2012 Annual Report

Strong on Execution

Growth › Profitability › Strength

INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.

A partner you can trust.

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

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

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

Among the top four insurance companies in Canada, we owe our growth and financial strength to a multi-channel distribution network of more than 17,500 agents, a conservative investment portfolio, sound capital management and a strong risk management culture.

Industrial Alliance is listed on the Toronto Stock Exchange under the ticker symbol IAG. At December 31, 2012, the Company's market capitalization was $2.9 billion, placing us among the largest public companies in Canada.

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FINANCIAL HIGHLIGHTS (Consolidated Financial Data[1])

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2012**	2011	Variation
Profitability			
Net income available to common shareholders	**311.9**	103.3	202%
Earnings per common share (diluted)	**$3.31**	$1.18	$2.13
Earnings per common share (diluted - adjusted for IATS)	**$3.44**	$1.19	$2.25
Return on common shareholders' equity	**12.6%**	4.7%	---
Business Growth			
Net premiums, premium equivalents and deposits by line of business			
Individual Insurance	**1,339.3**	1,248.2	7%
Individual Wealth Management	**3,100.6**	3,543.6	(13%)
Group Insurance	**1,395.3**	1,308.5	7%
Group Savings and Retirement	**848.9**	708.6	20%
General Insurance	**220.0**	199.6	10%
Total	**6,904.1**	7,008.5	(1%)
Sales by line of business			
Individual Insurance	**243.3**	209.4	16%
Individual Wealth Management			
General fund	**325.1**	403.6	(19%)
Segregated funds	**1,126.0**	1,362.3	(17%)
Mutual funds	**1,649.5**	1,777.7	(7%)
Total	**3,100.6**	3,543.6	(13%)
Group Insurance			
Employee Plans	**46.1**	131.9	(65%)
Dealer Services	**326.4**	265.9	23%
Special Markets Solutions	**154.0**	133.0	16%
Group Savings and Retirement	**868.4**	728.7	19%
Assets under management and administration			
Assets under management	**60,144.2**	52,117.1	15%
Assets under administration	**23,200.4**	21,233.6	9%
Total	**83,344.6**	73,350.7	14%
Financial Position (as at December 31)			
Book value per common share	**$28.32**	$26.19	8%
Capitalization	**4,044.3**	3,581.3	13%
Solvency ratio	**217%**	189%	15%
Debt ratios			
Debentures/capital structure	**18.5%**	21.2%	(13%)
Debentures and preferred shares/capital structure	**35.2%**	33.3%	6%
Quality of Investments (as at December 31)			
Net impaired investments as a % of total investments	**0.04%**	0.06%	---
Bonds: BB and lower as a % of the portfolio	**0.10%**	0.12%	---
Mortgages: delinquency rate	**0.22%**	0.25%	---
Real estate: occupancy rate	**95.2%**	94.6%	---
Share Information (as at December 31)			
Number of common shares outstanding (in millions)	**91.0**	90.4	1%
Weighted average number of common shares - diluted (in millions)	**96.2**	92.5	4%
Weighted average number of common shares - diluted, adjusted for IATS (in millions)	**90.8**	86.5	5%
Share price	**$31.38**	$26.29	19%
Market capitalization	**2,856.3**	2,376.2	20%
Human Resources			
Number of employees	**4,314**	4,109	205

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

2012 IN REVIEW

At Industrial Alliance, we believe that low long-term interest rates are here to stay – and management is executing accordingly. In 2012, we implemented a series of proactive measures to guard both our profitability and our financial strength. Among our initiatives to manage capital, we divested our US annuity business and withdrew a popular guaranteed income segregated fund from the Canadian market. Profitability being a source of capital, we also introduced new pricing on our retail insurance products that allowed us to bring new business costs down to an all-time low.

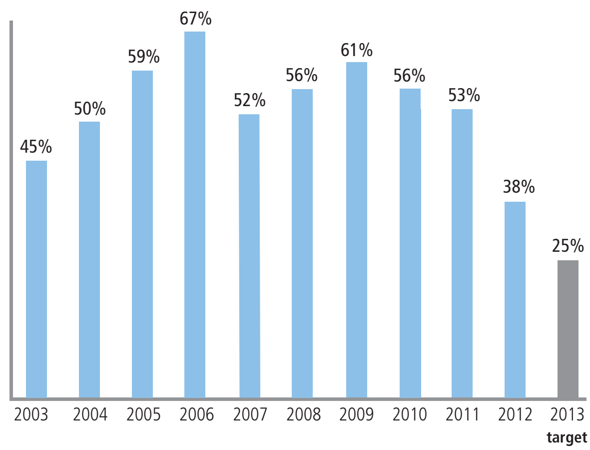
Industrial Alliance continues to deliver.

IMPROVING OUR FUTURE EARNINGS POWER

In 2012, Industrial Alliance undertook to reduce the cost of writing new business in retail insurance from more than 50% of new sales to 25%. By the end of 2012, our target was attained primarily through the implementation of two price increases during the year. This is an impressive achievement that allows us to reflect current long-term interest rates in the pricing of products that we sell today, thus improving the future earnings power of our retail insurance sector.

Strain on New Business

(% of new sales)



- Strain on new business is the cost associated with writing a new life insurance policy, notably underwriting, sales commissions and provisioning for policyholder commitments.
- In 2012, the average strain-to-new business ratio dropped to 38% of new sales from 53% in 2011. In 2013, the Company expects that the ratio for the full year will average 25%.
- On a full-year basis, strain improvement should represent pre-tax cost savings of about $50 million. Some of this benefit is already reflected in our 2012 results.

GUIDANCE

	2011 Guidance	2011 Results	2012 Guidance	2012 Results	2013 Guidance
EPS (diluted and ajusted for IATS)	$3.05 to $3.60	$1.19 (Regular operations*: $2.95)	$2.50 to $3.10	$3.44 (Regular operations*: $3.26)	**$3.00 to $3.40**
ROE	12% to 14%	4.7% (Regular operations*: 11.2%)	9% to 11%	12.6% (Regular operations*: 12.0%)	**10.5% to 12.0%**
Solvency Ratio	175% to 200%	189%	175% to 200%	217% (230% at January 1, 2013)	**175% to 200%**
Dividend Payout	25% to 35%	82%	25% to 35%	28%	**25% to 35%**

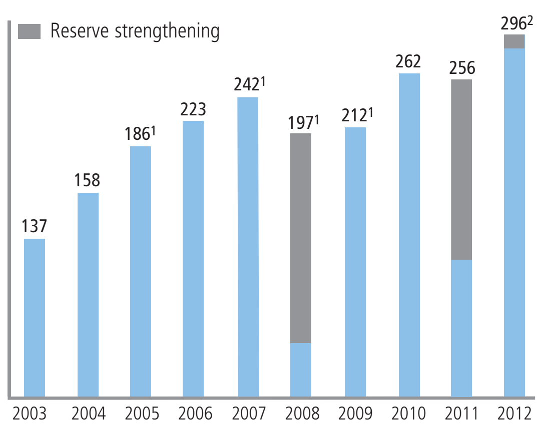
*Designates results excluding reserve strengthening and unusual gains.

NET INCOME ACHIEVES NEW RECORD IN 2012

Industrial Alliance delivered net income of $311.9 million to its common shareholders in 2012, making it our record year for profitability. This is a dramatic turnaround from 2011, when the deterioration in long-term interest rates required a significant strengthening of our actuarial reserves. Even if we exclude the unusual gain that we made this year on the sale of our US annuity business and the impact of reserve strengthening, 2012 still remains our best year on record.

Net Income to Common Shareholders

Before reserve strengthening ($Million)



1 Excludes provision for Norshield in 2005 and debt asymmetry in 2007, 2008 and 2009

2 Excludes the gain of $37.4 million on the sale of the US annuity business in 2012

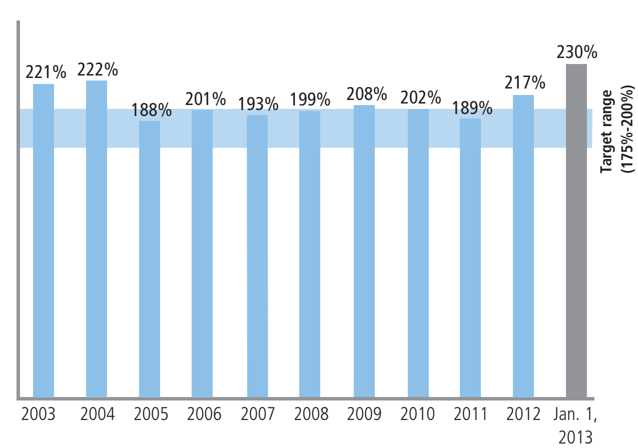
- Net income amounted to $311.9 million in 2012, compared with $103.3 million in 2011 when reserves were strengthened by $152.3 million after tax.
- Our 2012 results benefited from a gain of $37.4 million on the sale of the Company's US annuity business.
- Excluding the gain from the US annuity sale and the reserve strengthening, net earnings of $295.7 million in 2012 still surpassed the previous high of $261.8 million in 2010.
- The total return to shareholders in 2012, that is the appreciation in share price and the payment of dividends, was 23.1%.

A HEALTHY CAPITAL BASE TO SUPPORT FURTHER GROWTH

Industrial Alliance ended 2012 with a solvency ratio of 217% versus 189% at the previous year-end. Key events contributing to this increase were the sale of our US annuity business and the issue of $250 million in preferred shares during the year. At January 1, 2013, the Company's solvency ratio further increased to an all-time high of 230% as a result of changes to regulatory capital requirements. At this level, the Company has the flexibility to consider growth opportunities and, if necessary, the capacity to withstand significant macroeconomic shocks.

Solvency Ratio

(at December 31, unless otherwise indicated)



- Subsequent to year-end on February 27, 2013, the Company issued $237 million in common equity to redeem its 8.25% subordinated debentures and the 5.714% Industrial Alliance Trust Securities (IATS).
- Upon redemption of these two securities, the Company's total debt to capital ratio will drop by six percentage points to a comfortable 29.2%, further enhancing its financial flexibility.
- In February 2013, Standard & Poor's confirmed the Company's credit rating of A+ (Strong) with a Stable outlook.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

"Industrial Alliance emerged from 2012 more financially solid than ever and is one of the best capitalized companies in the industry, an achievement worthy of recognition by the Board of Directors and all Company shareholders."

No one can deny that 2012 posed its fair share of challenges for the Canadian life and health insurance industry. The macroeconomic environment was profoundly impacted by general market uncertainty and persistently low long-term interest rates, which continued to put tremendous pressure on insurers. On top of that, the industry was dealing with strict regulatory requirements.

This was the complex environment facing Industrial Alliance throughout 2012.

The Board of Directors is pleased to report that the Company was able to rise above these challenges. This is evident in the favourable results achieved in 2012. But it was not without some hard work and tough decisions along the way.

IMPORTANT HIGHLIGHTS

First of all, I want to stress that, in the face of these challenges, senior management made the right decisions and did what needed to be done. Not only did their actions pay off in the short term, they helped to lay solid foundations for the future.

Company management demonstrated exceptional knowledge and expertise along with unparallelled determination. While skillfully handling the day-to-day challenges, they never stopped thinking long-term.

At the Investor Day held on June 12, 2012, senior management presented the key components of the Company's development strategy. With a focus on growth, profitability and financial strength, the Company's solid business plan was followed to the letter and impeccably executed all year long.

Industrial Alliance generated good business growth in 2012. The Board is pleased to note that most business lines performed better than in 2011, both in traditional sectors and in new niche markets. In terms of profitability, the Company posted nothing less than record results.

Industrial Alliance has many ways to manage its capital. In 2012, it chose to issue new preferred shares. The Company was completely comfortable with this decision, which was made in the interest of protecting its various stakeholders, despite the risk of a negative impact on its credit ratings.

As it turned out, this impact was limited to a temporary change in the Company's outlook. Since the financial crisis of 2008–2009, Industrial Alliance's credit ratings have all been maintained despite the extremely challenging macroeconomic environment.

Without a doubt, one of the highlights of 2012 was the exemplary management of the Company's capital and solvency ratio. Industrial Alliance emerged from 2012 more financially solid than ever and is one of the best capitalized companies in the industry, an achievement worthy of recognition by the Board of Directors and all Company shareholders.

The Company also set up a Dividend Reinvestment and Share Purchase Plan for its common shareholders. The plan allows participants to have their dividend payments automatically reinvested in Industrial Alliance common shares, and to make cash purchases of additional common shares from the Company.

In terms of governance, we can't ignore the fact that Industrial Alliance is one of the top companies in Canada. The Company has an excellent reputation with respect to corporate governance and makes it a priority to adopt the best practices in this regard.

BOARD ACTIVITIES

The Board of Directors met nine times in 2012, and the Board's various committees held a total of 17 meetings. The participation rate in Board meetings was 98.4%, and 97.7% in Board committee meetings.

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

CONCLUSION

In 2012, Industrial Alliance once again lived up to expectations. It executed its business plan flawlessly and put measures in place that are indispensable to its long-term growth. The Board of Directors firmly reiterates its endorsement of Industrial Alliance's plan and its unwavering support of the management team.

On behalf of the directors, I'd like to thank the Company's senior management and all employees, who are the lifeblood of the organization and who work hard every day to ensure the long-term success of Industrial Alliance.

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

John LeBoutillier
Chairman of the Board

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

"As an organization, we have been put to the test over the past two years by the challenges of the macroeconomic environment and we successfully overcame them."

STRONG ON EXECUTION

Growth – Profitability – Strength

2012 was the year in which Industrial Alliance implemented a strong action plan aimed at dealing with the persistent reality of low long-term interest rates.

This plan contained a series of actions to secure our profitability and improve our capital position. For example, we divested a block of business in the United States that resulted in an immediate increase in the solvency ratio and a sizeable gain on the transaction. We also stopped selling a popular but particularly capital-intensive segregated fund product that offered a guaranteed minimum withdrawal benefit. In addition, we implemented two significant price increases on retail insurance products to bring the profitability of this line of business back to acceptable levels.

These were tough decisions at the time, but today I am satisfied to see the positive results. In 2012, Industrial Alliance established a new record for net income available to common shareholders and finished the year with a solvency ratio well above its target range. I would also like to add that almost all our operations continued to deliver year-over-year growth.

RENEWED OPTIMISM

After the extremely challenging macroeconomic environment of 2011, we welcomed the reprieve in 2012. The S&P/TSX Index ended the year up 4% and long-term bond rates showed signs of stabilizing. It is still too soon to say this is a long-term trend, but early signs are encouraging.

Dynamics in the Canadian life and health insurance industry were also positive in 2012. Virtually all industry players raised prices in retail insurance, as did Industrial Alliance. While this could have had a dampening effect on sales, the reality was the opposite. In Canada, sales of retail insurance at Industrial Alliance increased by 12% over the previous year.

2012 is now our record year for profitability. Net income available to common shareholders amounted to $311.9 million versus $103.3 million in 2011, after significant reserve strengthening that year due to a sudden drop in interest rates. Even if we exclude the unusual gain on the sale of the US annuity business block and the reserve strengthening, net earnings in 2012 still achieved a record high of $295.7 million, an increase of 16% over 2011.

These excellent results reflect a series of actions taken in 2012 to improve profitability and further strengthen the Company's capital. Among these actions, I'd like to highlight the following:

› At our Investor Day in June, we announced our objective to reduce the cost of writing new retail insurance business by approximately half, bringing it down to 25% of new sales by year-end. This was achieved primarily through price adjustments on our products. Some of this improvement, which represents about $50 million pre-tax on an annual basis, is reflected in our 2012 results.

› In August, the Company announced the sale of its US fixed annuity business and accumulation riders for an after-tax gain of $37.4 million. This gain, together with the immediate capital relief provided by the sale of this business, added 12 percentage points to our solvency ratio.

› In November, we announced the discontinuation of our guaranteed minimum withdrawal benefit on segregated funds for reasons of capital and profitability. The guarantees offered by this product were among the most expensive in our segregated fund lineup and ended up being punitive on capital.

Still in terms of capital, Industrial Alliance ended the year with a solvency ratio of 217%, compared with 189% at the end of 2011. What's more, the changes to capital requirements announced by the regulatory authorities at the end of 2012 led to a jump in Industrial Alliance's solvency ratio to a very comfortable 230% at January 1, 2013.

More recently, in February 2013, Industrial Alliance issued common shares for gross proceeds of $237.4 million and announced the redemption of subordinated debentures and the Industrial Alliance Trust Securities ("IATS"). Once completed, this transaction will reduce the Company's debt ratios and increase its financial flexibility, news that was well perceived by the rating agencies.

CONTINUED GROWTH

Sales were particularly strong in retail insurance and products offered by the Dealer Services division. Virtually all our operating entities outperformed the industry and surpassed their objectives for the year.

Total retail insurance sales were up 16% in Canada and the US in 2012. Incidentally, I would like to point out that sales south of the border grew by 40% with the addition of new partners to our US distribution network. In 2012, the US contributed 18% to total retail insurance sales, compared with 15% in 2011.

As for Dealer Services, creditor insurance sales were up 23%, while P&C insurance recorded a 25% increase. Industrial Alliance's success in the automobile dealerships market rests on strong brand recognition and a good reputation, an exclusive Canada-wide direct distribution network and a comprehensive line of products. The new name of this division, Dealer Services, accurately reflects this organization's marketing position as a "one-stop shop" for dealers' and distributors' after-market needs.

Also in group insurance, Special Markets Solutions recorded a 16% increase in sales. For Employee Plans, a profitability repositioning strategy was implemented in 2012 that included new pricing.

Direct written premiums for Industrial Alliance Auto and Home Insurance were up 24%, while top-line growth in the Group Savings and Retirement sector amounted to 19%.

In individual wealth management, IA Clarington Investments continued to fare well in terms of net mutual fund sales. Business growth for segregated funds was overshadowed by the withdrawal of our product offering a guaranteed minimum withdrawal benefit, resulting in a 13% year-over-year decrease in sales. Keep in mind, however, that 2010 and 2011 were excellent years for sales.

LOOKING FORWARD

Industrial Alliance's success in 2012 must not allow us to lose sight of our game plan.

We are currently focused on developing new retail insurance and individual wealth management products adapted to today's environment, including an insurance product to limit the impact of low interest rates on profitability that also meets the protection needs of our clients.

We will continue to put in place new strategies to enhance investment yields, improve our asset-liability matching and manage our exposure to interest rates and equity markets. True to our philosophy, we will do this without taking on undue risk.

Our capital position is now at a level where we have the flexibility to invest further in our existing lines of business as well as to consider outside opportunities to secure our competitive position.

Without being dogmatic in its approach, Industrial Alliance will continue to balance the continued growth of its traditional insurance business with the development of non-traditional lines of business, including mutual funds, dealer services and auto and home insurance, which are less capital-intensive and less sensitive to interest rates and equity markets.

As an organization, we have been put to the test over the past two years by the challenges of the macroeconomic environment and we successfully overcame them. We will remain on this path by continuing to execute our action plan.

Based on Industrial Alliance's success over the last year, I feel confident about our future and our continued ability to deliver shareholder value.

I also have complete confidence in our employees who, year after year, spare no effort to help grow the Company's business. I thank them for enthusiastically endorsing Industrial Alliance's core values: service, teamwork, performance, respect and continuous improvement.

I respectfully sign this text on behalf of senior management and on behalf of 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 Bouwers
M.Math., F.S.A., F.C.I.A.

President
Western Canada Operations

Industrial Alliance

David Scandiffio
B.Sc., CFA

President

IA Clarington

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

2012 MANAGEMENT'S DISCUSSION AND ANALYSIS

Note to reader
In this *Management's Discussion and Analysis,* historical financial data for 2010 and subsequent years is on an IFRS basis, and data prior to 2010 is 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" and "Industrial Alliance Organization Chart" sections 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, 2012 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 was written on February 15, 2013.

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 inalco.com, in the *Investor Relations* section, under *Financial Reports*. More information about the Company can be found on the SEDAR website at 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

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

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

In this regard, Industrial Alliance offers a wide range of life and health insurance products, savings and retirement plans, mutual and segregated funds, securities, auto and home insurance, mortgage loans, creditor insurance, complementary warranties and other financial products and services, which are sold on either an individual or group basis.

Industrial Alliance is one of the four largest life and health insurance companies in Canada. It contributes to the financial wellbeing of over 3 million Canadians, employs more than 4,300 people, has a network of over 17,500 agents, and manages and administers over $83 billion in assets. The Industrial Alliance head office is located in Quebec City, Quebec.

Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. The Company has approximately 70,000 shareholders and 91 million issued and outstanding common shares. With a market capitalization of $2.9 billion as at December 31, 2012, Industrial Alliance is among the largest publicly listed companies in Canada.

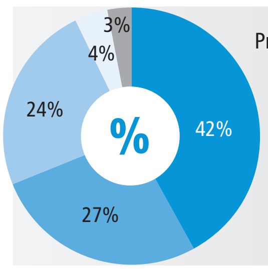
Legal Constitution

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 Canada-wide distribution networks.



The Company also has operations in the US, and distributes its products in all US states, in a few target segments. Industrial Alliance has major offices in Quebec City, Montreal, Toronto, Vancouver 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 life and health insurance sector: The Excellence Life Insurance Company and American-Amicable.

› In the individual wealth management sector: IA Clarington Investments Inc., a mutual fund manager, and the three distribution subsidiaries: 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.

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

D DISTRIBUTION NETWORKS

Industrial Alliance stands out through the size and diversity of its distribution networks, which enable 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. The table on the following page provides an overview of these distribution networks.

Networks	Number of representatives/advisors
Career	1,838
General Agents	13,000
National Accounts	1,400
Independent Advisors	7,000
Vancity	100
IA Affiliated Networks:	
Investia	1,918
FundEX	643
IA Securities	193

Industrial Alliance has its own network of dedicated agents. These "Career" network agents 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 considers the possibility of expanding its networks through acquisitions or by signing new distribution agreements.

BUSINESS OVERVIEW

	Activities	Products and Services
Business Lines for Individuals	■ **Individual Insurance**	• Life insurance (Universal Life, permanent and term) • Critical illness insurance • Short and long-term disability insurance • Mortgage insurance • Accidental death and dismemberment (AD&D)
Business Lines for Individuals	■ **Individual Wealth Management**	• Segregated funds • Mutual funds • Securities • Life and fixed-term annuities Note: These products may be offered under an RRSP, RESP, TFSA or RRIF • Investment advice
Business Lines for Groups	■ **Group Insurance:**	
Business Lines for Groups	● Employee Plans	• 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 • Out-of-Canada medical insurance
Business Lines for Groups	● Dealer Services	• Creditor insurance (life, disability and critical illness insurance) • P&C products (replacement insurance, extended warranties and other ancillary products)
Business Lines for Groups	● Special Markets Solutions	• Accidental death and dismemberment (AD&D) insurance, travel and health insurance and term life insurance • Other specialized insurance products for employers and associations
Business Lines for Groups	■ **Group Savings and Retirement**	• Defined contribution and defined benefit plans • Institutional money management services • Insured annuities
	General Insurance	• Auto and home insurance

■ Activity Sector ● Division

Distribution Networks	Manufacturers, Subsidiaries or Divisions
• Career (IA) • General Agents • National Accounts • Michel Rhéaume et associés • Solicour Inc.	• Industrial Alliance and its subsidiaries: • Excellence • IA American • American-Amicable
• Career (IA) • General Agents • Professional associations • National Accounts • IA affiliated entities • Independent advisors	• Industrial Alliance and its subsidiaries: • IA Clarington Investments Inc. • Industrial Alliance Trust Inc. • Industrial Alliance Investment Management Inc. • Investia Financial Services Inc. • FundEX Investments Inc. • Industrial Alliance Securities Inc.
• Specialized brokers • Actuarial consulting firms	• Industrial Alliance
• Direct distribution network for automobile and other motor vehicle dealers	• Industrial Alliance and its subsidiaries: • SAL • National Warranties MRWV Limited • Protection V.A.G. Inc. • Communications & Références Multi Assurance Direct inc. • Produits récréatifs Accès Inc. • Industrial Alliance Pacific General Insurance Corporation (IAPG)
• Distribution partners • Mortgage brokers	• Industrial Alliance
• Specialized brokers • Actuarial consulting firms • Career (IA) • General Agents	• Industrial Alliance
• Direct sales • Referrals from the IA networks	• Industrial Alliance Auto and Home Insurance Inc.

E ORIENTATION AND GLOBAL DEVELOPMENT STRATEGY

Despite changes in the macroeconomic environment in recent years, Industrial Alliance has continued to stand out through the sound, disciplined execution of its business model. This model is designed to generate steady organic growth through a multi-level diversification strategy, enabling the Company to meet the needs of all types of clients (families, professionals, retirees, groups, businesses, high net-worth clients, etc.) through:

› diversification of its distribution networks (refer to the Distribution Networks subsection above)

› diversification of its geographical presence in both Canada and the US (refer to the Geographical Presence subsection above) and

› diversification of its market segments (refer to the Business Lines, Divisions and Subsidiaries section above)

The Company manufactures most of the products it distributes.

Among other components, Industrial Alliance's business model includes sound risk management practices that are rooted in a prudent approach, a long-term vision and a solid balance sheet. Industrial Alliance also stands out through the long-term development and low turnover of its staff and management team. Members of the Company's management committee have been with the Company for an average of 21 years.

Industrial Alliance's business model also rests on the Company's ability to generate growth through strategic acquisitions, while continually promoting a highly disciplined approach. When considering acquisitions, Industrial Alliance looks at three main criteria. The first is price. The second is the ability to integrate the acquired companies, and the third is whether the acquired companies can be profitable in the second year following acquisition. The formula is working well, with Industrial Alliance completing 33 acquisitions since the year 2000, including 18 in the wealth management sector.

Industrial Alliance also has an excellent ability to adapt to new situations. The turbulent environment of the past few years has led to considerable changes that the Company dealt with through bold, deliberate, informed actions that included targeted rate increases and the withdrawal of certain products. The Company also began converting its product line to non-traditional products with less costly guarantees and fewer regulatory requirements. In 2012, 37% of the Company's operating income (before taxes and changes in actuarial assumptions) was generated by non-traditional market segments, compared with 28% in 2010.

With a view to reducing costs and maximizing sales opportunities, Industrial Alliance will continue to focus on taking full advantage of cross-selling strategies and other potential synergies between the parent company and its various subsidiaries and business lines.

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 major undertaking is designed to continually improve the Company's products and business processes and to help it be a sought-after employer for a rewarding career.

DEVELOPMENTS OBJECTIVES ORIENTATIONS STRATEGIES

F DEVELOPMENT STRATEGY BY BUSINESS LINE 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 2012, the persistently low interest rate environment forced the Company, like its industry peers, to raise premiums on its permanent products. The Company also began transitioning 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 layers of the population.

› Increasing US market activities

- › From its main office in Scottsdale, Arizona, 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 an impressive range of competitive products to meet the various needs of its clients. These products include guaranteed interest investments, mutual funds, segregated funds (investment funds with guaranteed capital at death or at maturity), securities, 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 (TFSAs), registered retirement income funds (RRIFs) or non-registered plans.
- › In 2012, the macroeconomic environment forced the Company to stop marketing the segregated fund product that offered a guaranteed minimum withdrawal benefit (GMWB). Despite this move, Industrial Alliance plans to remain a partner of choice by offering products and services for all phases of retirement planning.

› Focusing 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.
- › 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 IAS).

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 999 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. To do this, the Company will showcase the quality of its relationships with clients and benefits advisors.

› Enhancing the quality of the service offer

- New ongoing improvement projects will be launched to significantly increase the quality and efficiency of the business processes and continue 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.
- The focus will continue to be on technological development in order to improve the experience of plan administrators.

› DEALER SERVICES Division

Industrial Alliance distributes creditor insurance and P&C products through its Dealer Services division (formerly the Creditor Insurance 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 local 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

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 focus 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 mortality risk. As a result, the sector is aiming for selective, prudent growth in this market.

› Bringing new group pension plans to market

› In January 2013, the sector added the new pooled registered pension plan (PRPP) to its product line and will start offering it to clients as soon as it gets the green light from the government authorities. PRPPs are aimed at federally-regulated businesses.

› In Quebec, measures have been put in place to offer a voluntary retirement savings plan (VRSP). The project is pending the adoption of a law by the Quebec government.

› Pursuing Canada-wide development and improving the client experience

› From a geographic standpoint, the sector's goal is to continue growing its business outside Quebec, particularly for accumulation products.

› 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

› From a competitive standpoint, IAAH stands out through the client referrals generated by Industrial Alliance's distribution networks.

› In addition, like many of its peers, the company is striving to achieve a strong media presence through TV advertising campaigns designed to attract clients directly.

› 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 general insurance needs

› The Company has used the Client Recommendation Index (CRI) to measure client satisfaction and will continue to calculate this index periodically and make any necessary adjustments to improve results.

› In November 2012, IAAH received three distinctions at the best business practices show held by the *Mouvement québécois de la qualité*.

› Dealing with the shortage of qualified general insurance agents

› To deal with this situation in the coming years, IAAH introduced a major initiative in the mid-2000s that extends over a number of years and aims to significantly improve its internal efficiency.

2012 RESULTS AND MARKET GUIDANCE FOR 2013

Industrial Alliance generated good business growth in 2012, despite a difficult economic environment due to persistently low long-term interest rates. Almost all activity sectors recorded higher results than in the previous year. Assets under management and under administration reached a new high. The Company obtained record results in terms of profitability, with significant growth in net income available to shareholders and return on equity. Operating profit was up sharply in the majority of sectors. The Company ended the year with a solvency ratio of 217%, far above the target range. The investment portfolio also continues to be of the highest quality, with net impaired investments representing just 0.04% of total investment assets.

A) BUSINESS GROWTH

The Company generated good business growth in 2012, with assets under management and under administration reaching a new high. From a sales standpoint, 2012 was a very good year, particularly for Individual Insurance and Group Insurance (Dealer Services and Special Markets Solutions). The Individual Insurance sector also experienced good growth in premiums and deposits.

Refer to the following sections for more information on business growth by line of business.

