each loan. A group test is then performed on groups of assets with similar risks, including loans valued individually and which had no indication of impairment. On a group basis, the Company considers similar risk characteristics that take into account the type of loan, the activity sector, geographic situation, potential late payment observed and other relevant factors. On an individual basis, the Company considers an impairment loss if it deems it unlikely that it will be able to recover the full amount of principal and interest at maturity due to objective evidence of impairment, including the borrower's financial difficulty, a bankruptcy or a default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the loan and the recoverable amount valued according to the estimated future cash flows, discounted at the initial effective interest rate. The estimated cash flows consider the fair value of any guarantee underlying the mortgage, less related costs. When the effects of the cause of the impairment begin to fade, and future payments are reasonably assured, the provision is reduced or reversed. When there is no longer a realistic probability of recovery or when the asset is derecognized after the guarantee is exercised or the asset is sold, the provision is written down and reduced by any recovery. All changes affecting the provision for losses are recorded in the Income Statement.

When an impairment loss is recognized on a mortgage, the future interest is recognized based on the interest rate used to discount the future cash flows in order to value the fair value loss. When contractual payments are more than 90 days in arrears, contractual interest is no longer recognized. Contractual interest is resumed once the contractual payments are no longer considered in arrears and are considered current.

Securitization of mortgages

As part of the securitization of mortgages, since the Company conserves substantially all risks and rewards related to the transferred mortgages, the asset derecognition criteria are not met. The Company continues to recognize mortgages in the Statement of Financial Position and an obligation of a value equal to the amounts securitized is recorded in *Other liabilities*. Interest income on securitized loans continues to be recorded in *Interest and other investment income* in the Income Statement according to the effective interest method and interest expenses on liabilities are recorded in *Financing charges* in the Income Statement.

v) Investment Properties

Investment properties owned by the Company and which it does not primarily occupy for its own use are held to earn rental income or capital appreciation. Investment properties are recognized at the transaction price plus transaction costs upon acquisition. These properties are subsequently valued at fair value and changes in fair value are recognized in *Interest and other investment income* in the Income Statement. Rental income is recognized in the Income Statement linearly according to the term of the lease, and operating expenses of properties are recorded in the general expenses.

vi) Policy Loans

Policy loans, classified as loans and receivables, correspond to the unpaid capital balance and are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made. Their fair value approximates their carrying value.

vii) Other Invested Assets

Other invested assets include the investment in an associate and joint venture, notes receivable and cash in trust. Notes receivable and cash in trust are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. Investments in associates and joint venture are accounted for according to the equity method as described in c) Basis of Consolidation and Methods.

viii) Derivative Financial Instruments

The Company uses derivative financial instruments to manage exposure to foreign currency, interest rates, credit risk and other market risks associated with certain assets and liabilities. Derivative financial instruments are classified as held for trading. Therefore, they are initially recorded at fair value on the acquisition date and subsequently revalued at their fair value. Derivative financial instruments with a positive fair value are recorded as assets while derivative financial instruments with a negative fair value are recorded as liabilities. Changes in fair value are recorded in *Change in fair value of financial assets classified at fair value through profit or loss* in the Income Statement unless the derivative financial instruments are part of a qualified hedging relationship, as described below.

Hedge accounting

When the Company determines that hedge accounting is appropriate, a hedging relationship is designated and documented from inception. Effectiveness of the hedge is valued on inception and at the end of each financial reporting period for the duration of the hedge. Hedge accounting, which recognizes the offsetting effects of hedging instruments and hedging items the same way, can only be applied if the relationship is demonstrated to be effective. If it is established that the hedging instrument is no longer an effective hedge, if the hedging instrument is sold or if the expected transaction ceased to be highly probable, the Company ceases to apply hedge accounting prospectively.

Fair value hedging

The Company uses currency forward contracts as hedging items of foreign exchange risk, and bond forward contracts as hedging items of interest rate risk related to financial assets classified as available for sale. Changes in fair value of hedging instruments and changes in fair value of assets arising from the hedged risk are recorded in *Change in fair value of financial assets classified at fair value through profit or loss* in the Income Statement. At the same time, the gain or loss on the inefficient portion of the hedge is recorded in the net income.

Hedging of cash flows

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, net of income taxes. Gains or losses on the ineffective portion are immediately recorded in the Income Statement in *Change in fair value of financial assets classified at fair value through profit or loss*. Cumulative gains and losses in other comprehensive income are reclassified in the Income Statement in the period in which the hedged items have an impact on the net income.

Net investment hedge

The Company uses currency forward contracts as hedging items of foreign exchange risk related to net investments in foreign operations. The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, net of income taxes. Gains or losses on the ineffective portion are immediately recorded in the Income Statement as *Change in fair value of financial assets classified at fair value through profit or loss*. Cumulative gains and losses in other comprehensive income are reclassified in the Income Statement in the period in which the net investment in foreign operations is subject to a total or partial disposition.

ix) Embedded Derivative Financial Instruments

Embedded derivative financial instruments are separate from the host contract and are accounted for at fair value if the economic characteristics and risks of the embedded derivative financial instruments are not closely linked to the economic characteristics and risks of the host contract, if the terms of the embedded derivative financial instrument are the same as an independent derivative, and if the host instrument itself is not accounted for at fair value through profit or loss. Changes in the fair value of embedded derivative financial instruments are recorded in the Income Statement under *Interest and other investment income*.

x) Derecognition

A financial asset (or portion of a financial asset) is derecognized when the contractual rights to the cash flows from the financial asset expire, or if the Company transfers to a third party the financial asset and substantially all the risks and rewards of the financial asset. If the Company does not transfer or retain substantially all the risks and rewards of the financial asset and keep control over the ceded asset, the Company accounts for the asset and the liability for the amount obliged to pay.

e) Other Assets

Other assets mainly include investment income due and accrued, outstanding premiums, accounts receivable, deferred sales commissions, post-employment benefits, prepaid expenses, real estate held for resale, linearization of rents, income tax receivable and securities purchased under reverse repurchase agreements. Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost, except for real estate held for resale, which is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Deferred sales commissions arising from mutual fund sales are recorded at cost and amortized on a straight-line basis over a maximum period of five years. Unamortized deferred sales commissions are written down if the carrying value exceeds the expected future discounted cash flow.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. These reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

f) Fixed Assets

Real estate classified as own-use properties and all other items classified under fixed assets are recorded at cost less accumulated depreciation. The Company calculates depreciation using the straight-line method. The depreciation period is based on the estimated useful lives, each own-use properties component is depreciated over a period of 10 to 60 years, and other fixed assets are depreciated over periods ranging from 2 to 15 years. At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

g) Intangible Assets

Intangible assets are composed of assets with finite and indefinite useful life. Intangible assets are initially recorded at cost.

Intangible assets with finite useful life primarily include capitalized software applications and distribution networks. These assets are depreciated linearly over their estimated useful life varying between 5 years and 30 years. Useful life is reassessed each year and any depreciation expense is adjusted prospectively. Finite life intangible assets are subject to impairment testing if there is evidence of impairment and losses in value are calculated and recorded on an individual basis for each asset.

Intangible assets with indefinite useful life primarily include fund management contracts. These assets are not subject to depreciation and are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company compares the net carrying value and the recoverable amount of the asset. An impairment loss is recognized in the Income Statement under *General expenses* when their carrying value exceeds the recoverable value. Intangible assets are considered to have indefinite useful lives when, on the basis for analysis of all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash inflows for the Company.

h) Fair Value of Purchased Business in Force

The fair value of purchased business in force is initially recorded at fair value. It is recorded in *Intangible assets* if positive or in *Other liabilities* if negative, for an amount equal to the discounted value of estimated future gains or losses related to purchase business in force at the acquisition date. The discounted value of the future gain or loss takes into consideration cost of capital and is estimated, using the actuarial assumptions that are similar to the ones used to establish the insurance contract liability and a discount rate integrating a risk premium. The fair value of purchased business in force recorded as part of a business combination is amortized over the useful life of the portfolio contracts.

i) Goodwill

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

The Company allocates goodwill to a cash-generating unit (CGU), which is the smallest group of identifiable assets that generate cash flows that are largely independent of cash flows from other assets or groups of assets. Goodwill is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. To determine whether there is impairment, the Company compares for each CGU the net carrying value and the recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use. The value in use of a CGU is the discounted value of expected future cash flows resulting from a CGU. Goodwill impairments are recorded as *General expenses* in the Income Statement and cannot be reversed. Gains or losses realized on the partial or total disposition of a CGU take into account goodwill from the acquisition of this CGU.

j) Segregated Funds Assets

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. Although the underlying assets are registered in the name of the Company, the segregated funds policyholders have no direct access to the specific assets. The policyholders bear the risks and rewards of the fund's investment performance. The Company derives fee income from the management of its segregated funds. These revenues are accounted for in *Other revenues* in the Income Statement. Investment income and changes in fair value of the segregated fund assets are not presented separately in the Income Statement and are offset by a corresponding change in the segregated fund liabilities.

Segregated funds net assets

Segregated funds net assets are accounted for separately from the total general fund assets in the Statement of Financial Position and investments constituting segregated funds assets are accounted for at fair value. Fair value is determined according to market prices or, if market prices are not available, according to the estimated fair values that the Company established. The liabilities included in the segregated funds net assets are accounted for at amortized cost.

Segregated funds liabilities

Insurance or investment contract liabilities whose financial risk corresponds to the assumed by insureds are presented separately from the total general fund liabilities in the Statement of Financial Position and are accounted for at fair value of segregated funds net assets.

Liabilities related to the segregated funds guarantees granted by the Company are included in the *Insurance contract liabilities* or *Investment contract liabilities* in the Statement of Financial Position.

k) Reinsurance Assets

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

Gains or losses that could occur on buying reinsurance are recognized in net income immediately and are not amortized. The gross amounts of assets and liabilities related to reinsurance are presented separately in the Statement of Financial Position. The amounts due to or from reinsurers for premiums received or claims made are included in *Other assets* and *Other liabilities* in the Statement of Financial Position. Premiums for ceded reinsurance are shown under *Ceded premiums* in the Income Statement. The *Ceded benefits* on contracts item in the Income Statement shows expense recoveries related to reinsurance contracts.

The reinsurance assets are tested for impairment. The Company considers impairment if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the reinsurance agreement if it represents objective evidence of impairment, such as the third party's financial difficulty, a bankruptcy or default of payment of amounts due. This provision is immediately recorded in *General expense* in the Income Statement.

l) Insurance and Investment Contract Liabilities

i) Classification of Contracts

The Company issues contracts that contain an insurance risk, a financial risk or both. Insurance contracts, including reinsurance acceptances, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. This risk is assessed by reviewing a portfolio of contracts with similar risk features.

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

Service contracts are contracts that do not contain any significant insurance risk and no financial risk and for which the Company offers administrative services only. Service contracts also include the service components of investment contracts. The accounting policy relating to the fee income earned from these contracts is described in the *Other revenues* section.

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

Insurance contracts are accounted for in accordance with IFRS-4 "Insurance Contracts", whereas investment contracts are accounted for according to IAS-39 "Financial Instruments, Recognition and Measurement", and service contracts according to IAS-18 "Revenue".

ii) Insurance Contract Liabilities

The Company's appointed actuary determines the amount of insurance contract liabilities using the Canadian Asset Liability Method (CALM), in accordance with the standards of the Canadian Institute of Actuaries (CIA), and as permitted by IFRS-4 "Insurance Contracts". Pursuant to the CALM method, insurance contract liabilities represent the amount which, added to future premiums and investment income, will be sufficient to cover estimated future benefits, policyholder dividends and experience rating refunds, taxes (other than income taxes), commissions and fees to administer in-force policies. The change in the insurance contract liabilities is included in the *Increase (decrease) in insurance contract liabilities* in the Income Statement.

iii) Investment Contract Liabilities

Investment contract liabilities are the amounts that the Company owes to clients since these contracts do not have significant insurance risk. These amounts are initially carried at fair value less transaction cost directly related to the establishment of the contract and are subsequently re-measured at amortized cost. This liability is derecognized when all the obligations relating to this type of contract are performed, extinguish or expire.

m) Other Liabilities

Other liabilities are primarily made up of unearned premiums, post-employment benefits, amounts on deposit on products other than insurance contracts, accounts payable, securities sold under repurchase agreement, short-selling securities, securitization liabilities and other liabilities. Financial liabilities included in the other liabilities are classified as financial liabilities at amortized cost, except for short-selling securities, which are classified as held for trading. The commitments related to short-selling securities reflect the Company's obligation to deliver securities that it sold without owning them at the time of sale. Short-selling securities are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in *Interest and other investment income* in the Income Statement. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

The Company sells securities and, simultaneously, agrees to repurchase them in the short term, at a set price and date. These repurchase agreements are recorded in the Statement of Financial Position at the consideration received plus accrued interest. Commitments related to securities acquired under repurchase agreements are recorded at amortized cost using the effective interest method. Interest on repurchase operations is recorded in the Income Statement as *Financing charges*.

n) Income Taxes

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

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities, for the same legal entity and levied by the same taxation authority, and if the Company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The current and deferred taxes are presented in the Income Statement except when they relate to items that are recognized in other comprehensive income or directly in equity. In this case, they are presented in the Comprehensive Income Statement and Financial Position respectively.

To determine the impact of taxes, we must comply with both IFRS and actuarial standards of practice. Consequently, according to the CALM method, insurance contract liabilities must account for all cash flows, including income taxes. Insurance contract liabilities are determined by considering the tax impacts related to these contracts on a discounted basis, adjusted for all related deferred tax assets and liabilities. The net result of this adjustment is useful to leave the discounting effect of deferred taxes related to temporary differences on tax items related to insurance contracts in the insurance contract liabilities.

o) Debentures

The Company has chosen to classify its debentures as financial liabilities at amortized cost. The debentures are initially recognized at fair value, net of related transaction costs. Debentures are subsequently measured at amortized cost using the effective interest method. Interest calculated according to the effective interest method and premiums paid on redemption of debentures are recognized in the Income Statement and presented as *Financing charges*.

p) Foreign Exchange Conversion

Transactions in foreign currencies are converted into the functional currency at the rate in effect when each transaction takes place. Items in the Statement of Financial Position are converted at the end of period exchange rate. Gains and losses on foreign currency conversions are posted in the Income Statement.

The financial statements of certain entities of the group, whose functional currency (the currency of the principal economic environment in which the entity operates) differs from the parent company, are converted into the reporting currency. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the end of period exchange rate. Revenues and expenses are translated at the average rate. Gains and losses on foreign currency and hedge results of some of these investments, net of income taxes, are accounted for in other comprehensive income.

q) Premiums and Expenses

Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, including assumed premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

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

Expenses are recognized when incurred.

r) Other Revenues

Other revenues primarily represent fees earned from management of the Company's segregated fund and mutual fund assets, and administrative services only (ASO) income. Other revenues are recorded on an accrual basis when services are rendered.

s) Net Transfer to Segregated Funds

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

t) Post-Employment Benefits

The Company has established defined benefit plans and provides certain post-retirement benefits to eligible employees. In some cases, eligible retirees have to pay a portion of premiums for these benefits. The cost of the retirement plans is determined using the Projected Unit Credit Method and management's best estimate regarding the discount rate, the salary increases, the age of retirement of employees and expected health care costs. Components of defined benefit cost are divided into three components: service cost and interest cost which are shown in the Income Statement as *General expenses* and revaluations presented in the other comprehensive income

The revaluations of the defined plan net liability (asset) includes the actuarial gain or loss, the yield on plan assets (excluding amounts included in net interest on the defined plan net liability (asset)) and the variation of the effect of the asset ceiling, if applicable, and are recognized immediately as *Other liabilities (Other assets)* in the Statement of Financial Position and in the other comprehensive income on the other side. The Company decided to transfer the amounts recorded in other comprehensive income to the retained earnings. The cost of past services is recognized in net income in the period in which there has been a change, reduction or liquidation of the pension plan. The interest cost is calculated by multiplying the defined plan net liability (asset) at the beginning of the period by the discount rate. The difference between defined plan assets and defined benefit obligation under defined benefit plans is recognized as an asset or liability in the Statement of Financial Position. The discount rate used to determine obligations under defined benefit plans is based on the market interest rate at the valuation date for debt securities with high quality and cash flows in line with forecast benefit payments.

u) Stock-Based Compensation**Stock Option Plan**

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

Share Purchase Plan for Employees

The Company's cash contribution is charged to the Income Statement as *General expenses* in the period the shares are purchased.

Deferred Share Units (DSU)

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

Medium-Term Incentive Plan

Measurement of the medium-term incentive plan, which is settled in cash, is based on the value of the Company's shares. At the end of each reporting period, the Company records a remuneration expense in the Income Statement and a liability in the Statement of Financial Position, equal to the average fair value of the Company's common shares of the reference period. This expense is amortized linearly according to the estimated number of shares expected to be vested at the end of the vesting period. Changes in the fair value of liabilities are recorded in *General expenses* in the Income Statement.