Premiums and Deposits[1]

(In millions of dollars, unless otherwise indicated)	2012	2011	Variation
Individual Insurance	1,339.3	1,248.2	7%
Individual Wealth Management	3,100.6	3,543.6	(13%)
Group Insurance	1,395.3	1,308.5	7%
Group Savings and Retirement	848.9	708.6	20%
General Insurance	220.0	199.6	10%
Total	**6,904.1**	**7,008.5**	**(1%)**

Assets Under Management and Under Administration

	As at December 31		
(In millions of dollars, unless otherwise indicated)	2012	2011	Variation
Assets under management	60,144.2	52,117.1	15%
Assets under administration	23,200.4	21,233.6	9%
Total	**83,344.6**	**73,350.7**	**14%**

Sales by Line of Business[2]

(In millions of dollars, unless otherwise indicated)	2012	2011	Variation
Individual Insurance			
Minimum premiums	200.9	174.4	15%
Excess premiums	42.4	35.0	21%
Total	**243.3**	**209.4**	**16%**
Individual Wealth Management			
General fund	325.1	403.6	(19%)
Segregated funds	1,126.0	1,362.3	(17%)
Mutual funds	1,649.5	1,777.7	(7%)
Total	**3,100.6**	**3,543.6**	**(13%)**
Group Insurance			
Employee Plans	46.1	131.9	(65%)
Dealer Services	326.4	265.9	23%
Special Markets Solutions	154.0	133.0	16%
Group Savings and Retirement	868.4	728.7	19%

B) DISPOSAL OF A BUSINESS BLOCK

On August 15, 2012, the Company sold, by way of indemnity reinsurance and assumption reinsurance, all its US fixed annuities and accumulation riders to Security Benefit Life Insurance Company and to Equitrust Life Insurance Company, two affiliates of US-based Guggenheim Partners.

This transaction generated a net after-tax gain of $37.4 million, which is equal to $0.41 per common share.

C) PROFITABILITY

The Company earned net income available to common shareholders of $311.9 million in 2012 (which includes an unusual gain of $37.4 million on the sale of the US annuity business during the year) compared to $103.3 million in 2011. Net income for 2012 translates into diluted earnings per common share (EPS) of $3.31 ($1.18 in 2011) and a return on common shareholders' equity of 12.6% (4.7% in 2011).

The Company strengthened its provisions for future policy benefits by $21.2 million after taxes in 2012. This amount is made up of $19.9 million from a year-end review of valuation assumptions and a $1.3 million adjustment that was recorded in the third quarter following the sale of the US annuity business. If the unusual gain and strengthening of the provisions for future policy benefits are excluded, net income available to common shareholders on regular operations amounts to $295.7 million, an increase of 16% compared to $255.6 million in 2011. Diluted EPS on regular operations amounted to $3.13 in 2012, which is equal to $3.26 once the adjustment is made to exclude the potential dilutive effect of the innovative tier 1 capital (IATS).

The 2012 results are stronger than in 2011, driven by an improved macroeconomic environment, good business growth and the investment strategies implemented to counter the impact of the low interest rates and financial market volatility.

The performance for the year also benefited from a good contribution by the auto and home insurance subsidiary and a reduction in the tax expense, but was affected by negative disability and health insurance results (employee plans) and policy lapses (individual insurance).

Profitability

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Income attributed to shareholders	342.0	127.2	276.3	219.6	71.9
Less: dividends to preferred shareholders	30.1	23.9	22.9	13.8	5.8
Net income available to common shareholders	**311.9**	**103.3**	**253.4**	**205.8**	**66.1**
Net earnings per common share					
Basic	$3.44	$1.20	$3.04	$2.56	$0.82
Diluted	$3.31	$1.18	$2.93	$2.55	$0.82
Return on common shareholders' equity	12.6%	4.7%	12.8%	11.9%	4.0%

[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.

Following is a more detailed explanation of the main factors that influenced the results for 2012:

- *Changes in assumptions* – The review of valuation assumptions resulted in a strengthening of the provisions for future policy benefits of $29.6 million before taxes including a $1.8 million adjustment on the sale of the US annuity business. This strengthening primarily affected the Individual Insurance sector and mostly results from the review of lapse rate assumptions on Universal Life policies.
  The investment strategies implemented in 2012 completely offset the impact of the reduction in the ultimate reinvestment rate (URR) in the calculation of the provisions for future policy benefits. The Company reduced its URR by 20 basis points to 3.20%, which is lower than the maximum rate of 3.40% that it could have used at the end of 2012 based on the formula prescribed by the Canadian Institute of Actuaries. The maximum URR determined using this formula reflects the moving average interest rate over the last 10 years, and is therefore expected to decrease further over the next few years. If long-term interest rates remain where they were at the end of 2012 for a few more years, the maximum prescribed URR will be 3.20% at the end of 2013, and will drop to 2.50% by the end of 2015.
  Other valuation assumptions were updated as well, including morbidity and unit cost assumptions. Overall, these changes had very little impact on the provisions for future policy benefits.
- *Dynamic risk hedging program* – This program, designed to mitigate the impact of stock market volatility on the segregated funds capital guarantees, generated non-recurring gains of $11.5 million after taxes in 2012.
- *Income taxes* – Several factors contributed to reducing the income tax expense during the year, including the recovery of a tax loss, the merger of the Industrial Alliance Pacific subsidiary with the parent company and the higher proportion of pre-tax earnings obtained in the form of increased value on properties appraised during the year, and in the form of non-taxable dividends.

Sources of Earnings[1]

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		Total	
(In millions of dollars)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Expected profit on in-force	219.0	233.5	97.0	128.5	47.1	45.7	13.7	17.0	376.8	424.7
Experience gains (losses)	2.1	(27.4)	21.1	(15.9)	(20.5)	(15.0)	2.4	1.4	5.1	(56.9)
Gain *(strain)* on sales	(93.6)	(111.4)	(8.7)	(8.3)	0.0	0.0	(0.6)	(1.2)	(102.9)	(120.9)
Changes in assumptions	(39.8)	(194.1)	10.3	(16.5)	(0.3)	(8.2)	0.2	(0.9)	(29.6)	(219.7)
Operating profit	87.7	(99.4)	119.7	87.8	26.3	22.5	15.7	16.3	249.4	27.2
Income on capital	84.8	89.3	(1.0)	0.2	8.9	10.8	7.0	5.9	99.7	106.2
Income taxes	(1.4)	23.5	(28.1)	(16.5)	(9.5)	(8.8)	(5.5)	(4.4)	(44.5)	(6.2)
Net income attributed to shareholders on regular operations	171.1	13.4	90.6	71.5	25.7	24.5	17.2	17.8	304.6	127.2
Less: preferred share dividends	25.1	18.5	0.9	2.0	2.7	2.1	1.4	1.3	30.1	23.9
Net income available to common shareholders on regular operations	146.0	(5.1)	89.7	69.5	23.0	22.4	15.8	16.5	274.5	103.3
Other items[2]	8.9	0.0	28.5	0.0	0.0	0.0	0.0	0.0	37.4	0.0
Net income available to common shareholders	**154.9**	**(5.1)**	**118.2**	**69.5**	**23.0**	**22.4**	**15.8**	**16.5**	**311.9**	**103.3**
Additional information according to the financial statements:										
Net premiums (excluding general insurance)	1,339.3	1,248.2	1,451.1	1,765.9	1,219.0	1,141.9	766.6	636.8	4,776.0	4,792.8
Net income attributed to shareholders	180.0	13.4	119.1	71.5	25.7	24.5	17.2	17.8	342.0	127.2
Less: preferred share dividends	25.1	18.5	0.9	2.0	2.7	2.1	1.4	1.3	30.1	23.9
Net income available to common shareholders	154.9	(5.1)	118.2	69.5	23.0	22.4	15.8	16.5	311.9	103.3

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.

Experience gains or losses – 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 gains totalling $5.1 million before taxes. For Individual Insurance, these gains reflect better than expected morbidity results and returns on the assets backing the insurance contract liabilities that were recorded during the year, but these gains were mostly offset by negative policy lapse experience. The dynamic risk hedging program generated non-recurring gains in the Individual Wealth Management sector, but these gains were absorbed by higher health and disability insurance claims in the Group Insurance Employee Plans sector.

The stock markets had a slightly positive effect on net income in 2012, primarily for Universal Life policy funds.

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.

New business strain was $102.9 million in 2012, which is 15% lower than the previous year. This decrease is primarily due to the rate increases applied by the Individual Insurance sector during the year. The main goal of these increases was to take into account the continuing low interest rate environment.

The strain in the Individual Insurance sector alone, expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 38% in 2012 compared to 53% in 2011. This decrease is primarily due to the rate increases applied to certain products over the past year.

Given the current product pricing structure and the recent pricing changes made to certain products, the Company believes the strain percentage should be around 25% in 2013.

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.

More details about the year-end assumption changes were provided earlier.

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

Income on capital reached $99.7 million in 2012, down $6.5 million or 6% compared to 2011. The decrease in income on capital during the year is primarily explained by lower gains realized on the sale of financial instruments matched to equity.

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

Excluding the gain on the sale of the US annuity business, income taxes totalled $44.5 million in 2012, which translates into an effective tax rate of 12.8%. This is lower than the Company's usual rate and below its expected range of 22% to 24% for 2012. The difference is due to various factors discussed earlier.

D) ANALYSIS OF OPERATING PROFIT BY ACTIVITY SECTOR

Following are comments on the operating profit (before taxes) for each activity sector.

Individual Insurance – The Individual Insurance sector ended the year with an $87.7 million operating profit, compared to a $99.4 million loss in 2011. However, excluding the impact of the changes in assumptions, the 2012 operating profit amounted to $127.5 million, compared to $94.7 million the previous year.

The 2012 results were better than 2011 in terms of mortality, morbidity and investment income, but were affected by higher than expected policy lapses. Price increases during the year reduced new business strain compared to last year. The $39.8 million strengthening of the provisions for future policy benefits posted in 2012 is mainly explained by the revision of the lapse rate assumption and, to a lesser degree, by the revision of the mortality assumption for the US business.

Individual Wealth Management – The Individual Wealth Management sector mainly benefited from gains generated by the dynamic risk hedging program in 2012. Gains were also recorded on longevity of annuitants. Stock market growth was lower than anticipated, such that the management fees collected on investment funds were somewhat lower than expected. The sector ended the year with a $119.7 million operating profit, compared to $87.8 million in 2011.

Group Insurance – The Group Insurance sector recorded an operating profit of $26.3 million in 2012, compared to $22.5 million the previous year. Higher life and health insurance claims (mainly in the first half) in the Employee Plans division were mitigated by the good results obtained by the Special Markets Solutions and Dealer Services divisions.

Group Savings and Retirement – The Group Savings and Retirement sector recorded an operating profit of $15.7 million in 2012, compared to $16.3 million the previous year. The expected profit on in-force was lower than last year, but gains were made in terms of longevity of annuitants.

E) FINANCIAL STRENGTH

The solvency ratio amounted to 217% at December 31, 2012, which is above the Company's 175% to 200% target range. At the same time, the Company's capital reached $4.0 billion and equity accounted for 80% of total capital.

The book value per common share grew 8% in 2012.

The $250 million preferred share issue in June 2012 reduced the debt ratio where the debentures alone are taken into account, but increased the debt ratio including both the debentures and the preferred shares.

The coverage ratio, which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by financing expenses, was 6.1x at the end of 2012, a net increase compared to the end of 2011 (2.8x).

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

Solvency and Capitalization

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**
Solvency ratio	217%	189%
Capitalization[1]	4,044.3	3,581.3
Book value per common share	$28.32	$26.19
Debt ratio		
Debentures/capital	18.5%	21.2%
Debentures and preferred shares/capital	35.2%	33.3%
Coverage ratio	6.1x	2.8x

F) DIVIDEND

The quarterly dividend is maintained at $0.2450, for a total dividend of $0.98 per common share in 2012.

G) QUALITY OF INVESTMENTS

The Company successfully adapted its investment strategies to the market environment in 2012, maintaining the excellent quality of its investment portfolio.

The Investments sector effectively carried out the return optimization and matching improvement program entrusted to it by management. This program successfully offset the impact of the decrease in the ultimate reinvestment rate (URR) on the individual insurance contract liabilities mentioned earlier.

The dynamic risk management program, while normally expected to be a cost generator, made a positive contribution to the Company's results in 2012. This was because the returns on the assets used for the program were higher than the returns of the benchmark indices.

The Company also decreased its exposure to the US mortgage market following the sale of its US annuity business announced in August of 2012.

The investment quality indices, which were already excellent, continued to improve in 2012 as illustrated in the table below.

Investment Quality Indices

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**
Net impaired investments	9.0	13.1
Net impaired investments as a % of total investments	0.04%	0.06%
Bonds – Proportion rated BB and lower	0.10%	0.12%
Mortgage loans – Delinquency rate	0.22%	0.25%
Real estate held for investment – Occupancy rate	95.2%	94.6%

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

H) SENSITIVITY ANALYSIS

The analysis of the Company's sensitivity to market fluctuations was updated at the end of 2012.

Explanations on the results of these analyses are provided under Investment Risk in the Risk Management section of this Management's Discussion and Analysis.

Sensitivity Analysis

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**
Level of S&P/TSX index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities	10,700 points	10,500 points
Level of S&P/TSX index for the solvency ratio to be at 175%	8,100 points	9,900 points
Level of S&P/TSX index for the solvency ratio to be at 150%	6,700 points	8,100 points
Impact on net income of a sudden 10% drop in the stock markets (impact for a complete year)	(23)	(22)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	(18)	(33)
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(66)	(62)

I) EMBEDDED VALUE AND VALUE OF NEW BUSINESS

Industrial Alliance's embedded value amounted to $3.6 billion at December 31, 2012, up 0.2% before the payment of dividends, compared to December 31, 2011. The contribution of 2012 sales to the increase in the Company's embedded value was $153.0 million, down 6.7% compared to 2011.

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

Embedded Value

	2012	2011
Embedded value (in billions of dollars)	$3.6	$3.6
Embedded value per common share[2]	$39.08	$40.23
Embedded value/book value ratio	1.38x	1.57x
Increase in embedded value in 2012, before the payment of dividends to common shareholders		0.2%
Increase in embedded value in 2012, after the payment of dividends to common shareholders		(2.2%)

J) MARKET GUIDANCE FOR 2013

Return on common shareholders' equity – Target range of 10.5% to 12.0%.

Earnings per common share – New target of $3.00 to $3.40 for 2013.

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 2013.

Effective tax rate – Target range of 21% to 24%.

The guidance for the return on equity and earnings per share exclude any changes that could result from a review of actuarial assumptions in 2013.

[2] The decrease in embedded value per share reflects the issue of 6 million common shares in September 2011.

CAPITALIZATION AND SOLVENCY

A) CAPITALIZATION

Industrial Alliance's capital structure can be divided into three main categories of capital: equity, debentures and the participating policyholders' account. As at December 31, 2012, the Company's capital totalled $4.0 billion, a year-over-year increase of 15%, and equity accounted for 80% of total capital.

The main factor that increased capital in 2012 was the $250 million issuance of preferred shares in June. Further contribution came from an increase in retained earnings (resulting from the net profits realized during the year, net of dividends paid to common shareholders).

Capital Structure

	As at December 31				
(In millions of dollars)	**2012 IFRS**	**2011 IFRS**	**2010 IFRS**	**2009 GAAP**	**2008 GAAP**
Equity					
Common shares	878.6	860.7	652.5	545.7	541.0
Preferred shares	675.0	425.0	425.0	325.0	223.7
Retained earnings	1,635.7	1,360.0	1,341.5	1,254.8	1,127.7
Contributed surplus	23.5	23.6	23.3	21.6	19.8
AOCI[1]	39.5	64.4	59.3	10.5	(54.3)
Subtotal	3,252.3	2,733.7	2,501.6	2,157.6	1,857.9
Debentures	747.8	747.7	499.1	519.8	385.9
Participating policyholders' account	44.2	41.3	26.9	25.7	27.0
Total	**4,044.3**	**3,522.7**	**3,027.6**	**2,703.1**	**2,270.8**

B) FINANCIAL LEVERAGE AND COVERAGE RATIO

The debt ratio measuring debentures alone over the capital structure was 18.5% as at December 31, 2012. That measuring the debentures and the preferred shares over the capital structure was 35.2%. The issuance of preferred shares in June 2012 decreased the debt ratio considering only the debentures, but increased the ratio including both the debentures and the preferred shares.

The coverage ratio, i.e. the pre-tax income and interest financing expenses compared to the interest financing expenses and dividends, was 6.1x at December 31, 2012, compared with 2.8x at December 31, 2011. The ratio decreased at the end of 2011 due to the strengthening of provisions for future policy benefits. The sale of the US annuity business resulted in an increase in pre-tax earnings, which caused the ratio to increase in 2012. This item was partially offset by an increase in financing expenses, due to the issue of preferred shares in June 2012.

Debt Ratios and Coverage Ratio

	As at December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Debt ratios					
Debentures/capital structure	18.5%	21.2%	16.5%	19.2%	17.0%
Debentures and preferred shares/capital structure	35.2%	33.3%	30.5%	31.3%	26.8%
Coverage ratio (number of times)	6.1	2.8	6.2	6.3	3.9

C) SOLVENCY

The solvency ratio was 217% as at December 31, 2012, which is higher than the ratio of 189% at December 31, 2011. This ratio is above the Company's 175% to 200% target range.

The solvency ratio is impacted by a number of factors that cause it to increase or decrease. Following are some of the main factors that had a positive impact on the solvency ratio in 2012:

- The issuance of $250 million in preferred shares in June, in two instalments (addition of 15 percentage points to the solvency ratio).
- The sale of the US annuity business in August (addition of 12 percentage points to the solvency ratio).
- An adjustment to the future tax provision (addition of 4 percentage points to the solvency ratio).
- A decrease in required capital due to active management of the correlation between the TSX and the derivative product market (addition of 3 percentage points to the solvency ratio).
- The impact on required capital of the year-end changes in assumptions (addition of 3 percentage points to the solvency ratio).
- The usual contribution of net income to the available capital.

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

- Macroeconomic variances, including the drop in long-term interest rates, which led to an increase in required capital related to the increase in the market value of bonds, as well as the stock market upswing, which led to an increase in the capital requirements for equity investments, offset in part by a decrease in the capital requirements for segregated funds (decrease of 4 percentage points in the solvency ratio).
- The rebalancing of the equity portion of the portfolios matched to the insurance reserve and to surplus (decrease of 3 percentage points in the solvency ratio).
- The impact on available capital of the adoption of IFRS accounting standards on January 1, 2011, which reduced the solvency ratio over 8 quarters, resulted in a decrease of approximately 3 percentage points in 2012.
- The normal increase in required capital related to business growth.

Solvency

	As at December 31				
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Available capital					
Tier 1 (net)	2,956.1	2,461.7	2,303.8	1,961.9	1,726.0
Tier 2 (net)	640.0	587.4	340.9	343.1	195.4
Total	3,596.1	3,049.1	2,644.7	2,305.0	1,921.4
Required capital	1,657.7	1,613.8	1,306.8	1,107.2	967.1
Solvency ratio	**217%**	**189%**	**202%**	**208%**	**199%**

D) DIVIDENDS

The Company kept its dividend unchanged in 2012, paying out $0.2450 per common share in each of the four quarters, for a total annual dividend of $0.98 per common share. This dividend has been the same since the third quarter of 2008. In total, the Company paid out $88.8 million in dividends to common shareholders in 2012. The dividend payout ratio for 2012 was 28% of the net income available to common shareholders.

[1] AOCI: Accumulated other comprehensive income.

At the beginning of 2013, the Company announced that it was keeping its medium term target range of 25% to 35% for the dividend payout ratio, and that it was expecting the ratio to be around the middle of this range in 2013.

Dividends

	2012	2011	2010	2009	2008
Dividends paid per common share	$0.98	$0.98	$0.98	$0.98	$0.94
Dividend payout ratio	28%	82%	33%	38%	115%

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.

The number of issued and outstanding common shares as at December 31, 2012 was 91,024,093, an increase of 641,062 compared to December 31, 2011. This increase is explained by three items: the issuance of common shares following the exercise of options under the stock option plan, transactions resulting from the merger of Industrial Alliance with Industrial Alliance Pacific, and the issuance of common shares under the new Dividend Reinvestment and Share Purchase Plan.

The Company did not buy back any of its common shares in 2012.

Common Shares

	As at December 31				
(In millions)	**2012**	**2011**	**2010**	**2009**	**2008**
Number of common shares outstanding	91.0	90.4	83.9	80.5	80.3

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 2012 at $31.38, with a market capitalization of $2.9 billion.

Stock Price and Market Capitalization

	End of period				
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Stock price	$31.38	$26.29	$36.81	$32.20	$23.31
Market capitalization	2,856.3	2,376.2	3,087.9	2,592.5	1,872.5

G) BOOK VALUE PER COMMON SHARE

The book value per common share was $28.32 at the end of 2012, up 8% during the year. This growth comes primarily from the increase in retained earnings.

Book Value Per Common Share

	As at December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Book value per common share	$28.32	$26.19	$24.75	$22.77	$20.35

H) PREFERRED SHARES

The Company's capital contains 5,000,000 class A, series B preferred shares issued and outstanding, for a nominal value of $125 million, 4,000,000 class A, series C preferred shares issued and outstanding, for a nominal value of $100 million, 4,000,000 class A, series E preferred shares issued and outstanding, for a nominal value of $100 million, 4,000,000 class A, series F preferred shares issued and outstanding, for a nominal value of $100 million and 10,000,000 class A, series G preferred shares issued and outstanding, for a nominal value of $250 million. These preferred shares are recognized at their acquisition value.

The preferred shares in each of these series (B, C, E and F) entitle the holders to a fixed non-cumulative quarterly dividend of $0.2875 per preferred share for series B, $0.3875 per preferred share for series C, $0.3750 per preferred share for series E, and $0.36875 per preferred share for series F. The Company paid $23.9 million in dividends to these preferred shareholders in 2012.

The series G preferred shares entitle the holders to a non-cumulative 5-year rate reset quarterly dividend in cash at an initial annual rate of $1.0750 per share. The Company paid $6.2 million in dividends to these preferred shareholders in 2012.

Series B, E and F preferred shares are redeemable, in whole or in part, at the option of the Company and subject to approval by the *Autorité des marchés financiers* (AMF), starting March 31, 2011 for series B shares, starting December 31, 2014 for series E shares and starting March 31, 2015 for series F shares. The series B, E and F preferred shares have no voting rights and cannot be converted into common shares.

Series C and G preferred shares are redeemable in whole or in part at the option of the Company and subject to approval by the *Autorité des marchés financiers* (AMF) starting December 31, 2013 for series C shares and starting June 30, 2017 for series G shares. Series C and G preferred shares have no voting rights and are convertible at the option of the holder to class A, series D preferred shares starting December 31, 2013 for series C shares, and to class A, series H preferred shares starting June 30, 2017 for series G shares.

More information about the features of these preferred shares can be found in the prospectus.

I) DEBENTURES

The Company had five debentures on its balance sheet as at December 31, 2012, with a total book value of $747.8 million:

Debentures

(Payable semi-annually, unless otherwise indicated)	Book Value	Nominal Value	Maturity	Interest	Redemption and Repayment
Series A debenture ("IATS")	$150.0 million	$150.0 million	---	5.714%	Redeemable at the option of the Company as of December 2008 or repayable on maturity in 2053.
Subordinated debenture	$150.0 million	$150.0 million	June 30, 2019	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.	Redeemable by the Company before June 30, 2014, in whole or in part, subject to approval by the AMF, at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem the debenture in whole, but not in part, on each payment date of quarterly interest, at the par value, subject to prior approval by the AMF.
Subordinated debenture	$99.9 million	$100.0 million	August 1, 2023	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.	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.
Subordinated debenture	$99.3 million	$100.0 million	March 27, 2019 (issued on March 27, 2009)	8.25% until March 27, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 7.55%, payable quarterly.	Redeemable by the Company before March 27, 2014, in whole or in part, subject to approval by the AMF, at a redemption price that is equal to the higher of the Canada yield price and par. After March 27, 2014, the Company may redeem the debenture in whole or in part, on each payment date of quarterly interest, at the par value, subject to prior approval by the AMF. The carrying value of the debenture includes transaction costs and issue discount for a total of $1 million.
Subordinated debenture	$248.6 million	$250.0 million	December 14, 2021 (issued on December 14, 2011)	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.	Redeemable by the Company on or after December 14, 2016, in whole or in part, subject to prior approval by the regulatory bodies. The book value of this debenture includes the transaction costs and the premium at issue for a total of $1 million.

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

The financing expense on the debentures is made up of an interest expense totalling $42.4 million in 2012 ($31.0 million in 2011).

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

J) STOCK OPTION PLAN

In accordance with the stock option plan adopted by the Board of Directors in 2001, in 2012 the Human Resources and Corporate Governance Committee issued 507,000 new stock options. These new options, which will expire in 2022, were granted at an average weighted exercise price of $26.03. The issue, net of the options exercised and cancelled during the year, brings the number of stock options outstanding to 3,940,000, or 4.3% of the number of issued and outstanding shares as at December 31, 2012.

K) DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

On November 7, 2012, Industrial Alliance announced the establishment of a Dividend Reinvestment and Share Purchase Plan for its 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. The first dividend to be eligible under the plan was paid to shareholders on December 17, 2012. This plan led to the issuance of 212,787 common shares in the fourth quarter.

L) CREDIT RATINGS

In 2012, the three independent credit agencies that rate Industrial Alliance maintained all of their ratings for the Company at the same level as the previous year. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

The only change was the assignment of a negative outlook by Standard & Poor's and DBRS (only for the ratings pertaining to debt instruments in the case of DBRS). This change occurred following the preferred share issuances in June.

Credit Ratings

Agency	Type of Evaluation	Rating
Standard & Poor's	Financial Strength	A+ (Strong)
	Issuer Credit Rating	A+ (Strong)
	Subordinated debentures	A
	Industrial Alliance Trust Securities (IATS)	
	Canadian scale	P-1 (Low)
	Global scale	A-
	Preferred shares	
	Canadian scale	P-1 (Low)
	Global scale	A-
DBRS	Claims Paying Ability	IC-2
	Subordinated debentures	A
	Industrial Alliance Trust Securities (IATS)	A (low)
	Preferred shares	Pfd-2 (high)
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a+
	Subordinated debentures	a-
	Industrial Alliance Trust Securities (IATS)	bbb+
	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 its 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 to selected distributors in order to increase its penetration in certain niche markets, including the high net worth market. Also, in view of the very competitive environment in the individual insurance market, the Company 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. This subsidiary continues to capitalize on the Company's various distribution networks across the country to distribute its products.

B) BUSINESS GROWTH

Long-term interest rates continued to be historically low in 2012. Permanent insurance products are especially sensitive to a low interest rate environment given the very long-term nature of their commitments. The industry continued to be very active in terms of permanent product rate increases in 2012. At Industrial Alliance, the competitiveness and profitability of Company products are monitored regularly, with premium adjustments being made when necessary. In order for its products to remain profitable, the Company increased premiums in July 2012 on permanent life insurance and critical illness products, and again at the end of the year for permanent critical illness products only.

The sector experienced good business growth again in 2012. "Minimum premiums" grew by 15% to reach a high of $200.9 million. Premiums from the US market and from the high net worth market were especially instrumental in this growth. Minimum premiums are one of the main factors used by the Company to measure the sector's performance.

"Excess premiums" experienced strong growth in 2012, climbing 21% to reach $42.4 million. Excess premiums are premiums deposited by clients into their Universal Life policies to take advantage of the tax benefits offered by this type of product.

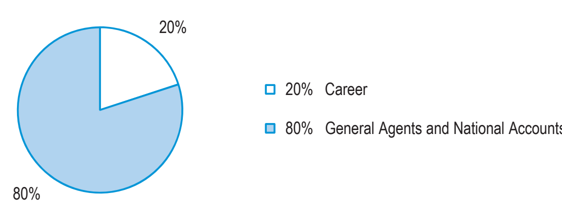
In total, the sector ended the year with sales of $243.3 million, up 16% over the previous year. In terms of relative performance for individual insurance sales, Industrial Alliance is still doing very well in Canada, ranking fourth for the first nine months of 2012, with a market share of 11.5%[1] (the same ranking as in 2011), and ranking first for Universal Life sales, with a market share of 19.2%.

Individual Insurance
Business Growth

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Sales[2]					
Minimum premiums	200.9	174.4	150.9	126.4	118.6
Excess premiums	42.4	35.0	35.7	20.7	28.3
Total	**243.3**	**209.4**	**186.6**	**147.1**	**146.9**
Growth[3]	16%	12%	---	0%	(8%)
Premiums	1,339.3	1,248.2	1,112.9	938.4	920.7
Growth[3]	7%	12%	---	2%	3%
Number of policies	112,618	114,046	117,091	112,335	107,030
Growth[3]	(1%)	(3%)	---	5%	9%

By distribution network, 80% of sales in 2012 came from the General Agents and National Accounts network, which is made up of brokers throughout all regions of Canada, and 20% came from the Career network, which is made up of dedicated Industrial Alliance agents, primarily in Quebec.

Sales by Distribution Network 2012



Universal Life sales grew by 10% in 2012. This growth was supported by sales in the high net worth market. Note that yearly renewable term (YRT) policies accounted for 43% of all Universal Life sales in 2012 (40% in 2011). These policies are less strain-intensive, which puts less pressure on the business line's profitability.

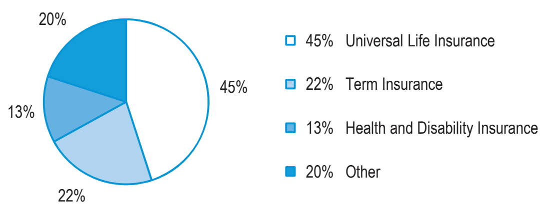
1 Annual data was not available at press time (source: Limra).
2 In the Individual Insurance sector, sales are defined as first-year annualized premiums.
3 2010 data is not comparable to 2009 due to the transition to IFRS accounting standards.

Universal Life policies continue to be the Company's most popular product, accounting for 45% of the sector's sales in 2012. In comparison, the proportion of Universal Life sales for the industry[1] averaged 28% in 2012 (industry data for the first nine months of the year) compared to 36% in 2011. Over the last few years, the industry has seen a shift from Universal Life policies to participating whole life policies, a market that is currently untapped by the Company.

Term product sales grew by 12% in 2012.

In terms of health and disability insurance products, sales grew by 19% in 2012. This increase is explained by the strong 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.

Sales by Product **2012**



Carried by sales of new policies and good persistency of in-force business, premium income in the Individual Insurance sector grew 7% in 2012 to reach $1.3 billion.

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 persistency rate of in-force business and growth of new sales for both the "insurance" and "savings" components. Sales in turn are dependent on the ongoing growth of the population (and its growing need for protection), the collective enrichment of the population, the size of the Company's distribution networks and new emerging niches for insurance products.

C) PROFITABILITY

Excluding the impact of the year-end changes in valuation assumptions, the sector recorded an operating profit of $127.5 million before taxes, a 35% increase over 2011.

The results were positive for most profitability parameters, except policy lapses. The rate increases implemented during the year also reduced new business strain.

D) 2012 ACHIEVEMENTS

Following are the main initiatives introduced in 2012:

- *Pricing adjustments to permanent insurance products* – As indicated above, the Company made two rate increases in 2012.
- *Term insurance products* – In its desire to maintain a competitive position, the Company lowered its rates for this type of product on July 3, 2012. The Company also launched 20-year term critical illness coverage on January 3, 2013.
- *Universal Life insurance* – In order to continue its breakthrough into the high net worth market, the Company strengthened its business relationship with a major distributor that targets this market.
- *Disability insurance* – Excellence product sales continued to grow outside Quebec in 2012, now accounting for over 25% of total sales. Excellence also launched a simplified issue cancer insurance product to round out its range of products that offer living benefits.

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 guaranteed interest investments, mutual funds, segregated funds (investment funds with guaranteed capital at death or at maturity), securities, 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 (TFSAs), registered retirement income funds (RRIFs) or non-registered plans.

B) BUSINESS GROWTH

The Individual Wealth Management sector made $3.1 billion in sales in 2011, down 13% from the previous year. Note that 2010 and 2011 were exceptional years in terms of sales.

For guaranteed return products (essentially guaranteed interest products and annuities), which are found in the Company's general fund, sales were down 19% since we stopped selling annuity products in the US in August. For the Canadian segment alone, sales were down 11%.

Segregated fund sales fell 17%, while mutual fund sales dipped by 7%. Considering that the Company stopped marketing the guaranteed minimum withdrawal benefit product, 2012 was satisfactory in terms of gross segregated fund sales.

Individual Wealth Management
Sales[2]

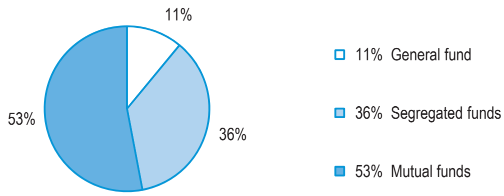
(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
General fund	325.1	403.6	441.1	404.3	345.5
Segregated funds	1,126.0	1,362.3	1,488.0	866.2	815.7
Mutual funds	1,649.5	1,777.7	1,747.2	1,079.5	1,261.2
Total	**3,100.6**	**3,543.6**	**3,676.3**	**2,350.0**	**2,422.4**
Growth	(13%)	(4%)	56%	(3%)	(22%)

[1] Source: Limra

[2] 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.

Sales by Product **2012**



In terms of net segregated fund sales, the Company was ranked 4th in 2012 with a market share of 25.2%[1]. Net segregated fund sales reached $308.7 million in 2012, 60% lower than in 2011. This was once again due to the elimination of the guaranteed minimum withdrawal product early in the second half of the year.

Mutual fund results were down 38% from 2011, with net sales totalling $455.7 million. These results are satisfactory despite a more challenging second quarter in terms of redemptions. The Company ended the year ranked 11th[2] in terms of net sales and IA Clarington maintained its relatively strong results versus its peers in terms of industry ranking.

Investment Funds
Net Sales

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Segregated funds	308.7	768.6	925.0	476.4	322.9
Mutual funds	455.7	729.5	797.1	281.4	289.5
Total	**764.4**	**1,498.1**	**1,722.1**	**757.8**	**612.4**
As a percentage of sales	28%	48%	53%	39%	29%

Funds under management totalled $20.6 billion as at December 31, 2012, up 6% from the end of the previous year. It's important to note that the strong decline in general fund assets under management is due to the Company's sale of its US fixed annuity contracts and accumulation riders. Assets under management continued to increase thanks to stock market growth and positive net sales. The Company was ranked fourth[1] in Canada in terms of segregated fund assets as at December 31, 2012, with 10.4% of the market (10.5% as at December 31, 2011), and thirteenth[2] for mutual fund assets (fourteenth in 2011).

Individual Wealth Management
Funds Under Management

	As at December 31				
(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
General fund	1,274.5	1,848.9	1,751.4	1,672.8	1,627.9
Segregated funds	9,858.1	9,098.7	8,794.6	7,204.5	5,562.1
Mutual funds	9,462.5	8,463.9	8,124.1	6,601.9	5,264.0
Total	**20,595.1**	**19,411.5**	**18,670.1**	**15,479.2**	**12,454.0**
Growth	6%	4%	21%	24%	(18%)

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.

1 Source: Investor Economics
2 Source: IFIC

C) PROFITABILITY

The Individual Wealth Management sector mainly benefited from the gains generated by the dynamic risk hedging program in 2012. Gains were recorded on longevity of annuitants.

D) WHAT'S NEW IN 2012?

In the Individual Wealth Management sector, in light of volatile stock markets and the historically low interest rate environment, the Company reviewed its risk management practices for products with a guaranteed minimum withdrawal benefit. The low interest rate environment led to two series of changes at Industrial Alliance. In April, a modified, more cost-effective version of the guaranteed minimum withdrawal benefit product was launched. Then, just six months later, the Company pulled out of this market completely by withdrawing the Eco*flextra* series from the IAG Savings and Retirement Plan and no longer taking new deposits for the series. Nevertheless, in its desire to maintain an important role in helping retirees plan and enjoy their retirement, the Company will continue to provide a comprehensive range of products that continues to meet all its customers' needs.

INFORMATION ON 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. Its mission is "to contribute to the growth of the Industrial Alliance Group and its distribution networks through the direct sale of general insurance products to individuals."

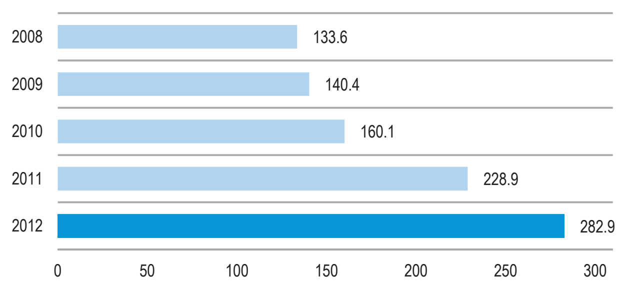
IAAH offers highly innovative solutions drawn from an in-depth analysis of client needs and its own business processes. The goal is to find unique ways of meeting general insurance needs, which it accomplishes through such programs as the *Mobiliz* initiative introduced in 2012.

One of the benefits 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 has also contributed to the rapid growth of IAAH over the years.

B) BUSINESS GROWTH

In 2012, this unique business model once again yielded impressive results. Growth in direct written premiums reached 24%, compared to industry growth of 3%. The launch of two new auto insurance products by IAAH in the past few years has undoubtedly played a key role in achieving such excellent results. IAAH's business volume now amounts to $282.9 million.

Direct Written Premiums
(Including Warranties and Replacement Insurance) ($Million)

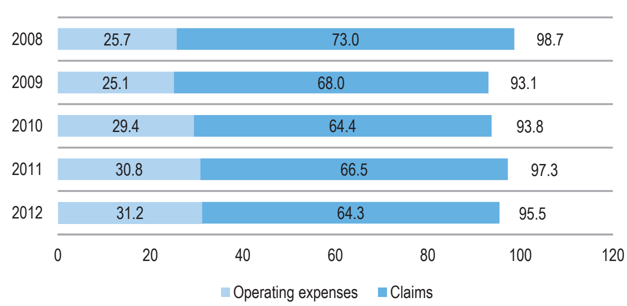


C) PROFITABILITY

Results were equally good from a profitability standpoint. IAAH's claims rate improved more than 2 percentage points over the previous year, at 64.3%. This is in spite of two catastrophic events in the summer of 2012 following severe thunderstorms in the greater Montreal area on May 29 and August 11.

In terms of operating expenses, IAAH's operating expense to premium ratio was 31.2% in 2012, up just four tenths of a percentage point. This brings the combined rate (claims plus operating expenses) to 95.5%. Note that the Company's combined rate was below 100% for the tenth year in a row.

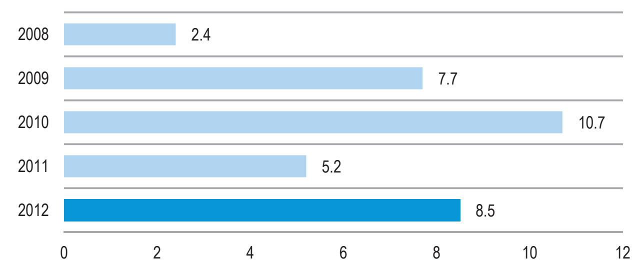
Combined Rate[1] (%)



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 2012, IAAH's investment income increased 20% over the previous year.

This enabled IAAH to earn net income (before AOCI) of $8.5 million. Up 63% from 2011, this income provides the parent company with an enviable return on equity of 22.4%.

Net Income (Before AOCI)[2] ($Million)



D) WHAT'S NEW IN 2012?

In April 2012, IAAH launched *Mobiliz*, a revolutionary new auto insurance program that is 100% web based and supported by telematic technology. *Mobiliz* 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. Insurance premiums are calculated based on driver behaviour as measured by a GPS-type module installed in the vehicle. The device detects the number of kilometres driven as well as three key driving behaviours: speeding, forced acceleration and hard braking. Once a week, *Mobiliz* clients receive an activity report on their driving behaviour and the impact on their premium. Thanks to this program, young people who drive responsibly can benefit from the lowest rates in the industry.

[1] Data for 2010 and 2011 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

In the Group Insurance Employee Plans sector, the Company distributes a broad range of life and health insurance, accidental death and dismemberment (AD&D) insurance, dental care insurance, short and long-term disability insurance, critical illness and home care insurance, and out-of-Canada medical insurance.

In addition, the Company offers a number of tools and services for the effective administration of group insurance plans, including a health spending account and a support program for employees and employers (employee assistance program, workforce management program, drug payment card, etc.). Industrial Alliance also offers the Health & Wellness Companion, a website designed to promote the health and wellness of employees and their dependents. Lastly, the Company has a state-of-the-art transaction-driven website called Web@dmin for plan administrators, members and benefits advisors.

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

The products are marketed Canada-wide through specialized brokers and actuarial consulting firms. The sector has over 500 employees, has signed agreements with some 2,700 groups, and serves over 500,000 plan members. The Company has sales and service offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

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

B) BUSINESS GROWTH

On the heels of an exceptional year, the Group Insurance Employee Plans sector posted sales of $46.1 million in 2012, down 65% from 2011. For the Company's target market of groups with 50 to 999 employees, sales were up 16% compared to the previous year.

Despite these challenging results and lower than expected business persistency, premiums and premium equivalents peaked at $965.0 million in 2012, an increase of 1% over the previous year.

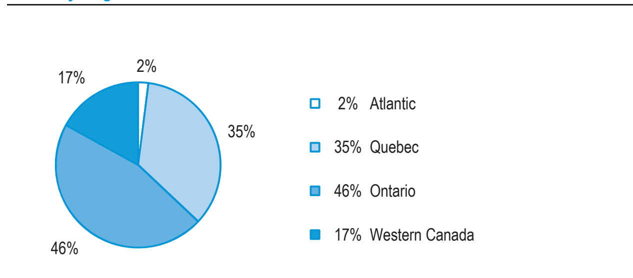
Group Insurance – Employee Plans
Business Growth

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Sales[1]	46.1	131.9	72.2	75.0	92.9
Growth	(65%)	83%	(4%)	(19%)	29%
Premiums	788.7	788.3	714.6	727.7	684.1
Premium equivalents[2]	48.2	43.9	51.0	115.9	101.9
Investment contracts[3]	128.1	122.7	115.6	---	---
Total	**965.0**	**954.9**	**881.2**	**843.6**	**786.0**
Growth	1%	8%	---	7%	14%

Growth in premiums and premium equivalents is important because this is the key long-term profitability driver for the Group Insurance Employee Plans sector. Growth in premiums and premium equivalents is a function of the increase in gross sales, in-force business persistency and growth in premiums from renewed contracts. Gross sales are primarily dependent on the size of the Company's distribution network and the quotation success rate. Premiums from renewed groups are a function of the change in the number of employees within in-force groups, salary growth and changes in group experience.

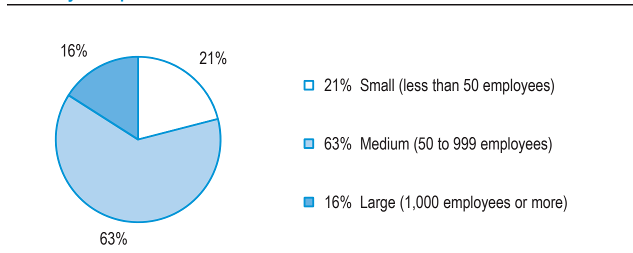
The following chart shows a breakdown of sales by region in Canada, dominated by Ontario and Quebec.

Sales by Region 2012



By group size, sales were down in the small groups market. Sales were up in the Company's target market of groups with 50 to 999 employees, but were down sharply in the large groups market compared to 2011, which was a very good year due to two major sales.

Sales by Group Size 2012



1 In the Group Insurance Employee Plans sector, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only).
2 Premium equivalents are income from administrative services only (ASO) contracts.
3 Hold Harmless Premiums

After the first nine months of 2012, industry sales were up 32% over 2011. This growth, however, came almost exclusively from one insurer, without which the increase would have been 2% for the market. In terms of market share, Industrial Alliance ended the year in eighth[1] place in Canada, with 2.1% of the market (sixth in 2011, with 7.3% of the market).

In the Company's target market of groups with 50 to 999 employees, sales were down 8% from 2011 after three quarters, while industry sales were up 12% at that time. This left Industrial Alliance in seventh position, with 5.2% of the market (seventh also in 2011, with 5.5% of the market).

C) PROFITABILITY

Disability insurance results were especially challenging at the beginning of 2012. Thanks to a profitability repositioning strategy, experience gradually improved during the year.

D) WHAT'S NEW IN 2012?

Guided by the division's strategy, a number of initiatives were introduced in 2012:

- *Improvement of the business processes* – As part of the Lean initiative, an updated enrolment process for new insureds was implemented early in the year for one of our major clients. This change had very positive results in terms of both service times and quality of service. A major re-engineering of the process for managing health and dental paper claims was also carried out. The new process was implemented in November 2012.
- *Improved customer service* – Client satisfaction surveys are conducted every quarter and are used to calculate the Client Recommendation Index (CRI). They're also used to assess the impact of customer service initiatives and to set priorities for future improvements.
- *Control of plan costs* – Three new disability management guides were created. Designed for disabled plan members, managers and employers, these guides promote best practices with respect to workforce management, as well as disability and return to work management. In addition, as of December 2012, a new series of disability experience reports is available to employers and benefits advisors. Lastly, an awareness campaign was launched to let plan members know how they can help reduce the growing costs of their drug insurance plans.
- *Participation in Canadian drug insurance pooling program* – In 2012, Industrial Alliance confirmed its participation in the Canadian Drug Insurance Pooling Corporation. This program involves a commitment by Canadian group insurance carriers to share the expense of high-cost drugs by pooling the risks. The main goal of this initiative is to help employers obtain affordable drug insurance coverage even if one or more insureds in the group require high-cost drugs.

[1] Source: Limra

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 (formerly the Creditor Insurance division).

The Dealer Services division has over 280 employees, has signed agreements with more than 2,600 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, Quebec City, 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 2012 for all regions, with sales reaching $326.4 million, up 23% from 2011. Sales from Dealer Services operations accounted for $246.7 million, up 15% from 2011, with the remaining $79.7 million coming from the newly integrated VAG operations. Sales growth has significantly outperformed auto industry growth. The Canadian light vehicle industry shows light vehicle sales up only 5.7%[2] compared to 2011.

Dealer Services - Creditor Insurance
Business Growth

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Sales	326.4	265.9	183.3	152.4	194.2
Reinsurance	39.9	35.4	34.5	30.9	34.7
Premiums	**286.5**	**230.5**	**148.8**	**121.5**	**159.5**
Growth	24%	55%	22%	(24%)	(1%)

[2] Source: DesRosiers Automotive Consultants Inc.

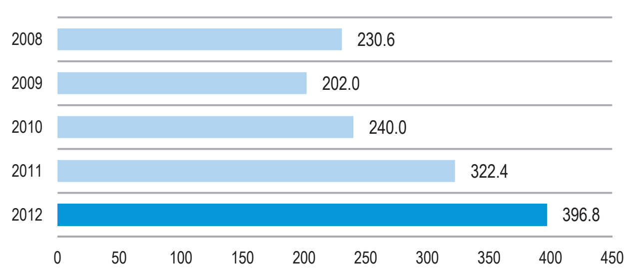
Dealer Services – P&C

P&C sales with motor vehicle dealers were very strong in 2012, up 25% from 2011 to reach $70.4 million. Mechanical warranty sales were extremely strong as well, with sales up 22% over last year.

Dealer Services – P&C[1]
Business Growth

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Underwritten	65.5	51.3	51.2	45.1	31.7
Non-Underwritten	4.9	5.2	5.5	4.5	4.7
Total	**70.4**	**56.5**	**56.7**	**49.6**	**36.4**
Growth	25%	0%	14%	36%	38%

Dealer Services – Creditor Insurance and P&C Total Sales[2] **($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 satisfactory in 2012 despite a highly competitive environment.

D) WHAT'S NEW IN 2012?

In addition to strong sales gains, there were other positive developments in 2012:

- Dealer Services continued to expand into new areas of the extended warranty segment with recent agreements with Ritchie Bros. Auctioneers and Volvo Canada. Ritchie Bros. Auctioneers offer very short term warranties for used vehicles and equipment sold at auction. Volvo Canada offers extended warranties in addition to the standard manufacturer's term on new vehicles. Through the Dealer Services division, the Company continued to build expertise and capability to expand in the extended warranty business segment.
- Industrial Alliance Pacific, General Insurance (IAPG) acquired its license from the *Autorité des Marchés Financiers* (AMF) to be able to write replacement insurance in the province of Quebec. This license was required to achieve the plan of moving Dealer Services' replacement insurance business from IAAH to IAPG starting in February 2013. IAPG also initiated the process of obtaining a rating from A.M. Best to meet the new requirements of certain financial institutions.

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 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 five regional offices, each with its own dedicated sales staff. The five offices are located in Vancouver, Calgary, Toronto, Montreal and Halifax, making Special Markets Solutions truly coast-to-coast.

B) BUSINESS GROWTH

Sales growth of 16% allowed the division to cross the $150 million threshold for the first time, with a final tally of $154.0 million in gross premium sales. This is $21.0 million above the 2011 result. The travel line of business experienced exceptional growth, while the AD&D, disability, critical illness and life lines of business also grew well in 2012.

Special Markets Solutions
Business Growth

(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Sales (gross premiums)	154.0	133.0	133.2	118.2	117.3
Growth	16%	0%	13%	1%	7%

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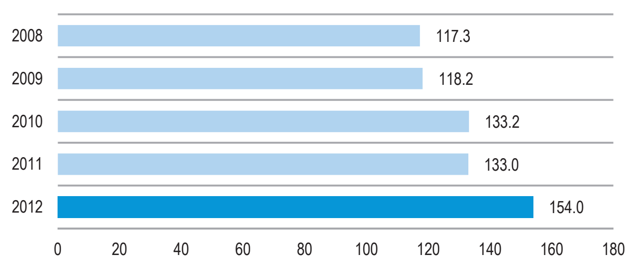
[1] P&C premiums exclude replacement insurance business, which was underwritten by IAAH in 2012 and 2011.

[2] In the Dealer Services division, creditor insurance sales are defined as gross premiums minus cancellations (premiums before reinsurance).

Sales (Gross Premiums) **($Million)**



Similarly, net sales, defined here as gross premiums net of reinsurance, experienced good growth in 2012. Net sales in 2012 were $143.8 million, which is $20.7 million (17%) above 2011 net sales. The travel, AD&D, critical illness and life lines of business accounted for this growth.

C) PROFITABILITY

Profit for the Special Markets Solutions division in 2012 was slightly better than expectations.

D) WHAT'S NEW IN 2012?

The most significant development in 2012 was a divisional brand audit, leading to a rebranding of the division to "Special Markets Solutions" with a dynamic new logo. The year also involved various projects to facilitate the merger of Industrial Alliance Pacific and Industrial Alliance. All these developments led to significant changes to the division's marketing materials and web presence.

The division's coast-to-coast presence was further strengthened with continued growth in the Quebec and Atlantic regions.

During 2012, enhancements were made to our alumni Voluntary Life product and Guaranteed Issue Life product, and a comprehensive review of the Critical Illness product range was initiated to maintain a competitive edge. Various marketing campaigns were conducted throughout the year, involving increased use of electronic marketing.

Four Lean initiatives were implemented in 2012 to streamline administrative, systems and marketing processes.

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 150 employees, has signed agreements with nearly 8,500 groups, and serves approximately 250,000 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 $868.4 million in premiums, an increase of 19% 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)	2012	2011	2010	2009	2008
Accumulation Products					
Recurring premiums	482.9	435.2	405.1	366.0	337.8
Transfers	276.2	107.1	203.2	353.7	526.2
Premium equivalents	82.3	71.8	55.5	---	---
Subtotal	841.4	614.1	663.8	719.7	864.0
Insured Annuities	27.0	114.6	56.2	120.1	250.9
Total	**868.4**	**728.7**	**720.0**	**839.8**	**1,114.9**
Growth[1]	19%	1%	---	(25%)	35%

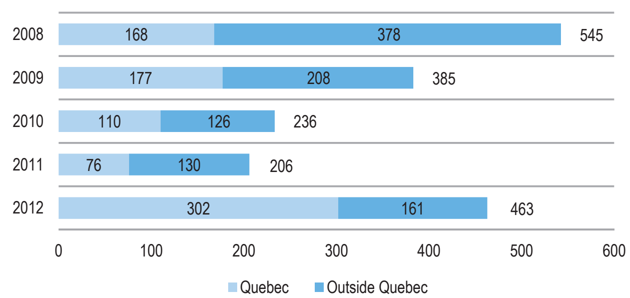
Accumulation Products

Three factors contributed to the growth in accumulation product sales, which totalled $841.4 million in 2012:

- Recurring premiums, which were up 11.0% from 2011. 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 158% from 2011.
- Premium equivalents, which were up 15% from 2011.

[1] 2010 data is not comparable to 2009 due to the transition to IFRS accounting standards.

Accumulation Products
New Plan Sales[1] ($Million)



For the sector to successfully grow its business volume, new plans need to be sold and existing plans need to be maintained. New plan sales totalled $463 million in annualized premiums in 2012.[1]

The volume of new plan sales made outside Quebec accounted for 35% of all sales made in 2012.

Accumulation Products
Net Fund Entries

(In millions of dollars)	2012	2011	2010	2009	2008
Entries	841.4	614.1	663.8	719.7	864.0
Disbursements	604.1	597.9	469.3	351.6	447.0
Net entries	**237.3**	**16.2**	**194.5**	**368.1**	**417.0**

Net fund entries were considerably higher than the previous year, mainly due to the high volume of fund entries.

Insured Annuities

In the insured annuities segment, the year ended with $27.0 million in sales. Although this number is lower than the previous year, the strategy used in this market segment remains the same: the Company is aiming for selective, prudent growth by focusing on appropriate risk management, primarily in terms of mortality.

Funds Under Management

Funds under management amounted to $9.0 billion in 2012, an increase of 6% compared to 2011. 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

	As at December 31				
(In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008
Accumulation Products	5,920.3	5,350.0	5,356.1	4,339.6	3,443.0
Insured Annuities	3,128.7	3,147.8	2,941.8	2,852.0	2,697.2
Total	**9,049.0**	**8,497.8**	**8,297.9**	**7,191.6**	**6,140.2**
Growth	6%	2%	15%	17%	0%

C) PROFITABILITY

The Group Savings and Retirement sector recorded an operating profit of $15.7 million in 2012, compared to $16.3 million in 2011.

D) WHAT'S NEW IN 2012?

Following are the main initiatives introduced in 2012:

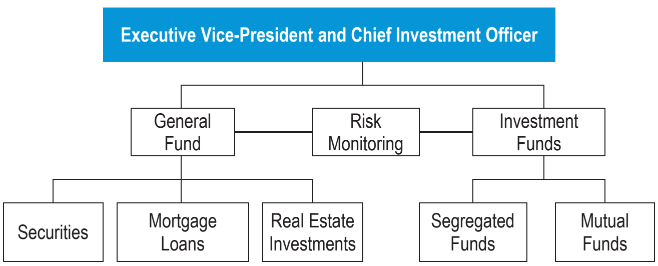
- An offer for the pooled registered pension plan (PRPP) and a web solution for the voluntary retirement savings plan (VRSP) were rolled out.
- Various systems tools and documents were developed to better meet client needs. Employers can now make contributions online and member statements can now be used as a financial planning tool for retirement.
- The Client Recommendation Index (CRI), a tool for measuring customer satisfaction, was calculated for the first time using the results of a client survey. The sector's goal is to improve its CRI score as part of an ongoing strategy to enhance its overall service offer.

[1] New plan sales are measured by first-year annualized premiums, which equals the total of the initial asset transfer and recurring first-year annualized premiums. Note that the 2010 data has been adjusted.

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 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.

B) ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

At December 31, 2012, Industrial Alliance had $83.3 billion in assets under management and administration, an increase of 14% 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, were up 15% in 2012. All components of assets under management contributed to this growth.

Assets under administration were up 9% 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.).

Assets Under Management and Under Administration

	As at December 31				
(In millions of dollars)	**2012**	**2011[1]**	**2010[1]**	**2009**	**2008**
Assets under management					
General fund	26,726.0	23,718.1	20,544.6	17,626.5	15,415.2
Segregated funds	15,021.2	13,722.9	13,563.7	11,450.3	8,924.2
Mutual funds	9,462.5	8,476.3	8,135.7	6,615.7	5,277.7
Other	8,934.5	6,199.8	5,010.6[2]	563.3	596.7
Subtotal	60,144.2	52,117.1	47,254.6	36,255.8	30,213.8
Assets under administration	23,200.4	21,233.6	21,654.1	22,150.8	19,258.4
Total	**83,344.6**	**73,350.7**	**68,908.7**	**58,406.6**	**49,472.2**

C) FINANCIAL MARKET BEHAVIOUR IN 2012

Despite fears raised by the challenging political and financial situation in some European countries, investors regained a certain optimism in 2012 following intervention by the central banks and encouraging news about consumer spending and job growth in the US.

The Canadian stock market, represented by the S&P/TSX composite index, generated a total return of 7.2% in 2012. This was much better than the 2011 loss of almost 9% but still below the performance of most other foreign equity markets. This relative under-performance is explained by the pullback of the energy and materials sectors, which are strongly represented in the Canadian index. As a result, the year-over-year growth in the Canadian index is explained by positive returns in most other index sectors, particularly the health sector, but in the financial and industrial sectors as well.

The US stock market, represented by the S&P 500 index, had a very good year with a total return of 16% (13.5% in Canadian dollars) despite all the uncertainty surrounding the fiscal cliff. This performance is remarkable, especially considering that gains were posted in all sectors and that eight of the ten sectors generated double-digit returns.

Outside North America, a number of stock markets experienced significant growth despite investors' apprehension regarding European uncertainty. European equity markets were generally up at year-end, with the MSCI Europe index closing the year up 17.3% (in Canadian dollars).

After a very good year in 2011, the Canadian bond market delivered a lacklustre performance in 2012, as demonstrated by the 3.6% return of the DEX Universe Bond Index (10% return in 2011). In this very low interest rate environment, long-term bonds offered the greatest appreciation thanks to lower rates for long-term maturities.

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 Reflects reclassification of assets managed for third parties.

GENERAL FUND

2012 HIGHLIGHTS

- Investment strategies successfully adapted to reflect the market environment
  - Program to optimize returns and improve asset/liability matching showed good results, neutralizing the impact of the decrease in the ultimate reinvestment rate (URR) on individual insurance contract liabilities
  - Hedging program a success
- Decreased exposure to US mortgage market following the sale of the US annuity business
- Net impaired investments very low: 0.04% of investments
- Bond portfolio
  - Bonds rated BB and lower: just 0.10%
  - No defaulted bonds as at December 31, 2012
- Mortgage loan portfolio
  - Delinquency rate: 0.22%
  - Proportion of insured loans: 73.4%
- Real estate portfolio
  - Occupancy rate: 95.2%
  - Gain of $125.5 million in 2012 recognized in the financial statements in 2012 following the reappraisal of the real estate holdings

A) NOTABLE ACHIEVEMENTS IN 2012

The Investments sector successfully achieved one of its goals for 2012: to put effective strategies in place for optimizing returns and improving asset/liability matching in order to offset the impact of the expected decrease in the ultimate reinvestment rate (URR) on individual insurance contract liabilities (for more information, refer to the "2012 Results and Market Guidance for 2013" section).

Another achievement by investment managers in 2012 was the effectiveness of the hedging program, which was designed to mitigate the impact of financial market volatility on the segregated funds' capital guarantees. This program had a positive impact on the Company's net income in 2012, enabling managers to generate higher returns than the benchmark indexes.

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.

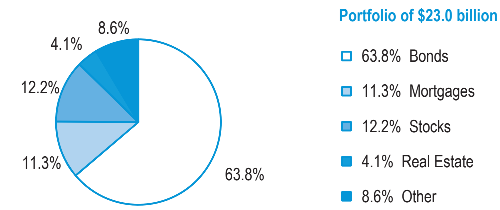
Most of the assets related to the Company's insurance and annuity operations are invested in fixed-income securities, such as bonds and mortgages, and to a lesser extent, in equity securities. The assets related to the Company's capital are primarily invested in fixed-income securities and preferred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

At the end of 2012, 63.8% of the Company's investments were invested in bonds and 11.3% in mortgages, for a total of 75.1% in fixed-income securities. The proportion of fixed-income securities has remained relatively stable over the last few years.

General Fund Investments

(In millions of dollars)	As at December 31 2012	2011	2010	2009[1]	2008[1]
Bonds	14,643.1	13,676.8	11,121.2	9,409.5	7,942.2
Mortgages	2,603.6	3,251.4	3,334.5	3,405.0	3,508.1
Stocks	2,794.6	2,408.5	2,195.2	1,896.4	1,340.2
Real estate	953.1	788.5	716.1	649.0	629.5
Other invested assets	1,978.9	1,589.4	1,356.7	1,130.3	976.3
Total	**22,973.3**	**21,714.6**	**18,723.7**	**16,490.2**	**14,396.3**

Investments by Asset Category As at December 31, 2012



C) OVERALL QUALITY OF INVESTMENTS

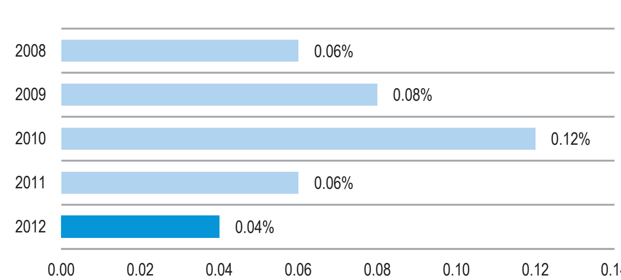
The overall quality of investments continued to be very good, and even improved in 2012. Net impaired investments totalled $9.0 million as at December 31, 2012, compared to $13.1 million as at December 31, 2011. Impaired investments represent just 0.04% of total investments (0.06% as at December 31, 2011).