3 > Changes in Accounting Policies

New Accounting Standards Applied

The following table presents the description and the impact on the financial statements of the standards or amendments that the Company adopted on January 1, 2013. The amendment to IAS-19 "Employee Benefits" and the new standard IFRS-10 "Consolidated Financial Statements" were adopted retrospectively according to IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors."

Standards or amendments	Description of the standard and impact on financial statements of the Company
IAS-1 "Presentation of Financial Statements"	<p><i>Description:</i> The amendments provide guidance on the presentation of other comprehensive income, which have to be grouped under one of the following two categories: items that will be reclassified subsequently to net income or items that will not be reclassified subsequently to net income.</p> <p><i>Impact:</i> Except for the revaluation of the defined benefit plan liability (asset), all items that make up the other comprehensive income published as at December 31, 2012 correspond to items that will be reclassified subsequently to net income.</p>
IFRS-7 "Financial Instruments: Disclosure"	<p><i>Description:</i> The amendment concerns the presentation of additional disclosures on offsetting agreements to enable users of financial instruments to understand the impact of these agreements on the Company's financial position.</p> <p><i>Impact:</i> The additional disclosure is shown in Note 6 Management of Risks Associated with Financial Instruments section b) iii) "Other Information on Credit Risk."</p>
IFRS-13 "Fair Value Measurement"	<p><i>Description:</i> This standard brings further clarification on fair value measurement and disclosures on measuring fair value when fair value measurement is required or permitted by another IFRS standard.</p> <p><i>Impact:</i> The required disclosure of fair value and fair value hierarchy for financial instruments is shown in Note 5 Invested assets and Investment Income section c) and d). The Company has also disclosed the fair value hierarchy of non-financial instruments for which a fair value is disclosed.</p>
IFRS-11 "Joint Arrangements", IAS-27 "Separate Financial Statements" and IAS-28 "Investments in Associates and Joint Ventures"	<p><i>Description:</i> A joint arrangement is a joint operation whereby the Company has rights and obligations over specific assets and liabilities, or a joint venture whereby the Company holds rights to the net assets of the entity. For a joint operation, the Company will have to recognize its share of the assets, liabilities, income and expenses. For a joint venture, the Company will have to recognize its interest according to the equity method described in IAS-28. The proportionate consolidation method under IAS-31 is also eliminated.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IFRS-12 "Disclosure of Interests in Other Entities"	<p><i>Description:</i> This standard requires the Company to present additional disclosure in the consolidated financial statements for interests in other entities. This disclosure enables users of financial statements to evaluate the nature of, and risks associated with interests in other entities and the effects of those interests on the Company's financial position, financial performance and cash flows.</p> <p><i>Impact:</i> The required disclosure is shown in Note 6 Management of Risks Associated with Financial Instruments section b) iii) "Other Information on Credit Risk."</p>

IFRS-10 "Consolidated Financial Statements"

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

Impact on segregated funds:

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. The underlying assets are registered in the name of the Company but held in the name of the policyholder. The guarantees under certain contracts are accounted for in the insurance contract liabilities. As the policyholders bear the risks and rewards of the fund's investment performance, assets are presented on a separate line in the Statement of Financial Position and only fees from the segregated funds, and not the investment income from the underlying assets which are credited to the policyholder, are shown in the income statement. The Company presented the net assets and the change in the net assets of segregated funds in Note 11.

Other impacts: As a result of adopting this standard, Industrial Alliance Capital Trust is no longer consolidated.

IAS-19 "Employee Benefits"

Description: The amendments to IAS-19 require the recognition of fair value variations of obligations as defined benefits and retirement plan assets when they occur and eliminate the corridor method that was permitted. Actuarial gains and losses are recognized immediately in the other comprehensive income, which reflects the total value of the plan in the Statement of Financial Position. The modifications to the standard also bring about the concept of net interest, which replaces the concept of real interest and expected return. Net interest is calculated by applying the discount rate to net liabilities (assets) as defined benefits. This concept is also posted in the other comprehensive income. The amendment also leads to additional disclosure such as a sensitivity analysis on significant assumptions, the characteristics and risks associated with plans and the amount and uncertainties associated with future cash flows. The amendment accelerates the recognition of past services more rapidly. Also, the amendment allows for a choice between a presentation in the accumulated other comprehensive income or to reclassify the amount in the retained earnings.

Impact: The Company elected to transfer the amounts recorded in the other comprehensive income to the retained earnings.

Consolidated income statements

The Company's reported net income was reduced by \$8 (from \$345 to \$337) as at December 31, 2012. This variation comes from an increase in general expenses of \$11 (from \$753 to \$764) as at December 31, 2012. Income taxes varied by \$3 (from \$112 to \$109) as at December 31, 2012. The impact of this amendment decreased by \$0.09 the basic and diluted earnings per common share.

Consolidated comprehensive income statements

The reported net income presented in the comprehensive income was decreased by the amount indicated in the previous section. In addition to the reduction of \$8 of net income for the 12 months ended December 31, 2012, a reduction of \$27 is accounted for as items that will not be reclassified subsequently to net income, from \$320 to \$285.

The following table presents the impacts of the adoption of these standards on the Statement of Financial position:

	December 31, 2012 published \$	Adjustments \$	December 31, 2012 restated \$	January 1, 2012 \$	Adjustments \$	January 1, 2012 restated \$
Assets						
Other invested assets ¹	180	10	190	264	10	274
Total investments	22,973	10	22,973	21,714	10	21,724
Other assets ²	994	(43)	951	707	(35)	672
Deferred income tax assets ²	51	4	55	84	1	85
Assets total	41,747	(29)	41,718	37,441	(24)	37,417
Liabilities						
Other liabilities ²	1,939	69	2,008	1,241	28	1,269
Deferred income tax liabilities ²	247	(26)	221	266	(15)	251
Debentures ¹	748	10	758	748	10	758
General fund liabilities	23,430	53	23,483	20,884	23	20,907
Total liabilities	38,451	53	38,504	34,607	23	34,630
Equity						
Retained earnings and accumulated other comprehensive income ²	1,675	(82)	1,593	1,483	(47)	1,436
Total equity	3,296	(82)	3,214	2,834	(47)	2,787
Total liabilities and equity	41,747	(29)	41,718	37,441	(24)	37,417

¹IFRS-10 adjustments

²IAS-19 adjustments

Future Changes in Accounting Policies

The IASB published phase I of IFRS-9 "Financial Instruments", which replaces the provisions of IAS-39 "Financial Instruments: Recognition and Measurement" with regard to the classification and measurement of financial assets and liabilities. It requires financial assets to be measured at amortized cost or at fair value on the basis of the entity's business model for managing assets. It also changes the accounting for financial liabilities measured using the fair value option.

On November 19, 2013, the IASB published phase III of IFRS-9 "Financial Instruments," which replaces the provisions of IAS-39 "Financial Instruments: Recognition and Measurement" with regard to hedge accounting. The standard proposes a new hedge accounting model allowing a better alignment of the Company's risk management activities with the financial statements.

On November 19, 2013, the IASB removed the January 1, 2015 mandatory effective date; the new date will be determined when the entire IFRS-9 project will be close to completion. The December 16, 2011 amendment also indicates that entities will not have to restate comparative data. However, additional disclosure on the effects at transition is required. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

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

In October 2012, the IASB published an amendment to IFRS-10, "Investment Entities". This amendment will apply to financial statements for periods beginning on or after January 1, 2014 and affects IFRS-10, IFRS-12 and IAS-27. The amendment proposes that an investment entity recognize the entities that it controls at fair value through profit or loss in accordance with IFRS-9 "Financial Instruments" (or IAS-39 "Financial Instruments: Recognition and Measurement" if IFRS-9 is not yet effective). This means that the entities which meet the definition of investment entity will be exempted from consolidation, but will have to recognize their overall share (including subsidiaries, associates and joint ventures) at fair value through profit or loss, as per IFRS-9. The amendment also requires additional disclosure on the concept of investment entity. Early adoption is permitted under certain conditions. The Company is currently evaluating the impact of adopting these new standards on its financial statements.

In May 2013, IAS-36 "Impairment of Assets": This amendment, "Recoverable Amount Disclosures For Non-Financial Assets," proposes adding additional disclosure on the recoverable amount of impaired assets in cases where this amount is based on the fair value less costs of disposal, and also clarifies the IASB's intention concerning disclosure on this recoverable value following the application of IFRS-13 "Fair Value Measurement." The provisions of this amendment apply to financial statements beginning January 1, 2014. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On June 27, 2013, IAS-39 “Financial Instruments: Recognition and Measurement”: This amendment, “Novation of Derivatives and Continuation of Hedge Accounting,” proposes a similar modification to the one that will be made to IFRS-9 “Financial Instruments,” which is not yet in force. The amendment presents a strict exception to the discontinuation of hedge accounting in the specific situation where a derivative financial instrument must be novated to a central counterparty under laws or regulations. The provisions of this amendment will apply to financial statements beginning January 1, 2014. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On November 21, 2013, IAS-19 “Employee benefits”: This amendment, “Defined Benefit Plans: Employee Contributions,” proposes that when the contributions payable in a particular period are linked solely to the employee’s service rendered in that period, they may be recognized as a reduction in service cost in the period in which they are payable. The provisions of this amendment will apply to financial statements beginning July 1, 2014. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On May 20, 2013, the IASB published IFRIC 21 “Levies”. This interpretation provides indications on the treatment of these levies in the financial statements of the entity that pays them. The questions concern the timing for the recognition of a liability to pay levies according to IAS-37 “Provisions, Contingent Liabilities and Contingent Assets”. The provisions of this interpretation shall apply to financial statements beginning January 1, 2014. Early adoption is permitted. The Company is evaluating the impact of this interpretation on its financial statements.

The IASB publishes annual IFRS improvements to amend certain standards. The annual improvements include adjustments or minor clarifications to standards. The IASB published the improvement on the 2010-2012 and the 2011-2013 cycles in December 2013 affecting seven and four standards respectively. The provisions of these improvements will apply to financial statements beginning July 1, 2014. The Company is evaluating the impact of these improvements on its financial statements.

4 › Acquisition, Merger and Disposal of Businesses

Acquisition of business

On October 1, 2013, the Company acquired 100% of the shares of Jovian Capital Corporation (Jovian) for a cash consideration of \$79 and a share consideration of \$13. Jovian owns financial services companies specializing in wealth management. Its main subsidiaries are MGI Securities Inc., T.E. Investment Counsel Inc., Leon Frazer & Associates Inc., Hahn Investment Stewards & Company Inc. and JovFinancial Solutions Inc.

Preliminary intangible assets with indefinite useful life related to this transaction are \$14, preliminary intangible assets with finite useful life are \$36, amortizable over a 15-year-period (amortization of \$1 in 2013), preliminary goodwill is \$30 and deferred income tax liability is \$11. The allocation of preliminary goodwill and intangible assets between goodwill and intangible assets is also presented in Note 10 *Intangible Assets and Goodwill*.

The goodwill is not deductible for tax purposes.

Allocation of the acquisition price

The Company has 12 months following the acquisition date to complete the allocation of the acquisition price. Once the analysis is finalized, allocation of the preliminary purchase price and its distribution by activity sector could be adjusted.

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

	2013 Individual Wealth Management \$
Fair value of identifiable assets acquired (including preliminary intangible assets)	100
Fair value of liabilities assumed (including deferred income tax liability on intangible assets)	38
Fair value of net identifiable assets acquired	62
Preliminary goodwill	30
Acquisition price	92

Following this acquisition, a provision for restructuring costs for an amount of \$6 was recognized in the Income Statement under *General expenses* and in the Statement of Financial Position under *Other liabilities*. From this liability, an amount of less than \$1 was paid in 2013. These restructuring costs include severance pay, contract termination and other costs. This provision for restructuring costs is recognized when a detailed formal plan is established, identifying the locations, function and number of employees to be compensated for termination of services, the businesses, sites as well as the expenditures to be incurred when the plan is implemented. The provision is our best estimate of the expenditures that will be required to settle our obligations under the plan and includes only those costs that are a result of the restructuring and that are not associated with ongoing activities. Restructuring costs that are not consistent with the previous definition are recorded in the Income Statement when incurred.

Other than the provision for restructuring costs detailed above, revenues and net income of the acquired entities did not have a significant impact on the Company’s financial results.

Business merger

Effective June 30, 2012, the Company merged its subsidiary, Industrial Alliance Pacific Insurance and Financial Services Inc. (Industrial Alliance Pacific) with its own activities.

Disposal of businesses

On August 15, 2012, the Company sold, by way of indemnity reinsurance and assumption reinsurance, a U.S. business block of fixed annuities and accumulation riders of its U.S. branch and the U.S. subsidiaries, namely Pioneer Security Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer American Insurance Company and Occidental Life Insurance Company of North Carolina to two affiliates of U.S.-based Guggenheim Partners, namely Security Benefit Life Insurance Company and Equitrust Life Insurance Company. The Company transferred all financial risks and benefits related to these insurance contracts. Due to the legal responsibility that the Company still has toward contract holders, the liabilities related to these insurance contracts were not derecognized and a \$950 reinsurance asset corresponding to the value of these contracts' related liabilities was accounted for. With regards to this transaction, assets, principally bonds and mortgages for a value of \$831 were derecognized. Goodwill of \$15 and a liability of \$5 related to the fair value of purchased business in force related to this business block were disposed with this transaction. A gain before taxes of \$120 was recognized in *Other revenues* in the Income Statement. The after-tax gain on this transaction is \$56. Following this disposition, the Company performed an impairment test on the cash-generating unit of the United States operations, which generated a goodwill impairment of \$10 and a finite useful life intangible asset impairment of \$14 (\$9 after tax). More detailed information on impairments is presented in Note 10 *Intangible Assets and Goodwill*.

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	2013					
	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$	Fair value \$
Cash and short-term investments	337	---	186	---	523	523
Bonds						
Governments	6,869	1,419	51	---	8,339	
Municipalities	567	53	---	---	620	
Corporate and other	3,707	1,259	1,182	---	6,148	
	11,143	2,731	1,233	---	15,107	15,159
Stocks						
Common stocks	1,430	7	---	---	1,437	
Preferred stocks	271	250	---	---	521	
Stock indexes	547	27	---	---	574	
Investment fund units	585	3	---	---	588	
	2,833	287	---	---	3,120	3,120
Mortgages						
Insured						
Residential	---	---	577	---	577	
Multi-residential	---	---	1,297	---	1,297	
Non-residential	---	---	22	---	22	
	---	---	1,896	---	1,896	
Conventional						
Residential	---	---	87	---	87	
Multi-residential	---	---	151	---	151	
Non-residential	---	---	463	---	463	
	---	---	701	---	701	
	---	---	2,597	---	2,597	2,726
Derivative financial instruments	72	---	---	---	72	72
Policy loans	---	---	612	---	612	612
Other invested assets	---	---	57	23	80	80
Investment properties	---	---	---	1,079	1,079	1,089
Total	14,385	3,018	4,685	1,102	23,190	23,381

2012

	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$	Fair value \$
Cash and short-term investments	895	---	201	---	1,096	1,096
Bonds						
Governments	6,841	1,954	58	---	8,853	
Municipalities	563	6	---	---	569	
Corporate and other	3,803	318	1,100	---	5,221	
	11,207	2,278	1,158	---	14,643	14,784
Stocks						
Common stocks	1,249	7	---	---	1,256	
Preferred stocks	206	227	---	---	433	
Stock indexes	593	---	---	---	593	
Investment fund units	510	3	---	---	513	
	2,558	237	---	---	2,795	2,795
Mortgages						
Insured						
Residential	---	---	470	---	470	
Multi-residential	---	---	1,401	---	1,401	
Non-residential	---	---	30	---	30	
	---	---	1,901	---	1,901	
Conventional						
Residential	---	---	94	---	94	
Multi-residential	---	---	157	---	157	
Non-residential	---	---	451	---	451	
	---	---	702	---	702	
	---	---	2,603	---	2,603	2,784
Derivative financial instruments	145	---	---	---	145	145
Policy loans	---	---	558	---	558	558
Other invested assets	---	---	184	6	190	192
Investment properties	---	---	---	953	953	964
Total	14,805	2,515	4,704	959	22,983	23,318

The "At fair value through profit or loss" category includes securities held for trading and securities designated at fair value through profit or loss. Other invested assets are made up of notes receivable, cash in trust and an investment in an associate and joint venture accounted for using the equity method.