Net Impaired Investments (Excluding Insured Loans)

(In millions of dollars)	As at December 31 2012	2011	2010	2009	2008
Bonds	8.0	8.4	8.4	4.5	0.5
Mortgages	1.0	4.7	13.1	6.9	7.8
Repossessed properties	---	---	---	1.6	0.5
Total	**9.0**	**13.1**	**21.5**	**13.0**	**8.8**

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

Net Impaired Investments as a Percentage of Total Investments As at December 31



The Company has very little exposure to government or corporate-issued bonds from countries that are currently experiencing financial or political difficulties.

[1] These data exclude derivatives.

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as "available for sale" amounted to $0.3 million at December 31, 2012, compared to $5.4 million at December 31, 2011. This decrease is mainly explained by the sale of two securities during the year.

At the end of 2012, the Company did not hold any bonds whose market value was 20% or more lower than the nominal value for six or more months.

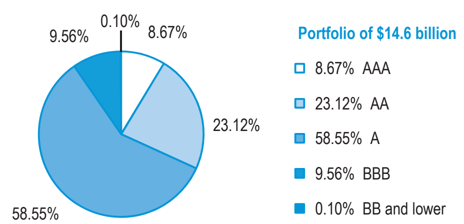
D) BOND PORTFOLIO

The quality of the bond portfolio, which totalled $14.6 billion as at December 31, 2012, continued to be very good and did not contain any defaulted bonds on that date.

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

The proportion of bonds rated A or higher represented 90.34% of the portfolio at the end of 2012, compared to 90.06% of the portfolio at the end of 2011. As at December 31, 2012, bonds rated BB and lower represented just $15.1 million (0.10% of the portfolio), compared to $16.2 million as at December 31, 2011 (0.12% of the portfolio).

Bonds by Credit Rating — As at December 31, 2012



In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company like Industrial Alliance. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. As at December 31, 2012, private issue bonds accounted for $2.2 billion, which represents 15.3% of the bond portfolio.

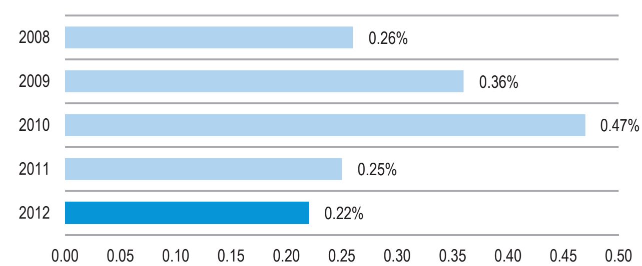
Bond Portfolio

(In percent, unless otherwise indicated)	As at December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Book value of the portfolio ($Million)	14,643.1	13,676.8	11,121.2	9,409.5	7,942.2
Distribution by category of issuer					
Governments[1]	60.5	59.0	63.2	63.3	61.1
Municipalities	3.9	3.0	1.5	1.3	1.4
Corporations – Public issues	20.3	23.6	21.1	20.8	21.6
Corporations – Private issues	15.3	14.4	14.2	14.6	15.9
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate	0.01	0.01	0.01	0.00	0.01

E) MORTGAGE LOAN PORTFOLIO

The quality of the mortgage loan portfolio improved in 2012. The delinquency rate dropped from 0.25% as at December 31, 2011 to 0.22% as at December 31, 2012. In total, as at December 31, 2012, delinquent loans represented just $5.6 million of a $2.6 billion portfolio. Nearly 80% of these delinquent loans were insured.

Delinquency Rate as a Percentage of Mortgage Loans — As at December 31



The mortgage loan portfolio was down $647.8 million in 2012. This decrease reflects the sale of certain blocks of loans during the year.

Mortgage Loan Portfolio

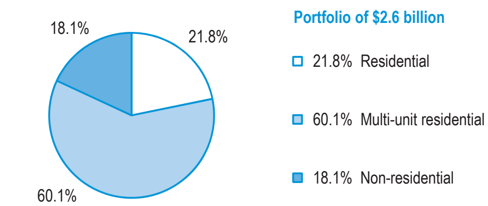
(In percent, unless otherwise indicated)	As at December 31				
	2012	**2011**	**2010**	**2009**	**2008**
Book value of the portfolio ($Million)	2,603.6	3,251.4	3,334.5	3,405.0	3,508.1
Distribution by type of loan					
Insured loans	73.4	64.8	68.4	71.8	71.3
Conventional loans	26.6	35.2	31.6	28.2	28.7
Total	100.0	100.0	100.0	100.0	100.0
Delinquency Rate	0.22	0.25	0.47	0.36	0.26

The Company reduced its exposure to the US mortgage market considerably with the sale of its US annuity business in August 2012. This contributed to an increase in the proportion of insured loans, which rose from 64.8% at the end of 2011 to 73.4% at the end of 2012.

Once again this year, the proportion of loans secured by single-family or multi-unit residential properties was over 80% (81.9% at December 31, 2012).

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

Mortgage Loans by Type of Property — As at December 31, 2012

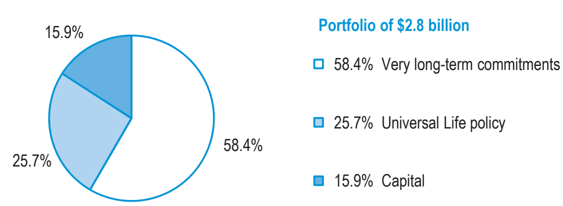


F) STOCK PORTFOLIO

As at December 31, 2012, investments in equity securities amounted to $2.8 billion, or 12.2% of the Company's total investments, compared to $2.4 billion or 11.2% 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, or to invest a portion of the Company's capital.

Stock Portfolio by Type of Matching — As at December 31, 2012



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.

The proportion of the stock portfolio used to match long-term insurance contract liabilities increased over the past year, from 56.9% at December 31, 2011 to 58.4% at December 31, 2012. However, at the same time, the Company also invested more in high dividend shares, which generally tend to produce better returns in the long term.

Lastly, note that at December 31, 2012, of all the assets backing the long-term insurance contract liabilities, 18% were made up of stocks.

Stock Portfolio

	As at December 31				
(In percent, unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Book value of the portfolio ($Million)	2,794.6	2,408.5	2,195.2	1,896.4	1,340.2
Distribution by category of stock					
Common shares	44.9	39.0	22.3	13.5	18.8
Preferred shares	15.5	8.3	8.6	8.8	10.3
Market indices	21.2	30.2	41.5	43.2	26.0
Investment fund units and other	18.4	22.5	27.6	34.5	44.9
Total	100.0	100.0	100.0	100.0	100.0

G) REAL ESTATE PORTFOLIO

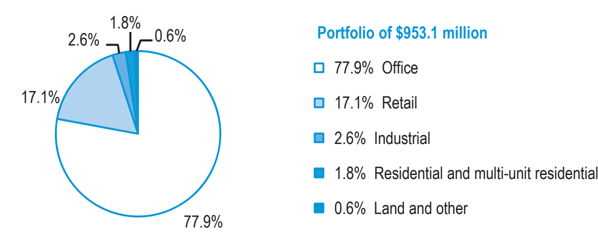
As at December 31, 2012, the book value of investment properties totalled $953.1 million, which represents an increase of 21% compared to the end of 2011. The majority of this growth is due to a $125.5 million increase in the fair value of investment properties that were reappraised during the year. Real estate investments represented 4.1% of total investments as at December 31, 2012, compared with 3.7% at December 31, 2011.

The Company recognizes investment properties at fair value, while own-use properties are valued at cost. Refer to note 2 of Industrial Alliance's consolidated financial statements for more details in this regard.

The occupancy rate of the Company's investment properties was up slightly in 2012 (95.2% at December 31, 2012 compared to 94.6% at December 31, 2011), and compares very favourably with that of commercial properties in large Canadian cities. Office buildings account for over three quarters of real estate investments.

Lastly, note that the book value of the Company's own-use properties was $125.9 million at December 31, 2012.

Investment Properties by Category of Property — As at December 31, 2012



Investment Properties

	As at December 31				
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Book value of the portfolio	953.1	788.5	716.1	649.0	629.5
Market value/book value of the portfolio	---	---	---	126.9%	129.4%
Occupancy rate	95.2%	94.6%	92.9%	94.4%	94.0%

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. Note that the maximum credit risk decreased in 2012, primarily due to the decrease in bond forwards.

For more information, refer to notes 5, 7 and 15 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

(In millions of dollars)	2012	2011
Net fair value[1]	92	180
Notional amount[2]	6,175	3,998
Maximum credit risk[3]	145	207
Future credit risk[4]	105	64

I) OTHER INVESTED ASSETS

The Other Invested Assets category (8.6% 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 mitigate 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 is cause for concern.

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. As at December 31, 2012, the maximum amount authorized for these lines of credit was $57.4 million ($80.3 million at December 31, 2011). As at December 31, 2012, none of the lines of credit were used.

1 Positive fair value of the derivative financial instruments presented under assets in the consolidated statement 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.
3 Maximum credit risk is the cost of replacing all derivative financial instruments that have a positive value, should the counterparty default. This amount fluctuates from one period to another according to changes in interest rates and equity markets.
4 The future credit risk represents the amount that the counterparties could potentially owe the Company according to different market scenarios.

INVESTMENT FUNDS (Segregated Funds and Mutual Funds)

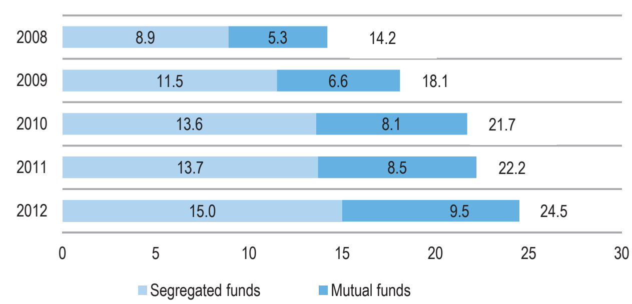
A) INVESTMENT FUND ASSETS

Investment fund assets for the Industrial Alliance Group totalled $24.5 billion as at December 31, 2012 ($15.0 billion in segregated funds and $9.5 billion in mutual funds), which represents an increase of 10.4% over 2011. This growth was driven by the positive contribution of net sales in 2012 and good equity market performances.

Thanks to steady growth in the past few years, the Industrial Alliance Group has become a leader in the investment fund industry and is now one of the top fifteen fund managers (mutual funds and segregated funds combined) in Canada.

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

Segregated Fund and Mutual Fund Assets as at December 31 **($Billion)**



B) RANGE OF FUNDS

Industrial Alliance offers a broad range of segregated funds designed for its individual and group clients. As at December 31, 2012, Individual Wealth Management was offering its clients 76 funds open to new premiums, while Group Savings and Retirement was offering 72. For the most part, each of these business lines offers funds that are designed specifically for their respective clientele, but there are some funds that can be distributed through both lines of business.

The main families of segregated funds offered by each line of business (individual and group) offer excellent diversification in terms of asset class, management style, geographic region and choice of management firm. In keeping with its philosophy of ongoing improvement, the Company continued to make adjustments to its fund families in 2012, and in cooperation with IA Clarington, announced the appointment of a new portfolio manager renowned in the Canadian investment industry.

The Group Savings and Retirement sector launched four new funds in the past year to further diversify the choice of strategies available. These new funds are managed by firms the Company was already working with and that have an excellent reputation in the Canadian pension plan industry.

In the Individual Wealth Management sector, the Company launched five new segregated funds at the beginning of the year, enabling it to expand its offering and create additional synergy with IA Clarington. The Company also took one segregated fund off the market that had a guaranteed minimum withdrawal benefit. Lastly, Industrial Alliance added six new funds in December, which are available to holders of certain contracts (Ecoflex, My Education and Eco*flextra*).

IA Clarington launched five new mutual funds in the past year, bringing the number of funds it offers to over 60 at the end of 2012. Of the new funds launched, four focus on the "income" component and on tax-efficiency for non-RRSP accounts — two sought-after features by many investors in the past few years.

As at December 31, 2012, 57.6% of Industrial Alliance's investment fund assets (divided among 91 funds) was managed by the Company's in-house managers, while 42.4% (114 funds) was managed by external fund managers. The Industrial Alliance Group has strategic alliances with over 40 external managers.

Industrial Alliance Group's Active Investment Funds

	As at December 31, 2012			
	Number of funds	**Assets ($Billion)**	**Distribution of assets**	**Proportion of assets managed in-house[1]**
Segregated funds	152	15.0	61.2%	69.3%
Mutual funds	63	9.5	38.8%	39.1%
Total	**215**	**24.5**	**100.0%**	**57.6%**

C) INVESTMENT FUND PERFORMANCE

Equity markets benefited from the intervention of a number of central banks in 2012, enabling them to generate attractive gains. Several of the Company's investment funds benefited from these gains in terms of nominal returns over the past twelve months. On a relative basis, however, the year was fairly unremarkable with approximately half of investment fund assets surpassing their respective medians.

As shown in the table below, 46% of managed assets surpassed the median over a one-year period, the same as in 2011. Results were somewhat lower over longer periods, but continued to be above the median over 5-year and 10-year periods. Performance over a 3-year period was less favourable, with only 36% of assets surpassing the median return. This is explained in part by the slightly below-median performance of certain large funds, including bond, diversified and dividend funds. Nevertheless, it's important to note that many of these funds added value—sometimes considerable value—compared to their benchmark indexes over the same periods.

Gross Relative Performance
Segregated Funds and Mutual Funds

(In percent)	1 year	3 years	5 years	10 years[2]
1st quartile	12	27	17	24
2nd quartile	34	9	37	36
Above the median - As at December 31, 2012	**46**	**36**	**54**	**60**
Above the median - As at December 31, 2011	46	51	70	80

The returns on all of our 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.

2 Excludes returns from mutual funds since Industrial Alliance has been offering this type of fund for less than 10 years.

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, 2012, 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.

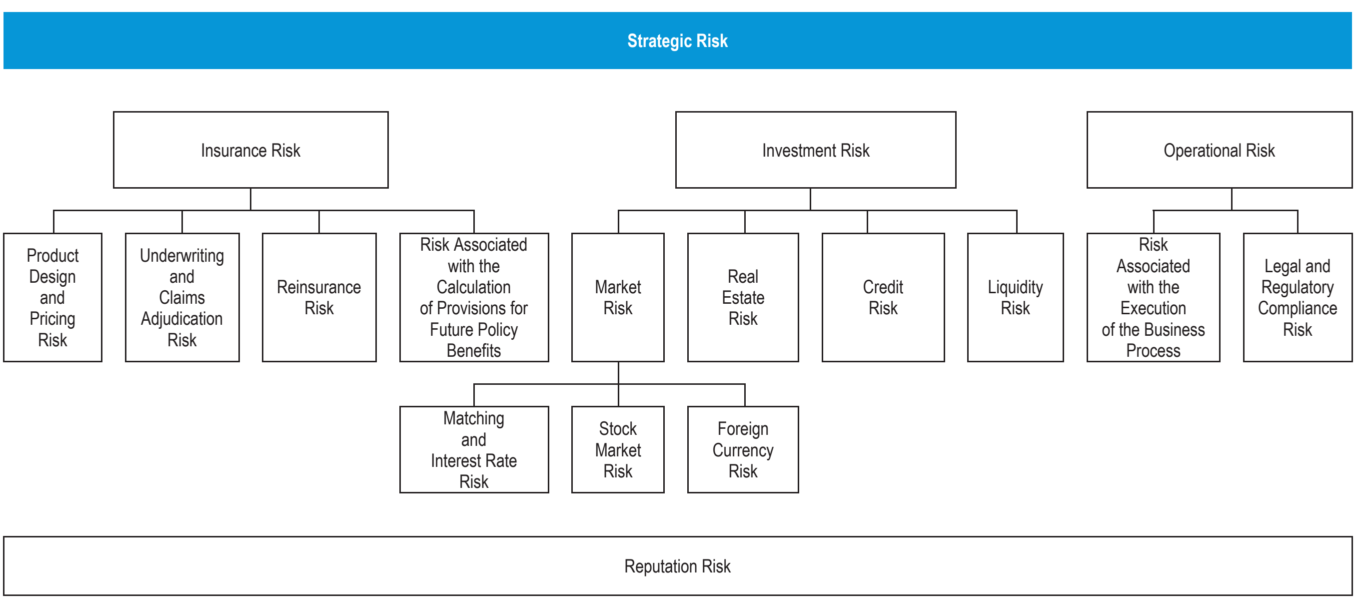
The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required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

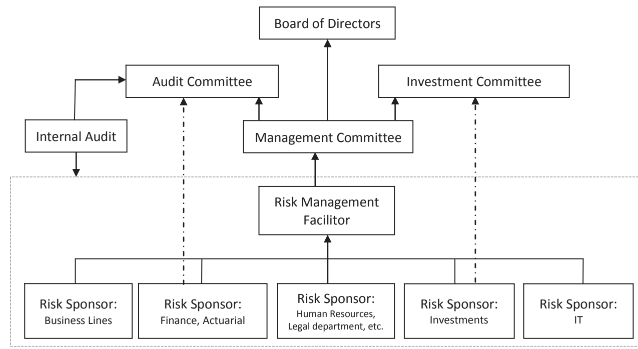
In accordance with this principle, the Company has implemented an enterprise risk management program that is consistently applied and that is taken into account in developing the Company's business strategies and in all of its operations.

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

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

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.

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 department plays a key role in overseeing the valuation process. The actuaries responsible for calculating the provisions for future policy benefits in the business lines and in the subsidiaries must certify that they are acting in accordance with the policy.

The Company's Sensitivity to Certain Insurance Risks

The table that follows provides an overview of the impact on the net income available to common shareholders of adverse deviations from the assumptions with regard to certain insurance risks. The illustrated decrease in net income comes from the calculation of policy liabilities based on modified assumptions.

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

In millions of dollars	2012	2011
Insurance risk: adverse deviation of 5%		
Mortality rate[1]	128	123
Lapse rate[2]	168	156
Unit costs[3]	33	37
Morbidity rate[4]	40	61

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 the allocation of the selected assets, as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

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

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

Liabilities According to Type of Matching

	As at December 31			
	2012		2011	
	$M	%	$M	%
Immunized liabilities				
On a cash flow basis	9,104	46%	8,748	49%
Universal Life policy accounts	1,312	7%	1,322	7%
Subtotal	10,416	53%	10,070	56%
Non-immunized liabilities	9,412	47%	7,967	44%
Total	**19,828**	**100%**	**18,037**	**100%**

1› Liabilities Immunized on a Cash Flow Basis

This category represents 46% 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 47% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company instead advocates an investment management strategy designed to optimize the long-term returns on the assets.

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

For this liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the increase in policy liabilities this kind of decrease could generate. 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, 2012, derivative financial instruments were used as part of the Company's strategy to optimize returns. Note that the Company used hedge accounting in 2012 for the interest rate risk. For more information, refer to notes 6 and 7 of the Company's consolidated financial statements as at December 31, 2012.

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 Markets[1] on the Company's Net Income and Accumulated Other Comprehensive Income

In millions of dollars	2012	2011
Decrease in net income		
Fee income collected on the investment funds managed by the Company	16	17
Discounted future revenues on Universal Life policy funds	7	4
Income on capital generated by the assets backing the Company's capital	0	1
Strengthening of the provisions for future policy benefits with regard to the charge resulting from the capital guarantee on segregated funds and the return on assets matched to the long-term liabilities in the Company's general fund	0	0
Total	23	22
Decrease in accumulated other comprehensive income	0	7

Illustration of the Impact of a 25% Drop in the Stock Markets[1] on the Company's Net Income and Accumulated Other Comprehensive Income

In millions of dollars	2012	2011
Decrease in net income		
Fee income collected on the investment funds managed by the Company	42	41
Discounted future revenues on Universal Life policy funds	16	11
Income on capital generated by the assets backing the Company's capital	1	2
Strengthening of the provisions for future policy benefits with regard to the charge resulting from the capital guarantee on segregated funds and the return on assets matched to the long-term liabilities in the Company's general fund	224	222
Total	283	276
Decrease in accumulated other comprehensive income	0	17

An upward market variance of 10% would have had the same impact on net income, but in the opposite direction. Following a drop of more than 14% in the markets (compared to their December 31, 2012 levels), all other things being equal, the Company would no longer have the leeway to absorb an additional market downturn without a significant impact on its provisions for future policy benefits.

In 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

	2012	2011
Solvency ratio as at December 31	217%	189%
S&P/TSX Index as at December 31	12,434	11,955
Level of S&P/TSX index for the solvency ratio to be at 175%	8,100	9,900
Level of S&P/TSX index for the solvency ratio to be at 150%	6,700	8,100

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2012, 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, and in order to mitigate some of the risk associated with this exposure, the Company set up a hedging program in 2010, which is described a little later in this section.

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.

In millions of dollars	2012	2011
Assets under management	9,858	9,099
Guaranteed minimum value	9,225	8,601
Net amount at risk (for funds whose market value was lower than their guaranteed minimum value)	266	263
Provisions for future policy benefits for segregated funds whose guarantees are not covered by the hedging program	19	8
Provisions for future policy benefits for segregated funds whose guarantees are covered by the hedging program	0	0
Value of assets underlying the hedged guarantees	2,980	2,232

One of the Company's segregated fund products includes a guaranteed minimum withdrawal benefit that poses a special risk in the event of significant market fluctuations.

The hedging program 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. The guaranteed minimum withdrawal benefits and the guarantees at maturity for the IAG SRP Ecoflex Series product are currently part of the hedging program.

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.

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

In 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 2012 and 2011 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, 2012, 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, 2012, the Company was not exposed to any material foreign currency risk.

Note that the Company used hedge accounting in 2012 for foreign currency risk. For more information, refer to notes 6 and 7 of the Company's consolidated financial statements as at December 31, 2012.

The Company's Sensitivity to Certain Market Risks

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

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

In millions of dollars	2012	2011
Investment Risk		
25 basis point decrease in the initial reinvestment rate (IRR)[1]	46	82
10 basis point decrease in the ultimate reinvestment rate (URR)	66	62
10% drop in the stock markets[2]	23	22
25 basis point drop in interest rates[3]	(1)	0

Increase in Accumulated Other Comprehensive Income Resulting From Interest Rate Fluctuations

In millions of dollars	2012	2011
Investment Risk		
25 basis point drop in interest rates[3]	16	14

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, 2012.

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, 2012.

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. In 2012, tests were set up 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.

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.

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.

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

Legal and Regulatory Compliance Risk

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

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

The Company 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 2012

The Company obtained a strong fourth quarter performance, with net income to common shareholders of $73.8 million, compared to a net loss of $81.2 million in the fourth quarter of 2011. Diluted earnings per common share (EPS) amounted to $0.78 (diluted loss of $0.90 in the fourth quarter of 2011). However, excluding the portion of dilution related to the IATS, which represents $0.03 per share, diluted and adjusted common EPS amounted to $0.81 in the fourth quarter of 2012. The annualized return on common shareholders' equity was 11.6% for the quarter, compared to a negative return of 13.8% in the fourth quarter of 2011.

The results were positive from several standpoints: 1) all activity sectors obtained a higher than expected operating profit, except Group Insurance; 2) the hedging program made a positive contribution; 3) sales strain decreased; 4) income on capital benefited from the positive effects of the sale of mortgage blocks and certain investment strategies; and 5) the tax expense decreased due to a greater proportion of income drawn from the increased value of properties that profit from a beneficial tax treatment.

Excluding the year-end review of actuarial assumptions, which reduced the net income by $19.9 million (-$0.22 per share), EPS for the fourth quarter would have amounted to $1.03 and the annualized return on common shareholders' equity for the quarter would have reached 14.6%.

The Board of Directors announced the payment of a quarterly dividend of $0.245 per common share. The dividend is payable on March 15, 2013 to the common shareholders of record as at March 1, 2013. The Company also announced that it was maintaining its target range of 25% to 35% in the medium term for the dividend payout ratio. The Company expects the ratio to be in the middle of the target range in 2013.

In terms of business growth, net premiums, deposits and premium equivalents remained stable in the fourth quarter compared to the same period in 2011. However, the Individual Insurance sector and the auto and home insurance subsidiary performed well, with respective increase of 9% and 11% in net premiums.

Highlights

	Fourth quarter		Year	
(In millions of dollars, unless otherwise indicated)	**2012**	**2011**	**2012**	**2011**
Net income attributed to shareholders	82.4	(75.2)	342.0	127.2
Less: dividends to preferred shareholders	8.6	6.0	30.1	23.9
Net income available to common shareholders	73.8	(81.2)	311.9	103.3
Earnings per common share (diluted)	$0.78	($0.90)	$3.31	$1.18
Return on common shareholders' equity	11.6%	(13.8%)	12.6%	4.7%
Net premiums, premium equivalents and deposits	1,751.4	1,747.7	6,904.1	7,008.5

	December 31 2012	**December 31 2011**	**December 31 2010**
Assets under management and under administration[1]	83,344.6	73,350.7	68,908.7

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.

After increasing slightly in the first three quarters, net premiums were down 10% in the fourth quarter of 2012 compared to the same period the previous year, amounting to $1.2 billion. The decrease in the fourth quarter comes from premiums paid into the general fund and those paid into segregated funds. The Company nevertheless ended the year with net premiums totalling $5.0 billion, a similar total to last year. Growth of net premiums in 2012 was affected by the sale of the US annuity business in August 2012 and by the withdrawal of the segregated fund that offered the guaranteed minimum withdrawal benefit (GMWB).

Investment income for 2012 was $702.3 million lower than in 2011 due to lower gains posted on bonds. Interest rates had a lower impact than in 2011. Most bonds and stocks are designated at fair value through profit or loss and are used to match the provisions for future policy benefits. For this reason, the impact of the decrease in investment income on the 2012 results was largely neutralized by a corresponding decrease in the provisions for future policy benefits.

Fees and other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the brokerage subsidiaries.

Fees and other revenues varied between $190.5 million and $320.4 million for the four quarters of the year to total $934.2 million in 2012, a level that had never been achieved before. This result is due to the increase in average assets under management, which continued to grow in 2012 thanks to the achievement of positive net investment fund sales and growth of the stock markets.

[1] In 2011, assets managed for third parties were reclassified and added to assets under management.

Quarterly Results

	2012				2011			
(In millions of dollars, unless otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Net premiums	1,208.9	1,279.1	1,195.6	1,312.4	1,348.8	1,188.8	1,142.4	1,312.4
Investment income	334.5	561.7	555.3	97.3	774.8	865.0	397.3	214.0
Fees and other revenues	217.4	320.4	190.5	205.9	193.6	190.5	199.1	211.0
Total	1,760.8	2,161.2	1,941.4	1,615.6	2,317.2	2,244.3	1,738.8	1,737.4
Income before income taxes	92.8	189.3	92.9	82.3	(130.6)	67.6	102.2	95.0
Income taxes	(9.7)	(74.5)	(17.2)	(10.7)	68.0	(15.4)	(23.0)	(22.2)
Net income	83.1	114.8	75.7	71.6	(62.6)	52.2	79.2	72.8
Less: net income (net loss) to participating policyholders	0.7	0.3	1.0	1.2	12.6	0.5	0.6	0.7
Net income to shareholders	82.4	114.5	74.7	70.4	(75.2)	51.7	78.6	72.1
Less: dividends to preferred shareholders	8.6	9.0	6.5	6.0	6.0	6.0	5.9	6.0
Net income to common shareholders	**73.8**	**105.5**	**68.2**	**64.4**	**(81.2)**	**45.7**	**72.7**	**66.1**
Earnings per common share								
Basic	$0.81	$1.16	$0.75	$0.71	($0.90)	$0.54	$0.86	$0.79
Diluted	$0.78	$1.11	$0.72	$0.69	($0.90)	$0.52	$0.83	$0.76
Diluted, adjusted[1]	$0.81	$1.16	$0.75	$0.71	($0.90)	$0.53	$0.85	$0.78
Premiums invested in segregated funds	440.9	487.6	387.1	535.1	500.7	395.0	398.6	583.7
Change in provisions for future policy benefits[2]	384.3	507.1	483.6	(28.4)	839.4	867.4	329.8	132.6
Total general fund assets	26,726.0	25,762.2	24,672.7	23,866.2	23,718.1	22,739.7	21,395.6	20,841.5
Segregated fund net assets	15,021.2	14,727.5	14,105.6	14,360.6	13,722.9	13,196.3	13,926.3	14,066.7

1 Data adjusted to exclude dilution related to innovative tier 1 financial instruments (IATS)
2 The presentation in the 2012 financial statements was adjusted so that the change in provisions for future policy benefits, and dividends, experience rating refunds and interest on amounts on deposit were separated into two categories: Increase in insurance contract liabilities and increase in investment contract liabilities.

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 2012, the cash flows related to operating activities increased by $163.2 million compared to 2011, reaching $1,135.0 million. This increase was essentially due to the strengthening of net income.

Investing activities used net cash flows of $852.3 million in 2012, compared with $1,369.3 million in 2011, a difference of $517.0 million. This difference is primarily due to the sale of bonds in 2012.

Financing activities produced cash flows of $217.0 million, $200.0 million less than in 2011. Note that in 2011, financing activities included the issuance of $250 million in subordinated debentures. Dividends paid to common shareholders amounted to $88.8 million in 2012 ($83.9 million in 2011), while dividends paid to preferred shareholders increased during the year, amounting to $30.1 million ($23.9 million in 2011). The increase in dividends is explained by the $250 million preferred share issue in June 2012.

Cash Flows

(In millions of dollars)	2012	2011
Cash flows related to the following activities:		
Operating	1,135.0	971.8
Investing	(852.3)	(1,369.3)
Financing	217.0	417.0
Gains (losses) resulting from the currency translation of cash and cash equivalents	0.3	2.1
Increase (decrease) in cash and cash equivalents	500.1	21.6
Cash and short-term investments at the beginning of the year	595.7	574.1
Cash and short-term investments at the end of the year	**1,095.8**	**595.7**

D) RELATED PARTY TRANSACTIONS

Current Company policy does not allow for loans to be granted to the Company's managers, except for mortgage loans in the normal course of business. However, the Company did grant loans to managers when the Company demutualized in 2000. As at December 31, 2012, the balance of these loans totalled $0.1 million ($0.2 million as at December 31, 2011).

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. This estimate is 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 include provisions for future policy benefits, deposit liabilities and incurred but unpaid claims.

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

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

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

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

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 in the balance sheet. In 2012, reinsurance assets totalled $1,892.3 million ($395.5 million in 2011). The increase in reinsurance assets in the last year mainly results from the disposal by the Company of all its US fixed annuities and accumulation riders by way of indemnity reinsurance and assumption reinsurance.

The Company's recent mortality studies show a significant improvement in mortality. The results of these studies are in line with the trends observed in the most recent work done by the industry, including work by the Canadian Institute of Actuaries. This improvement has major, but diverging effects on the Company's activity sectors, benefiting the Individual Insurance sector, but adversely affecting the annuity sectors (Group Savings and Retirement and Individual Wealth Management). Overall, since the Company's insurance operations are much larger than its annuity operations, the Company benefits from the improved mortality. The Company also retains a higher proportion of mortality risk than the industry, which adds to the income that the Company draws from improved life expectancy. The 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. The Company's morbidity experience in 2012 was slightly 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. For some types of insurance products, lower than expected lapse rates, instead of higher than expected lapse rates, could have an adverse impact on the Company's financial situation. The lapse rate assumptions and the margins for conservatism applied to these assumptions take into account the type of product contained in each policy. Overall, 2012 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, 2012 results were 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 future income tax liability method, and that it holds assets to back the future income tax liability recorded in its balance sheet, the policy liabilities are reduced to take into consideration the investment income related to these assets. This reduction in the policy liabilities complies with the standards of the Canadian Institute of Actuaries. For more details concerning the Company's accounting method for income taxes, refer to note 23 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 2012, the losses on mortgages and defaults on bonds were lower than those projected in the Company's assumptions.

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

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

H) ACCOUNTING STANDARDS AND POLICIES

Changes to Accounting Policies in 2012 and Future Accounting Changes

The International Accounting Standards Board (IASB) has issued a number of amendments and new standards. Analysis of these new standards reveals that only the application of standard *IAS 19 – Employee Benefits* could have a material impact on the Company's results. The most significant changes surrounding *IAS 19* involve the elimination of the corridor method and changes to how pension costs are calculated. For more information, 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 “2012 Results and Market Guidance for 2013” section of this report with IFRS.

Reconciliation of the Sources of Earnings with IFRS

(In millions of dollars)	2012	2011
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	249.4	27.2
Income on capital (according to sources of earnings)	99.7	106.2
Income attributable to participating contracts and other items[1]	108.2	0.8
Earnings before taxes according to the financial statements	457.3	134.2
Income taxes:		
On the operating profit and on income on capital	(44.5)	(6.2)
Amount for participating contracts and other items[1]	(67.6)	13.6
Income taxes according to financial statements	(112.1)	7.4
Net income according to financial statements	**345.2**	**141.6**

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 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, 2012, 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).

The Company’s Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company’s internal control over financial reporting as defined in Multilateral Instrument 52-109 (Certification of disclosure in Issuers’ Annual and Interim Filings). As at December 31, 2012, 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)	2012	2011	2010
Debentures	747.8	747.7	499.1
Preferred shares	675.0	425.0	425.0
Total	**1,422.8**	**1,172.7**	**924.1**

[1] Other items include tax adjustments.

L) ACQUISITIONS IN 2012

No acquisitions were made during the period.

M) DISPOSITIONS IN 2012

On August 15, 2012, by way of indemnity reinsurance and assumption reinsurance agreements, Industrial Alliance sold the US annuity business and accumulation riders of its US division and its US subsidiaries 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 Security Benefit Life Insurance Company and Equitrust Life Insurance Company, to two affiliates of US-based Guggenheim Partners. The Company transferred all financial risks and benefits associated with these contracts. For more information, refer to note 4 of the consolidated financial statements, entitled "Merger, Disposal and Acquisitions of Business".

N) MERGERS

On September 12, 2011 the Company announced the merger of its Industrial Alliance Pacific Insurance and Financial Services Inc. subsidiary with its own operations. The merger took effect on June 30, 2012.

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, 2012, the Company's contractual obligations and commitments were as follows:

Contractual Obligations
Payments Due by Period

	As at December 31, 2012			
(In millions of dollars)	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures[1]	747.8	---	---	747.8
Capital lease	852.8	419.8	433.0	---
Operating lease	48.2	12.9	30.0	5.3
Purchasing commitments	163.7	38.1	74.2	51.4
Other long-term commitments	538.3	448.9	54.5	34.9
Total of contractual obligations	**2,350.8**	**919.7**	**591.7**	**839.4**

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2012, these investment commitments totalled $205.8 million ($136.4 million in 2011), including $154.0 million that will be maturing in the next year ($80.6 million in 2011), and $51.8 million that will be maturing in more than one year ($55.8 million in 2011).

P) PREFERRED SHARES

On June 1, 2012, the Company issued 6,000,000 class A, series G preferred shares for a cash amount of $150 million, and on June 28, 2012, the Company issued 4,000,000 additional shares in the same class and series for a cash amount of $100 million.

Q) OUTSTANDING SHARES

As at February 14, 2013, Industrial Alliance had 91,091,093 issued and outstanding common shares.

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

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)	2012	2011	2010
Revenues	7,479.0	8,037.7	7,004.5
Policy benefits and expenses	7,021.7	7,903.5	6,650.6
Income before income taxes	457.3	134.2	353.9
Less: income taxes	112.1	(7.4)	76.6
Net income	345.2	141.6	277.3
Less: net income attributed to participating policyholders	3.2	14.4	1.0
Net income attributed to shareholders	342.0	127.2	276.3
Less: dividends to preferred shareholders	30.1	23.9	22.9
Net income available to common shareholders	**311.9**	**103.3**	**253.4**
Earnings per common share			
Basic	$3.44	$1.20	$3.04
Diluted	$3.31	$1.18	$2.93

Revenues

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

Revenues for 2012 totalled $7.5 billion, which represents a 7% decrease compared to 2011. This decrease was primarily due to investment income, as explained below.

Revenues

(In millions of dollars)	2012	2011	2010
Net premiums	4,996.0	4,992.4	4,781.9
Investment income	1,548.8	2,251.1	1,518.7
Fees and other revenues	934.2	794.2	703.9
Total	**7,479.0**	**8,037.7**	**7,004.5**

Net premiums totalled $5.0 billion in 2012, which is comparable to 2011. Growth of net premiums was affected by the sale of the US annuity business in 2012 and the withdrawal of the segregated fund product that contains a guaranteed minimum withdrawal benefit (GMWB).

Net premiums, deposits and premium equivalents totalled $6.9 billion in 2012, down 1% from 2011. This decrease is mostly explained by a reduction in mutual fund deposits, which were affected by uncertainty about the financial markets, particularly in the first half.

Net Premiums, Deposits and Premium Equivalents

(In millions of dollars)	2012	2011	2010
Net premiums			
General fund	3,145.3	3,114.4	2,723.8
Segregated funds	1,850.7	1,878.0	2,062.2
Subtotal	4,996.0	4,992.4	4,786.0
Deposits – Mutual funds	1,649.5	1,777.7	1,747.2
Other deposits and premium equivalents[2]	258.6	238.4	222.1
Total	**6,904.1**	**7,008.5**	**6,755.3**

[2] Amounts paid for investment contracts and administrative services only contracts

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.

Investment income amounted to $1.5 billion in 2012, compared to $2.3 billion in 2011. This decrease is primarily due to the depreciation of the bond portfolio, a consequence of the lower impact of interest rates on the fair value of bonds in 2012 than in 2011. It is important to note that the majority of bonds are classified as "Designated at fair value through profit or loss" and are matched to the provisions for future policy benefits. For this reason, the impact of the decrease in investment income on the results is largely neutralized by a corresponding decrease in the provisions for future policy benefits.

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

Investment Income

(In millions of dollars)	2012	2011	2010
Investment income	876.9	957.8	682.2
Variation in the fair value of real estate held for investment	117.5	12.4	3.1
Realized profits (losses) on assets available for sale	32.2	38.4	24.5
Variation in the fair value of assets designated at fair value through profit or loss	523.8	1,244.2	809.4
Change in provision for losses	(1.6)	(1.7)	(0.5)
Total	**1,548.8**	**2,251.1**	**1,518.7**

Fees and other revenues amounted to $934.2 million in 2012, up 18% from 2011. This increase is primarily driven by the increase in average investment fund assets under management compared to 2011, and higher income from the brokerage subsidiaries. Fees and other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries.

Policy Benefits and Expenses

Policy benefits and expenses totalled $7.0 billion in 2012, down $0.9 billion from 2011. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses

(In millions of dollars)	2012	2011	2010
Change in provisions for future policy benefits[1]	1,346.6	2,169.2	1,474.1
Net benefits to policyholders and beneficiaries	2,404.8	2,180.1	2,018.0
Change in reinsurance assets	(89.6)	106.6	(252.6)
Net transfer to segregated funds	1,389.4	1,626.0	1,795.4
Commissions	1,014.4	947.3	825.0
General expenses	753.2	663.3	611.6
Other	202.9	211.0	179.1
Total	**7,021.7**	**7,903.5**	**6,650.6**

The change in provisions for future policy benefits amounted to $1.3 billion in 2012 compared to $2.2 billion in 2011, which represents an $822.6 million decrease for this item on the income statement. The provisions for future policy benefits vary based on several factors, including the increase in premiums (upward impact), the return and variation in the fair value of assets matched to them (increase or decrease), the increase in benefits (decrease), the net transfer to segregated funds (increase or decrease), and the strengthening (increase) or release (decrease) of provisions for future policy benefits.

Net benefits to policyholders and beneficiaries in 2012 were slightly higher than in 2011 (by $224.7 million), which reflects the normal course of operations. Net benefits to policyholders and beneficiaries include benefits paid due to death, disability, illness or contract terminations, as well as annuity payments.

In 2012, a negative amount of $89.6 million was posted as the change in reinsurance assets, compared to a positive amount of $106.6 million in 2011. This represents a decrease of $196.2 million. The difference between the change for 2012 and the change for 2011 arises from various factors that are similar to those that had an impact on the change in provisions for future policy benefits.

Net transfers to segregated funds totalled $1.4 billion in 2012, which represents a decrease of $236.6 million compared to 2011. This decrease is primarily explained by lower segregated fund sales in the Individual Wealth Management sector in the last year, after the Company withdrew its product containing a guaranteed minimum withdrawal benefit.

Funds from contracts issued by the Company may be invested in segregated portfolios at the option of the policyholders. As a result, net transfers to segregated funds are made up of amounts invested in segregated portfolios, less any amounts withdrawn from these portfolios. Net transfers to segregated funds can vary from one period to another depending on the demand from clients, who at times favour products that generally offer guaranteed returns, and at other times are more attracted by segregated fund products, whose return fluctuates with the markets. Also, in a sector like Group Savings and Retirement, segregated fund deposits can fluctuate substantially from one quarter to another according to the size of the mandates granted by certain groups.

Commissions increased by $67.1 million in 2012, which primarily reflects the growth of the in-force block of business and the growth in insurance sector sales in the last year. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.

General expenses increased by $89.9 million compared to 2011, totalling $753.2 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 $112.1 million in 2012 compared to a recovery of $7.4 million in 2011. This difference comes mainly from the increase in net income and from unrecognized tax losses generated during the year that were not recognized in the financial statements.

[1] The presentation in the 2012 financial statements was adjusted so that the change in provisions for future policy benefits, and dividends, experience rating refunds and interest on amounts on deposit were separated into two categories: Increase in insurance contract liabilities and increase in investment contract liabilities.

EMBEDDED VALUE

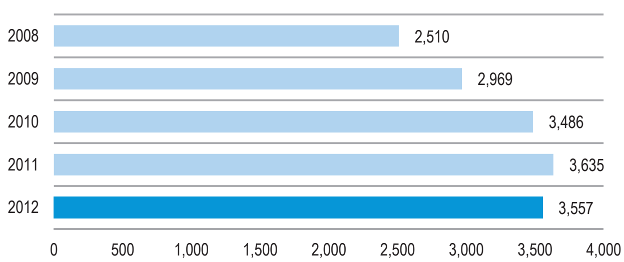
2012 HIGHLIGHTS

- Embedded value of $3.6 billion as at December 31, 2012
- Embedded value per common share: $39.08 as at December 31, 2012
- Embedded value/book value ratio: 1.38 as at December 31, 2012

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).

As at December 31, 2012, Industrial Alliance's embedded value was $3.6 billion. This is up 0.2% from the value calculated at December 31, 2011, before the payment of dividends to common shareholders, and down 2.1% after the payment of these dividends. The embedded value as at December 31, 2012 amounted to $39.08 per common share, down 2.9% compared to $40.23 at December 31, 2011.

Embedded Value as at December 31 (after the payment of dividends) **($Million)**

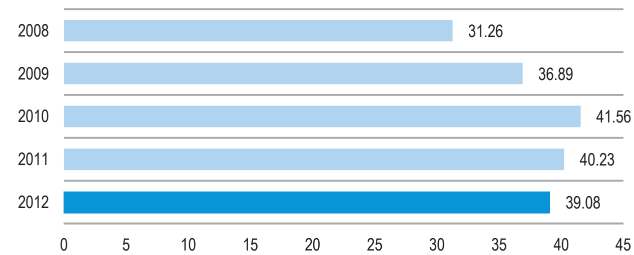


Changes in embedded value from one year to another are affected by several factors, which can be divided into four main categories: recurring items, non-recurring items, changes in the capital structure and dividends paid to common shareholders.

Recurring items caused embedded value to increase by 9.6% in 2012 (10.9% in 2011). 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 2012, causing it to decrease by $350 million (-9.7%).

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



Among the non-recurring items in 2012, the best-estimate long-term return assumptions on investments backing the provisions for future policy benefits combined with a decrease in the discount rate and the return on shareholders' equity used to calculate embedded value led to a $356 million decrease in embedded value.

Moreover, lower than expected stock market returns led to a reduction in the Company's future profits, primarily due to the decrease in management fees collected on segregated funds, mutual funds and Universal Life policy funds. This led to a $76 million decrease in embedded value (-2.1%). In 2011, the stock market performance resulted in a $163 million decrease in embedded value (-4.7%).

Other experience gains and losses increased embedded value by $135 million (3.7%). These gains include better business retention in wealth management products, a higher than expected return on capital, and tax gains.

Changes to IAS 19 regarding the accounting of defined benefit pension plans and termination benefits, which came into effect on January 1, 2013, along with changes to the guideline on capital adequacy requirements led to a $76 million decrease in embedded value (-2.1%) as at December 31, 2012.

Finally, the gain on the sale of the US annuity business increased embedded value by $23 million in 2012 (0.6%).

Changes to the capital structure in 2012 increased embedded value by $10 million (0.3%) in 2012.

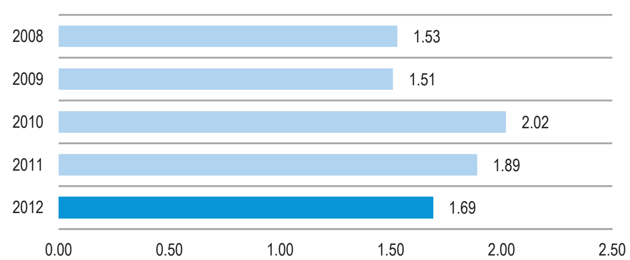
The Company also paid $89 million in dividends to its common shareholders in 2012, which represents a 2.4% decrease in embedded value.

A) EMBEDDED VALUE OF NEW SALES

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

In 2012, the contribution of new sales to the increase in Industrial Alliance's embedded value was $153 million, or $1.69 per common share. This is a decrease of $11 million (or 6.7%) compared to the previous year. The decrease in the value of new business compared to 2011 can be explained by lower interest rates in 2012.

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



Value of New Business by Component

(In millions of dollars)	2012
Value of new business in 2011	163.6
Sales growth	(0.4)
Change in profit margins	12.7
Reduction in the discount rate, net of the impact of the drop in interest rates and market returns	(22.9)
Value of new business in 2012	153.0

B) EMBEDDED VALUE/BOOK VALUE RATIO

Another interesting measure is the embedded value/book value ratio. This ratio measures the relative value of a life insurance company's stock. At the end of 2012, the embedded value represented 1.38x the Company's book value.

C) 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	
	2012	2011
Discount rate	5.25%	5.50%
Risk premium	3.00%	3.00%
Return on shareholders' equity	2.25%	2.50%
Inflation rate	1.50%	1.50%
Solvency ratio	150%	150%

Other assumptions are used to calculate the embedded value as well, including the future mortality rate assumption. This assumption, which takes into account the current trend of mortality rates to improve over the years, is important for Industrial Alliance which, relatively speaking, retains a larger portion of the mortality risk than other insurers.

D) 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, 2012
1% increase in risk premium	(14%)
3% increase in risk premium	(41%)
Increase in the solvency ratio from 150% to 175%	(5%)
1% decrease in the tax rate	1%
No improvement in mortality	(9%)
1% increase in economic assumptions (no change to risk premium)	8%
10% drop in the stock markets	(7%)

Embedded Value

	Embedded Value	Contribution to Embedded Value	Embedded Value per Common Share
	($Million)	(%)	($)
Embedded value as at December 31, 2011	3,635		$40.23
Recurring items			
Expected growth of embedded value	198	5.5%	$2.19
New sales	153	4.2%	$1.69
Subtotal	351	9.7%	$3.88
Non-recurring items			
Experience gains (losses) – related to the equity markets	(76)	(2.1%)	($0.84)
Experience gains (losses) – other	135	3.7%	$1.49
Changes in assumptions (including the discount rate and return on shareholders' equity)	(356)	(9.8%)	($3.93)
Change in solvency and accounting standards	(76)	(2.1%)	($0.85)
Acquisitions/Dispositions	23	0.6%	$0.25
Subtotal	(350)	(9.7%)	($3.88)
Changes in capital structure	10	0.3%	($0.17)
Embedded value as at December 31, 2012, before dividends	3,646		$40.06
Dividends paid to common shareholders	(89)	(2.4%)	($0.98)
Embedded value as at December 31, 2012	**3,557**		**$39.08**

TEN-YEAR HISTORY

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
PROFITABILITY										
Net income										
Net income	**345.2**	141.6	277.3	218.3	74.8	249.2	231.3	134.6	159.2	140.3
Less: net income (loss) attributed to participating policyholders	**3.2**	14.4	1.0	(1.3)	2.9	1.2	3.4	2.4	4.1	3.4
Net income attributed to shareholders	**342.0**	127.2	276.3	219.6	71.9	248.0	227.9	132.2	155.1	136.9
Less: preferred share dividends	**30.1**	23.9	22.9	13.8	5.8	5.8	4.9	---	0.1	0.3
Net income attributed to common shareholders	**311.9**	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0	136.6
Less: gain on unusual items[3]	**37.4**	---	---	---	---	---	---	---	---	---
Net income attributed to common shareholders excluding unusual items	**274.5**	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0	136.6
Earnings per common share[4]										
Basic	**$3.44**	$1.20	$3.04	$2.56	$0.82	$3.02	$2.77	$1.66	$1.96	$1.76
Diluted	**$3.31**	$1.18	$2.93	$2.55	$0.82	$2.99	$2.74	$1.65	$1.95	$1.74
Diluted - adjusted for IATS[5]	**$3.44**	$1.19	$3.01	---	---	---	---	---	---	---
Diluted - adjusted for IATS[5] and unusual items[3]	**$3.03**	$1.19	$3.01	---	---	---	---	---	---	---
Return on common shareholders' equity[6]	**12.6%**	4.7%	12.8%	11.9%	4.0%	15.1%	15.7%	10.3%	13.6%	13.9%
Net income (loss) available to common shareholders by line of business										
Individual Insurance	**154.9**	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8
Individual Wealth Management	**118.2**	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0
Group Insurance	**23.0**	22.4	42.4	34.8	42.6	45.3	46.8	35.1	33.6	19.8
Group Savings and Retirement	**15.8**	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0
Total	**311.9**	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0	136.6
SPECIFIED ITEMS										
Impact on net income to common shareholders										
Impact of credit										
Provision on investments	**---**	---	---	(2.6)	(3.6)	---	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	**---**	---	---	(0.1)	(10.8)	---	---	---	---	---
Decrease in value of non-bank-sponsored ABCP[7]	**---**	---	---	---	(10.6)	(7.3)	---	---	---	---
Provision for the Norshield funds[8]	**---**	---	---	---	---	---	---	(52.1)	---	---
Impact of market on expected earnings[9]										
Increase (decrease) in income on UL policies	**2.7**	(8.8)	2.2	3.8	(9.8)	---	---	---	---	---
Higher (lower) than expected management fees	**(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	**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	**(21.2)**	(152.3)	(8.4)	(0.8)	(138.2)	(0.7)	0.4	(1.5)	(2.6)	2.5
Restructuring charges[10]	**---**	---	---	---	---	---	(3.0)	(4.1)	(6.1)	---
Impact of the tax reduction on the future income tax liability	**---**	---	---	---	---	---	11.5	---	---	(3.1)
Change of reinsurer	**---**	---	---	---	---	---	---	4.2	---	---

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
SPECIFIED ITEMS (cont.)										
Impact on earnings per common share										
Impact of credit										
Provision on investments	**---**	---	---	($0.04)	($0.04)	---	---	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	**---**	---	---	---	($0.14)	---	---	---	---	---
Decrease in value of non-bank-sponsored ABCP[7]	**---**	---	---	---	($0.13)	($0.09)	---	---	---	---
Provision for the Norshield funds[8]	**---**	---	---	---	---	---	---	($0.65)	---	---
Impact of market on expected earnings[9]										
Increase (decrease) in income on UL policies	**$0.03**	($0.10)	$0.03	$0.05	($0.12)	---	---	---	---	---
Higher (lower) than expected management fees	**($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	**$0.13**	($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	**($0.23)**	($1.76)	($0.10)	($0.01)	($1.71)	($0.01)	$0.01	($0.02)	($0.03)	$0.03
Restructuring charges[10]	**---**	---	---	---	---	---	($0.04)	($0.05)	($0.08)	---
Impact of the tax reduction on the future income tax liability	**---**	---	---	---	---	---	$0.14	---	---	($0.04)
Change of reinsurer	**---**	---	---	---	---	---	---	$0.05	---	---
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit										
Expected profit on in-force	**219.0**	233.5	211.0	197.4	200.4	184.5	172.5	156.0	146.6	126.7
Experience gain (loss)	**2.1**	(27.4)	(4.7)	17.4	(34.2)	(8.9)	2.6	5.7	0.1	9.7
Strain on sales	**(93.6)**	(111.4)	(104.3)	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)	(70.3)	(57.7)
Changes in assumptions and management actions	**(39.8)**	(194.1)	(2.2)	68.6	(175.6)	(1.6)	(1.7)	(1.5)	(0.5)	(4.3)
Total	**87.7**	(99.4)	99.8	194.4	(91.0)	91.0	70.7	77.3	75.9	74.4
Income on capital	**84.8**	89.3	80.5	51.3	41.5	57.2	50.6	41.4	36.5	28.2
Income taxes	**(1.4)**	23.5	(40.7)	(68.1)	17.8	(42.2)	(40.6)	(37.4)	(34.2)	(30.5)
Net income (loss) attributed to shareholders, before other items	**171.1**	13.4	139.6	177.6	(31.7)	106.0	80.7	81.3	78.2	72.1
Less: preferred share dividends	**25.1**	18.5	16.1	8.0	---	---	---	---	---	0.2
Net income (loss) available to common shareholders, before other items	**146.0**	(5.1)	123.5	169.6	(31.7)	106.0	80.7	81.3	78.2	71.9
Other items[11]	**8.9**	---	---	(3.4)	4.8	0.3	5.1	(0.9)	(4.8)	0.9
Net income (loss) available to common shareholders	**154.9**	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4	73.4	72.8

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
SOURCES OF EARNINGS BY LINE OF BUSINESS (cont.)										
Individual Wealth Management										
Operating profit										
Expected profit on in-force	**97.0**	128.5	103.3	59.2	117.9	106.0	92.9	55.8	46.7	41.9
Experience gain (loss)	**21.1**	(15.9)	4.5	(4.4)	(32.1)	6.1	9.4	13.6	2.5	(0.9)
Strain on sales	**(8.7)**	(8.3)	(7.7)	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)	(11.9)	(10.8)
Changes in assumptions and management actions	**10.3**	(16.5)	(6.8)	(16.9)	(1.9)	(0.9)	1.4	(1.6)	(1.9)	0.3
Total	**119.7**	87.8	93.3	32.4	80.2	106.6	98.3	59.5	35.4	30.5
Income on capital	**(1.0)**	0.2	2.4	8.4	5.9	5.4	4.8	11.7	14.6	12.1
Income taxes	**(28.1)**	(16.5)	(22.3)	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)	(15.7)	(13.1)
Net income attributed to shareholders, before other items	**90.6**	71.5	73.4	29.1	62.5	77.8	76.9	49.0	34.3	29.5
Less: preferred share dividends	**0.9**	2.0	4.0	5.8	5.8	5.8	4.9	---	---	0.1
Net income available to common shareholders, before other items	**89.7**	69.5	69.4	23.3	56.7	72.0	72.0	49.0	34.3	29.4
Other items[11]	**28.5**	---	---	(0.4)	0.6	0.1	0.9	(50.4)	(1.0)	0.6
Net income (loss) available to common shareholders	**118.2**	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)	33.3	30.0
Group Insurance										
Operating profit										
Expected profit on in-force	**47.1**	45.7	39.1	48.1	53.4	46.0	40.5	44.0	27.9	21.2
Experience gain (loss)	**(20.5)**	(15.0)	11.1	(10.4)	(8.3)	0.4	5.3	(0.3)	16.3	1.3
Strain on sales	**---**	---	---	---	---	---	---	---	---	---
Changes in assumptions and management actions	**(0.3)**	(8.2)	(2.3)	(0.9)	(1.0)	1.5	1.3	(1.1)	(1.3)	0.3
Total	**26.3**	22.5	47.9	36.8	44.1	47.9	47.1	42.6	42.9	22.8
Income on capital	**8.9**	10.8	11.4	12.6	9.0	15.1	13.2	10.1	8.0	5.4
Income taxes	**(9.5)**	(8.8)	(15.3)	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)	(17.0)	(9.3)
Net income attributed to shareholders, before other items	**25.7**	24.5	44.0	35.8	41.2	45.2	44.2	35.7	33.9	18.9
Less: preferred share dividends	**2.7**	2.1	1.6	---	---	---	---	---	---	---
Net income available to common shareholders, before other items	**23.0**	22.4	42.4	35.8	41.2	45.2	44.2	35.7	33.9	18.9
Other items[11]	**0.0**	---	---	(1.0)	1.4	0.1	2.6	(0.6)	(0.3)	0.9
Net income available to common shareholders	**23.0**	22.4	42.4	34.8	42.6	45.3	46.8	35.1	33.6	19.8
Group Savings and Retirement										
Operating profit										
Expected profit on in-force	**13.7**	17.0	14.4	15.8	19.7	16.2	15.3	12.5	10.5	9.4
Experience gain (loss)	**2.4**	1.4	3.5	1.3	(17.8)	1.7	1.4	---	(0.8)	2.9
Strain on sales	**(0.6)**	(1.2)	(0.2)	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)	(0.2)	(0.9)
Changes in assumptions and management actions	**0.2**	(0.9)	---	(51.9)	(16.7)	---	(0.4)	2.1	---	(1.0)
Total	**15.7**	16.3	17.7	(35.9)	(17.5)	15.8	15.0	13.4	9.5	10.4
Income on capital	**7.0**	5.9	8.2	7.4	6.0	9.2	9.4	11.3	10.7	9.0
Income taxes	**(5.5)**	(4.4)	(6.6)	11.0	3.8	(6.6)	(6.8)	(6.5)	(5.5)	(4.7)
Net income (loss) attributed to shareholders, before other items	**17.2**	17.8	19.3	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7
Less: preferred share dividends	**1.4**	1.3	1.2	---	---	---	---	---	---	---
Net income (loss) available to common shareholders, before other items	**15.8**	16.5	18.1	(17.5)	(7.7)	18.4	17.6	18.2	14.7	14.7
Other items[11]	**0.0**	---	---	(0.6)	0.8	0.1	(0.1)	(0.1)	---	(0.7)
Net income (loss) available to common shareholders	**15.8**	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1	14.7	14.0

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
SOURCES OF EARNINGS BY LINE OF BUSINESS (cont.)										
Total company										
Operating profit										
Expected profit on in-force	**376.8**	424.7	367.8	320.5	391.4	352.7	321.2	268.3	231.7	199.2
Experience gain (loss)	**5.1**	(56.9)	14.4	3.9	(92.4)	(0.7)	18.7	19.0	18.1	13.0
Strain on sales	**(102.9)**	(120.9)	(112.2)	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)	(82.4)	(69.4)
Changes in assumptions and management actions	**(29.6)**	(219.7)	(11.3)	(1.1)	(195.2)	(1.0)	0.6	(2.1)	(3.7)	(4.7)
Total	**249.4**	27.2	258.7	227.7	15.8	261.3	231.1	192.8	163.7	138.1
Income on capital										
Investment income	**67.7**	67.8	80.3	73.3	58.8	78.0	---	---	---	---
Realized gains (losses) on assets available for sale	**32.0**	38.4	22.2	6.4	3.6	8.9	---	---	---	---
Total	**99.7**	106.2	102.5	79.7	62.4	86.9	78.0	74.5	69.8	54.7
Income taxes	**(44.5)**	(6.2)	(84.9)	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)	(72.4)	(57.6)
Net income attributed to shareholders, before other items	**304.6**	127.2	276.3	225.0	64.3	247.4	219.4	184.2	161.1	135.2
Less: preferred share dividends	**30.1**	23.9	22.9	13.8	5.8	5.8	4.9	---	---	0.3
Net income available to common shareholders, before other items	**274.5**	103.3	253.4	211.2	58.5	241.6	214.5	184.2	161.1	134.9
Other items[11]	**37.4**	---	---	(5.4)	7.6	0.6	8.5	(52.0)	(6.1)	1.7
Net income available to common shareholders	**311.9**	103.3	253.4	205.8	66.1	242.2	223.0	132.2	155.0	136.6
BUSINESS GROWTH										
Net premiums, premium equivalents and deposits by line of business										
Individual Insurance	**1,339.3**	1,248.2	1,112.9	---	---	---	---	---	---	---
Individual Wealth Management	**3,100.6**	3,543.6	3,676.3	---	---	---	---	---	---	---
Group Insurance	**1,395.3**	1,308.5	1,154.2	---	---	---	---	---	---	---
Group Savings and Retirement	**848.9**	708.6	657.1	---	---	---	---	---	---	---
General Insurance[12]	**220.0**	199.6	150.7	---	---	---	---	---	---	---
Total	**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	683.4
Individual Wealth Management	**---**	---	---	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8	658.7
Group Insurance	**---**	---	---	962.4	956.5	860.5	749.6	694.9	637.9	603.0
Group Savings and Retirement	**---**	---	---	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4
General Insurance	**---**	---	---	140.6	128.4	118.2	107.2	95.1	83.5	65.2
Total	**---**	---	---	5,231.2	5,542.9	5,826.2	4,990.6	3,583.7	2,852.4	2,566.7
Individual Insurance										
Sales[13]										
Canada	**199.6**	178.2	170.8	145.6	145.8	155.1	147.6	136.5	137.0	125.7
United States	**43.7**	31.2	15.8	1.5	1.1	3.9	6.0	4.8	2.9	3.0
Total	**243.3**	209.4	186.6	147.1	146.9	159.0	153.6	141.3	139.9	128.7
Net premiums										
Canada	**1,206.2**	1,117.6	1,055.6	923.6	907.1	880.5	820.0	751.0	745.8	665.9
United States	**133.1**	130.6	57.3	14.8	13.6	16.8	18.6	17.7	17.3	17.5
Total	**1,339.3**	1,248.2	1,112.9	938.4	920.7	897.3	838.6	768.7	763.1	683.4