Fair value of investment properties is \$1,089 (\$964 in 2012) and is composed of investment properties of \$1,079 (\$953 in 2012) and of linearization of rents of \$10 (\$11 in 2012). The linearization of rents is the total rental income under the lease which is distributed evenly over the lease term using an average rate which considers free rents and other advantages granted to tenants. Amounts related to the linearization of rents are presented in Note 8 *Other Assets*. Rental income is recorded in the investment income table below and operating expenses for investment properties are reported in Note 20 *General expenses*.

b) Cash and Short-Term Investments

	2013 \$	2012 \$
Cash	408	996
Short-term investments	115	100
Total	523	1,096

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

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of various categories of investment is determined as described below.

Short-term investments – Fair value of short-term investments is presumed to approximately correspond to their carrying value due to their short-term maturity.

Bonds – Bonds are valued based on quoted price, observed on active markets for identical or similar assets. If prices are not available on active markets, fair value is estimated using current valuation methods, including a model based on discounting expected cash flows or other similar techniques. These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer risk, volatility and liquidity valuation and other references published by the market. Management uses its best estimates when such data are not available.

Stocks – Each listed investment security is valued based on quote price, observed on active markets. If the price is not available on the active markets, fair value is determined using equity valuation models, which analyze the fair value of the net asset, and other techniques that rely on comparisons with reference data, such as market indices. Investment fund units are evaluated at the net asset value published by the fund manager.

Mortgages – The fair value of mortgage loans is estimated by discounting the cash flows with the interest rate currently prevailing on the market for loans with substantially the same credit risk and terms. The fair value of mortgages is only determined for disclosure purposes.

Derivative financial instruments – Fair value of derivative financial instruments is determined according to the type of derivative instrument. Fair value of derivative financial instruments, such as futures and options traded on the stock exchanges is determined in accordance with quoted prices on active markets. Derivative financial instruments that are traded over the counter are valued using valuation models such as actualized cash flow analysis and other valuation models used on the market. These valuations are based on observable data on the market, including interest rates, foreign exchange rates, financial index, rate differentials, credit risk and volatility.

Among derivative financial instruments, certain other derivative contracts are subject to trading restrictions that may apply to this type of instrument. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to the trading restrictions period, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

Policy loans – Policy loans are carried at amortized cost. They are guaranteed and may be reimbursed at any time. Their fair value approximates their carrying value due to their short-term nature.

Investment properties – The fair value of investment property is determined by various recognized methods and standards of assessment in the real estate sector. These methods are based on expected capitalization rates and models which update the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. The expected future cash flows include contractual and projected cash flows and projected operating expenses and reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected from leases in force, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, type and quality of the building, and current market data and projections as of the date of the appraisal. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. High and best use is one of the possible evaluation methods. High and best use is determined by taking into account the possible physical, legally permissible, financially feasible and in terms of market, even if the Company plans a different use. Assessments are carried out by external independent appraisers or by qualified company personnel. Each building is assessed by an external appraiser at least once every three years. During the year, 84.6% of the investment properties portfolio was assessed by independent appraisers (92% in 2012).

Other investments – The fair value of other investments, except notes receivable, is approximately the same as the carrying value due to the nature of these elements. The fair value of notes receivable is estimated by discounting cash flows at interest rates currently prevailing in the market for notes with significantly the same characteristics related to credit risk and duration. The fair value of notes receivable is determined for information purposes only. The fair value of notes receivable is \$40 as at December 31, 2013 (\$146 as at December 31, 2012).

Other assets – The fair value of the other assets, except for securities purchased under reverse repurchase agreements, is approximately the same as the carrying value due to their short-term nature. The fair value of securities purchased under reverse repurchase agreements is \$548 as at December 31, 2013 (\$201 in 2012).

d) Hierarchy of the fair value

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuation models used to measure the fair value of the financial assets and liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. The three levels of the hierarchy are described below:

Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market are classified in Level 1.

Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.

Level 3 – Valuation model based on significant unobservable inputs that are supported by little or no market activity, using management's best estimates. Most private placements are classified in Level 3.

If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is directly classified into Level 3.

	2013			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	1	336	---	337
Bonds				
Designated at fair value through profit or loss				
Governments	169	6,642	58	6,869
Municipalities	---	567	---	567
Corporate and other	---	3,627	80	3,707
	169	10,836	138	11,143
Available for sale				
Governments	206	1,213	---	1,419
Municipalities	---	53	---	53
Corporate and other	---	1,255	4	1,259
	206	2,521	4	2,731
	375	13,357	142	13,874
Stocks				
Designated at fair value through profit or loss	2,699	---	134	2,833
Available for sale	31	250	6	287
	2,730	250	140	3,120
Derivative financial instruments				
Held for trading	1	70	1	72
Investment properties				
	---	---	1,079	1,079
General fund investments accounted at fair value	3,107	14,013	1,362	18,482
Segregated fund financial instruments	12,537	4,329	4	16,870
Total financial assets at fair value	15,644	18,342	1,366	35,352

	2012			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	---	895	---	895
Bonds				
Designated at fair value through profit or loss				
Governments	247	6,552	42	6,841
Municipalities	---	563	---	563
Corporate and other	---	3,467	336	3,803
	247	10,582	378	11,207
Available for sale				
Governments	792	1,162	---	1,954
Municipalities	---	6	---	6
Corporate and other	---	314	4	318
	792	1,482	4	2,278
	1,039	12,064	382	13,485
Stocks				
Designated at fair value through profit or loss	2,467	---	91	2,558
Available for sale	3	227	7	237
	2,470	227	98	2,795
Derivative financial instruments				
Held for trading	---	145	---	145
Investment properties				
	---	---	953	953
General fund investments accounted at fair value	3,504	13,336	1,433	18,273
Segregated fund financial instruments	10,633	4,298	4	14,935
Total financial assets at fair value	14,137	17,634	1,437	33,208

There were no transfers between level 1 and level 2 for the years ended December 31, 2013 and 2012.

Transfers from level 3 to level 2 during the period ended December 31, 2013 have a value of \$249. These transfers come from the fact that the Company is now able to evaluate some bonds designated at fair value through profit or loss and available for sale at market prices which takes into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment. The fair value of these bonds was previously determined using the internal evaluation models that required the use of assumptions, of which one of the main ones was not observable in the market. There were no transfers between level 3 and level 2 for the period ended December 31, 2012.

The Company presents the transfers between hierarchy levels at the quarter end fair value during which the transfer occurred.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2013 are the discount rate, which is between 5.00% and 9.75% and the terminal capitalization rate, which is between 4.25% and 8.75%. The discount rate is based on market activity by type of building, location and reflects the expected rate of return to be realized on investments over the next ten years. The terminal capitalization rate is based on market activity by type of building, location and reflects the expected rate of return on the investment over the remaining life after the ten-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

The following table provides financial instruments recognized at fair value evaluated according to level 3 parameters:

2013								
	Balance as at December 31, 2012	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in Other Comprehensive Income	Purchases	Sales and settlements	Transfers in (out) of Level 3	Balance as at December 31, 2013	Total unrealized gains (losses) included in net income on financial instruments still held
	\$	\$	\$	\$	\$	\$	\$	\$
Bonds								
Designated at fair value through profit or loss	378	(13)	---	31	(38)	(220)	138	(10)
Available for sale	4	---	(2)	31	---	(29)	4	---
Stocks								
Designated at fair value through profit or loss	91	9	---	53	(19)	---	134	9
Available for sale	7	---	(1)	---	---	---	6	---
Derivatives								
Held for trading	---	(1)	---	2	---	---	1	(1)
Investment properties	953	44	---	97	(15)	---	1,079	44
General fund investments accounted at fair value	1,433	39	(3)	214	(72)	(249)	1,362	42
Segregated fund financial instruments	4	---	---	---	---	---	4	---
Total	1,437	39	(3)	214	(72)	(249)	1,366	42

2012								
	Balance as at December 31, 2011	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in Other Comprehensive Income	Purchases	Sales and settlements	Transfers in (out) of Level 3	Balance as at December 31, 2012	Total unrealized gains (losses) included in net income on financial instruments still held
	\$	\$	\$	\$	\$	\$	\$	\$
Bonds								
Designated at fair value through profit or loss	238	17	---	127	(8)	4	378	25
Available for sale	16	1	---	---	(9)	(4)	4	---
Stocks								
Designated at fair value through profit or loss	84	(1)	---	18	(10)	---	91	1
Available for sale	7	---	---	---	---	---	7	---
Investment properties	789	117	---	64	(17)	---	953	117
General fund investments accounted at fair value	1,134	134	---	209	(44)	---	1,433	143
Segregated fund financial instruments	5	---	---	--	---	(1)	4	---
Total	1,139	134	---	209	(44)	(1)	1,437	143

Sales and settlements for investment properties included transfer to own-use properties for an amount of \$9 as at December 31, 2013. No transfers were made in 2012.

Realized and unrealized gains (losses) included in the net income and the total unrealized gains (losses) in the net income on financial instruments still held are presented in the investment income in the Income Statement, except the value of segregated fund assets, which are not presented in the Income Statement, but are included in the change in segregated funds net assets in Note 11 *Segregated Funds Net Assets*. Realized and unrealized gains (losses) included in other comprehensive income are presented in Note 18 *Accumulated Other Comprehensive Income* in the unrealized gains (losses).

Fair value disclosed in the notes

The Company classifies certain financial instruments as loans and receivables. These financial instruments are measured at amortized cost and fair value is disclosed in the notes. The following table shows the hierarchy level of such fair values.

	2013			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Classified as loans and receivables				
Bonds				
Governments	---	6	49	55
Corporate and other	---	327	903	1,230
	---	333	952	1,285
Mortgages	---	2,726	---	2,726
Other investments – Notes receivable	---	23	---	23
Other assets				
Securities purchased under reverse repurchase agreements	---	548	---	548
Total of assets classified as loans and receivables	---	3,630	952	4,582

e) Investment Income

	2013				Total \$
	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	
Cash and short-term investments					
Interest	6	---	3	---	9
Bonds					
Interest	314	79	76	---	469
Change in fair value	(921)	---	---	---	(921)
Change in provision for losses	---	---	(1)	---	(1)
Realized gains (losses)	---	20	4	---	24
Stocks					
Dividends	89	10	---	---	99
Change in fair value	362	---	---	---	362
Realized gains (losses)	---	(4)	---	---	(4)
Mortgages					
Interest	---	---	118	---	118
Change in provision for losses	---	---	(1)	---	(1)
Realized gains (losses)	---	---	3	---	3
Derivative income	(329)	---	---	---	(329)
Other	25	---	58	3	86
Real estate					
Rental income	---	---	---	127	127
Change in fair value	---	---	---	44	44
Total	(454)	105	260	174	85
Interest	320	79	197	---	596
Dividends	89	10	---	---	99
Rental income	---	---	---	127	127
Realized gains (losses)	---	16	7	---	23
Other	16	---	56	47	119
Interest and investment income	425	105	260	174	964
Bonds	(921)	---	---	---	(921)
Stocks	362	---	---	---	362
Derivative income	(329)	---	---	---	(329)
Other	9	---	---	---	9
Change in fair value of financial assets classified as designated at fair value through profit or loss	(879)	---	---	---	(879)
Total	(454)	105	260	174	85

			2012		
	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$
Cash and short-term investments					
Interest	7	---	3	---	10
Bonds					
Interest	265	60	65	---	390
Change in fair value	391	---	---	---	391
Realized gains (losses)	---	35	6	---	41
Stocks					
Dividends	67	12	---	---	79
Change in fair value	133	---	---	---	133
Realized gains (losses)	---	(3)	---	---	(3)
Mortgages					
Interest	---	---	143	---	143
Change in provision for losses	---	---	(2)	---	(2)
Realized gains (losses)	---	---	33	---	33
Derivative income					
	35	---	---	---	35
Other					
	2	---	56	3	61
Real estate					
Rental income	---	---	---	121	121
Change in fair value	---	---	---	117	117
Total	900	104	304	241	1,549
Interest	272	60	211	---	543
Dividends	67	12	---	---	79
Rental income	---	---	---	121	121
Realized gains (losses)	---	32	39	---	71
Other	2	---	54	120	176
Interest and investment income	341	104	304	241	990
Bonds	391	---	---	---	391
Stocks	133	---	---	---	133
Derivative income	35	---	---	---	35
Change in fair value of financial assets classified as designated at fair value through profit or loss	559	---	---	---	559
Total	900	104	304	241	1,549

6 › Management of Risks Associated with Financial Instruments

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding the principles, responsibilities and key measures and management practices of the Company's risk management is provided in the shaded portion of the Risk Management section of Management's Discussion and Analysis on pages 40 and 41. The shaded information in these pages is considered an integral part of these financial statements. Market risk, credit risk and liquidity risk are the most significant risks that the Company must manage for financial instruments.

a) Market Risk

Market risk represents the risk of fluctuation in the fair value of a financial instrument, which could lead to a loss due to changes in market factors, such as interest rates, rate spreads, stock prices and exchange rates.

Matching and Interest Rate Risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its insurance contract liabilities and long-term debts, matches its liabilities until they expire and uses derivative financial instruments as complementary management tools. Consequently, assets are chosen on the basis of amount, cash flow and return in order to correspond to the characteristics of the matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization, which consists in using fixed-income securities to immunize a liability against interest rate variations. In the measurement of its insurance contract liabilities, as described in Note 12, the Company takes into account the level of matching achieved between assets and liabilities.

Risk of a Stock Market Downturn

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

In its risk management strategy, the Company implemented a dynamic hedging program for all minimum withdrawal guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents \$6,861 as at December 31, 2013 (\$2,980 in 2012). More detailed information on the hedging program is provided in the shaded portion of the Risk Management section of the Management's Discussion and Analysis on page 45.

Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for losses due to exposure to foreign currency fluctuations. The Company has adopted a policy to avoid exposure to currency risk, whereby liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. As at December 31, 2013 and 2012, the Company was not exposed to any material foreign currency risk. To protect itself against foreign currency risk, the Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in foreign operation that has a different functional currency from the Company's functional currency. Disclosure of hedge accounting is presented in Note 7.

Impairment of financial assets classified as available for sale

During the year ended December 31, 2013, the Company reclassified the unrealized loss of stock classified as available for sale for \$4 (\$2 in 2012) from the other comprehensive income, net of income taxes to investment income in the Income Statement.

Since the assets designated at fair value through profit or loss are fully matched, variations of fair value, other than those related to credit risk, are directly reflected in the increase (decrease) in insurance contract liabilities, which prevents a disparity of the treatment in the net income. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

The unrealized gains and losses on financial assets classified as available for sale and included in the accumulated other comprehensive income are the following:

	2013			2012		
	Fair value	Unrealized losses	Unrealized gains	Fair value	Unrealized losses	Unrealized gains
	\$	\$	\$	\$	\$	\$
Bonds						
Governments	1,419	(25)	11	1,954	(1)	37
Municipalities	53	(1)	---	6	---	---
Corporate and other	1,259	(18)	10	318	---	18
	2,731	(44)	21	2,278	(1)	55
Stocks	287	(4)	4	237	(1)	11
Total	3,018	(48)	25	2,515	(2)	66

The following tables show the unrealized losses on financial assets classified as available for sale according to the period for which the assets had an unrealized loss.

	2013					
	Less than 12 months		12 months or over		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	\$	\$	\$	\$	\$	\$
Bonds						
Governments	907	(25)	1	---	908	(25)
Municipalities	47	(1)	---	---	47	(1)
Corporate and other	644	(18)	2	---	646	(18)
	1,598	(44)	3	---	1,601	(44)
Stocks	131	(4)	---	---	131	(4)
Total	1,729	(48)	3	---	1,732	(48)

	2012					
	Less than 12 months		12 months or over		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	\$	\$	\$	\$	\$	\$
Bonds						
Governments	453	(1)	32	---	485	(1)
Stocks	63	(1)	---	---	63	(1)
Total	516	(2)	32	---	548	(2)

b) Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments to the Company. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgage loans and private placements, exposure to different investment portfolios, derivative transactions and reinsurance activities. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivative financial instruments is presented in Note 7.

b) i) Credit Quality Indicators**Bonds by investment grade**

	2013	2012
	Carrying amount	
	\$	\$
AAA	428	1,270
AA	5,086	3,386
A	7,743	8,572
BBB	1,823	1,400
BB and lower	27	15
Total	15,107	14,643

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of \$919 (\$835 as at December 31, 2012).

Mortgages

	2013	2012
	\$	\$
Insured mortgage loans	1,896	1,901
Conventional mortgage loans	701	702
Total	2,597	2,603

The credit quality of mortgage loans is assessed internally by the regular review of portfolio.

Derivative Financial Instruments

The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2013, all counterparties to derivative financial instrument contracts have a credit rating of A and higher (A and higher as at December 31, 2012).