Years ended December 31 (In millions of dollars, unless otherwise indicated)	2012	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
BUSINESS GROWTH (cont.)										
Individual Wealth Management										
Sales[13]										
General fund	**325.1**	403.6	441.1	404.3	345.5	334.4	289.2	242.4	237.5	227.9
Segregated funds	**1,126.0**	1,362.3	1,488.0	866.2	815.7	990.6	958.3	805.2	669.3	430.8
Mutual funds	**1,649.5**	1,777.7	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6	---	---
Total	**3,100.6**	3,543.6	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2	906.8	658.7
Net investment fund sales										
Segregated funds	**308.7**	768.6	925.0	476.4	322.9	578.7	607.6	547.4	332.7	117.5
Mutual funds	**455.7**	729.5	797.1	281.4	289.5	799.2	267.0	148.7	---	---
Total	**764.4**	1,498.1	1,722.1	757.8	612.4	1,377.9	874.6	696.1	332.7	117.5
Assets under management										
General fund	**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	1,775.3
Segregated funds	**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	3,261.5
Mutual funds	**9,462.5**	8,463.9	8,124.1	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8	1,018.5	94.1
Total	**20,595.1**	19,411.5	18,670.1	15,479.2	12,454.0	15,115.0	13,959.7	12,206.5	6,661.0	5,130.9
Group Insurance										
Sales[13]										
Employee Plans	**46.1**	131.9	72.2	75.0	92.9	72.0	70.8	52.3	55.7	53.3
Dealer Services	**326.4**	265.9	183.3	152.4	194.2	192.0	176.4	158.8	132.6	130.1
Special Markets Solutions	**154.0**	133.0	133.2	118.2	117.3	109.4	100.2	97.7	97.1	78.3
Net premiums and premium equivalents										
Employee Plans	**788.7**	788.3	714.6	727.7	684.1	594.8	509.2	475.4	448.4	426.0
Dealer Services	**286.5**	230.5	148.8	121.5	159.5	161.3	147.8	132.1	109.8	105.5
Special Markets Solutions	**143.8**	123.1	124.2	113.2	112.9	104.4	92.6	87.4	79.7	71.5
Total net premiums	**1,219.0**	1,141.9	987.6	962.4	956.5	860.5	749.6	694.9	637.9	603.0
Premium equivalents and deposits										
Administrative services only contracts (ASO)	**48.2**	43.9	51.0	115.9	101.9	94.7	124.1	102.9	96.1	99.2
Investment contracts	**128.1**	122.7	115.6	---	---	---	---	---	---	---
Total	**1,395.3**	1,308.5	1,154.2	1,078.3	1,058.4	955.2	873.7	797.8	734.0	702.2
Group Savings and Retirement										
Sales[13]										
Accumulation contracts										
General fund	**34.4**	26.6	34.0	33.9	18.1	20.9	29.2	25.8	49.1	35.3
Segregated funds	**724.7**	515.7	574.3	685.8	845.9	575.0	595.7	384.7	312.2	411.2
Total	**759.1**	542.3	608.3	719.7	864.0	595.9	624.9	410.5	361.3	446.5
Insured annuities (general fund)	**27.0**	114.6	56.2	120.1	250.9	232.4	195.2	154.3	99.8	109.9
Deposits	**82.3**	71.8	55.5	---	---	---	---	---	---	---
Total sales	**868.4**	728.7	720.0	839.8	1,114.9	828.3	820.1	564.8	461.1	556.4
Assets under management										
Accumulation contracts										
General fund	**232.5**	235.6	236.8	212.8	181.7	181.1	178.8	185.1	192.1	199.3
Segregated funds	**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	1,599.6
Other	**526.7**	493.9	473.0	---	---	---	---	---	---	---
Total	**5,920.3**	5,350.0	5,356.1	4,339.6	3,443.0	3,560.6	3,220.3	2,588.0	2,119.9	1,798.9
Insured annuities (general fund)	**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	1,905.1
Total	**9,049.0**	8,497.8	8,297.9	7,191.6	6,140.2	6,117.2	5,371.2	4,614.2	4,056.3	3,704.0

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
BUSINESS GROWTH (cont.)										
Distribution of net premiums, premium equivalents and deposits by region										
Atlantic provinces	**4.3%**	4.0%	4.6%	4.6%	4.7%	5.8%	4.7%	3.6%	3.6%	3.4%
Quebec	**41.9%**	40.6%	39.8%	44.9%	42.8%	43.1%	43.3%	51.5%	50.1%	53.1%
Ontario	**27.2%**	30.0%	29.4%	29.4%	31.8%	30.9%	31.6%	26.3%	25.0%	23.7%
Western provinces	**23.9%**	22.2%	23.1%	19.5%	19.6%	19.1%	18.9%	16.7%	18.6%	17.2%
Outside Canada	**2.7%**	3.2%	3.1%	1.6%	1.1%	1.1%	1.5%	1.9%	2.7%	2.6%
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	**26,726.0**	23,718.1	20,544.6	17,626.5	15,415.2	15,104.3	13,090.7	11,972.9	11,030.8	10,307.6
Segregated funds	**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	5,042.2
Mutual funds	**9,462.5**	8,476.3	8,135.7	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7	1,018.5	94.1
Other[14]	**8,934.5**	6,199.8	5,010.6	563.3	596.7	630.6	501.3	785.9	872.0	---
Total	**60,144.2**	52,117.1	47,254.6	36,255.8	30,213.8	32,792.7	29,091.5	25,780.3	18,834.9	15,443.9
Assets under administration	**23,200.4**	21,233.6	21,654.1	22,150.8	19,258.4	17,618.9	17,812.6	12,390.9	9,641.1	4,129.6
Total	**83,344.6**	73,350.7	68,908.7	58,406.6	49,472.2	50,411.6	46,904.1	38,171.2	28,476.0	19,573.5
Human resources										
Number of employees	**4,314**	4,109	3,777	3,478	3,427	2,947	2,819	2,746	2,626	2,503
Number of Career representatives	**1,838**	1,860	1,761	1,688	1,597	1,608	1,550	1,445	1,379	1,309
INVESTED ASSETS										
Value and distribution of investments										
Book value of investment portfolio[15]	**22,973.3**	21,714.6	18,723.7	16,490.2	14,396.3	14,214.3	12,256.2	11,226.9	10,589.6	9,925.5
Market value of investment portfolio	**---**	---	---	---	---	---	13,759.8	12,809.6	11,720.6	10,893.7
Market value/book value	**---**	---	---	---	---	---	112.3%	114.1%	110.7%	109.8%
Distribution of investments by financial instrument category										
Available for sale	**11.0%**	12.6%	12.4%	11.6%	10.0%	8.7%	---	---	---	---
Fair value through profit or loss[16]	**64.5%**	59.8%	55.6%	53.9%	51.3%	58.6%	---	---	---	---
Loans and receivables	**20.4%**	23.9%	28.1%	30.5%	34.2%	27.8%	---	---	---	---
Investment properties	**4.1%**	3.6%	3.8%	3.9%	4.4%	3.4%	---	---	---	---
Other	**---**	0.1%	0.1%	0.1%	0.1%	1.5%	---	---	---	---
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---
Distribution of investments by asset category										
Bonds	**63.8%**	63.0%	59.6%	57.1%	55.2%	57.2%	58.6%	58.9%	57.4%	55.7%
Mortgages	**11.3%**	15.0%	17.8%	20.6%	24.3%	20.5%	20.1%	21.6%	23.5%	25.1%
Stocks	**12.2%**	11.1%	11.7%	11.5%	9.3%	12.4%	11.9%	10.4%	10.2%	9.4%
Investment properties	**4.1%**	3.6%	3.8%	3.9%	4.4%	3.4%	3.7%	4.0%	4.2%	4.3%
Other	**8.6%**	7.3%	7.1%	6.9%	6.8%	6.5%	5.7%	5.1%	4.7%	5.5%
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	**5.6%**	3.9%	4.0%	4.2%	3.9%	4.1%	3.9%	4.8%	5.1%	4.6%
Quebec	**39.4%**	42.5%	45.8%	46.9%	48.6%	48.1%	48.0%	49.5%	49.6%	50.1%
Ontario	**26.6%**	23.4%	21.0%	21.5%	20.5%	20.6%	20.6%	20.3%	20.7%	20.5%
Western provinces	**16.4%**	16.4%	16.9%	18.1%	17.5%	16.8%	16.6%	16.9%	17.3%	17.9%
Outside Canada	**12.0%**	13.8%	12.3%	9.3%	9.5%	10.4%	10.9%	8.5%	7.3%	6.9%
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)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
INVESTED ASSETS (cont.)										
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	**11.2**	17.8	25.6	16.7	14.0	20.7	95.2	96.8	47.6	60.5
Net impaired investments (excluding insured loans)										
Bonds	**8.0**	8.4	8.4	4.5	0.5	1.2	1.2	1.2	1.2	1.2
Mortgages	**1.0**	4.7	13.1	6.9	7.8	2.8	0.2	0.5	1.4	11.1
Real estate acquired to settle loans[17]	**---**	---	---	1.6	0.5	7.7	6.5	5.9	5.9	7.5
Total	**9.0**	13.1	21.5	13.0	8.8	11.7	7.9	7.6	8.5	19.8
Provisions for losses										
At beginning of period	**4.7**	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7	41.1
Increase for the period	**2.0**	2.8	2.7	3.6	5.3	0.3	0.3	78.2	---	0.1
Decrease for the period	**(4.5)**	(2.2)	(2.3)	(5.1)	(7.3)	0.0	(2.2)	(28.1)	(1.6)	(0.5)
Impact of financial instrument as at January 1, 2007	**---**	---	---	---	---	(78.6)	---	---	---	---
Transfer of provisions to investments	**---**	---	---	---	(1.8)	---	---	---	---	---
At end of period	**2.2**	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7
Provisions for losses by type of investments										
Bonds	**2.0**	2.9	2.9	3.0	5.0	5.2	4.8	4.6	32.4	30.5
Mortgages	**0.2**	1.8	1.2	0.7	0.2	0.1	0.8	3.0	3.0	4.5
Real estate acquired to settle loans[17]	**---**	---	---	---	---	3.7	3.7	3.7	3.7	3.8
Other	**---**	---	---	---	---	---	78.0	77.9	---	1.9
Total	**2.2**	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1	40.7
Net impaired investments as a % of total investments	**0.04%**	0.06%	0.11%	0.08%	0.06%	0.08%	0.06%	0.07%	0.08%	0.20%
Provisions as a % of gross impaired investments	**19.6%**	26.4%	16.0%	22.2%	37.5%	43.6%	91.7%	92.1%	82.0%	67.3%
Real estate acquired to settle loans[17]										
Real estate held for resale	**9.7**	5.7	1.3	---	---	---	---	---	---	---
Bonds										
Book value of the bond portfolio	**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	5,527.9
Market value of the bond portfolio	**---**	---	---	---	---	---	8,409.3	7,997.0	7,046.8	6,368.7
Market value/book value	**---**	---	---	---	---	---	117.0%	120.8%	116.0%	115.2%
Distribution by financial instrument category										
Available for sale	**15.6%**	17.9%	18.1%	16.9%	14.7%	11.8%	---	---	---	---
Fair value through profit or loss[16]	**76.5%**	74.7%	72.9%	73.1%	74.7%	78.8%	---	---	---	---
Loans and receivables	**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%	---	---	---	---
Distribution by credit rating										
Rating – AAA	**8.67%**	8.84%	10.83%	11.30%	11.80%	13.70%	17.40%	12.28%	9.81%	11.30%
Rating – AA	**23.12%**	20.12%	16.68%	15.83%	18.24%	19.80%	17.93%	16.31%	17.09%	15.67%
Rating – A	**58.55%**	61.10%	65.37%	66.36%	63.06%	60.53%	58.25%	63.77%	65.64%	66.64%
Rating – BBB	**9.56%**	9.82%	7.00%	6.44%	6.67%	5.86%	6.11%	7.28%	7.22%	6.25%
Rating – BB and lower	**0.10%**	0.12%	0.12%	0.07%	0.23%	0.11%	0.31%	0.36%	0.24%	0.14%
Total	**100.00%**	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Distribution by category of issuer										
Governments	**60.5%**	59.0%	63.2%	63.3%	61.1%	59.7%	56.9%	60.4%	64.5%	59.2%
Municipalities	**3.9%**	3.0%	1.5%	1.3%	1.4%	1.8%	1.7%	1.6%	1.7%	1.8%
Corporates – Public issues	**20.3%**	23.6%	21.1%	20.8%	21.6%	23.4%	26.1%	25.1%	22.4%	26.0%
Corporates – Private issues	**15.3%**	14.4%	14.2%	14.6%	15.9%	15.1%	15.3%	12.9%	11.4%	13.0%
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)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
INVESTED ASSETS (cont.)										
Bonds (cont.)										
Other quality measures										
Delinquency rate	**0.01%**	0.01%	0.01%	---	0.01%	0.02%	0.02%	0.02%	0.02%	0.03%
Mortgages										
Book value of the mortgage portfolio	**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	2,490.4
Market value of the mortgage portfolio	**---**	---	---	---	---	---	2,516.0	2,469.8	2,562.7	2,570.1
Market value/book value	**---**	---	---	---	---	---	102.4%	102.0%	102.8%	103.2%
Distribution by financial instrument category										
Loans and receivables	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	---	---	---	---
Distribution by type of property										
Residential	**21.8%**	16.7%	19.3%	19.0%	19.4%	21.6%	20.4%	16.3%	16.4%	17.1%
Multi-residential	**60.1%**	63.6%	63.3%	65.2%	66.5%	60.2%	59.5%	58.9%	59.5%	55.6%
Non-residential	**18.1%**	19.7%	17.4%	15.8%	14.1%	18.2%	20.1%	24.8%	24.1%	27.3%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution by type of loan										
Insured	**73.4%**	64.8%	68.4%	71.8%	71.3%	65.0%	60.2%	55.6%	52.8%	48.6%
Conventional	**26.6%**	35.2%	31.6%	28.2%	28.7%	35.0%	39.8%	44.4%	47.2%	51.4%
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										
Insured loans	**0.24%**	0.08%	0.06%	0.21%	0.08%	0.10%	0.09%	0.50%	0.50%	0.75%
Conventional loans	**0.16%**	0.57%	1.36%	0.72%	0.72%	0.27%	0.02%	0.05%	0.13%	0.97%
Total	**0.22%**	0.25%	0.47%	0.36%	0.26%	0.16%	0.06%	0.30%	0.32%	0.86%
Delinquency rate, including real estate acquired to settle loans	**0.59%**	0.43%	0.51%	0.40%	0.28%	0.55%	0.48%	0.69%	0.70%	1.31%
Stocks										
Book value of the stock portfolio	**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	930.3
Market value of the stock portfolio	**---**	---	---	---	---	---	1,599.7	1,255.1	1,130.5	957.3
Market value/book value	**---**	---	---	---	---	---	110.1%	108.0%	104.6%	102.9%
Distribution by financial instrument category										
Available for sale	**8.5%**	12.4%	13.7%	17.5%	19.2%	15.6%	---	---	---	---
Fair value through profit or loss[16]	**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%	---	---	---	---
Distribution by category										
Common shares	**44.9%**	39.0%	22.3%	13.5%	18.8%[18]	5.7%	5.0%	4.9%	4.1%	4.1%
Preferred shares	**15.5%**	8.3%	8.6%	8.8%	10.3%	8.1%	10.9%	12.8%	21.6%	24.8%
Market indices	**21.2%**	30.2%	41.5%	43.2%	26.0%	25.6%	23.6%	18.2%	12.0%	11.1%
Investment fund units and other	**18.4%**	22.5%	27.6%	34.5%	44.9%[18]	60.6%	60.5%	64.1%	62.3%	60.0%
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	**953.1**	788.5	716.1	---	---	---	---	---	---	---
Linearization of rents	**11.0**	10.9	9.9	---	---	---	---	---	---	---
Fair value of investment properties	**964.1**	799.4	726.0	---	---	---	---	---	---	---
Occupancy rate on real estate portfolio	**95.2%**	94.6%	92.9%	---	---	---	---	---	---	---
Real estate (CGAAP)										
Book value of the real estate portfolio	**---**	---	---	649.0	629.5	481.6	451.8	446.3	444.5	425.7
Market value of the real estate portfolio	**---**	---	---	823.5	814.6	623.7	530.5	509.9	482.9	446.4
Market value/book value	**---**	---	---	126.9%	129.4%	129.5%	117.4%	114.2%	108.6%	104.9%
Occupancy rate on real estate portfolio	**---**	---	---	94.4%	94.0%	95.5%	95.5%	96.8%	95.2%	93.9%

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
INVESTED ASSETS (cont.)										
Other										
Provision for potential loss on fixed-income securities contained in the policy liabilities	**234.7**	204.6	138.0	95.8	83.4	78.3	73.1	77.7	97.5	---
SOLVENCY AND CAPITALIZATION										
Capital structure										
Debentures[19]	**747.8**	747.7	499.1	519.8	385.9	309.8	310.1	373.0	150.0	135.0
Other debt (IATS[20])[19]	**---**	---	---	---	---	---	---	---	150.0	150.0
Participating policyholders' account	**44.2**	41.3	26.9	25.7	27.0	24.1	23.1	19.7	17.3	13.2
Equity										
Common shares	**878.6**	860.7	652.5	545.7	541.0	513.1	507.7	510.6	458.1	438.3
Preferred shares	**675.0**	425.0	425.0	325.0	223.7	125.0	125.0	---	---	18.7
Contributed surplus	**23.5**	23.6	23.3	21.6	19.8	17.1	14.6	12.3	9.5	6.5
Retained earnings[6]	**1,635.7**	1,418.6	1,400.1	1,254.8	1,127.7	1,148.3	971.3	845.4	751.7	627.5
Accumulated other comprehensive income	**39.5**	64.4	59.3	10.5	(54.3)	(3.8)	---	---	---	---
Currency translation account	**---**	---	---	---	---	---	(6.8)	(7.1)	(5.8)	(2.5)
Total shareholders' equity	**3,252.3**	2,792.3	2,560.2	2,157.6	1,857.9	1,799.7	1,611.8	1,361.2	1,213.5	1,088.5
Total capital structure	**4,044.3**	3,581.3	3,086.2	2,703.1	2,270.8	2,133.6	1,945.0	1,753.9	1,530.8	1,386.7
Solvency ratio[6, 21]										
Available capital										
Tier 1 (net)	**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	996.1
Tier 2 (net)	**640.0**	587.4	340.9	343.1	195.4	120.6	128.6	134.9	136.1	295.8
Total	**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	1,291.9
Required capital	**1,657.7**	1,613.8	1,306.8	1,107.2	967.1	934.6	809.9	704.5	624.0	583.7
Solvency ratio	**217%**	189%	202%	208%	199%	193%	201%	188%	222%	221%
Debt measures[6]										
Debt[22]/capital structure	**18.5%**	21.2%	16.5%	19.2%	17.0%	14.5%	15.9%	21.3%	19.6%	20.6%
Debt[22] and preferred shares/capital structure	**35.2%**	33.3%	30.5%	31.3%	26.8%	20.4%	22.4%	21.3%	19.6%	21.9%
Coverage ratio (in number of times)[23]	**6.1**	2.8	6.2	6.3	3.9	12.2	12.1	11.0	13.4	9.6
MISCELLANEOUS INFORMATION										
Market data[4]										
Common shares										
Share price										
High	**$32.91**	$42.02	$37.40	$32.70	$42.64	$43.75	$37.28	$29.82	$27.93	$22.08
Low	**$20.55**	$24.75	$29.69	$13.75	$19.50	$34.25	$29.14	$26.55	$21.01	$17.25
Share price at end of period	**$31.38**	$26.29	$36.81	$32.20	$23.31	$42.58	$36.14	$29.07	$27.50	$21.90
Average share price	**$26.92**	$34.22	$33.73	$24.63	$32.11	$38.28	$32.42	$28.49	$23.44	$18.69
Number of common shares outstanding (in millions)	**91.0**	90.4	83.9	80.5	80.3	79.8	79.9	81.4	79.5	78.6
Weighted average number of common shares (in millions)										
Basic	**90.6**	85.9	83.1	80.3	80.2	80.1	80.5	79.6	79.2	77.6
Diluted	**96.2**	92.5	88.3	80.7	81.0	81.1	81.3	80.2	79.7	79.6
Diluted - adjusted for IATS[5]	**90.8**	86.5	83.9	---	---	---	---	---	---	---
Dividends										
Dividends paid per common share	**$0.98**	$0.98	$0.98	$0.98	$0.94	$0.76	$0.60	$0.50	$0.41	$0.35
Dividend payout ratio	**28%**	82%	32%	38%	115%	25%	22%	30%	21%	20%
Company's worth										
Market capitalization	**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	1,721.3
Book value per common share	**$28.32**	$26.19	$23.68	$22.77	$20.35	$20.98	$18.61	$16.72	$15.27	$13.61
Embedded value[6, 24]	**3,557**	3,635	3,486	2,969	2,510	2,787	2,448	2,133	2,138	1,899
Embedded value per common share[6, 24]	**$39.08**	$40.23	$41.56	$36.89	$31.26	$34.92	$30.64	$26.78	$26.90	$24.17

Years ended December 31 (In millions of dollars, unless otherwise indicated)	**2012**	2011	2010	2009	2008	2007[1]	2006	2005	2004	2003 (restated[2])
MISCELLANEOUS INFORMATION (cont.)										
General expenses	**753.2**	663.3	611.6	399.9	358.4	333.5	314.0	273.1	257.8	237.4

For comparison purposes, certain previous data have been reclassified.

Notes

1 Adoption of the new financial instruments accounting standards.

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

3 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 2001 to 2004 have been recalculated to reflect the two-for-one split of the Company's common shares effective on May 16, 2005.

5 Excludes the dilutive effect of the IATS.

6 In 2012, the Company corrected a mistake concerning the estimates used to establish deferred income tax liabilities for prior periods by increasing the retained earnings by $59 million as at January 1, 2011 (refer to note 2 of the consolidated financial statements). Except for the book value per common share, the impact on the ratios and embedded value was recognized in 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 Estimated impact of stock market downturn as compared to the net earnings that the Company would have earned under normal market conditions.

10 The restructuring charge results from the Company's decision, announced on December 1, 2004, to integrate the operations of its National Life subsidiary with those of the parent company.

11 Starting in 2007 until 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, the other items are made up of the after-tax gain on the sale of the US annuity business mentioned in note 3.

12 The heading "General Insurance" includes minor consolidation adjustments.

13 Sales are defined as follows for each line of business: Individual Insurance: first-year annualized premiums; Individual Wealth Management: net premiums for the general fund and for the segregated funds, and deposits for the mutual funds; Group Insurance: first-year annualized premiums for Employee Plans, including administrative services only contracts (ASO); Dealer Services: gross premiums (premiums before reinsurance); Special Markets Solutions: gross premiums (premiums before reinsurance); Group Savings and Retirement: premiums, before reinsurance, and deposits.

14 Reflects reclassification of assets managed for third parties.

15 Starting in 2010, the carrying value of the portfolio includes derivative financial instruments, which were not previously included.

16 Investments classified at fair value through profit or loss in IFRS were formerly classified as held for trading in accordance with GAAP.

17 Since the conversion to IFRS on January 1, 2011, real estate acquired to settle loans is no longer included in the invested assets.

18 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.

19 Further to the application of AcG 15, the Company ceased to consolidate the Industrial Alliance Capital Trust securities (IATS) in the first quarter of 2005. Following this change, the $150.0 million in IATS as well as a $10.1 million Trust financing debenture were reclassified as debentures in Industrial Alliance's capital structure.

20 IATS: Industrial Alliance Trust Securities.

21 The solvency ratio is a financial measure that has no IFRS or CGAAP equivalent.

22 Debt includes debentures and other debts.

23 Obtained by dividing pre-tax income and financing expenses by financing expenses.

24 The embedded value is a financial measure that has no IFRS or CGAAP equivalent.

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

The functions of the Audit Committee are to:

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

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

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

The independant auditor is appointed to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial statements. The independant 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

Yvon Charest
President and Chief Executive Officer
Quebec, February 15, 2013

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, 2012 and 2011 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 15, 2013

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, 2012 and December 31, 2011, and the consolidated income statements, consolidated comprehensive income statements, consolidated equity statements and consolidated cash flow 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte s.e.n.c.r.l.[1]
Quebec City, February 15, 2013

[1] CPA auditor, CA, public accountancy permit no. A116129

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (in millions of dollars, unless otherwise indicated)	**2012**	2011
	$	$
Revenues		
Premiums		
Gross premiums	**5,372**	5,309
Premiums ceded	**(376)**	(317)
Net premiums (Note 20)	**4,996**	4,992
Investment Income (Note 5)		
Interest and other investment income	**1,025**	1,007
Change in fair value of financial assets classified as designated at fair value through profit or loss	**524**	1,244
	1,549	2,251
Other revenues	**934**	794
	7,479	8,037
Policy benefits and expenses		
Gross benefits on contracts	**2,675**	2,360
Ceded benefits on contracts	**(270)**	(180)
Net transfer to segregated funds	**1,390**	1,626
Increase (decrease) in insurance contract liabilities (Note 12)	**1,394**	2,236
Net increase (decrease) in investment contract liabilities (Note 13)	**20**	28
Decrease (increase) in reinsurance assets	**(90)**	107
	5,119	6,177
Commissions	**1,014**	947
General expenses (Note 21)	**753**	663
Premium and other taxes	**84**	84
Financing charges (Note 22)	**52**	32
	7,022	7,903
Income before income taxes	**457**	134
Less: income taxes (Note 23)	**112**	(7)
Net income	**345**	141
Net income attributed to participating policyholders	**(3)**	(14)
Net income attributed to shareholders	**342**	127
Dividends attributed to preferred shares	**(30)**	(24)
Net income attributed to common shareholders	**312**	103
Earnings per common share (in dollars) (Note 24)		
Basic	**3.44**	1.20
Diluted	**3.31**	1.18
Weighted average number of shares outstanding (in millions of units) (Note 24)		
Basic	**90.6**	85.9
Diluted	**96.2**	92.5
Dividends per common share (in dollars)	**0.98**	0.98

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

Years ended December 31 (in millions of dollars)	**2012**	2011
	$	$
Net income	**345**	141
Other comprehensive income, net of income taxes		
Unrealized gains (losses) on available for sale financial assets	**1**	36
Reclassification of losses (gains) on available for sale financial assets included in net income	**(23)**	(30)
Change in unrealized gains (losses) on available for sale financial assets	**(22)**	6
Unrealized gains (losses) on currency translation in foreign operations	**(7)**	4
Hedges of net investment in foreign operations	**4**	(5)
Total other comprehensive income	**(25)**	5
Comprehensive income	**320**	146
Comprehensive income attributed to participating policyholders	3	14
Comprehensive income attributed to shareholders	**317**	132

INCOME TAXES INCLUDED IN OTHER COMPREHENSIVE INCOME

Years ended December 31 (in millions of dollars)	**2012**	2011
	$	$
Income taxes related to :		
Unrealized gains (losses) on available for sale financial assets	**(2)**	(17)
Reclassification of losses (gains) on available for sale financial assets included in net income	**10**	9
Hedges of net investment in foreign operations	**(1)**	1
Total income taxes included in other comprehensive income	**7**	(7)

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)	**2012**	2011
	$	$
Assets		
Cash and short-term investments	**1,096**	596
Bonds	**14,643**	13,677
Stocks	**2,795**	2,408
Mortgages	**2,603**	3,251
Derivatives (Note 7)	**145**	208
Policy loans	**558**	521
Other invested assets	**180**	264
Investment properties	**953**	789
Total investments (Note 5)	**22,973**	21,714
Other assets (Note 8)	**994**	707
Reinsurance assets (Notes 12 and 13)	**1,968**	465
Fixed assets (Note 9)	**126**	122
Deferred income tax assets (Note 23)	**51**	84
Intangible assets (Note 10)	**461**	448
Goodwill (Note 10)	**153**	178
General fund assets	**26,726**	23,718
Segregated funds net assets (Note 11)	**15,021**	13,723
Total assets	**41,747**	37,441
Liabilities		
Insurance contract liabilities (Note 12)	**19,828**	18,024
Investment contract liabilities (Note 13)	**615**	577
Other liabilities (Note 14)	**1,939**	1,241
Derivatives (Note 7)	**53**	28
Deferred income tax liabilities (Note 23)	**247**	266
Debentures (Note 16)	**748**	748
General fund liabilities	**23,430**	20,884
Segregated funds liabilities (Note 11)	**15,021**	13,723
Total liabilities	**38,451**	34,607
Equity [(1)]		
Share capital and contributed surplus	**1,577**	1,310
Retained earnings and accumulated other comprehensive income	**1,675**	1,483
Participating policyholders' account	**44**	41
	3,296	2,834
Total liabilities and equity	**41,747**	37,441

(1) The opening retained earnings as at January 1, 2011 have been adjusted. Refer to "Accounting Adjustment" in Note 2.

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	Preferred shares	Contributed Surplus	Retained earnings	Accumulated Other comprehensive income	Total
		(Note 18)	(Note 18)			(Note 19)	
	$	$	$	$	$	$	$
Balance as at December 31, 2010	27	653	425	23	1,341	59	2,528
Accounting adjustment	---	---	---	---	59	---	59
Balance as at January 1, 2011 (1)	27	653	425	23	1,400	59	2,587
Net income attributed to shareholders	---	---	---	---	127	---	127
Net income attributed to participating policyholders' account	14	---	---	---	---	---	14
Other comprehensive income	---	---	---	---	---	5	5
Comprehensive income for the year	14	---	---	---	127	5	146
Equity transactions							
Stock option plan (Note 25)	---	---	---	3	---	---	3
Stock options exercised	---	---	---	(2)	---	---	(2)
Common shares issued (net of $6 of issue costs)	---	208	---	---	---	---	208
Dividends on common shares (Note 18)	---	---	---	---	(84)	---	(84)
Dividends on preferred shares (Note 18)	---	---	---	---	(24)	---	(24)
Balance as at December 31, 2011	41	861	425	24	1,419	64	2,834
Net income attributed to shareholders	**---**	**---**	**---**	**---**	**342**	**---**	**342**
Net income attributed to participating policyholders' account	**3**	**---**	**---**	**---**	**---**	**---**	**3**
Other comprehensive income	**---**	**---**	**---**	**---**	**---**	**(25)**	**(25)**
Comprehensive income for the year	**3**	**---**	**---**	**---**	**342**	**(25)**	**320**
Equity transactions							
Stock option plan (Note 25)	**---**	**---**	**---**	**2**	**---**	**---**	**2**
Stock options exercised	**---**	**---**	**---**	**(3)**	**---**	**---**	**(3)**
Common shares issued	**---**	**18**	**---**	**---**	**---**	**---**	**18**
Preferred shares issued	**---**	**---**	**250**	**---**	**---**	**---**	**250**
Issue cost of shares (net of $2 of income taxes)	**---**	**---**	**---**	**---**	**(6)**	**---**	**(6)**
Dividends on common shares (Note 18)	**---**	**---**	**---**	**---**	**(89)**	**---**	**(89)**
Dividends on preferred shares (Note 18)	**---**	**---**	**---**	**---**	**(30)**	**---**	**(30)**
Balance as at December 31, 2012	**44**	**879**	**675**	**23**	**1,636**	**39**	**3,296**

(1) The opening retained earnings as at January 1, 2011 have been adjusted. Refer to "Accounting Adjustment" in Note 2.

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

CONSOLIDATED CASH FLOWS STATEMENTS

Years ended December 31 (in millions of dollars)	2012	2011
	$	$
Cash flows from operating activities		
Income before income taxes	**457**	134
Interest on financing activities	**52**	32
Income taxes paid, net of refunds	**(88)**	(69)
Adjustments not affecting cash:		
Increase in insurance contract liabilities	**1,357**	2,215
Increase in investment contract liabilities	**39**	42
Decrease (increase) in reinsurance assets	**(97)**	96
Unrealized and realized gains on investments	**(748)**	(1,536)
Amortization of premiums and discounts	**11**	5
Impairment of goodwill and intangible assets	**24**	---
Other depreciation	**57**	58
Other items not affecting cash	**137**	(13)
Gain on sale of annuity block of business	**(120)**	---
	1,081	964
Changes in other assets and liabilities	**54**	8
Cash flows from operating activities	**1,135**	972
Cash flows from investing activities		
Sales, maturities and repayments on investments	**13,619**	7,378
Purchase of investments	**(14,471)**	(8,747)
Cash flows from investing activities	**(852)**	(1,369)
Cash flows from financing activities		
Issue of common shares	**15**	203
Issue of preferred shares (less issuance cost of $6)	**244**	---
Issue of debenture	**---**	249
Dividends paid on common and preferred shares	**(119)**	(108)
Increase (decrease) in mortgage debt	**(27)**	13
Increase in securitization liabilities	**152**	94
Interest paid	**(48)**	(34)
Cash flows from financing activities	**217**	417
Foreign currency gains (losses) on cash	**---**	2
Increase (decrease) in cash and short-term investments	**500**	22
Cash and short-term investments at beginning	**596**	574
Cash and short-term investments at end	**1,096**	596
Supplementary information:		
Cash	**996**	308
Short-term investments	**100**	288
Total cash and short-term investments	**1,096**	596

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011 (in millions of dollars, unless otherwise indicated)

1 › General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company listed on the Toronto Stock Exchange and incorporated under *An Act respecting insurance* and the *Companies Act* (Quebec). Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries (the Company) offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgage loans, and other financial products and services. The Company's products and services are offered on both an individual and group basis 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 15, 2013.

2 › Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards on December 31, 2012. 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 parent 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 and measurement of insurance contract liabilities and investment contract liabilities, post-employment benefits liabilities, fair value of financial instruments, impairment of assets, derivative instruments and hedge accounting, goodwill and intangible assets impairment tests, litigation provisions and income taxes.

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

c) Accounting Adjustment

In 2012, the Company corrected an error in the estimates used to establish deferred income tax liabilities in prior periods and under which the deferred income tax liabilities were overvalued by $74 and income taxes payable were undervalued by $15. This accounting adjustment does not have a significant impact on the prior periods concerned. Since correcting this error would have materially distorted the net income for the period, the Company made the correction by increasing the retained earnings at January 1, 2011 by $59. Consequently, the opening balance of the retained earnings for the period ending December 31, 2011 increased from $1,341 to $1,400. Therefore, at December 31, 2011, the balance of deferred income tax liabilities decreased from $340 to $266, and the balance of income taxes payable presented in Note 14 Other Liabilities increased from $54 to $69.

Given that the effect of this adjustment is not material, the Company is not presenting an opening statement of financial position.

d) Basis of Consolidation and Methods

Entities over which the Company exercises control are consolidated. Control is defined as being the power to govern the financial and operational policies of an entity, so as to obtain benefits from its activities. 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 between 20% and 50% 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.

e) Invested Assets and Investment Income

Invested assets include financial assets (such as cash and short-term investments, bonds, stocks, mortgages, derivative 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 unrealized gains and losses 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 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 to the Income Statement 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 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. 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 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 with changes in fair value recorded in other comprehensive income 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 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 being able to recover all amounts due according to the contractual terms of the obligation if it represents an objective evidence of impairment 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 valuated 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 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 the Income Statement. Dividends are recognized in *Interest Income 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 the 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 is reclassified as impairment loss under 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 a security impaired 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 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 valuated 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 valuate 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 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 investment income in the Income Statement. Fair value is based on market data. Rental income on investment properties 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, are carried at amortized cost using the effective interest method and are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made.

vii) Other Invested Assets
Other invested assets include the investment in an associate, notes receivable and cash in trust. Notes receivable and cash in trust are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. The investment in an associate is accounted for according to the equity method as described in d) 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. Derivatives with a positive fair value are recorded as assets while derivatives with a negative fair value are recorded as liabilities. Changes in fair value are recorded in the Income Statement as investment income 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, indicating the risk management objective, the hedging strategy, the assets, liabilities or expected hedged cash flows, the type of hedging instrument used and the method that will be used to measure its effectiveness. Effectiveness of the hedge is valuated 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
Changes in fair value of hedging instruments and changes in fair value of assets arising from the hedged risk are recorded in the Income Statement under investment income. At the same time, the gain or loss on the inefficient portion of the hedge is recorded in the net income.

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.

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 as investment income. 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 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 investment income. 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.

The Company uses currency forward contracts as hedging items of foreign exchange risk related to net investments in foreign operations.

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 instruments are not closely linked to the economic characteristics and risks of the host contract, if the terms of the embedded 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 investment income.

f) 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, income tax receivable and securities acquired under resale 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 5 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 resale agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities acquired under resale agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on resale operations is recorded in the Income Statement as investment income.

g) 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.

h) 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 network. 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.

i) 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, in the Statement of Financial Position for an amount equal to the discounted value of estimated future gains or losses related to purchased business in force at the acquisition date. The discounted value of the future gain or loss takes into consideration cost of capital and is estimated, using the actuarial assumptions that are similar to the ones used to establish the insurance contract liability and a 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.

j) 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.

k) 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 and 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 is corresponding 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.

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

m) 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. Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. 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.

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.

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
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, commissions and fees to administer in-force insurance and annuity policies. The Company's appointed actuary determines the amount of insurance contract liabilities using the CALM method, in accordance with the standards of the Canadian Institute of Actuaries (CIA), and as permitted by IFRS 4 "Insurance Contracts".

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 and are subsequently remeasured at fair value.

n) Other Liabilities
Other liabilities are primarily made up of unearned premiums, post-employment benefits, amounts on deposit on products other than insurance, accounts payable, securities sold under repurchase agreement, short-selling securities, securitization of mortgages 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.

Short Selling Securities
This financial liability reflects 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 investment income in the Income Statement.

o) 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 carrying value of the Statement of Financial Position items and their value for tax purposes, using those rates enacted or substantively enacted applicable to the periods the differences are expected to reverse. A deferred income tax asset is recognized to the extent that future realization of the tax benefit is probable.

Current and deferred income tax are presented in the Income Statement unless they are related to items that are recorded in other comprehensive income or directly in Equity, in which case they are presented in these statements respectively.

p) Debentures
The Company has chosen to classify its debentures as financial liabilities at amortized cost. The debentures are initially recognized at fair value, net of related transaction costs. Debentures are subsequently measured at amortized cost using the effective interest method. Interest calculated according to the effective interest method for debentures is recognized in the Income Statement and presented as *Financing charges.*

q) 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 Income Statement and Statement of Financial Position of certain entities of the group whose functional currency (the currency of the principal economic environment in which the entity operates) is different from the parent company's functional currency, 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 of the year. 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.

r) 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.

s) 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. Fees and other revenues are recorded on an accrual basis when services are rendered.

t) 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.

u) Post-Employment Benefits
The Company has established defined benefit plans and provides certain post-retirement benefits to eligible employees. The cost of the retirement plans is determined using the Projected Unit Credit Method and actuarial assumptions representing management's best estimate of future changes which will have an effect on the final cost of the obligation. Plan assets are measured at fair value. Actuarial gains and losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. This obligation is recognized in other liabilities in the Statement of Financial Position. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation or the fair value of plan assets is amortized over the average remaining service life of active employees under general expenses in the Income Statement.

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

For the employees share purchase plan, the Company's cash contribution is charged to the Income Statement as a general expense in the period the shares are purchased.

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

Measurement of the medium-term incentive plan, which is accounted for as a cash-settled share-based payment transaction, 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 for the last 20 working days of the period. This expense is amortized linearly according to the estimated number of shares expected to be vested at the end of the 36-month 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
On January 1, 2012, the Company applied an amendment to IFRS 7 "Financial Instruments: Disclosure", concerning transfers of financial assets. Additional disclosure will enable users of financial statements to understand the relationship between transferred financial assets that are not fully derecognized and their related liabilities. This additional disclosure can be used to measure the nature of the links maintained with derecognized financial assets and the risks associated with them. This amendment had a minor impact on the Company's disclosures.

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

The IASB published 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. The provisions of IFRS 9 were to initially apply to financial statements for periods beginning on or after January 1, 2013. On December 16, 2011, the IASB published an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. This amendment also indicates that entities will not have to restate comparative data. However, additional disclosure on the effects at transition is required. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its financial statements.

In May 2011, the IASB published three new standards that outline the new IFRS consolidation framework: IFRS 10 "Consolidated Financial Statements," IFRS 11 "Joint Arrangements," which replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers", and IFRS 12 "Disclosure of Interest in Other Entities". Two other standards were amended at the same time: IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures". These standards will apply to financial statements for periods beginning on or after January 1, 2013. On June 28, 2012, the IASB published amendments to IFRS 10, IFRS 11 and IFRS 12. These amendments will simplify disclosures concerning comparative information upon initial application. The provisions of these standards apply to financial statements for periods beginning on or after January 1, 2013. Early adoption is permitted under certain conditions. The Company is currently evaluating the impact of adopting these new standards on its financial statements.

In addition, in October 2012, the IASB published an amendment, “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. Early adoption is permitted under certain conditions. The Company is currently evaluating the impact of adopting these new standards on its financial statements.

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

The “Investment Entities” amendment proposes that an investment entity recognizes 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.

IFRS 11 Joint Arrangements, IAS 27 Consolidated and Separate Financial Statements and *IAS 28 Investments in Associates and Joint Ventures*
A joint arrangement is a joint operation whereby the company has rights and obligations over specific assets and liabilities, or a joint venture whereby the company holds rights to the net assets of the entity. For a joint operation, the company will have to recognize its share of the assets, liabilities, income and expenses of the joint operations. For a joint venture, the company will have to recognize its interest according to the equity method described in IAS 28. The proportionate consolidation method under IAS 31 will also be eliminated.

IFRS 12 Disclosure of Interest in Other Entities
IFRS 12 will require the company to present additional disclosure in the consolidated financial statements for interests in other entities. This disclosure will enable users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the company’s financial position, financial performance and cash flows. The “Investment Entities” amendment requires additional disclosure on the concept of investment entity.

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

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

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

On December 16, 2011, the IASB published an amendment to IAS 32 "Financial Instruments: Presentation". The amendments provide clarification on the application of rules to offset financial assets and financial liabilities. The following notions are clarified: legally enforceable right to 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.

IASB Projects
On July 30, 2010, the Exposure Draft on phase II of IFRS 4 "Insurance Contracts", was published and covers the valuation and recognition of insurance contracts. The comments period ended on November 30, 2010. Phase II of the standard should not take effect prior to 2018. The IASB's proposed accounting method for insurance contracts separate the valuation of insurance liabilities from the assets they are matched to. Consequently, these proposals could lead to a strong increase in insurance contract liabilities and required capital on adoption and major volatility in the results.

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

On November 20, 2012, the IASB published an Exposure Draft "Equity Method: Share of Other Net Asset Changes" (proposed amendment to IAS 28). The purpose of this Exposure Draft is to provide additional guidance on the recognition of an investor's share of the changes in net asset other than distributions and changes that are recognized in the net income or comprehensive income.

The IASB annually publishes an Exposure Draft as part of an annual IFRS improvements project. The IASB published this Exposure Draft on November 20, 2012. The four standards affected by these improvements are IFRS 1 "First-time Adoption of International Financial Reporting Standards" on the IFRS standards in effect on adoption, IFRS 3 "Business Combinations" on the exclusion of joint ventures in the scope of IFRS 3, IFRS 13 "Fair Value Measurement" on the exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, for certain portfolios, and IAS 40 "Investment Property", concerning the interrelationship with IFRS 3 "Business Combinations". This amendment proposes to clarify whether the acquisition of investment property represents the acquisition of an asset, a group of assets or a business combination.

On December 4, 2012, the IASB published an Exposure Draft "Clarification of Acceptable Methods of Depreciation and Amortization". These modifications constitute amendments to IAS 16 and IAS 38 and propose to prohibit the use of the revenue-based methods on depreciation and amortization.

Also, in December 2012, the IASB published two Exposure Drafts: an amendment to IFRS 11 "Joint Arrangements" and amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures".

Among the other Exposure Drafts, note the following, "Provisions, Contingent Liabilities and Contingent Assets", "Leases", phase II of IFRS 9 "Amortized Cost and Impairment", phase III of IFRS 9 "Hedge Accounting" and limited modifications to IFRS 9 "Classification and Measurement".

4 › Merger, Disposal and Acquisitions of Businesses

Business merger

On September 12, 2011, the Company announced the merger of its subsidiary, Industrial Alliance Pacific Insurance and Financial Services Inc. (Industrial Alliance Pacific) with its own activities. The merger is effective since June 30, 2012.

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 related contracts' liabilities was posted. 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 from initial acquisition of 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.*

Acquisitions of businesses

On February 14, 2011, the Company acquired, through a wholly-owned subsidiary, the assets of Protection V.A.G. inc. (VAG) and 100% of the shares of Produits récréatifs Accès inc. (Accès). At the same time, the Company also acquired, through a wholly-owned subsidiary, the assets of Communications & Références Multi Assurance Direct inc. (MAD). Collectively, VAG, MAD and Accès distribute creditor insurance products and replacement insurance through a network of new and used automobile dealers in Quebec.

The Company acquired the assets of VAG for a consideration of $29 and a conditional consideration of $18. Preliminary intangible assets with indefinite useful life related to this transaction were $25, preliminary goodwill was $21 and deferred income tax liability was $2. The Company finalized the allocation of the acquisition price and, following this analysis, the Company recorded an application software of $1, amortizable over a 5-year-period (amortization was less than $1 in 2012), a finite useful life intangible asset of $12, amortizable over a 12-year-period (amortization of $1 in 2012), a goodwill of $32 and a deferred income tax liability of $1.

The shares of Accès were acquired by the Company for a consideration of $6. Preliminary intangible assets with indefinite useful life related to this transaction were $6. The Company finalized the allocation of the acquisition price and following this analysis, the Company recorded a finite useful life intangible asset of $5, amortizable over a 12-year-period (amortization was less than $1 in 2012), goodwill of $2 and a deferred income tax liability of $1.

The Company also acquired the assets of MAD for a consideration of $4. Preliminary intangible asset with indefinite useful life related to this transaction was $4. The Company finalized the allocation of the acquisition price and following this analysis, the Company recorded an indefinite useful life intangible asset of $2 and a goodwill of $2.

Goodwill

The assets acquired and liabilities assumed at the acquisition date are summarized as follows. Goodwill is not deductible for tax purposes.

	2011 General Insurance $
Net assets acquired (including deferred income tax liabilities on intangible assets)	1
Preliminary indefinite useful life intangible assets	35
Preliminary goodwill	21
Acquisition price	57

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

The following tables provide information on the carrying value and fair value of the Company's investments. Financial instruments classified as at fair value through profit or loss, held for trading, designated at fair value through profit or loss and available for sale have a carrying value equal to the fair value.

	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
Derivatives	145	---	---	---	145	145
Policy loans	---	---	558	---	558	558
Other invested assets	---	---	175	5	180	181
Investment properties	---	---	---	953	953	964
Total	14,805	2,515	4,695	958	22,973	23,307

	2011					
	At fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $	Fair value $
Cash and short-term investments	441	---	155	---	596	596
Bonds						
Governments	6,427	1,581	58	---	8,066	---
Municipalities	403	16	---	---	419	---
Corporate and other	3,396	846	950	---	5,192	---
	10,226	2,443	1,008	---	13,677	13,783
Stocks						
Common stocks	928	7	---	---	935	---
Preferred stocks	1	198	---	---	199	---
Stock indexes	647	76	---	---	723	---
Investment fund units	534	17	---	---	551	---
	2,110	298	---	---	2,408	2,396
Mortgages						
Insured						
Residential	---	---	448	---	448	---
Multi-residential	---	---	1,626	---	1,626	---
Non-residential	---	---	33	---	33	---
	---	---	2,107	---	2,107	---
Conventional						
Residential	---	---	93	---	93	---
Multi-residential	---	---	443	---	443	---
Non-residential	---	---	608	---	608	---
	---	---	1,144	---	1,144	---
	---	---	3,251	---	3,251	3,500
Derivatives	208	---	---	---	208	208
Policy loans	---	---	521	---	521	521
Other invested assets	---	---	250	14	264	273
Investment properties	---	---	---	789	789	800
Total	12,985	2,741	5,185	803	21,714	22,077

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 accounted for using the equity method.

b) Cash and Short-Term Investments

Cash and short-term investments consist of the following:

	2012 **$**	2011 $
Cash	**996**	308
Short-term investments	**100**	288
Total	**1,096**	596

c) Investment Properties

The following table presents variations in investment properties

	2012	2011
	$	$
Balance at beginning	**789**	716
Acquisitions	**64**	62
Disposal	**(17)**	---
Transfer to own-use properties	**---**	(2)
Change in fair value	**117**	13
Balance at end	**953**	789

Fair value of investment properties is of $964 ($800 in 2011) and is composed of investment properties of $953 ($789 in 2011) and of linearization of rents of $11 ($11 in 2011). 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 21 *General Expenses*.

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

The fair value is the amount which could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. 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 at the latest bid price reported by the principal securities exchange on which the issue is traded or, if no bid price is reported, the closing sale price is used. 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 – Derivative financial instruments that are traded on the stock exchange are valued using the most recently bid price for a long position or ask price for a short position. Derivative financial instruments that are traded over the counter are valued using standard valuation models. 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, some other derivative contracts are subject to trading restrictions that may apply to this type of instrument. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to 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 repaid at any time. Their fair value approximates their carrying value due to their short-term nature.

Investment properties – The fair value of investment properties are determined using various recognized methods which comply with the valuation standards of the real estate sector, including discounting of expected future cash flows at current market interest rates. Appraisals are performed by independent registered appraisers or qualified company personnel. Each property is appraised by an external appraiser at least once every three years. During the year, 92% of the investment properties portfolio was appraised by independent appraisers (43% in 2011).

Other assets – The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

Segregated funds net assets – The fair value of investments held directly in segregated funds is determined as described above for the various asset classes and according to the net asset value published by the fund administrator for investment fund units.

e) Hierarchy of the fair value of financial instruments

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuation models used to value financial assets and liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. 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 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 derivatives are classified in Level 2.
- Level 3 – Valuation model based on significant unobservable inputs that are supported by little or no market activity, using the best estimate of the management. Most private placements are classified in Level 3.

The financial instruments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is directly classified into Level 3.

The following table presents information about the fair value of financial assets recorded at fair value, based on the levels of the inputs used.

	2012			
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Cash and short-term investments				
Held for trading	**---**	**895**	**---**	**895**
Bonds				
Designated at fair value through profit or loss	**247**	**10,582**	**378**	**11,207**
Available for sale	**794**	**1,480**	**4**	**2,278**
	1,041	**12,062**	**382**	**13,485**
Stocks				
Designated at fair value through profit or loss	**2,469**	**---**	**89**	**2,558**
Available for sale	**3**	**227**	**7**	**237**
	2,472	**227**	**96**	**2,795**
Derivatives				
Held for trading	**---**	**145**	**---**	**145**
General fund investments accounted at fair value	**3,513**	**13,329**	**478**	**17,320**
Segregated fund financial instruments	**10,633**	**4,298**	**4**	**14,935**
Total	**14,146**	**17,627**	**482**	**32,255**

	2011			
	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and short-term investments				
Held for trading	---	441	---	441
Bonds				
Designated at fair value through profit or loss	210	9,778	238	10,226
Available for sale	519	1,908	16	2,443
	729	11,686	254	12,669
Stocks				
Designated at fair value through profit or loss	2,026	---	84	2,110
Available for sale	291	---	7	298
	2,317	---	91	2,408
Derivatives				
Held for trading	1	207	---	208
General fund investments accounted at fair value	3,047	12,334	345	15,726
Segregated fund financial instruments	9,526	4,137	5	13,668
Total	12,573	16,471	350	29,394

During the years ended December 31, 2012 and 2011, there was no transfer of financial instruments between levels 1 and 2.

The following table provides financial instruments recognized at fair value evaluated according to level 3 parameters:

2012	Balance as at December 31, 2011 $	Net realized and unrealized gains (losses) included in net income $	Net unrealized gains (losses) included in Other Comprehensive Income $	Purchases $	Sales, maturities and repayments $	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)	---	16	(10)	---	89	1
Available for sale	7	---	---	---	---	---	7	---
General fund investments accounted at fair value	345	17	---	143	(27)	---	478	26
Segregated fund financial instruments	5	---	---	--	---	(1)	4	---
Total	350	17	---	143	(27)	(1)	482	26

2011	Balance as at December 31, 2010 $	Net realized and unrealized gains (losses) included in net income $	Net unrealized gains (losses) included in Other Comprehensive Income $	Purchases $	Sales, maturities and repayments $	Transfers in (out) of Level 3 $	Balance as at December 31, 2011 $	Total unrealized gains (losses) included in net income on financial instruments still held $
Bonds								
Designated at fair value through profit or loss	276	35	---	207	(45)	(235)	238	11
Available for sale	90	1	1	---	(19)	(57)	16	---
Stocks								
Designated at fair value through profit or loss	69	9	---	15	(9)	---	84	9
Available for sale	1	---	1	5	---	---	7	---
Derivatives								
Held for trading	---	---	---	---	(2)	2	---	---
General fund investments accounted at fair value	436	45	2	227	(75)	(290)	345	20
Segregated fund financial instruments	14	---	---	1	(8)	(2)	5	---
Total	450	45	2	228	(83)	(292)	350	20

Net 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*. Net unrealized gains (losses) included in other comprehensive income are presented in Note 19 *Accumulated Other Comprehensive Income* in the unrealized gains (losses).

Transfers from level 3 to level 2 during the year ended December 31, 2011 come from the change in the Company's valuation of some of its level 3 bonds designated at fair value through profit or loss and available for sale for a fair value of $361 and $65 respectively. The fair value of these bonds was previously determined using internal valuation models that required the use of assumptions, of which one of the main ones was not observable in the market. The bonds are now valued at market prices which take into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment.

Transfers from level 2 to level 3 during the year ended December 31, 2011 come from the change in the Company's valuation of some of its level 2 bonds designated at fair value through profit or loss and available for sale for a fair value of $126 and $8 respectively. The fair value of these bonds was previously valued at market prices which take into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment. The fair value of these bonds is now determined using internal valuation models that required the use of assumptions, of which one of the main ones was not observable in the market.

Sensitivity analysis
A 100 basis point increase in the discount rate, which is the critical assumption in the Company's valuation model, would decrease the fair value of bonds classified at Level 3 by $51 ($30 as at December 31, 2011). Bonds classified as Level 3 are valued using a valuation model essentially based on inputs that are not observable on the market. A 100 basis point decrease in the discount rate would increase the fair value by $71 ($39 as at December 31, 2011).

f) Investment Income
Investment income was derived from the following sources:

	2012				
	Designated 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
Derivative income	35	---	---	---	35
Associates	---	---	---	3	3
Other	2	---	54	117	173
Interest and investment income	376	104	304	241	1,025
Change in fair value of financial assets classified as designated at fair value through profit or loss	524	---	---	---	524
Total	900	104	304	241	1,549

	2011				
	Designated at fair value through profit or loss $	Available for sale $	Loans and receivables $	Other $	Total $
Cash and short-term investments					
Interest	5	---	2	---	7
Bonds					
Interest	196	67	63	---	326
Change in fair value	1,335	---	---	---	1,335
Realized gains (losses)	---	29	1	---	30
Stocks					
Dividends	48	12	---	---	60
Change in fair value	(91)	---	---	---	(91)
Realized gains (losses)	---	10	---	---	10
Mortgages					
Interest	---	---	168	---	168
Change in provision for loss	---	---	(1)	---	(1)
Realized gains (losses)	---	---	8	---	8
Derivative income	230	---	---	---	230
Other	---	---	41	2	43
Real estate					
Rental income	---	---	---	113	113
Change in fair value	---	---	---	13	13
Total	1,723	118	282	128	2,251
Interest	201	67	233	---	501
Dividends	48	12	---	---	60
Rental income	---	---	---	113	113
Realized gains (losses)	---	39	9	---	48
Derivative income	230	---	---	---	230
Associates	---	---	---	2	2
Other	---	---	40	13	53
Interest and investment income	479	118	282	128	1,007
Change in fair value of financial assets classified as designated at fair value through profit or loss	1,244	---	---	---	1,244
Total	1,723	118	282	128	2,251

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 *Insurance contract liabilities*, the Company takes into account the level of matching achieved between assets and liabilities.

Risk of a Stock Market Downturn
The risk of a stock market downturn represents the risk that this kind of downturn could have an adverse impact on the 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 $2,980 as at December 31, 2012 ($2,232 in 2011). More detailed information on the hedging program is provided in the shaded portion of the Risk Management section in Management's Discussion and Analysis on page 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, 2012 and 2011, 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
The following table shows impairment on financial assets classified as available for sale that were reclassified from the other comprehensive income, net of income taxes to investment income in Income Statement.

	2012	2011
	$	$
Stocks	**2**	1

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 Income Statement. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

The unrealized gains and losses on financial assets classified as available for sale and included in the accumulated other comprehensive income are the following:

	2012			2011		
	Fair value $	**Unrealized losses $**	**Unrealized gains $**	Fair value $	Unrealized losses $	Unrealized gains $
Bonds						
Governments	**1,954**	**(1)**	**37**	1,581	(1)	51
Municipalities	**6**	**---**	**---**	16	---	1
Corporate and other	**318**	**---**	**18**	846	(5)	33
	2,278	**(1)**	**55**	2,443	(6)	85
Stocks	**237**	**(1)**	**11**	298	(1)	15
Total	**2,515**	**(2)**	**66**	2,741	(7)	100

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.

	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)**

	2011					
	Less than 12 months		12 months or over		Total	
	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $	Fair value $	Unrealized losses $
Bonds						
Governments	244	(1)	---	---	244	(1)
Corporate and other	48	(3)	8	(2)	56	(5)
	292	(4)	8	(2)	300	(6)
Stocks	31	(1)	---	---	31	(1)
Total	323	(5)	8	(2)	331	(7)

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 investment in an associate.

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 and the establishment of provisions, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivatives is presented in Note 7.

b i) Credit Quality Indicators

The following tables present the credit quality indicators of the financial assets.

Bonds by investment grade

	2012	2011
	Carrying amount	
	$	$
AAA	**1,270**	1,209
AA	**3,386**	2,752
A	**8,572**	8,357
BBB	**1,400**	1,343
BB and lower	**15**	16
Total	**14,643**	13,677

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 $835 ($741 as at December 31, 2011).

Mortgages

The quality of mortgages is analyzed internally through regular examination of the portfolio.

	2012	2011
	$	$
Insured mortgage loans	**1,901**	2,107
Conventional mortgage loans	**702**	1,144
Total	**2,603**	3,251

Derivative Financial Instruments
The Company's 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, 2012, all counterparties to derivative financial instruments contracts have a credit rating of A and higher (A and higher as at December 31, 2011).

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
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 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, 2012 and 2011.

Past Due Mortgages
A mortgage is considered in arrears when the counterpart has not done 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.

	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**

	2011			
	30 – 59 days in arrears $	60 – 89 days in arrears $	90 days in arrears and more or in process of foreclosure $	Total $
Insured mortgage loans	7	5	2	14
Conventional mortgage loans	3	6	---	9
Total	10	11	2	23

Foreclosed Properties
During the year ended December 31, 2012, the Company took possession of $7 ($5 in 2011) 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
The following table present the change in provision for losses:

	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**

	2011		
	Bonds classified as loans and receivables $	Mortgages $	Total $
Balance at beginning	3	1	4
Increase in provision for losses	---	3	3
Decrease in provision for losses	---	(2)	(2)
Balance at end	3	2	5

Impaired Investments
The following table presents investments impaired by the Company:

	2012		
	Gross $	**Provisions $**	**Total $**
Bonds classified as loans and receivables	**10**	**2**	**8**
Mortgage loans	**1**	**---**	**1**
Balance at end	**11**	**2**	**9**

	2011		
	Gross $	Provisions $	Total $
Bonds classified as loans and receivables	11	3	8
Mortgage loans	7	2	5
Balance at end	18	5	13

b iii) Other information on credit risk

Investment properties
Minimum payments receivable from rental of investment properties in future years is as follows:

	2012 $	2011 $
Maturing in one year	**47**	47
More than 1 year and less than 5 years	**158**	152
More than 5 years	**56**	95
Total	**261**	294

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, 2012, as part of the Canadian Mortgage and Housing (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, 2012, the carrying value of ceded mortgage loans is $248 ($94 in 2011). The carrying value of the corresponding liability is $247 ($94 in 2011). Their fair values are $248 and $246 respectively ($95 and $93 respectively in 2011) for a net amount of $2 ($2 in 2011). The carrying value of mortgage loans prior to their transfer was $260 ($95 in 2011).

Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents 105% of the market value of the loaned securities, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2012, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $790 ($1,274 in 2010).

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 Derivatives 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 is 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. As at December 31, 2012 the fair value of assets received as collateral is $102 ($85 at December 31, 2011). These assets were received and assigned as collateral under the ISDA and GMRA agreements. Some of these assets were used for commitments related to short-selling operations and repurchase agreements. The Company may also pledge assets as collateral to the counterparty. The fair value of assets pledged as collateral is $54 as at December 31, 2012 ($55 in 2011).