Reinsurance Assets

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured by ceding a portion of the risk to other insurers. Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders and the failure of reinsurers may result in losses for the Company. To reduce this risk, reinsurance agreements are concluded with several well-established, highly rated reinsurers.

b) ii) Past Due or Impaired Financial Assets

To manage risk, the Company evaluates, among other things, the ability of the issuer to ensure current and future contractual payments of principal and interest. The Company follows up monthly to ensure that cash flows stipulated in the contract are recovered in a timely manner and takes the necessary action to address the outstanding amounts. In addition, the Company identifies the issuers that may have an unstable financial situation and classify each of the issuer's assets in one of the following quality lists:

Watchlist: the collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstance specific to the issuer require monitoring. No impairment loss is recognized in respect of assets of these issuers.

List of securities under surveillance: the collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require increased monitoring. An asset is moved from the watchlist to the list of securities under surveillance when changes in facts and circumstances of the issuer increase the likelihood that a security suffers as a loss-generating event in the near future. No impairment loss is accounted for in respect of assets of these issuers.

List of impaired assets: the collection of current and future contractual payments of principal and interest is no longer assured. For investments classified as available for sale or carried at amortized cost, an impairment loss is recognized in income.

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired, as well as amounts for financial assets which have similar credit risks that are subject to a collective impairment test.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more or in foreclosure process is assumed to be impaired. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities according to actuarial standards.

Impaired Bonds

The Company did not hold any impaired bonds as at December 31, 2013 and 2012.

Past Due Mortgages

A mortgage is considered in arrears when the counterpart has not made a payment at a contractual date. The following table presents the carrying value of invested assets in arrears that are not classified as impaired investments. The Company considers mortgage loans 90 days in arrears and more which are not insured and fully guaranteed as impaired investments.

2013				
	30 – 59 days in arrears \$	60 – 89 days in arrears \$	90 days in arrears and more or in process of foreclosure \$	Total \$
Insured mortgage loans	1	---	1	2
Conventional mortgage loans	2	---	---	2
Total	3	---	1	4

2012				
	30 – 59 days in arrears \$	60 – 89 days in arrears \$	90 days in arrears and more or in process of foreclosure \$	Total \$
Insured mortgage loans	12	10	4	26
Conventional mortgage loans	1	1	---	2
Total	13	11	4	28

Foreclosed properties

During the year ended December 31, 2013, the Company took possession of \$4 (\$7 in 2012) in properties which it held as collateral on mortgage loans. Foreclosed properties that the Company still held at year-end are presented as real estate held for resale in Note 8 *Other assets*.

Provisions for Losses

	2013		
	Bonds classified as loans and receivables \$	Mortgages \$	Total \$
Balance at beginning	2	---	2
Increase in provision for losses	1	1	2
Balance at end	3	1	4

	2012		
	Bonds classified as loans and receivables	Mortgages	Total
	\$	\$	\$
Balance at beginning	3	2	5
Increase in provision for losses	---	2	2
Decrease in provision for losses	(1)	(4)	(5)
Balance at end	2	---	2

Impaired Investments

	2013		
	Gross	Provisions	Total
	\$	\$	\$
Bonds classified as loans and receivables	10	3	7
Mortgage loans	8	1	7
Balance at end	18	4	14

	2012		
	Gross	Provisions	Total
	\$	\$	\$
Bonds classified as loans and receivables	10	2	8
Mortgage loans	1	---	1
Balance at end	11	2	9

b) iii) Other information on Credit Risk

Investment properties

Minimum payments receivable from rental of investment properties in future years are as follows:

	2013	2012
	\$	\$
Maturing in one year	51	47
More than 1 year and less than 5 years	177	158
More than 5 years	299	56
Total	527	261

These payments are received under operating leases and are therefore not recorded in the Company's Statement of Financial Position.

Securitization of Mortgages

During the year ended December 31, 2013 and 2012, as part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured mortgage loans to an unrelated counterpart. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. The Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. Consequently, the Company continues to recognize the full carrying value of mortgages. As at December 31, 2013, the carrying value of ceded mortgage loans is \$397 (\$248 in 2012). The carrying value of the corresponding liability is \$395 (\$246 in 2012). Their fair values are \$396 and \$398 respectively (\$248 and \$246 respectively in 2012) for a net amount of \$2 (\$2 in 2012). The carrying value of mortgage loans prior to their transfer was \$438 (\$260 in 2012).

Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents between 102% and 105% (105% in 2012) of the market value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2013, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately \$458 (\$790 in 2012).

Right of offset, collateral held and transferred

The Company negotiates derivative financial instruments in accordance with the Credit Support Annex, which forms part of the International Swaps and Derivative Association's (ISDA) Master Agreement and in accordance with the Supplemental Terms or Conditions Annex, which forms part of the Global Master Repurchase Agreement (GMRA). These agreements require guarantees by the counterparty or by the Company. The amount of assets to pledge is based on changes in fair value of financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of, but are not limited to cash, Treasury bills and Government of Canada bonds. The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. In addition, under the ISDA and the GMRA, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The following table presents the impact of conditional compensation on the financial situation and that of other similar agreements, namely the Global Master Repurchase Agreement (GMRA) and the Credit Support Appendices (CSA).

As at December 31, 2013				
	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
	\$	\$	\$	\$
Financial assets				
Derivative financial instruments (Note 7)	72	64	---	8
Securities purchased under reverse repurchase agreements	548	265	283	---
Total financial assets	620	329	283	8
Financial liabilities				
Derivative financial instruments (Note 7)	288	64	183	41
Securities sold under repurchase agreements	336	265	71	---
Total financial liabilities	624	329	254	41

As at December 31, 2012				
	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
	\$	\$	\$	\$
Financial assets				
Derivative financial instruments (Note 7)	145	28	102	15
Securities purchased under reverse repurchase agreements	201	26	175	---
Total financial assets	346	54	277	15
Financial liabilities				
Derivative financial instruments (Note 7)	53	28	3	22
Securities sold under repurchase agreements	226	26	200	---
Total financial liabilities	279	54	203	22

Financial collateral received/pledged shown in the table above exclude initial margin on over the counter derivatives and forward currency contracts, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was \$0 (\$102 as at December 31, 2012) on derivatives and \$546 (\$202 as at December 31, 2012) on securities purchased under reverse repurchase agreements. The Company's pledge was \$224 (\$23 as at December 31, 2012) on derivative financial instruments liabilities and \$334 (\$227 as at December 31, 2012) on securities sold under repurchase agreements.

Interests in structured entities

The Company has determined that its investments in asset-backed securities and its investments in investment fund units represent interests held in non-consolidated structured entities.

Asset-backed securities and mortgage securities are managed by entities that combine similar assets and sell them to investors who receive all or a portion of the cash flows generated. These entities are managed by managers who are not related to the Company.

The goal of the investment fund units in which the Company invests is to generate capital growth. These investment fund units are managed by external managers and apply various investment strategies to meet their respective objectives.

The table below presents the structured entities according to their type and classification in the financial statement.

	2013						
	At fair value through profit or loss	Book Value			At fair value through profit or loss	Maximum Risk	
		Available for sale	Loans and receivables			Available for sale	Loans and receivables
\$	\$	\$		\$	\$	\$	
Government bonds							
Mortgage-backed securities (MBS)	38	---	---	38	---	---	
Corporate and other bonds							
Commercial mortgage-backed securities (CMBS)	8	---	---	8	---	---	
Asset-backed securities (ABS)	12	4	15	12	4	15	
	58	4	15	58	4	15	
Shares							
Investment fund units	296	3	---	296	3	---	
Total	354	7	15	354	7	15	

	2012						
	At fair value through profit or loss	Book Value			At fair value through profit or loss	Maximum Risk	
		Available for sale	Loans and receivables			Available for sale	Loans and receivables
\$	\$	\$		\$	\$	\$	
Government bonds							
Mortgage-backed securities (MBS)	42	---	---	42	---	---	
Corporate and other bonds							
Commercial mortgage-backed securities (CMBS)	22	29	---	22	29	---	
Asset-backed securities (ABS)	9	2	---	9	2	---	
	73	31	---	73	31	---	
Shares							
Investment fund units	260	3	---	260	3	---	
Total	333	34	---	333	34	---	

The maximum risk represents the risk of total loss that the Company could suffer on investments in non-consolidated structured entities, which equals the book value of our investments in the above table.

b) iv) Concentration Risk

Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity. The following tables provide information about the Company's concentration risk of investments.

Bonds by sector of activity

	2013			Total \$
	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	
Bonds (corporate and other)				
Financial services	1,226	949	182	2,357
Asset backed securities	20	4	15	39
Utilities and energy	1,593	80	582	2,255
Industrial products	263	10	163	436
Consumer cyclical and non-cyclical	165	135	71	371
Health	256	1	161	418
Other	184	80	8	272
Total	3,707	1,259	1,182	6,148

	2012			Total \$
	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	
Bonds (corporate and other)				
Financial services	1,255	195	211	1,661
Asset backed securities	31	33	---	64
Utilities and energy	1,549	53	514	2,116
Industrial products	393	2	128	523
Consumer cyclical and non-cyclical	167	8	83	258
Health	295	2	156	453
Other	113	25	8	146
Total	3,803	318	1,100	5,221

Mortgages by region and type

	2013					Total \$
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	
Insured mortgage loans						
Residential	1	523	46	7	---	577
Multi-residential	32	628	207	429	---	1,296
Non-residential	1	1	5	16	---	23
	34	1,152	258	452	---	1,896
Conventional mortgage loans						
Residential	---	83	1	2	1	87
Multi-residential	---	33	32	38	48	151
Non-residential	43	210	57	135	18	463
	43	326	90	175	67	701
Total	77	1,478	348	627	67	2,597

	2012					Total \$
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	
Insured mortgage loans						
Residential	---	433	33	4	---	470
Multi-residential	30	706	222	443	---	1,401
Non-residential	1	1	6	22	---	30
	31	1,140	261	469	---	1,901
Conventional mortgage loans						
Residential	---	90	1	2	1	94
Multi-residential	---	49	17	53	38	157
Non-residential	43	173	62	155	18	451
	43	312	80	210	57	702
Total	74	1,452	341	679	57	2,603

Investment properties by type

	2013	2012
	\$	\$
Residential and multi-residential	17	17
Office	866	742
Retail	165	163
Industrial	25	25
Land and other	6	6
Total	1,079	953

c) Interest Rate Risk

Interest rate risk arises from the uncertainty of the future interest rates in which maturing investments will be reinvested. The following table provides information on the maturity dates of the Company's investments subject to interest rate risk. Policy loans do not have a maturity date.

	2013		2012	
	Bonds	Mortgages	Bonds	Mortgages
	\$	\$	\$	\$
Due in 1 year or less	780	180	468	299
Due after 1 year through 5 years	2,103	1,266	2,171	1,125
Due after 5 years through 10 years	1,797	623	2,107	570
Due after 10 years	10,427	528	9,897	609
Total	15,107	2,597	14,643	2,603

The effective yield is between 0.10% and 11.47% (0.08% and 11.60% in 2012) for bonds, between 1.76% and 12.20% (1.10% and 12.20% in 2012) for mortgages and between 3.65% and 4.75% (3.70% and 4.15% in 2012) for policy loans.

d) Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments. The maturities of financial liabilities are presented in Note 15 *Fair value of financial liabilities*.

7 › Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates, currency exchange rates and fair values on invested assets. Derivative financial instruments are financial contract whose value is derived from underlying interest rates, exchange rates, other financial instruments or index.

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed and a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are a transaction in which two counterparties exchange cash flows of the same nature and denominated in two different currencies.

Forwards, which are OTC contractual agreements negotiated between counterparties, and standardized futures contracts which are traded on an organized market, are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price in advance during a given time or at a fixed date.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. The maximum credit risk of derivative financial instruments is \$72 (\$145 in 2012). The Company's exposure at the end of each period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

	2013					
	Notional amount				Fair value	
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$	Positive \$	Negative \$
Equity contracts						
Equity swaps	278	---	---	278	12	---
Futures contracts	383	---	---	383	---	(14)
Currency contracts						
Forward contracts	1,418	---	---	1,418	1	(8)
Currency swaps	5	15	706	726	1	(18)
Futures contracts	147	---	---	147	---	---
Interest rate contracts						
Interest rate swaps	285	637	2,199	3,121	56	(118)
Bond contracts						
Forward contracts	523	550	---	1,073	1	(103)
Other derivative contracts						
	2	2	225	229	1	(27)
Total	3,041	1,204	3,130	7,375	72	(288)

	2012					
	Notional amount				Fair value	
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$	Positive \$	Negative \$
Equity contracts						
Equity swaps	266	7	---	273	2	---
Futures contracts	375	---	---	375	---	(5)
Currency contracts						
Forward contracts	1,087	---	---	1,087	2	(4)
Currency swaps	7	20	583	610	3	(4)
Futures contracts	100	---	---	100	---	(1)
Interest rate contracts						
Interest rate swaps	101	285	1,680	2,066	126	(18)
Bond contracts						
Forward contracts	547	915	---	1,462	12	(4)
Other derivative contracts						
	--	---	202	202	---	(17)
Total	2,483	1,227	2,465	6,175	145	(53)

Embedded derivative financial instruments

The Company owns perpetual preferred shares with call options which give the issuer the right to redeem the shares at a predetermined price. Accounting standards require that the value of the call options be measured separately from the preferred shares. The value of the call options for embedded derivative financial instruments is determined using a valuation which relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivative financial instruments are presented as other derivative contracts.

Hedge

	2013		
	Nominal Amount \$	Fair Value	
		Positive \$	Negative \$
Derivative financial instruments not designated as hedge accounting	6,930	71	(286)
Net investment hedge	301	---	(2)
Fair value hedges			
Interest risk	119	1	---
Currency risk	25	---	---
Total of derivative financial instruments	7,375	72	(288)

	Nominal Amount	2012	
		Fair Value	
		Positive	Negative
	\$	\$	\$
Derivative financial instruments not designated as hedge accounting	5,721	145	(53)
Net investment hedge	280	---	---
Fair value hedges			
Interest rate risk	174	---	---
Total of derivative financial instruments	6,175	145	(53)

Net investment hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than one year (less than one year in 2012). The effective portion of changes in fair value is recorded in Other comprehensive income such as foreign currency translation of the net investment in a foreign operation.

Fair value hedges

During the year ended December 31, 2013, the Company used forward contracts to reduce its exposure to currency risk. These contracts, designated as currency risk hedging related to financial assets classified as available for sale, have maturities of less than one year. Changes in fair value due to the currency risk of the hedged item are recorded in investment income in the Income Statement against variations in fair value of the derivative financial instruments considered as a hedge. However, during the year ended December 31, 2012, the Company terminated another currency risk hedging relationship for financial assets classified as available for sale.

The Company used bond forward contracts to reduce its exposure to interest rate risk. These contracts, designated as interest rate risk hedging related to financial assets classified as available for sale, have maturities of less than one year. Changes in fair value due to the interest rate of the hedged item are recorded in investment income in the Income Statement against variations in fair value of the derivative financial instruments considered as a hedge. Variations in fair value related to the credit risk of hedged items continue to be reported in the other comprehensive income.

The effects of fair value hedges on net income are composed as follows:

	2013		2012	
	Gains (losses) on derivatives	Gains (losses) for hedged items	Gains (losses) on derivatives	Gains (losses) for hedged items
	\$	\$	\$	\$
Interest rate risk	3	(4)	1	(1)
Currency risk	---	---	---	---

For the year ended December 31, 2013, the Company has hedge ineffectiveness of \$1 (less than \$1 in 2012).

Cash flow hedges

For the years ended December 31, 2013 and 2012, the Company has no cash flow hedges.

8 › Other Assets

	2013	2012 ¹
	\$	\$
Investment income due and accrued	137	121
Outstanding premiums	66	55
Due from reinsurers	44	28
Post-employment benefits	19	---
Due from agents	51	38
Accounts receivable	380	343
Deferred sales commissions	80	70
Prepaid expenses	13	12
Real estate held for resale	11	10
Linearization of rents	10	11
Income tax receivable	48	36
Securities purchased under reverse repurchase agreements	548	201
Miscellaneous	25	26
Total	1,432	951

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

The amount of *Other assets* that the Company expects to receive within the next 12 months is \$1,282 (\$831 as at December 31, 2012).

9 › Fixed Assets

	Own-use Property			Total \$
	Land \$	Real estate \$	Other \$	
Cost				
Balance as at December 31, 2011	31	82	120	233
Acquisitions	---	3	15	18
Disposals/Write-offs	---	---	(16)	(16)
Balance as at December 31, 2012	31	85	119	235
Acquisitions	---	6	17	23
Acquisitions through business combinations	---	---	6	6
Disposals/Write-offs	---	---	(3)	(3)
Transfer from investment properties	---	7	2	9
Balance as at December 31, 2013	31	98	141	270
Accumulated depreciation				
Balance as at December 31, 2011	---	31	80	111
Depreciation for the year	---	3	11	14
Depreciation on disposals/write-offs	---	---	(16)	(16)
Balance as at December 31, 2012	---	34	75	109
Depreciation for the year	---	3	10	13
Depreciation acquired through business combinations	---	---	5	5
Depreciation on disposal/write-offs	---	---	(2)	(2)
Balance as at December 31, 2013	---	37	88	125
Net carrying value as at December 31, 2013	31	61	53	145
Net carrying value as at December 31, 2012	31	51	44	126

The net carrying value of fixed assets held under a finance lease was \$1 as at December 31, 2013 (\$1 as at December 31, 2012).

10 › Intangible Assets and Goodwill

	Intangible assets			Total \$
	Software application \$	Finite useful life	Indefinite useful life	
		Other \$	\$	
Cost				
Balance as at December 31, 2011	100	77	347	524
Acquisitions	34	6	---	40
Impairment	---	(15)	---	(15)
Balance as at December 31, 2012	134	68	347	549
Acquisitions	26	7	---	33
Acquisitions through business combinations	3	41	14	58
Impairment	(3)	---	---	(3)
Balance as at December 31, 2013	160	116	361	637
Accumulated depreciation				
Balance as at December 31, 2011	64	12	---	76
Depreciation for the year	8	5	---	13
Impairment	---	(1)	---	(1)
Balance as at December 31, 2012	72	16	---	88
Depreciation for the year	8	6	---	14
Acquisitions through business combinations	1	5	---	6
Impairment	(1)	---	---	(1)
Balance as at December 31, 2013	80	27	---	107
Net carrying value as at December 31, 2013	80	89	361	530
Net carrying value as at December 31, 2012	62	52	347	461

Indefinite useful life intangible assets include management contracts. Finite useful life intangible assets presented in *Other* primarily represent the discounted value of future profits from distribution networks and from customer relationships.

	Preliminary goodwill	Goodwill	Total
	\$	\$	\$
Balance as at December 31, 2011	---	178	178
Disposal	---	(15)	(15)
Impairment	---	(10)	(10)
Balance as at December 31, 2012	---	153	153
Acquisition of business	30	---	30
Effect of changes in exchange rates	---	(2)	(2)
Balance as at December 31, 2013	30	151	181

Following the disposition, on August 15, 2012, of a U.S. block of business of fixed annuities and accumulation riders, the Company performed an impairment test on the cash generating unit (CGU) of the U.S. Business. The Company recognized a goodwill impairment of \$10 and a finite useful life intangible asset impairment of \$14 (\$9 after tax) to 2012 net income. Goodwill is not deductible for tax purposes. These impairments are recognized as *General expenses* in the Income Statement. The recoverable amount of the CGU was established using the same calculation methodology described below under the *Individual Insurance, Group Insurance and U.S. Business* heading. More detailed disclosure on the disposition of a U.S. block of business of fixed annuities and accumulation riders is presented in Note 4 *Acquisition, Merger and Disposal of Businesses*.

No depreciation was recorded in 2013 with regards to goodwill and no depreciation was recorded in 2013 and 2012 with regards to indefinite life intangible assets.

	2013		2012 ¹	
	Indefinite useful life intangible assets	Goodwill	Indefinite useful life intangible assets	Goodwill
	\$	\$	\$	\$
Cash generating unit				
Individual Wealth Management	323	69	309	40
Individual Insurance	6	33	6	33
Group Insurance	1	55	1	55
General Insurance	2	11	2	11
U.S. Business	3	---	3	1
Other activities	26	13	26	13
Total	361	181	347	153

¹ During the year 2013, the Company changed the consolidation of its UGT. Data of 2012 has been reclassified to be comparable.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if events or changes in circumstance occur that may cause the recoverable amount of a CGU to decrease to below its carrying value. The recoverable amount is the higher of fair value less selling costs and value in use. The value in use is based on the best estimates of future earnings, future expenses and the level and cost of future capital estimated on contract duration. The value attributed to new business is based on our business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU, the Company use judgment and various assumptions and estimates which could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the cost of capital, the discount rate, the value of new sales, expenses and any significant change in projected cash flows could result in significant changes in the recoverable values.

Individual Wealth Management, General Insurance and Other activities

The recoverable amount of CGU in the Individual Wealth Management, General Insurance and Other activities sectors was determined according to calculations of the value in use. These calculations call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in determining the recoverable value. The assumed discount rate for determining the value of the CGU is between 12% and 23% before tax (between 13% and 22% before tax in 2012). The assumptions used in the calculation are set for the growth rate between 2% and 14% (between 2% and 14% in 2012) and the long-term growth rate between 2% and 4% (between 2% and 4% in 2012).

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The weighted average growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are historical industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before tax which take into account specific risks in relation to relevant activity sectors.

Individual Insurance, Group Insurance and U.S. Business

The recoverable amount of CGU in the Individual Life Insurance, Group Insurance and U.S. Business sectors was determined according to calculations of the value in use. These calculations call upon discounted cash flow projections (or techniques) and represent estimated actuarial amounts which take into account the present value of shareholders net assets, future returns in force business and the returns of new business.

The assumed discount rate for determining the value of the CGU is more or less 12% before tax (more or less 12% before tax in 2012).

The key assumptions of the valuation take into account the discount rate, cost of capital, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

11 Segregated Funds Net Assets

	2013	2012
	\$	\$
Assets		
Cash, short-term and other investments	616	478
Bonds	3,898	4,419
Stocks	4,435	3,888
Fund units	7,964	6,232
Other assets	87	60
	17,000	15,077
Liabilities		
Accounts payable and accrued expenses	78	54
Currency contracts	1	2
	79	56
Net assets	16,921	15,021
	2013	2012
	\$	\$
Balance at beginning	15,021	13,723
Add:		
Amounts received from policyholders	2,073	2,223
Interest and dividends	444	389
Net realized gains	425	317
Net increase (decrease) in fair value	1,192	387
	19,155	17,039
Less:		
Amounts withdrawn by policyholders	1,917	1,740
Operating expenses	317	278
	2,234	2,018
Balance at end	16,921	15,021

The fair value of other assets and liabilities is approximately the same as the carrying value due to their short-term nature. The fair value of the assets, with the exception of the other assets, corresponds to the carrying value.

	2013	2012
	%	%
Type of funds		
Money market	1	1
Fixed income	21	25
Balanced	40	40
Equity	38	34
Total	100	100

12 Insurance Contract Liabilities

Insurance contract liabilities are determined according to the Canadian Asset Liability Method (CALM) method described in Note 2 *Significant Accounting Policies*, section 1) ii) *Insurance Contract Liabilities*. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits. Insurance contract liabilities include provisions for future policy benefits, benefits payable and provision for unreported claims, policyholders' amounts on deposit and provisions for dividends to policyholders and experience rating refunds.

a) Composition

	2013	2012
	\$	\$
Provisions for future policy benefits	18,775	19,334
Benefits payable and provision for unreported claims	202	193
Policyholders' amounts on deposit	280	269
Provisions for dividends to policyholders and experience rating refunds	31	32
Balance at end	19,288	19,828

	Individual		2013 Group			Total \$
	Insurance	Wealth	Insurance	Savings and	Other	
	\$	Management	\$	Retirement	\$	
Insurance contract liabilities (gross)						
Canada	11,900	1,153	1,267	3,207	(20)	17,507
United States	1,265	374	133	2	6	1,780
Other countries	1	---	---	---	---	1
Total	13,166	1,527	1,400	3,209	(14)	19,288
Reinsurance assets						
Canada	85	---	129	129	(1)	342
United States	679	356	124	2	6	1,167
Total	764	356	253	131	5	1,509
Net insurance contract liabilities	12,402	1,171	1,147	3,078	(19)	17,779
Assets backing net insurance contract liabilities						
Bonds and other fixed interest securities	7,849	861	905	2,300	(6)	11,909
Mortgages	395	361	195	747	---	1,698
Stocks	2,620	1	17	30	---	2,668
Policy loans	592	2	1	---	---	595
Other invested assets	28	---	29	---	---	57
Net derivative financial instruments	(132)	(54)	---	1	---	(185)
Investment properties	1,050	---	---	---	(13)	1,037
Total	12,402	1,171	1,147	3,078	(19)	17,779

	Individual		2012 Group			Total \$
	Insurance	Wealth	Insurance	Savings and	Other	
	\$	Management	\$	Retirement	\$	
Insurance contract liabilities (gross)						
Canada	11,858	1,385	1,220	3,323	(8)	17,778
United States	1,297	624	134	2	(8)	2,049
Other countries	1	---	---	---	---	1
Total	13,156	2,009	1,354	3,325	(16)	19,828
Reinsurance assets						
Canada	235	---	120	125	(5)	475
United States	712	584	128	1	(8)	1,417
Total	947	584	248	126	(13)	1,892
Net insurance contract liabilities	12,209	1,425	1,106	3,199	(3)	17,936
Assets backing net insurance contract liabilities						
Bonds and other fixed interest securities	8,105	876	630	2,281	(3)	11,889
Mortgages	370	433	285	827	---	1,915
Stocks	2,342	8	6	---	---	2,356
Policy loans	517	3	8	---	---	528
Other invested assets	44	4	177	88	---	313
Net derivative financial instruments	7	101	---	3	---	111
Investment properties	824	---	---	---	---	824
Total	12,209	1,425	1,106	3,199	(3)	17,936

The fair value of assets backing net insurance contract liabilities as at December 31, 2013 was estimated at \$17,882 (\$17,651 as at December 31, 2012). Insurance contract liabilities are measured at fair value as per CALM method, except for liabilities backed by assets which are not at fair value, such as mortgages.

b) Changes in Insurance Contract Liabilities and Reinsurance Assets

	2013		2012	
	Insurance contract liabilities	Reinsurance assets	Insurance contract liabilities	Reinsurance assets
	\$	\$	\$	\$
Balance at beginning	19,828	1,892	18,024	396
Normal changes – provisions for future policy benefits				
On in-force	(555)	(218)	1,062	(8)
On new policies	85	(23)	152	(2)
Changes in methods and assumptions	(211)	(220)	57	24
Changes in other items of insurance contract liabilities	19	(9)	12	---
Other variation of U.S. Business	---	---	475	1,410
Effect of change in exchange rates and other	122	87	46	72
Balance at end	19,288	1,509	19,828	1,892

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts. Changes in other items of insurance contract liabilities correspond to the variation of the following items: provisions for dividends to policyholders and experience rating refunds, benefits payable and provisions for unreported claims, and policyholders' amounts on deposit.

c) Assumptions for Valuation of Insurance Contract Liabilities

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their choice takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The margins for adverse deviations assumptions and methods used to establish the most significant assumptions are described below:

Mortality

Mortality represents the occurrence of death in a given population. For Individual Insurance, the Company conducts mortality experience studies annually. The mortality assumption is based on the results of these studies over the last few years. Overall, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates.

For Individual Wealth Management and Group Savings and Retirement, the assumption used is based on Company and industry experience. Emphasis is placed on industry experience where the Company's experience is insufficient to be statistically reliable. Mortality improvement has been projected to occur throughout the future lifetime of annuitants.

For the Group Insurance segment, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

To manage the mortality risk, actual claims experience is monitored on a monthly basis. Reinsurance is utilized to limit the losses from any single claim or catastrophic event.

As at December 31, 2013, the Company estimates that a 5% permanent deterioration in mortality rates would result in a \$131 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities (\$128 as at December 31, 2012). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

Morbidity

Morbidity represents the occurrence of accident or illness among insured risks. Each year, the Company performs studies on the technical results of morbidity. The morbidity assumptions are based on the results of industry morbidity tables, to which the Company makes changes based on the results of Company technical studies.

As at December 31, 2013, the Company estimates that a 5% deterioration in morbidity rates would result in a \$36 reduction in net income attributed to common shareholders (\$40 as at December 31, 2012). The 5% deterioration is expressed assuming 95% of the termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active.

Investment return, interest rate risk and credit risk

The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of CALM is found in Note 2 *Significant Accounting Policies*, section I) ii) *Insurance Contract Liabilities*.

Interest rate risk is the risk of loss due to changing interest rates. The investment returns are projected from the actual investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages the interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long term commitments, the Company favours an investment strategy that tends to optimize the after-tax return since it is impossible to apply an immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

Market risk is the risk of loss due to changes in the stock market. The description of this risk and the dynamic hedging program is found in Note 6 *Management of Risks Associated with Financial Instruments*, sub-section a) *Market Risk*.

Credit risk is the risk of loss if a counterparty or a debtor does not meet its commitments to the Company. The description of this risk is found in Note 6 *Management of Risks Associated with Financial Instruments*, sub-section b) *Credit Risk*. The insurance contract liabilities include a provision for losses on future credit events on fixed income assets supporting the liabilities.

As at December 31, 2013, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to an increase in the insurance contract liabilities of approximately \$20 after taxes (\$18 after taxes as at December 31, 2012). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about \$59 after taxes (\$66 after taxes as at December 31, 2012).

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

Also as at December 31, 2013, the Company estimates that if the markets drop 10% at the beginning of the period, to subsequently progressively recover a portion of this loss during the year, net income attributed to common shareholders would be about \$25 lower than expected for its regular operations (\$23 as at December 31, 2012).

The Company estimates that a sudden 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact but in the opposite direction.

Currency Risk

Currency risk results from a difference between currency of liabilities and that of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different currency.

Expenses

Policy maintenance expenses were calculated using the Company's internal expense allocation studies. Maintenance expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an inflation rate, established coherently with the interest rate assumption. The Company prices its products to cover expected costs.

Lapses

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited. Long-term lapse rate assumptions take into account the usually lower lapse rates with respect to lapse-supported products compared to the rates of other products. The Company reduces its exposure as much as possible through the way it develops its products. The Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2013, the Company estimates that a 5% deterioration in lapse rates would result in a \$158 reduction in net income attributed to common shareholders (\$168 as at December 31, 2012). The 5% deterioration is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.

Premium Payment Patterns

For Universal Life contracts, the assumptions must be established according to the premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

Margins for Adverse Deviations

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the Appointed Actuary must adjust these assumptions to include margins for adverse deviation and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range for these margins is set out in standards issued by the CIA. The factors considered in the selection of appropriate margins include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back into the Income Statement.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance to limit its risk on every life insured (more details on reinsurance risk can be found in Note 6 *Management of Risks Associated with Financial Instruments*, sub-section b) i) *Credit Quality Indicators*). Maximum benefit amount limits, which vary by line of business, are established for insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

Guarantees on Segregated Funds

A liability related to the segregated funds guarantees granted by the Company is maintained in the general fund. The amount of liability is at least as great as the amount determined using the methodology defined by the CIA.

d) Impact of Changes in Assumptions and Methodologies on Net Insurance Contract Liabilities

A review of the assumptions and methods is performed annually to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in assumptions and methodologies as well as their explanation:

	2013	2012	
	\$	\$	
Mortality	(36)	47	Explained by the annual mortality study update
Morbidity	(1)	(3)	Explained by the annual update
Policyholders' behavior	163	79	Mainly explained by the behavior of Universal Life policyholder's
Investment returns	(84)	(85)	Explained by the increase in the Initial Investment Rate (IRR) and the decrease in the Ultimate Reinvestment Rate (URR) in 2013 and in 2012 by the decrease in URR and impact of investment initiatives
Expenses	(2)	(9)	Reflects the improvement in unit costs
Methodology and other	(32)	---	Various modelling improvements in the provisions for future policy benefits
Impact on non-participating insurance contract liabilities	8	29	
Impact on participating insurance contract liabilities	1	4	
Impact on insurance contract liabilities	9	33	

e) Deferred Acquisition Costs

Deferred acquisition costs (DAC) are held as a negative insurance contract liability on the Statement of Financial Position. Acquisition costs are expenses incurred in the acquisition of Individual Wealth Management and Group Savings and Retirement contracts. These costs will be written off over the period of surrender charges. The liability recognizes the amount of future revenues that are available to recover the unamortized amount of the acquisition costs.

	2013	2012
	\$	\$
Balance at beginning	191	192
Deferred acquisition costs for the year	55	52
Amortization for the year	(65)	(53)
Balance at end	181	191

13 › Investment Contract Liabilities

a) Composition

The Company has classified as investment contracts immunization contracts and non-participating deficit reimbursement agreement group insurance contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The Company determines the fair value of investment contract liabilities on immunization contracts using the market value of assets backing these contracts. The investment contract liabilities fair value for non-participating deficit reimbursement agreement group insurance contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

	Individual	2013		Total
		Group		
		Insurance	Savings and Retirement	
	\$	\$	\$	\$
Investment Contract Liabilities (gross)				
Canada	---	620	1	621
United States	---	7	---	7
Other countries	19	---	---	19
Total	19	627	1	647
Reinsurance assets				
Canada	---	81	---	81
United States	---	1	---	1
Total	---	82	---	82
Net investment contract liabilities	19	545	1	565
Assets backing net investment contract liabilities				
Bonds and other fixed interest securities	19	421	1	441
Mortgages	---	111	---	111
Stocks	---	13	---	13
Total	19	545	1	565

	Individual	2012		Total
		Group		
		Insurance	Savings and Retirement	
	\$	\$	\$	\$
Investment Contract Liabilities (gross)				
Canada	---	592	1	593
United States	---	6	---	6
Other countries	16	---	---	16
Total	16	598	1	615
Reinsurance assets				
Canada	---	75	---	75
United States	---	1	---	1
Total	---	76	---	76
Net investment contract liabilities	16	522	1	539
Assets backing net investment contract liabilities				
Bonds and other fixed interest securities	16	270	1	287
Mortgages	---	161	---	161
Stocks	---	3	---	3
Policy loans	---	5	---	5
Other invested assets	---	83	---	83
Total	16	522	1	539

Fair value of assets backing net investment contract liabilities as at December 31, 2013 represents approximately \$570 (\$516 as at December 31, 2012).

b) Variations in net investment contract liabilities

	2013	2012
	\$	\$
Balance at beginning	539	508
Deposits	95	212
Withdrawals	(76)	(189)
Interest	20	18
Other	(13)	(10)
Balance at end	565	539

14 › Other Liabilities

	2013	2012
	\$	\$
Unearned premiums	373	299
Other policy liabilities	40	39
Mortgage debts	38	27
Post-employment benefits	118	172
Income taxes payable	58	63
Amounts on deposit on products other than insurance contracts	274	220
Accounts payable	425	414
Due to reinsurers	38	38
Deferred revenue	5	11
Securities sold under repurchase agreement	336	226
Short-selling securities	399	230
Securitization	395	246
Fair value of purchased business in force	13	12
Miscellaneous	8	11
Total	2,520	2,008

15 › Fair Value of Financial Liabilities*Other Liabilities*

The fair value of other liabilities, except mortgage debt, securitization liabilities, securities sold under repurchase agreements and short-selling securities is approximately the same as the carrying value due to their short-term nature.

The fair value of mortgage debts is estimated by discounting the cash flows with the interest rate currently prevailing on the market, for new mortgage debt with substantially the same terms. The fair value of the mortgage debts is \$40 (\$28 in 2012). The mortgage debts are secured by real estate with a carrying value of \$118 (\$96 in 2012) and bear interest between 5.38% and 5.86% (5.38% and 6.32% in 2012) and mature between 2015 and 2016. The interest expense on the mortgage debts is \$4 (\$3 in 2012) and is included in Note 20, *General expenses under Real estate operating expenses*. The carrying value of the mortgage debt is included in Note 14 *Other Liabilities*.

The fair value of securitization liabilities is estimated by discounting cash flows at interest rates currently prevailing in the market for new debt with substantially the same terms. This fair value is disclosed in Note 6 *Management of Risks Associated with Financial Instruments* in section b) iii).

The fair value of securities sold under repurchase agreements was \$336 as at December 31, 2013 (\$227 in 2012). The carrying value of securities sold under repurchase agreements is included in Note 14 *Other liabilities*.

Short-selling securities, classified as held for trading, are measured using the observed market prices in active markets for identical or similar assets. If quoted prices in active markets are not available, fair value is estimated using standard methods of assessment, such as a model based on discounted future cash flows or similar techniques. These methods take into account the current observable market data for financial instruments with similar risk profile and comparable terms. Important data used in these models include yield curves, credit risk, issuer spreads, the measure of volatility and liquidity and other reference data published by the markets.

Debentures

The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have substantially the same conditions. This fair value can fluctuate due to interest rates and credit risks associated with these instruments. Fair value of debentures is presented in Note 16 *Debentures*.

Derivative financial instruments

The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 7 *Derivative Financial Instruments* and is equal to the carrying amounts reported in the negative fair value column. The fair value is determined according to the method and assumptions described in Note 5 *Invested Assets and Investment Income*.

The following table presents financial liabilities measured at fair value on a recurring basis and those whose fair value is disclosed in a note by hierarchy level:

	2013			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Recurring fair value assessments				
Other liabilities				
Held for trading	349	50	---	399
Derivative financial instruments				
Held for trading	117	144	27	288
Total of liabilities classified as held for trading	466	194	27	687
Classified at amortized cost				
Other liabilities				
Mortgage debt	---	38	---	38
Securities sold under repurchase agreement	---	336	---	336
Securitization	---	395	---	395
	---	769	---	769
Debentures	---	499	---	499
Total of liabilities classified at amortized cost	---	1,268	---	1,268

	2012			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Recurring fair value assessments				
Other liabilities				
Held for trading	199	31	---	230
Derivative financial instruments				
Held for trading	5	31	17	53
Total of liabilities classified as held for trading	204	62	17	283

The following tables present the maturities of financial liabilities:

	2013				Total \$
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	
Benefits payable	92	---	---	---	92
Other policy liabilities	29	2	1	---	32
Mortgage debts	1	37	---	---	38
Amounts on deposit related to products other than insurance contracts	233	30	11	---	274
Short-selling securities	399	---	---	---	399
Investment contract liabilities	325	70	47	205	647
Other financial liabilities	459	4	---	---	463
Securities sold under repurchase agreement	336	---	---	---	336
Securitization	17	108	249	21	395
Debentures	---	---	---	499	499
Total	1,891	251	308	725	3,175

	2012				Total \$
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	
Benefits payable	72	---	---	---	72
Other policy liabilities	26	3	1	---	30
Mortgage debts	1	26	---	---	27
Amounts on deposit related to products other than insurance contracts	197	18	5	---	220
Short-selling securities	230	---	---	---	230
Investment contract liabilities	220	104	57	234	615
Other financial liabilities	450	2	---	---	452
Securities sold under repurchase agreement	226	---	---	---	226
Securitization	9	25	212	---	246
Debentures	---	---	---	758	758
Total	1,431	178	275	992	2,876

Annual interest payments will amount to \$2 for 2014, to \$1 for 2015 and to \$1 for 2016 on mortgage debts and to \$25 for the next 5 years on debentures.

Information concerning off-Statement of Financial Position commitments is presented in Note 28 *Guarantees, Commitments and Contingencies*.

16 › Debentures

	2013		2012	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Subordinated debentures bearing interest at 4.75%	249	265	249	265
Subordinated debentures bearing interest at 5.13%	150	153	150	156
Subordinated debentures bearing interest between 5.63% and 7%	100	110	100	112
Subordinated debentures bearing interest at 8.25%	---	---	99	107
Debentures, Series A (IATS), bearing interest at 5.714%	---	---	150	155
Funding debenture, Series A, bearing interest at 5.714%	---	---	10	10
Total	499	528	758	805

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

Subordinated debentures bearing interest at 4.75%

Subordinated debentures maturing December 14, 2021, bearing a fixed annual rate of return of 4.75% for the first five years, payable semi-annually, and a variable annual rate of return equal to the three-month Canadian Dealer Offered Rate (CDOR) plus 3.20% for the last five years, payable quarterly. These subordinated debentures are redeemable by the Company starting December 14, 2016, in whole or in part, subject to approval by the regulatory authorities. The carrying value of the debentures includes transaction costs and issue premium for a total of \$1.

Subordinated debentures bearing interest at 5.13%

Subordinated debentures maturing on June 30, 2019, bearing interest at 5.13% payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1% payable quarterly. These subordinated debentures are redeemable by the Company before June 30, 2014, in whole or in part, with the approval of the AMF at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem in whole, but not in part only on each payment date of quarterly interest, at par, with the prior approval of the AMF.

Subordinated debentures bearing interest between 5.63% and 7%

Subordinated debentures maturing on August 1, 2023. The principal debentures of \$88 bear interest at 5.63% payable semi-annually until August 1, 2018. The secondary debentures of \$12 bore 7% interest payable semi-annually until August 1, 2013 and bear interest of 5.63% payable semi-annually until 2018. After that date, the interest on the principal and secondary debentures will be the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of each quarter and payable semi-annually. These subordinated debentures are redeemable by the Company after August 1, 2018, in whole, but not in part, at par, with the prior approval of the AMF.

Subordinated debentures bearing interest at 8.25%

On April 1, 2013, the Company redeemed all of the subordinated debentures of a nominal value of \$100, bearing interest at 8.25% with a maturity date of March 27, 2019. The Company paid to the holders of subordinated debentures a redemption price equal to 1,053.71 dollars per 1,000 dollars of subordinated debentures capital, plus all accrued and unpaid interest to the redemption date exclusively, for a total of 1,054.84 dollars per 1,000 dollars of subordinated debentures capital. Consequently, the Company paid for the redemption of subordinated debentures an amount of \$106. The redemption premium of \$6 is accounted for in the *Financing charges* in the Income Statement. These subordinated debentures were redeemable by the Company before March 27, 2014, in whole or in part, and subject to approval by the AMF, at the higher of the Canada yield price and par. The carrying value of the debentures included transaction costs and issue discount for a total of \$1.

Debentures, Series A (IATS), bearing interest at 5.714%

On June 30, 2013, the Company redeemed all of the debentures, Series A, bearing interest at 5.714% with a nominal value of \$150. The Company paid to the holders of subordinated debentures a redemption price equal to 1,021.75 dollars per 1,000 dollars of subordinated debentures capital. Consequently, the Company paid for the redemption of subordinated debentures an amount of \$153. The redemption premium of \$3 is accounted for in *Financing charges* in the Income Statement. These debentures were redeemable at the option of the Company, in whole or in part, subject to prior approval by the AMF beginning on December 31, 2008 and on any interest payment date thereafter

Funding debenture, Series A, bearing interest at 5.714%

On June 30, 2013, the Company redeemed the Funding debenture, Series A, bearing interest at 5.714% for an amount of \$10, equal to the nominal value.

17 › Share Capital

The authorized share capital consists of the following:

Common Shares

Unlimited common shares without par value, with voting rights.

Preferred Shares

Unlimited preferred shares of class A, without par value, without voting rights that can be issued in series and 10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, that can be issued in series.

3,000,000 Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the issuing value at the Company's option under certain conditions, including approval by the AMF, convertible at the option of the holder into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the option of the Company at the issuing value, increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after five years at their issue value at the Company's option, subject to prior approval by the AMF, or convertible into common shares at their market value.

An unlimited number of class A – Series A preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008, subject to approval by the AMF, for 25 dollars per share.

An unlimited number of class A – Series B preferred shares, without par value, without voting rights, non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders, subject to approval by AMF, into new Class A preferred shares.

An unlimited number of class A – Series C preferred shares, without par value, without voting rights, non-cumulative quarterly dividend and adjusted every five years with an initial annual rate in cash of 1.55 dollars per share, redeemable in whole or in part at the option of the Company after December 31, 2013 and thereafter on December 31 every five years, subject to approval by the AMF, for 25 dollars per share, and convertible at the option of the shareholders into class A – Series D preferred shares commencing on December 31, 2013 and thereafter on December 31 of every five years.

An unlimited number of class A – Series D preferred shares, without par value, without voting rights, non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on December 31, 2018 and thereafter on December 31 every five years for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any other date other than at series D conversion dates after December 31, 2013, for an amount of 25.50 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into class A – Series C preferred shares commencing on December 31, 2018 and thereafter on December 31 of every five years.

An unlimited number of class A – Series E preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash with an annual rate of 1.50 dollars per share, redeemable in whole or in part at the option of the Company commencing on December 31, 2014, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series F preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash with an annual rate of 1.475 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2015, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series G preferred shares, without par value, without voting rights, non-cumulative quarterly dividend and adjusted every five years with an initial annual rate in cash of 1.0750 dollars per share, redeemable in whole or in part at the option of the Company as at June 30, 2017 and on June 30 every five years for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into class A – Series H preferred shares commencing on June 30, 2017 and thereafter on June 30 of every five years.

An unlimited number of class A – Series H preferred shares, without par value, without voting rights, non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on June 30, 2022, and on June 30 every five years for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any other date other than at series H conversion dates after June 30, 2017, for an amount of 25.50 dollars, subject to approval by the AMF and convertible at the option of the shareholders into class A – Series G preferred shares commencing on June 30, 2022 and thereafter on June 30 of every five years.

An unlimited number of class A – Series YY preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.450 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, the shares are convertible at the option of the shareholders into common shares at each conversion date, on the last day of June and December of each year commencing on June 30, 2014.

An unlimited number of class A – Series ZZ preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, the shares are convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year commencing on June 30, 2014.

The capital issued by the Company is the following:

	2013		2012	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
Common shares				
Balance at beginning	91,024	879	90,383	861
Shares issued on exercise of stock options	982	34	439	12
Shares issued for Dividend Reinvestment and Stock Purchase plan	711	29	213	6
Shares issued	6,625	242	11	---
Cancellation of shares held in treasury	---	---	(22)	---
Balance at end	99,342	1,184	91,024	879
Preferred shares, class A				
Balance at beginning	27,000	675	17,004	425
Shares issued – Series G	---	---	10,000	250
Shares redeemed – Series C	(4,000)	(100)	---	---
Redemption of shares held in treasury – Series A	---	---	(4)	---
Balance at end	23,000	575	27,000	675
Total of share capital		1,759		1,554

Common shares Issues

On February 27, 2013, the Company completed the closing of a common share issue. Under this offering, a total of 6,330,000 common shares were issued for a net cash amount of \$228.

On October 1, 2013, the Company issued 295,253 common shares for an amount of \$13 for the payment related to a business acquisition. (More details are presented in Note 4)

Preferred shares Issue

On June 1, 2012, the Company issued 6,000,000 preferred shares class A – Series G for a cash amount of \$150 and on June 28, 2012, the Company issued 4,000,000 additional preferred shares class A – Series G for a cash amount of \$100.

Redemption

On December 31, 2013, the Company redeemed all 4,000,000 preferred shares class A – Series C, at a price of \$25.00 per share, for a cash amount of \$100.

Dividends

	2013		2012	
	Gross \$	Per share \$	Gross \$	Per share \$
Common shares	96	0.98	89	0.98
Preferred shares				
Category A – Series B	6	1.15	6	1.15
Category A – Series C	6	1.55	6	1.55
Category A – Series E	6	1.50	6	1.50
Category A – Series F	6	1.48	6	1.48
Category A – Series G	11	1.08	6	0.63
	35		30	
Total	131		119	

Dividends declared and not recognized on common shares

A dividend of \$0.26 per share was approved by the Board of Directors on February 13, 2014. This dividend will be paid on March 17, 2014 to the shareholders of record as of February 28, 2014. This dividend was not recorded as a liability in these financial statements. It will be recognized in the equity on February 28, 2014.

Dividend Reinvestment and Share Purchase Plan

Since November 7, 2012, the Company offers a Dividend Reinvestment and a Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized. Reinvested dividends, in common share, with regards to the terms of this plan, \$28 in 2013 (\$6 in 2012) are also recognized as dividends. Issued shares with regards to the terms of this plan \$1 in 2013 (\$0 in 2012) are recognized in the share capital.

18 › Accumulated Other Comprehensive Income

	Bonds	Stocks	Currency Translation	Hedging	Total
	\$	\$	\$	\$	\$
Balance as at December 31, 2011	57	11	(8)	4	64
Unrealized gains (losses)	10	(7)	---	---	3
Income taxes on unrealized gains (losses)	(3)	1	---	---	(2)
Other	---	---	(7)	5	(2)
Income taxes on other	---	---	---	(1)	(1)
	7	(6)	(7)	4	(2)
Realized gains (losses)	(36)	3	---	---	(33)
Income taxes on realized gains (losses)	10	---	---	---	10
	(26)	3	---	---	(23)
Balance as at December 31, 2012	38	8	(15)	8	39
Unrealized gains (losses)	(53)	(14)	---	---	(67)
Income taxes on unrealized gains (losses)	14	3	---	---	17
Other	---	---	20	(19)	1
Income taxes on other	---	---	---	5	5
	(39)	(11)	20	(14)	(44)
Realized gains (losses)	(20)	4	---	---	(16)
Income taxes on realized gains (losses)	6	---	---	---	6
	(14)	4	---	---	(10)
Balance as at December 31, 2013	(15)	1	5	(6)	(15)

19 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has a program of integrated risk management that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This program includes a capital management policy which comprises a report on integrated risk management and a report on dynamic capital adequacy testing (DCAT) that enable the identification of risks and contain proposals for possible risk management actions. DCAT consists of quantifying the financial impact of adverse scenarios related to stress on the stock market, interest rates and credit. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

Regulatory Requirements and Solvency Ratio

The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF. According to this guideline, regulatory capital contains two categories:

Tier 1 capital, which contains more permanent equity items and which is primarily composed of equity attributable to common shareholders, preferred shares and for 2012, the eligible amount of innovative capital instruments. Goodwill and other intangible assets are deducted from the capital of this category.

Tier 2 capital, which is primarily composed of subordinated debentures.

The available capital represents the total Tier 1 and Tier 2 capital, less the deductions prescribed by the AMF. Required capital is determined according to four risk categories, namely asset default risk, insurance risk, changes in interest rate environment risk and segregated fund risk. Component capital requirements are determined using factor-based or other methods that are applied to specific on- and off-Statement of Financial Positions assets or liabilities.

The capital adequacy ratio (solvency ratio) is calculated by dividing available capital by required capital.

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements. The guideline also stipulates that most of the capital must be Tier 1, which absorbs the losses related to current operations.

The Company manages its capital on a consolidated basis. In the management of its capital, the Company has set a target range of 175% to 200% according to its financial flexibility for its solvency ratio. The Company also makes sure that most of its capital is Tier 1. As at December 31, 2013 and 2012, the Company maintained ratios that satisfy both the regulatory requirements and the target level it has set for itself. The Company also has subsidiaries in the United States, which meet the local regulatory capitalization and solvency requirements.

Regulatory Capital

	2013	2012
	\$	\$
Available capital		
Total Tier 1 capital (net)	3,166	2,956
Total Tier 2 capital (net)	497	640
Total	3,663	3,596
Required capital	1,687	1,658
Solvency ratio	217%	217%

Detailed information on the elements that impacted the solvency ratio in 2013 is shown in the section *Capitalization and solvency* of the Management's Discussion and Analysis on page 21.

20 › General Expenses
General expenses by nature

	2013	2012 ¹
	\$	\$
Salaries, benefits and stock-based compensation	383	345
Professional fees	139	144
Depreciation of fixed assets (Note 9)	10	11
Depreciation of own-use properties (Note 9)	3	3
Depreciation of intangible assets (Note 10)	14	13
Impairment of goodwill and intangible assets (Note 10)	2	24
Real estate operating expenses	73	70
Other administrative expenses	192	154
Total	816	764

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

General expenses by function

	2013	2012
	\$	\$
Operating expenses	648	620
Investment and management fees	95	74
Real estate operating expenses	73	70
Total	816	764

21 › Financing Charges

	2013	2012
	\$	\$
Interest on debentures	33	42
Premiums on redemption of debentures	9	---
Interest on securitization liabilities	5	3
Others	13	7
Total	60	52

22 › Income Taxes

a) Income tax expense for the year

	2013	2012 ¹
	\$	\$
Current income taxes		
Current year	70	87
Adjustments of prior years	30	5
	100	92
Deferred income taxes		
Creation and reversal of temporary differences	24	27
Adjustments of prior years	(21)	(9)
Variation in tax rates	---	(1)
	3	17
Total	103	109

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

b) Reconciliation of income tax expense

The effective income tax rate is lower than the Canadian statutory tax rate due to the following items:

	2013		2012 ¹	
	\$	%	\$	%
Income before income taxes	491	---	446	---
Income tax expense at Canadian statutory tax rate	131	27	118	27
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	1	---	6	1
Tax-exempt investment income	(25)	(5)	(20)	(4)
Unused (used) tax losses not recognized as deferred tax assets	(5)	(1)	29	6
Non-taxable portion of the change in fair value of investment properties	(7)	(2)	(15)	(3)
Adjustments of prior years	9	2	(4)	(1)
Variation in tax rates	(1)	---	(1)	---
Other	---	---	(4)	(1)
Income tax expense (recovery) and effective income tax rate	103	21	109	25

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

c) Deferred income taxes

i) Recognized deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and they relate to the same tax authority on the same taxable entity.

	2013	2012 ¹
	\$	\$
Deferred income tax assets		
Insurance contract liabilities ²	---	13
Real estate	2	2
Bonds	2	(1)
Post-employment benefits	3	4
Others	33	37
	40	55
Deferred income tax liability		
Insurance contract liabilities	(37)	55
Real estate	114	100
Bonds	55	70
Stocks	89	37
Post-employment benefits	(28)	(45)
Others	6	4
	199	221
Net deferred income tax liability	159	166

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

²Consists of insurance contract liabilities and investment contract liabilities, less reinsurance assets and policy loans.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

	Insurance contract liabilities	Real estate	Bonds	Stocks	Post- employment benefits	Other	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2011	(30)	(80)	(96)	(21)	18	27	(182)
Impact of the adoption of IAS-19 ¹	---	---	---	---	16	---	16
Balance as at January 1, 2012	(30)	(80)	(96)	(21)	34	27	(166)
Recognized in net income ¹	(16)	(18)	24	(16)	4	5	(17)
Recognized in other comprehensive income	5	---	1	---	11	---	17
Impact of changes in foreign exchange rates	(1)	---	---	---	---	---	(1)
Recognized in equity other than accumulated other comprehensive income	---	---	---	---	---	1	1
Balance as at December 31, 2012	(42)	(98)	(71)	(37)	49	33	(166)
Recognized in net income	61	(14)	17	(52)	---	(15)	(3)
Recognized in other comprehensive income	19	---	1	---	(18)	3	5
Acquired through business combinations	---	---	---	---	---	(1)	(1)
Impact of changes in foreign exchange rates	(1)	---	---	---	---	1	---
Recognized as goodwill	---	---	---	---	---	(11)	(11)
Recognized in equity other than accumulated other comprehensive income	---	---	---	---	---	1	1
Other	---	---	---	---	---	16	16
Balance as at December 31, 2013	37	(112)	(53)	(89)	31	27	(159)

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

Unused tax losses for which a deferred tax asset has not been recognized amount to \$72 (\$81 in 2012). These losses will expire between the years 2014 and 2034.

The Company is subject to income tax laws in Canada and the United States. Tax laws are complex and may be subject to different interpretations by the Company and by the tax authority. The provision for income taxes and deferred income taxes represent the Company's interpretation of the tax laws and estimates of current and future tax consequences of the transactions and events during the period. In addition, future events, such as changes in tax laws, tax regulations or the interpretations of such laws or regulations could have a material effect on the amounts of the tax expense, on the deferred income tax assets and liabilities and the effective tax rate during the year in which they occur.

23 Segmented Information

The Company operates and manages its activities according to five reportable operating segments. The Company primarily operates in Canada and the operations outside Canada are not significant. The major products and services of each sector are:

Individual Insurance – Offers life, health, disability, and mortgage insurance products.

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

Group Insurance – Offers life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products.

Group Savings and Retirement – Offers group products and services for savings plans, retirement funds and segregated funds.

Other activities – General insurance products, products related to car insurance, subsidiaries not related to the insurance sector, and assets and liabilities unallocated and allocated to the surplus as well as eliminations and consolidation entries.

Segmented Income Statements

	Individual		2013 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Revenues						
Net premiums	1,425	1,107	1,273	944	258	5,007
Investment income	297	(145)	64	58	(189)	85
Other revenues	78	826	54	67	(94)	931
	1,800	1,788	1,391	1,069	(25)	6,023
Operating expenses						
Gross benefits on contracts	709	1,291	811	836	148	3,795
Ceded benefits on contracts	(209)	(36)	(59)	(25)	11	(318)
Net transfer to segregated funds	---	(61)	---	269	---	208
Increase (decrease) in insurance contract liabilities	(77)	(511)	68	(116)	8	(628)
Increase (decrease) in investment contract liabilities	1	---	8	---	---	9
Decrease (increase) in reinsurance assets	210	260	9	(4)	(9)	466
Commissions, general and other expenses	698	682	497	70	(7)	1,940
Financing charges	111	12	5	3	(71)	60
	1,443	1,637	1,339	1,033	80	5,532
Income before income taxes	357	151	52	36	(105)	491
Income taxes	39	41	9	7	7	103
Net income before allocation of other activities	318	110	43	29	(112)	388
Allocation of other activities	(99)	(3)	(4)	(6)	112	---
Net income	219	107	39	23	---	388
Net income attributed to participating policyholders	3	---	---	---	---	3
Net income attributed to shareholders	216	107	39	23	---	385

	Individual		2012 ¹ Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Revenues						
Net premiums	1,339	1,451	1,219	767	220	4,996
Investment income	1,266	83	89	221	(110)	1,549
Other revenues	155	784	48	57	(110)	934
	2,760	2,318	1,356	1,045	---	7,479
Operating expenses						
Gross benefits on contracts	634	1,274	771	755	126	3,560
Ceded benefits on contracts	(169)	(21)	(60)	(21)	1	(270)
Net transfer to segregated funds	---	261	---	244	---	505
Increase (decrease) in insurance contract liabilities	1,301	13	109	(21)	(8)	1,394
Increase (decrease) in investment contract liabilities	---	---	20	---	---	20
Decrease (increase) in reinsurance assets	(95)	(8)	10	(2)	5	(90)
Commissions, general and other expenses	687	634	466	63	12	1,862
Financing charges	43	7	5	2	(5)	52
	2,401	2,160	1,321	1,020	131	7,033
Income before income taxes	359	158	35	25	(131)	446
Income taxes	49	42	7	5	6	109
Net income before allocation of other activities	310	116	28	20	(137)	337
Allocation of other activities	(130)	2	(5)	(4)	137	---
Net income	180	118	23	16	---	337
Net income attributed to participating policyholders	3	---	---	---	---	3
Net income attributed to shareholders	177	118	23	16	---	334

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 Changes in Accounting Policies.

Segmented Premiums

	Individual		2013 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Gross premiums						
Invested in general fund	1,711	149	1,395	116	220	3,591
Invested in segregated funds	---	988	---	852	---	1,840
Total	1,711	1,137	1,395	968	220	5,431
Premiums ceded						
Invested in general fund	286	30	122	24	(38)	424
Net premiums	1,425	1,107	1,273	944	258	5,007

	Individual		2012 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Gross premiums						
Invested in general fund	1,585	359	1,327	61	189	3,521
Invested in segregated funds	---	1,126	---	725	---	1,851
Total	1,585	1,485	1,327	786	189	5,372
Premiums ceded						
Invested in general fund	246	34	108	19	(31)	376
Net premiums	1,339	1,451	1,219	767	220	4,996

Segmented Statements of Financial Position

	Individual		2013 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Assets						
Invested assets and segregated fund assets	17,511	12,645	2,045	9,349	(1,439)	40,111
Reinsurance assets	764	356	335	131	5	1,591
Intangible assets	99	383	19	5	24	530
Goodwill	50	68	54	---	9	181
Other	---	---	---	---	1,617	1,617
Total assets	18,424	13,452	2,453	9,485	216	44,030
Liabilities						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	13,185	12,336	2,027	9,322	(14)	36,856
Debentures	2,490	161	37	18	(2,207)	499
Other	13	---	---	---	2,994	3,007
Equity	2,424	698	336	163	47	3,668
Total liabilities and equity	18,112	13,195	2,400	9,503	820	44,030

	Individual		2012 ¹ Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Assets						
Invested assets and segregated fund assets	15,123	11,774	1,952	8,588	567	38,004
Reinsurance assets	947	584	324	126	(13)	1,968
Intangible assets	93	332	19	3	14	461
Goodwill	50	40	54	---	9	153
Other	---	---	--	---	1,132	1,132
Total assets	16,213	12,730	2,349	8,717	1,709	41,718
Liabilities						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	13,183	11,867	1,954	8,488	(28)	35,464
Debentures	586	118	54	34	(34)	758
Other	12	---	---	---	2,270	2,282
Equity	2,200	531	304	138	41	3,214
Total liabilities and equity	15,981	12,516	2,312	8,660	2,249	41,718

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment and IFRS-10. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

24 › Earnings Per Common Share

Basic earnings per share

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

	2013	2012 ¹
Net income attributed to common shareholders	350	304
Weighted average number of outstanding shares (in millions of units)	97.2	90.6
Basic earnings per share (in dollars)	3.60	3.35

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

Diluted Earnings Per Share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares. For the period ended December 31, 2012, the Company has two categories of potentially dilutive items: stock options from the stock-based compensation plan and the debentures, Series A. Given that the debentures, Series A were redeemed on June 30, 2013, only the stock options from the stock-based compensation plans are dilutive for the period ended December 31, 2013.

The dilutive effect of stock options considers the number of shares presumed issued without consideration, calculated as the difference between the number of shares deemed to have been issued (by assuming the outstanding stock option grants are exercised) and the number of shares that would have been issued in an average year (the number of shares that would have been issued using the issuance proceeds, using the average market price of the Company's common shares for the year). No antidilutive stock option was excluded from the calculation (793,497 in 2012).

The debentures, Series A are convertible into 40 category A, series YY preferred shares per \$1,000 starting June 30, 2014. These preferred shares were convertible into common shares. For the year 2012, the net income attributed to common shareholders is also adjusted for interest paid on this debenture, net of related income taxes.

	2013	2012 ¹
Net income attributed to common shareholders	350	304
Add: interest on the debentures, Series A (net of income taxes)	---	6
Net income attributed to common shareholders on a diluted basis	350	310
Weighted average number of outstanding shares (in millions of units)	97.2	90.6
Add: dilutive effect of stock options granted and outstanding (in millions of units)	0.7	0.2
Add: dilutive effect of debentures, Series A (in millions of units)	---	5.4
Weighted average number of outstanding shares on a diluted basis (in millions of units)	97.9	96.2
Earnings per diluted share (in dollars)	3.57	3.22

¹The 2012 figures were adjusted to consider the adoption of the IAS-19 amendment. Refer to the New Accounting Standards Applied section of Note 3 *Changes in Accounting Policies*.

There was no transaction on common shares that could affect these calculations after the closing date and before the date of authorization for issue of these financial statements.

25 › Stock-Based Compensation

Stock Option Plan

The Company grants a certain number of common stock options to the directors and senior management and determines the exercise price of the options, the expiry date and the date on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of the Company.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first four anniversaries of the grant. In certain cases, the Human Resources and Corporate Governance Committee can modify the number of options purchased following an event forwarding the expiration date of the option.

The Board can grant options for a total of 7,850,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

No options will be granted to the directors before approval by the shareholders.

The following table presents the activities:

	2013		2012	
	Number of stock options outstanding (in thousands)	Weighted average exercise price (in dollars)	Number of stock options outstanding (in thousands)	Weighted average exercise price (in dollars)
At beginning	3,940	30.59	3,942	30.18
Options granted	498	35.51	507	26.03
Options exercised	(982)	28.21	(439)	21.29
Options cancelled or expired	(38)	34.94	(70)	32.41
At end	3,418	31.94	3,940	30.59
Exercisable at end	2,196	31.39	2,714	30.74

	2013			
	Options outstanding			
Exercise prices (in dollars)	Number of options outstanding (in thousands)	Weighted average exercise price (in dollars)	Average remaining life (in years)	Number of exercisable options (in thousands)
18.63 – 23.44	376	19.36	4.94	375
23.45 – 28.72	555	26.35	7.30	187
28.73 – 32.08	764	31.70	4.43	648
32.09 – 38.48	1,723	36.77	6.15	986
Total	3,418	31.94	5.82	2,196

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The fair value weighted average for the options in 2013 is \$7.25 (\$4.12 in 2012). The pricing model assumes the following information:

	2013	2012
Risk-free interest rate	1.71%	1.64%
Expected volatility	25%	25%
Expected life	6.3 years	6.4 years
Expected dividends	2.67%	3.74%
Exercise price	\$35.51	\$26.03

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. The expected volatility is based on historical volatility of the common shares as well as the comparable market. Changes in assumptions can materially affect estimates of fair values.

The stock-based compensation expense during the year is \$3 (\$2 in 2012), and an equivalent amount was accounted in *Contributed Surplus* of the Equity Statements.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding shares of the Company and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years. During the year, the remuneration expense for this plan is \$1 (\$1 in 2012).

Deferred Share Units (DSU)

The plan is offered to the Company's directors and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration or management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis and rights issued are generally vested immediately. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 328,040 (309,604 in 2012) units and the remuneration expense for the plan, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income*, is \$6 (\$2 in 2012) and the liability is \$16 (\$10 in 2012).

Medium-Term Incentive Plan

This plan was created for the Company's senior management. Under this plan, each member may receive performance share units (PSU), a compensation based on the Company's performance over three years. Performance is measured based on the Company's total net income attributed to common shareholders. Each PSU is equivalent to one common share and earns dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. The value at the time of settlement will be based on the fair market value of common shares for the last 20 working days of the period, increased by a vesting factor based on the Company's net income attributed to common shareholders return on equity over the three-year period. Settlement is made in cash. As at December 31, 2013, 75,690 (37,309 in 2012) performance share units are outstanding, and the compensation expense recognized in respect of this plan is \$2 (\$1 in 2012) and the liabilities are \$3 (\$1 in 2012).

Stock-based compensation expense

	2013	2012
	\$	\$
Expenses arising from equity-settled stock-based payment transactions	3	2
Expense arising from cash-settled stock-based payment transactions	9	4
Total of stock-based compensation expense	12	6

These expenses are recorded in the Income Statement as *General expenses*.

26 › Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits and a defined contribution plan.

Defined Benefit Plans

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end of career plans based on the average of the best five years of salary. No indexation clause is included in the plan. The defined benefit plans are administered separately from the Company by retirement funds that are legally distinct entities. The retirement plan retirement committees are made up of members from the Company, members of retirement plans and non-members of retirement plans. The laws and regulations that the retirement plans are subject to require that the retirement committees act in the interests of the retirement funds and stakeholders, such as active, inactive and retired members. The retirement committees are responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2012 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2012. The next required valuation will be performed as at December 31, 2013 and will be available later in 2014.

Other Post-Retirement Benefits

The Company provides other post-retirement benefits. These include additional health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits such as salary continuation for short-term disabilities. Other plans are contributory life and health care plans with employee contributions adjusted annually, and non-contributory life insurance plans.

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the period is as follows:

	2013		2012	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Accrued benefit plan obligations				
Balance at beginning	733	44	630	39
Current service cost	24	1	24	2
Interest cost	34	2	31	2
Employee contributions	18	---	13	---
Actuarial losses (gains) following re-measurement				
Actuarial losses (gains) on demographic assumption changes	43	1	---	---
Actuarial losses (gains) on financial assumption changes	(60)	(3)	53	3
Actuarial losses (gains) arising from members experience	2	(1)	3	(1)
Past service cost	---	(10)	---	---
Benefits paid	(21)	(1)	(21)	(1)
Balance at end	773	33	733	44

	2013		2012	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Defined benefit plan assets				
Fair value at beginning	605	---	543	---
Interest income	28	---	27	---
Actuarial gains (losses) following re-measurement				
Return of assets (excluding the amount included in the net interest)	49	---	20	---
Other	(1)	---	---	---
Employee contributions	18	---	13	---
Employer contributions	30	---	23	---
Benefits paid	(21)	---	(21)	---
Fair value at end	708	---	605	---

Amounts recognized in the comprehensive income

	2013		2012	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Service cost				
Current service costs	24	1	24	2
Past service costs	---	(10)	---	---
Net interest	6	2	4	2
Others	1	---	---	---
Components of the cost of defined benefits recognized in the net income	31	(7)	28	4
Re-measurement of net liabilities (assets) as defined benefits				
Rate of return of assets (excluding amounts included in the net interest above)	(49)	---	(20)	---
Actuarial losses (gains) on demographic assumption changes	43	1	---	---
Actuarial losses (gains) on financial assumption changes	(60)	(3)	53	3
Actuarial losses (gains) arising from members experience	2	(1)	3	(1)
Losses (gains) of components of the cost of defined benefits recognized in the accumulated other comprehensive income	(64)	(3)	36	2
Total of defined benefit cost components	(33)	(10)	64	6

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2012). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the Plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the period is 20.1 years (19.7 years in 2012) and 11.9 years (11.1 years in 2012) for the other plans. The Company estimates that it will have to contribute an amount of \$24 to its defined benefit plans in 2014.

The amount in the statement of financial position which results from the Company's obligation to defined benefit pension plans is detailed as follows:

	2013		2012	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Accrued benefit plan obligations	696	---	657	---
Fair value of plan assets	708	---	605	---
Funded status – plan deficit (excess)	(12)	---	52	---
Obligations in respect of non-capitalized defined benefit plans	78	33	76	44
Net liabilities (assets) resulting from the obligation in respect of defined benefits	66	33	128	44
The amounts presented in the Statement of Financial Position are:				
Other assets (Note 8)	19	---	---	---
Other liabilities (Note 14)	85	33	128	44

The plan assets are divided as follows:

	2013	2012
	%	%
Asset classes		
Fund units		
Money Market Fund	6	1
Bonds Fund	28	35
Canadian Equity Fund	29	30
Global Equity Fund	37	34
Total	100	100

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the Plan, laws and regulations that the Plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The primary goal of the investment policy is to ensure protection of the Plan's capital while taking into account the return maximization restriction. The investment policy aims to protect the Plan's commitments and favour a regular increase in the annuities paid to retirees. The Plan is exposed to various investment risks, namely the risks that its investments suffer losses or do not produce the expected return. The investment policy contains several qualitative and quantitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as level 1.

The effective return of plan assets is 12% (9% in 2012). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of the Company in 2013 and 2012.

Significant Assumptions

	2013		2012	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit plan obligations				
Discount rate	4.9%	4.9%	4.5%	4.5%
Rate of compensation increase	3.5%	---	3.5%	---
Benefit plan expenses				
Discount rate	4.5%	4.5%	4.9%	4.9%
Rate of compensation increase	3.5%	---	3.5%	---
Rate of mortality (table)	RPP2014PUBLIC1	RPP2014PUBLIC ¹	UP94G	UP94G

¹ Represents the mortality table RRA2014 for the public sector.

	2013			
	Other plans			
	Drugs	Medical	Dental	Other
Assumed health care cost trend rates				
Initial health care cost trend rates	7.13%	8.10%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.25%	4.50%	4.75%
Number of years required to stabilize the rate	11	11	---	---

	2012			
	Other plans			
	Drugs	Medical	Dental	Other
Assumed health care cost trend rates				
Initial health care cost trend rates	7.57%	8.45%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.25%	4.50%	4.75%
Number of years required to stabilize the rate	13	12	---	---

Sensitivity Analysis

Retirement Plan

The significant assumptions used to determine the obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

Sensitivity of key assumptions of benefits plan obligations

	2013		2012	
	Pension plans		Pension plans	
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Discount rate assumption				
Impact of an absolute change of 1.0%	(117)	156	(115)	151
Rate of compensation increase				
Impact of an absolute change of 1.0%	53	(45)	50	(42)

Other post-retirement benefits

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	2013		2012	
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Total of current service and interest cost	1	---	1	---
Accrued benefit obligations	5	(4)	7	(5)

The impact of the one percentage-point decrease in the assumed health care cost trend on the total of service and interest cost for 2013 and 2012 is less than \$1.

We could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is \$3 (\$1 in 2012). The liability related to this plan is presented in *Other liabilities* (Note 14, included in *Accounts payable*) for an amount of \$3 (\$1 in 2012).

27 Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various members of its group of companies on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company concludes transactions with an associate. These transactions are concluded in the normal course of business and were subject to normal market conditions.

IA Capital Trust

During the year, the Company accounted for as *Financing charges*, an amount of \$5 (\$9 in 2012) and a redemption premium of \$3 (\$0 in 2012) for a transaction concluded with IA Capital Trust, which was not consolidated.

At the end of the year, the balances with this entity were as follows:

	2013	2012
	\$	\$
Assets		
Other investments – Note receivable	---	10
Liabilities		
Debentures, Series A	---	150
Financing debenture, Series A	---	10

The Company redeemed the debentures, Series A and the financing debenture, Series A on June 30, 2013.

Key Management Personnel

The Company's key management personnel are members of senior management who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

	2013	2012
	\$	\$
Salaries and other short-term benefits	5	5
Post-retirement benefits	2	2
Stock-based compensation	2	1
Total	9	8

28 › Guarantees, Commitments and Contingencies

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

Contracts

The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The Company is also part of operating leases, including offices and equipment. The minimum amounts of commitment for the next years are as follows:

	2014	2015	2016	2017	2018 and following
	\$	\$	\$	\$	\$
Products and services	40	30	26	21	57
Operating leases	16	14	11	8	10
Total	56	44	37	29	67

Commitments

The Company committed to a third party for one of its subsidiaries. This commitment represents a maximum amount of \$74 (\$80 in 2012). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

In addition, from time to time, the Company will make financial commitments in the normal course of business. The maximum amount of such commitments as at December 31, 2013 is \$1 (\$1 as at December 31, 2012).

Investments

In the normal course of business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements and real estate are not reflected in the financial statements and may not be fulfilled. There were \$360 (\$206 in 2012) of outstanding investment commitments as at December 31, 2013, of which \$49 (\$56 in 2012) mature in 30 days, \$163 (\$98 in 2012) mature in 31 to 365 days and \$148 (\$52 in 2012) mature in more than one year.

Letters of Credit

In the normal course of its operations, the Company issues bank letters of credit. The balance of these letters is \$2 (\$2 in 2012).

Indemnifications

Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Lines of Credit

As at December 31, 2013, the Company had operating lines of credit totalling \$57 (\$57 as at December 31, 2012). As at December 31, 2013 and 2012, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

Litigations

The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

29 › Subsidiaries

The following is a list of directly and indirectly held major operating subsidiaries

As at December 31, 2013	Ownership (%)	Address	Description
The Excellence Life Insurance Company	100	Montreal, Canada	Life and health insurance company that specializes in distribution of life and health insurance products
IA American Life Insurance Company	100	Scottsdale (Arizona), United States	Life and health insurance company that offers life insurance and annuity products in the United States
IA Clarington Investments Inc.	100	Toronto, Canada	Fund management firm that markets investment products, including mutual funds and segregated funds
Investia Financial Services Inc.	100	Quebec, Canada	Mutual fund broker
FundEX Investments Inc.	100	Vaughan, Canada	Mutual fund broker
Industrial Alliance Securities Inc.	100	Montreal, Canada	Full-service brokerage firm
Industrial Alliance Trust Inc.	100	Quebec, Canada	Offers trust products and services
Industrial Alliance Investment Management Inc.	100	Quebec, Canada	Investment advisor that oversees the management of the Industrial Alliance group's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec, Canada	Property and casualty insurance company
Jovian Capital Corporation	100	Winnipeg, Canada	Wealth management and asset management

SUSTAINABLE DEVELOPMENT STRATEGIES

Industrial Alliance's primary mission is to ensure the financial wellbeing of its clients by offering them personal insurance coverage and investment solutions to help them achieve their personal goals.

This unwavering commitment to millions of people is backed by the Company's long-term vision and the sound and prudent management of its investments. The same is true of the Company's long-term commitment to its stakeholders.

Industrial Alliance derives its success from an entrepreneurial culture and an ongoing effort to develop and maintain relationships of trust with its clients, distributors, employees, and shareholders. The Company's five corporate values are teamwork, performance, continuous improvement, respect for individuals, and service.

FOR US, SUSTAINABLE DEVELOPMENT MEANS ...

... financial products and services consumers can trust

Premiums and deposits:

2013: \$7.4 billion + **31%** in the last five years

Assets under management and administration:

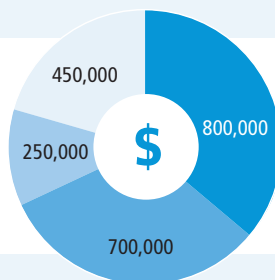
2013: \$98.7 billion + **99%** in the last five years

... sound management of investments

Total investment assets: \$23.2 billion

- › Bonds: 65.0%
- › Stocks: 13.5%
- › Mortgage loans: 11.2%
- › Real estate: 4.7%
- › Other: 5.6%

... a strong community presence



- \$800,000 to health
- \$700,000 to social and community services
- \$250,000 to education
- \$450,000 to other causes

... a mobilizing approach

Our goal: To work together with our distributors to be the company that meets our clients' needs most effectively

- › Industrial Alliance supports the Lean philosophy, a continuous improvement approach whose goal is to make the client the number one priority and eliminate activities with no added value.
- › At Industrial Alliance, continuous improvement means:
 - › Nearly 90 workshops held so far
 - › A permanent continuous improvement team
 - › In-house certifications

2013 RESULTS

Below are the Industrial Alliance Group's main strategies and achievements for 2013 according to their economic, environmental and social impacts.

Economic Impact

Salaries and employee benefits: **\$383 million**

Taxes paid: **\$107 million**

Real estate investments: **\$81.7 million**

Environmental Impact

Environmental performance of the Industrial Alliance head office according to the most recent assessment by BOMA BEST, a Canada-wide program that focuses on buildings' energy and environmental performance:

Criterion assessed	Score
Environmental management	91%
Energy performance	64%
Water conservation	84%
Emissions and effluents	87%
Indoor environment	94%
Exterior site	100%
Waste management	95%
Green procurement	100%
Transportation	100%

Materials

Average recovery rate for waste materials: **82%**
(according to a characterization study done in 2011)

Main materials generated:

Paper

49.4% of the materials generated; **recovery rate: 97.1%**

Organic animal matter and postconsumer waste:

14.7% of the materials generated; **recovery rate: 70.9%**

Cardboard

8.8% of the materials generated; **recovery rate: 88.7%**

Other materials

27.1% of the materials generated; **recovery rate: 29.0%**

Energy

Since 2007, Industrial Alliance has taken part in the Carbon Disclosure Project, which asks companies to measure and disclose their greenhouse gas emissions. The following data was measured for the building that houses the Company's head office.

2013

Air emissions in CO₂ equivalent¹ tons

Direct emissions: **252**

Indirect emissions (related to electricity consumption): **106**

2012

Air emissions in CO₂ equivalent¹ tons

Direct emissions: **328**

Indirect emissions (related to electricity consumption): **69**

¹ CO₂ equivalent: Universal measure for converting the assessment of different forms of greenhouse gas emissions to the same unit of measure.

Social Impact

Employment

Our goal: To be an employer of choice for individuals seeking a rewarding career

On-site health and wellness program

› In 2013, the IA Health program organized activities focusing on energizing nutrition as well as manager training workshops on preventing and managing absences due to disability.

Training programs

› In 2013, 324 Industrial Alliance employees successfully completed courses under the LOMA (Life Office Management Association, Inc.) program, 56 employees took advantage of the university studies program and 218 employees took on-site English classes.

Diversity and equal opportunity

› Industrial Alliance is an equal opportunity employer and invites women, members of visible minorities, Aboriginal peoples and individuals with disabilities to apply for positions with the Company.

Communities

Donations and sponsorships

› \$2.2 million donated to nearly 350 organizations

› Communities were shaken by some major tragedies in 2013, prompting Industrial Alliance to make three donations of \$50,000 to the Red Cross in order to help victims of:

- › Flooding in Alberta
- › The derailment in Lac-Mégantic
- › Typhoon Haiyan in the Philippines

Employee donation program

› Industrial Alliance supported 270 employees who were personally involved in charity organizations, either through participation in a fund-raising event or as a volunteer, donating \$375,000 to over 45 organizations in 2013.

Industrial Alliance Foundation for Learning a Second Language

› 48 grants were awarded in 2013, including 32 to college students for half of them to do a language immersion stay in San Francisco and for the other half to do a language immersion stay in London, England.

United Way campaign

› The 2013 campaign raised \$1,037,807.

INDUSTRIAL ALLIANCE BOARD OF DIRECTORS



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Chairman of the Board since 2005
Board member since 1997
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Marcel Lortie
Executive Vice-President

- Member of the Planning Committee

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Vancouver, BC V6B 5H6
604-737-3802
1-800-266-5667

Montreal

2000 McGill College Avenue
PO Box 790, Station B
Montreal, QC H3B 3K6
514-499-3748
1-866-499-3748

Toronto

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Toronto, ON M2J 4Z2
416-498-8319
1-800-611-6667

Calgary

777 8th Avenue S.W., Suite 2050
Calgary, AB T2P 3R5
403-266-7582
1-800-661-1699

Vancouver

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604-688-9641
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Group Savings and Retirement**Halifax**

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PACIFIC GENERAL INSURANCE
CORPORATION****Head Office – Vancouver**

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1-888-473-5540
iaamerican.com

**AMERICAN-AMICABLE LIFE
INSURANCE COMPANY OF TEXAS****Head Office – Waco, Texas**

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1-800-736-7311

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514-499-3871
1-866-425-5861

2000 McGill College Avenue
Suite 260
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1-877-856-6845

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1 First Canadian Place
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Kelowna

Hahn Investment
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Winnipeg

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Calgary

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FUNDX INVESTMENTS INC.

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905-305-1651
1-800-324-6048
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1-800-207-2445

Sherbrooke

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Sherbrooke, QC J1L 2G5
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2057 Mansfield Street
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514-499-1066

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604-539-8187

Immigrant Investor Program – Montreal

2200 McGill College Avenue
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INDUSTRIAL ALLIANCE TRUST INC.

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General Information

For information on upcoming earnings releases, investor conference calls and related disclosure documents, consult the Investor Relations section of our website at inalco.com.

For questions regarding Industrial Alliance products and services, contact your agent or consult page 136 and the inside back cover of this annual report to find the office nearest you.

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Stock Exchange Listing

Industrial Alliance's common shares are listed on the Toronto Stock Exchange under the stock symbol IAG.

Shareholder Services

For questions regarding share accounts, dividends, changes of address and ownership and other related matters, contact our transfer agent:

Computershare Investor Services Inc.
Telephone: 514-982-7555
Toll-free: 1-877-684-5000
inalco@computershare.com

Annual Meeting of Shareholders

Thursday, May 8, 2014 at 2:00 PM
Quebec City Convention Centre
1000 René-Lévesque Blvd. East
Quebec City, Quebec

Dividend Reinvestment and Share Purchase Plan

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Investor Relations

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The elephant,
a symbol of our 120 years
of strength and solidity.