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

	2012			
	Designated at fair value through profit or loss $	**Available for sale $**	**Loans and receivables $**	**Total $**
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**

	2011			
	Designated at fair value through profit or loss $	Available for sale $	Loans and receivables $	Total $
Bonds (corporate and other)				
Financial services	1,079	487	227	1,793
Asset backed securities	51	77	4	132
Utilities and energy	1,261	138	382	1,781
Industrial products	318	14	130	462
Consumer cyclical and non-cyclical	235	75	74	384
Health	329	2	131	462
Other	123	53	2	178
Total	3,396	846	950	5,192

Mortgages by region and type

	2012					
	Atlantic provinces $	**Quebec $**	**Ontario $**	**Western provinces $**	**Outside Canada $**	**Total $**
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**

	2011					
	Atlantic provinces $	Quebec $	Ontario $	Western provinces $	Outside Canada $	Total $
Insured mortgage loans						
Residential	---	424	21	3	---	448
Multi-residential	44	807	296	479	---	1,626
Non-residential	1	1	7	24	---	33
	45	1,232	324	506	---	2,107
Conventional mortgage loans						
Residential	---	89	1	2	1	93
Multi-residential	---	51	15	81	296	443
Non-residential	51	165	96	173	123	608
	51	305	112	256	420	1,144
Total	96	1,537	436	762	420	3,251

Investment properties by type

	2012 $	2011 $
Residential and multi-residential	**17**	13
Office	**742**	610
Retail	**163**	139
Industrial	**25**	21
Land and other	**6**	6
Total	**953**	789

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 maturity date.

	2012		2011	
	Bonds $	**Mortgages $**	Bonds $	Mortgages $
Due in 1 year or less	**468**	**299**	601	268
Due after 1 year through 5 years	**2,171**	**1,125**	2,444	1,447
Due after 5 years through 10 years	**2,107**	**570**	2,360	823
Due after 10 years	**9,897**	**609**	8,272	713
Total	**14,643**	**2,603**	13,677	3,251

The effective yield is between 0.08% and 11.60% (0.07% and 12.16% in 2011) for bonds, between 1.10% and 12.20% (1.76% and 12.20% in 2011) for mortgages and between 3.70% and 4.15% (3.00% and 10.00% in 2011) 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 at 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 of invested assets.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. Potential future credit exposure quantifies the potential for future losses which may result from movement in underlying market rates. The Company's exposure at the end of each period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

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

	2012			
	Notional amount $	**Maximum credit risk $**	**Potential future credit risk $**	**Credit equivalent amount $**
Equity contracts				
Equity swaps	**273**	**2**	**16**	**18**
Futures contracts	**375**	**---**	**---**	**---**
Currency contracts				
Forward contracts	**1,087**	**2**	**11**	**13**
Currency swaps	**610**	**3**	**45**	**48**
Futures contracts	**100**	**---**	**---**	**---**
Interest rate contracts				
Interest rate swaps	**2,066**	**126**	**28**	**154**
Bond contracts				
Forward contracts	**1,462**	**12**	**5**	**17**
Other derivative contracts	**202**	**---**	**---**	**---**
Total	**6,175**	**145**	**105**	**250**

	2011			
	Notional amount $	Maximum credit risk $	Potential future credit risk $	Credit equivalent amount $
Equity contracts				
Equity swaps	425	3	26	29
Futures contracts	290	---	---	---
Currency contracts				
Forward contracts	939	7	9	16
Currency swaps	177	7	12	19
Futures contracts	65	---	---	---
Interest rate contracts				
Interest rate swaps	1,224	118	15	133
Bond contracts				
Forward contracts	745	70	---	70
Futures contracts	55	---	---	---
Options	78	2	2	4
Total	3,998	207	64	271

	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 derivatives contracts	--	---	202	202	---	(17)
Total	2,483	1,227	2,465	6,175	145	(53)

	2011					
	Notional amount				Fair value	
	Less than 1 year $	1 to 5 years $	Over 5 years $	Total $	Positive $	Negative $
Equity contracts						
Equity swaps	418	7	---	425	3	(2)
Futures contracts	290	---	---	290	---	---
Currency contracts						
Forward contracts	938	1	---	939	7	(3)
Currency swaps	9	35	133	177	7	(4)
Futures contracts	65	---	---	65	1	---
Interest rate contracts						
Interest rate swaps	114	230	880	1,224	118	(13)
Bond contracts						
Forward contracts	745	---	---	745	70	(4)
Futures contracts	55	---	---	55	---	---
Options	78	---	---	78	2	(2)
Total	2,712	273	1,013	3,998	208	(28)

Forward contracts, designated as hedging items of net investment in foreign operation that has a different functional currency from the Company's functional currency, have a nominal value of $280 ($286 in 2011), a fair value less than $1 (less than $1 in 2011) and maturities of less than 1 year (less than 1 year in 2011). The effective portion of the change in fair value is recorded in the other comprehensive income as the currency translation of the net investment in foreign operation.

Embedded derivatives
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 derivatives is determined using a valuation which relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivatives are presented as other derivative contracts.

Fair value hedges
The Company terminated the currency risk hedging relationship for financial assets classified as available for sale. The Company did not have any forward exchange contracts for currencies, designated as hedging of currency risk as at December 31, 2011. The fair value and changes in the hedged financial assets are accounted for in investment income.

During the period ended December 31, 2012, the Company used bond forward contracts to reduce its exposure to interest rate risk. These contracts are designated as interest rate risk hedging related to financial assets classified as available for sale. These contracts have a nominal value of $174, a fair value less than $1 and maturities of less than 1 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:

	2012		2011	
	Gains (losses) on derivatives $	**Gains (losses) for hedge items $**	Gains (losses) on derivatives $	Gains (losses) for hedge items $
Currency hedging	**---**	**---**	1	(1)
Interest rate risk hedging	**1**	**(1)**	---	---
	1	**(1)**	1	(1)

For the year ended December 31, 2012, the Company has hedge ineffectiveness of less than $1. For the years ended December 31, 2011, the Company had no hedge ineffectiveness.

Cash flow hedges
For the years ended December 31, 2012 and 2011, the Company has no cash flow hedges.

8 › Other Assets

Other assets consist of the following:

	2012	2011
	$	$
Investment income due and accrued	**121**	110
Outstanding premiums	**55**	61
Due from reinsurers	**28**	29
Due from agents	**38**	37
Accounts receivable	**343**	282
Deferred sales commissions	**70**	59
Post-employment benefits (Note 26)	**43**	35
Prepaid expenses	**12**	11
Real estate held for resale	**10**	6
Linearization of rents	**11**	11
Income tax receivable	**36**	25
Securities acquired under resale agreements	**201**	---
Miscellaneous	**26**	41
Total	**994**	707

The amount of *Other assets* that the Company expects to receive within the next 12 months is $630 ($590 as at December 31, 2011).

9 › Fixed Assets

The following table presents the variation of fixed assets:

	Own-use Property Land $	Own-use Property Real estate $	Other $	Total $
Cost				
Balance as at December 31, 2010	31	80	108	219
Acquisitions	---	---	17	17
Disposals	---	---	(3)	(3)
Write-offs	---	---	(2)	(2)
Transfer to investment property	---	2	---	2
Balance as at December 31, 2011	31	82	120	233
Acquisitions	**---**	**3**	**15**	**18**
Disposals	**---**	**---**	**(2)**	**(2)**
Write-offs	**---**	**---**	**(14)**	**(14)**
Balance as at December 31, 2012	**31**	**85**	**119**	**235**
Accumulated depreciation				
Balance as at December 31, 2010	---	29	75	104
Depreciation for the year	---	2	10	12
Depreciation on disposals	---	---	(3)	(3)
Depreciation on write-offs	---	---	(2)	(2)
Balance as at December 31, 2011	---	31	80	111
Depreciation for the year	**---**	**3**	**11**	**14**
Depreciation on disposal	**---**	**---**	**(2)**	**(2)**
Depreciation on write-offs	**---**	**---**	**(14)**	**(14)**
Balance as at December 31, 2012	**---**	**34**	**75**	**109**
Net carrying value as at December 31, 2012	**31**	**51**	**44**	**126**
Net carrying value as at December 31, 2011	31	51	40	122

The net carrying value of fixed assets held under a finance lease was $1 as at December 31, 2012 ($1 as at December 31, 2011).

10 › Intangible Assets and Goodwill

The following table presents the variation of intangible assets:

	Finite useful life Software application $	Finite useful life Other $	Indefinite life intangible assets $	Total $
Cost				
Balance as at December 31, 2010	82	55	345	482
Acquisitions	17	4	---	21
Acquisitions through business combinations	---	1	35	36
Reclassification after allocation of the purchase price	1	17	(33)	(15)
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**
Accumulated depreciation				
Balance as at December 31, 2010	55	5	---	60
Depreciation for the year	9	7	---	16
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**
Net carrying value as at December 31, 2012	**62**	**52**	**347**	**461**
Net carrying value as at December 31, 2011	36	65	347	448

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. Finite useful life intangible assets are depreciated over a period ranging from 5 and 30 years.

The carrying value and changes in goodwill are as follows:

	Preliminary goodwill	Goodwill	Total
	$	$	$
Balance as at December 31, 2010	---	141	141
Acquisition of businesses	21	---	21
Transfer from preliminary goodwill to goodwill	(21)	21	---
Transfer from intangible assets to goodwill	---	15	15
Effect of change in exchange rates	---	1	1
Balance as at December 31, 2011	---	178	178
Disposal	**---**	**(15)**	**(15)**
Impairment	**---**	**(10)**	**(10)**
Balance as at December 31, 2012	**---**	**153**	**153**

Following the disposition 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 United States Business. The Company recognized a goodwill impairment of $10 and a finite useful life intangible asset impairment of $14 ($9 after tax). Goodwill is not deductible for tax purposes. These impairments are recognized in General expenses in the income statement. The recoverable amount of the CGU was established as described below under the Individual Life and Health Insurance and Group Life and Health Insurance 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 *Merger, Disposal and Acquisitions of Businesses*.

No depreciation was recorded in 2011 with regards to goodwill and finite useful life intangible assets. No depreciation was recorded in 2012 and 2011 with regards to indefinite useful life intangible assets.

A summary of the allocation of goodwill and indefinite useful life intangible assets by nature of CGU is presented below.

	2012		2011	
	Indefinite life intangible assets	**Goodwill**	Indefinite life intangible assets	Goodwill
	$	**$**	$	$
Individual Wealth Management	**309**	**41**	309	40
Individual Life and Health Insurance	**6**	**32**	6	33
Group Life and Health Insurance	**1**	**21**	1	21
General Insurance	**2**	**45**	2	45
U.S. Business	**3**	**1**	3	26
Other activities	**26**	**13**	26	13
Total	**347**	**153**	347	178

Individual Wealth Management, General Insurance and Other Activities
The recoverable amount of cash-generating units (CGU) in Individual Wealth Management, General Insurance and for Other activities sectors was determined according to calculations of the value in use. These calculations call upon cash flow projections before income taxes based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using the estimated growth rates presented below. These growth rates do not exceed the average long-term growth rates of the industry in which the CGU operates.

The following are the key assumptions used in the value in use calculations:

	Individual Wealth Management		**General Insurance**		**Other activities**	
	2012	2011	**2012**	2011	**2012**	2011
	%	%	**%**	%	**%**	%
Growth rate	**6.93**	7.04	**10.27**	---	**2.46**	3.00
Long-term growth rate	**3.50**	3.90	**2.50**	---	**2.46**	3.00
Discount rate	**17.80**	15.61	**14.32**	---	**21.87**	20.96

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The weighted average growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are historical industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before income taxes which take into account specific risks in relation to relevant activity sectors.

For the Individual Wealth Management sector, the Company estimates that it is possible that a change in the key assumption used to calculate the value in use results in value lower than the carrying value. The result of the value in use calculation established using a 17.80% (15.61% in 2011) discount rate shows that value in use exceeds the sector's carrying value by $340 ($288 in 2011). A 5.70% (11.53% in 2011) increase in the discount rate would result in a value in use equal to the carrying value.

For the General Insurance sector, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value in use lower than the carrying value. The result of the calculation of the value in use established using a 14.32% discount rate shows that the value in use exceeds the carrying value of the CGU by $12. A 5.90% increase in the discount rate would result in a value in use equal to the carrying value.

For the Other activities sector, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value in use lower than the carrying value. The result of the calculation of the value in use established using a 21.87% (20.96% in 2011) discount rate shows that the value in use exceeds the carrying value of the CGU by $7 ($3 in 2011). A 3.55% (1.59% in 2011) increase in the discount rate would result in a value in use equal to the carrying value.

Individual Life and Health Insurance and Group Life and Health Insurance
The recoverable amount of CGU in the Individual Life and Health Insurance and in the Groupe Life and Health Insurance 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 asset, and future returns of business in force and the returns of new businesses.

The key assumptions of the valuation take into account the discount rate, cost of capital, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

For Individual Life and Health Insurance, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value lower than the carrying value. The result of the calculation of the value in use established using an 11.37% (12.25% in 2011) discount rate shows that the value in use exceeds the carrying value of the CGU by $188 ($391 in 2011). A 2.37% (1.77% in 2011) increase in the discount rate would result in a value in use equal to the carrying value.

For the Group Life and Health Insurance sector, the Company estimates that it is possible that a change in a key assumption used to calculate the value in use results in a value lower than the book value. The result of the calculation of the value in use established using an 12.51% (12.05% in 2011) discount rate shows that the value in use exceeds the carrying value by $58 ($49 in 2011). A 12.47% (9.40% in 2011) increase in the discount rate would result in a value in use equal to the carrying value.

11 › Segregated Funds Net Assets

The following table presents the segregated fund assets and liabilities.

	2012	2011
	$	$
Assets		
Cash, short-term and other investments	**478**	677
Bonds	**4,419**	4,160
Stocks	**3,888**	3,575
Fund units	**6,232**	5,283
Other assets	**60**	85
	15,077	13,780
Liabilities		
Accounts payable and accrued expenses	**54**	57
Currency contracts	**2**	---
	56	57
Net assets	**15,021**	13,723

The following table presents the change in segregated funds net assets

	2012	2011
	$	$
Balance at beginning	**13,723**	13,564
Add:		
Amounts received from policyholders	**2,223**	2,263
Interest and dividends	**389**	340
Net realized gains	**317**	355
Net increase (decrease) in fair value	**387**	(879)
	17,039	15,643
Less:		
Amounts withdrawn by policyholders	**1,740**	1,657
Operating expenses	**278**	263
	2,018	1,920
Balance at end	**15,021**	13,723

12 › Insurance Contract Liabilities

Insurance contract liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, policyholder dividends, taxes (other than incomes taxes) and expenses on policies in force. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits. Insurance contract liabilities include provisions for future policy benefits, benefits payable, provision for unreported claims, policyholders' amounts on deposit and provisions for dividends to policyholders and experience rating refunds

a) Composition

The insurance contract liabilities are composed as follows:

	2012	2011
	$	$
Provisions for future policy benefits	**19,334**	17,554
Benefits payable and provision for unreported claims	**193**	184
Policyholders' amounts on deposit	**269**	251
Provisions for dividends to policyholders and experience rating refunds	**32**	35
Balance at end	**19,828**	18,024

The composition of the Company's insurance contract liabilities, reinsurance asset and the corresponding assets are as follows:

	2012					
	Individual		**Group**			
	Life & Health $	**Wealth Management $**	**Life & Health $**	**Savings and Retirement $**	**Other $**	**Total $**
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**
Insurance contract liabilities	**12,209**	**1,425**	**1,106**	**3,199**	**(3)**	**17,936**
Assets backing 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	**2,349**	**109**	**6**	**3**	**---**	**2,467**
Policy loans	**517**	**3**	**8**	**---**	**---**	**528**
Other invested assets	**44**	**4**	**177**	**88**	**---**	**313**
Investment properties	**824**	**---**	**---**	**---**	**---**	**824**
Total	**12,209**	**1,425**	**1,106**	**3,199**	**(3)**	**17,936**

	2011					
	Individual		Group			
	Life & Health $	Wealth Management $	Life & Health $	Savings and Retirement $	Other $	Total $
Insurance contract liabilities (gross)						
Canada	10,614	1,428	1,138	3,344	(3)	16,521
United States	926	572	4	---	---	1,502
Other countries	1	---	---	---	---	1
Total	11,541	2,000	1,142	3,344	(3)	18,024
Reinsurance assets						
Canada	126	3	121	123	(1)	372
United States	24	---	---	---	---	24
Total	150	3	121	123	(1)	396
Insurance contract liabilities	11,391	1,997	1,021	3,221	(2)	17,628
Assets backing insurance contract liabilities						
Bonds and other fixed interest securities	7,329	1,014	606	2,073	(2)	11,020
Mortgages	612	765	279	993	---	2,649
Stocks	2,066	5	2	4	---	2,077
Policy loans	467	39	---	12	---	518
Other invested assets	114	174	134	139	---	561
Investment properties	803	---	---	---	---	803
Total	11,391	1,997	1,021	3,221	(2)	17,628

The fair value of assets backing insurance contract liabilities as at December 31, 2012 was estimated at $17,651 ($17,488 as at December 31, 2011). 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) Assumptions for valuation of insurance contract liabilities
The following methods were used to establish the most significant assumptions:

Mortality
Mortality represents the occurrence of death in a given population. For individual life insurance, the Company conducts mortality experience studies annually. The mortality assumption is based on the results of these studies over the last few years. Overall, the Company's mortality experience has exhibited a gradually declining trend. Since December 31, 2011, calculation of insurance contract liabilities for this block of business takes into account an improvement in future mortality rates.

For Individual Wealth Management and Group Pensions, the assumption used is based on Company and industry experience. Emphasis is placed on industry experience where the Company's experience is insufficient to be statistically reliable. Mortality improvement has been projected to occur throughout the future lifetime of annuitants.

For the Group Insurance segment, the Company conducts mortality experience studies annually. The expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

To manage the mortality risk, actual claims experience is monitored on a monthly basis. Reinsurance is utilized to limit the losses from any single claim or catastrophic event.

As at December 31, 2012, the Company estimates that a 5% permanent deterioration in mortality rates would result in a $128 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities ($123 as at December 31, 2011). 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, 2012, the Company estimates that a 5% deterioration in morbidity rates would result in a $40 reduction in net income attributed to common shareholders ($61 as at December 31, 2011). As at December 31, 2012, the deterioration of 5% 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 and interest rate risk
The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. A description of CALM is found in Note 2 - *Accounting Policies*, sub-section m ii) *Insurance Contract Liabilities*.

Interest rate risk is the risk of loss due to changing interest rates. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages the interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For 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 in the last few years to improve the short-term flows of non-immunized liabilities.

As at December 31, 2012, 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 $18 after taxes ($33 after taxes as at December 31, 2011). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about $66 after taxes ($62 after taxes as at December 31, 2011).

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, 2012, 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 $23 lower than expected for its regular operations ($22 as at December 31, 2011).

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 expected inflation rate.

The Company prices its products to cover expected costs.

Lapses
Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited.

Long-term lapse rate assumptions take into account the emerging trend of lower lapse rates with respect to lapse-supported products.

The Company reduces its exposure as much as possible through the way it develops its products. The Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2012, the Company estimates that a 5% deterioration in lapse rates would result in a $168 reduction in net income attributed to common shareholders ($156 as at December 31, 2011). The 5% deterioration is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.

Margins for Adverse Deviations
Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. The Appointed Actuary must adjust these assumptions to include margins for adverse deviation 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 Income Statement.

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

To reduce the reinsurance risk, reinsurance agreements are concluded with well-established, highly-rated reinsurers. Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to the policyholders.

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

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

	2012	2011
	$	$
Balance at beginning	**192**	181
Deferred acquisition costs for the year	**52**	90
Amortization for the year	**(53)**	(79)
Balance at end	**191**	192

d) Changes in Insurance Contract Liabilities
Changes in insurance contract liabilities include the participating policyholders' account.

	2012	2011
	$	$
Balance at beginning	**18,024**	15,773
Normal changes – provision for future policy benefits		
On in-force	**1,062**	1,637
On new policies	**152**	510
Changes in assumptions	**57**	62
Changes in other items of insurance contract liabilities	**12**	10
Other variation of U.S. Business	**475**	---
Foreign currency translation and other	**46**	32
Balance at end	**19,828**	18,024

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.

e) Changes in Reinsurance Assets
Changes in reinsurance assets include amounts for participating policyholders' account.

	2012	2011
	$	$
Balance at beginning	**396**	497
Normal changes		---
On in-force	**(8)**	14
On new policies	**(2)**	44
Change in assumptions	**24**	(159)
Other variation of U.S. Business	**1,410**	---
Translation of items in foreign currencies and other	**72**	---
Balance at end	**1,892**	396

f) Impact of Changes in Assumptions or Methodologies on Net Insurance Contract Liabilities

		2012	2011
		$	$
Mortality	a)	**47**	(170)
Morbidity	b)	**(3)**	(6)
Policyholders' behavior	c)	**79**	25
Investment returns	d)	**(85)**	507
Expenses	e)	**(9)**	(92)
Methodology and other	f)	**---**	(28)
Impact on non-participating insurance contract liabilities		**29**	236
Impact on participating insurance contract liabilities		**4**	(15)
Impact on insurance contract liabilities		**33**	221

The allocation between the various sources related to the assumptions and method was adjusted in 2011 with no impact on the net income.

Details concerning the impact of changes in assumptions or methodologies on net insurance contract liabilities for 2012 are as follows:

a) Update of year-end mortality assumption
b) Annual update
c) Mostly on Universal Life policies
d) Reduction of Ultimate Reinvestment Rate (URR) and impact of investment initiatives
e) Improvement of unit costs

13 › Investment Contract Liabilities

a) Composition

The Company has classified as investment contracts immunization contracts and non-participating "deficit reimbursement agreement" group life and health 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 fair value of investment contract liabilities for non-participating "deficit reimbursement agreement" group life and health insurance contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for 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.

	2012			
	Individual	Group		
	Life and Health $	Life and Health $	Savings and Retirement $	Total $
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 investment contract liabilities				
Bonds and other fixed interest securities	16	270	1	287
Mortgages	---	161	---	161
Stocks	---	3	---	3
Police loans	---	5	---	5
Other invested assets	---	83	---	83
Total	16	522	1	539

	2011			
	Individual	Group		
	Life and Health $	Life and Health $	Savings and Retirement $	Total $
Investment Contract Liabilities (gross)				
Canada	---	553	3	556
United States	---	6	---	6
Other countries	15	---	---	15
Total	15	559	3	577
Reinsurance assets				
Canada	---	68	---	68
United States	---	1	---	1
Total	---	69	---	69
Net investment contract liabilities	15	490	3	508
Assets backing investment contract liabilities				
Bonds and other fixed interest securities	12	279	2	293
Mortgages	---	144	1	145
Stocks	2	1	---	3
Other invested assets	1	66	---	67
Total	15	490	3	508

Fair value of assets backing investment contract liabilities as at December 31, 2012 represents approximately $516 ($496 as at December 31, 2011).

Variations in investment contract liabilities (net)

	2012	2011
	$	$
Balance at beginning	**508**	471
Deposits	**212**	126
Withdrawals	**(189)**	(110)
Interest	**18**	18
Other	**(10)**	3
Balance at end	**539**	508

14 › Other Liabilities

Other liabilities consist of the following:

	2012	2011
	$	$
Unearned premiums	**299**	194
Other policy liabilities	**39**	32
Mortgage debts	**27**	54
Post-employment benefits (Note 26)	**103**	98
Income taxes payable	**63**	69
Amounts on deposit on products other than insurance	**228**	202
Accounts payable	**406**	430
Due to reinsurers	**38**	33
Deferred revenue	**11**	---
Securities sold under repurchase agreement	**226**	---
Short-selling securities	**230**	7
Securitization of mortgages	**246**	94
Fair value of purchased business in force	**12**	18
Miscellaneous	**11**	10
Total	**1,939**	1,241

15 › Fair value of Financial Liabilities

Other Liabilities

The fair value of other liabilities, except mortgage debt and securitization liabilities, is approximately the same as the carrying value due to their short-term nature.

The fair value of mortgage debts and of the securitization liabilities is estimated by discounting the cash flows with the interest rate currently prevailing on the market, for new mortgage debt with substantially the same terms. The fair value of the mortgage debts is $28 ($57 in 2011).The mortgage debts bear interest between 5.38% and 6.32% (5.38% and 6.82% in 2011) and mature between 2014 and 2015. Mortgage debts are secured by real estate with a carrying value of $96 ($168 in 2011). The interest expense on the mortgage debts is $3 ($3 in 2011) and is included in Note 21, *General expenses* under *Real estate operating expenses*.

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 the interest rates and the credit risks associated with these instruments. Fair value of debentures is presented in Note 16 *Debentures.*

Derivatives

The fair value of derivatives recorded as financial liabilities is presented in Note 7 *Derivative Financial Instruments* and is determined according to the method and assumptions described in Note 5, *Invested Assets and Investment Income*.

Fair value hierarchy of financial liabilities:

		2012		
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Liabilities				
Other liabilities				
Held for trading	**199**	**31**	**---**	**230**
Derivatives				
Held for trading	**5**	**31**	**17**	**53**
Total	**204**	**62**	**17**	**283**

	2011			
	Level 1 $	Level 2 $	Level 3 $	Total $
Liabilities				
Other liabilities				
Held for trading	2	5	---	7
Derivatives				
Held for trading	2	26	---	28
Total	4	31	---	35

The following tables provide the maturities of financial liabilities:

			2012		
	Due in 1 year or less **$**	**Due in 1 year to 3 years** **$**	**Due in 3 years to 5 years** **$**	**Due in over 5 years** **$**	**Total** **$**
Benefits payable	**72**	**---**	**---**	**---**	**72**
Other policy liabilities	**26**	**3**	**1**	**---**	**30**
Mortgage debts	**1**	**26**	**---**	**---**	**27**
Amounts on deposit related to products other than insurance	**205**	**18**	**5**	**---**	**228**
Short-selling securities	**230**	**---**	**---**	**---**	**230**
Investment contract liabilities	**220**	**104**	**57**	**234**	**615**
Other financial liabilities	**453**	**2**	**---**	**---**	**455**
Securities sold under repurchase agreement	**226**	**---**	**---**	**---**	**226**
Securitization	**9**	**25**	**212**	**---**	**246**
Debentures	**---**	**---**	**---**	**748**	**748**
Total	**1,442**	**178**	**275**	**982**	**2,877**

			2011		
	Due in 1 year or less $	Due in 1 year to 3 years $	Due in 3 years to 5 years $	Due in over 5 years $	Total $
Benefits payable	86	---	---	---	86
Other policy liabilities	20	5	1	---	26
Mortgage debts	27	13	14	---	54
Amounts on deposit related to products other than insurance	171	25	6	---	202
Short-selling securities	7	---	---	---	7
Investment contract liabilities	205	125	56	191	577
Other financial liabilities	459	4	---	---	463
Securization	3	6	85	---	94
Debentures	---	---	---	748	748
Total	978	178	162	939	2,257

Annual interest payments will amount to $2 for 2013 and to $1 for 2014 on mortgage debts and to $41 for the next 5 years on debentures.

Information concerning Statement of Financial Position commitments is presented in Note 28, Guarantees, Commitments and Contingencies.

16 › Debentures

Debentures are detailed as follows:

	2012		2011	
	Carrying value $	**Fair value $**	Carrying value $	Fair value $
Debenture, Series A (IATS), bearing interest at 5.714%	**150**	**155**	150	157
Subordinated debenture bearing interest at 4.75%	**249**	**265**	249	254
Subordinated debenture bearing interest at 5.13%	**150**	**156**	150	156
Subordinated debenture bearing interest at 8.25%	**99**	**107**	99	108
Subordinated debenture bearing interest between 5.63% and 7%	**100**	**112**	100	108
Total	**748**	**795**	748	783

Debenture, Series A (IATS), bearing interest at 5.714%

Debenture, Series A, bearing interest at 5.714% payable semi-annually, redeemable at the option of the Company, in whole or in part, subject to prior approval by the Autorité des marches financiers ("AMF") beginning on December 31, 2008 and on any interest payment date thereafter or repayable on maturity in 2053. This subordinated debenture is redeemable before December 31, 2013 at the higher of the Canada yield price and par. After December 31, 2013, the Company may redeem the debenture at par. These securities, called Industrial Alliance Trust Securities (IATS) were issued by Industrial Alliance Capital Trust.

Subordinated debenture bearing interest at 4.75%

Subordinated debenture maturing December 14, 2021 and bearing a fixed annual rate of return of 4.75% for the first five years, payable semi-annually, and a variable annual rate of return equal to the 3-month Canadian Dealer Offered Rate (CDOR) plus 3.20% for the last five years, payable quarterly. This subordinated debenture is redeemable by the Company starting December 14, 2016, in whole or in part, subject to approval by the regulatory authorities. The carrying value of the debenture includes transaction costs and issue premium for a total of $1.

Subordinated debenture bearing interest at 5.13%

Subordinated debenture maturing on June 30, 2019 and bearing interest at 5.13% payable semi-annually from June 30, 2004 to June 30, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 1% payable quarterly. This subordinated debenture is redeemable by the Company before June 30, 2014, in whole or in part, with the approval of the AMF at a redemption price that is equal to the higher of the Canada yield price and par. After June 30, 2014, the Company may redeem in whole, but not in part only on each payment date of quarterly interest, at par, with the prior approval of the AMF.

Subordinated debenture bearing interest at 8.25%

Subordinated debenture maturing March 27, 2019 and bearing interest at 8.25% payable semi-annually until March 27, 2014. After that date, the interest rate will be equal to the 90-day Bankers' Acceptance rate plus 7.55% payable quarterly. This subordinated debenture is redeemable by the Company before March 27, 2014, in whole or in part, and subject to approval by the AMF, at the higher of the Canada yield price and par. After March 27, 2014, the Company may redeem the debenture in whole or in part, on each payment date of quarterly interest, at par, with the prior approval of the AMF. The carrying value of the debenture includes transaction costs and issue discount for a total of $1.

Subordinated debenture bearing interest between 5.63% and 7%

Subordinated debenture maturing on August 1, 2023. The principal debenture of $88 bears interest at 5.63% payable semi-annually until August 1, 2018. The secondary debenture of $12 bears 7% interest payable semi-annually until August 1, 2013 and bears interest of 5.63% payable semi-annually until 2018. After that date, the interest on the principal and secondary debenture will be the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of each quarter and payable semi-annually. These subordinated debentures are redeemable by the Company after August 1, 2018, in whole, but not in part, at par, with the prior approval of the AMF.

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors. The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have the substantially the same conditions. This fair value can fluctuate due to the interest rates and the credit risks associated with these instruments Financing cost of debentures is composed of a $42 interest charge ($31 in 2011).

17 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has adopted standards of sound capital management business and financial practices that aim to support its strategic orientations and financial targets and maintain an adequate level of capital. These practices include the establishment and strict follow up of a business plan and the drafting of a report on the Company's dynamic capital adequacy testing, which constitute a basis for decision-making. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

Regulatory Requirements and Solvency Ratio

The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF. According to this guideline, regulatory capital contains two categories:

- Tier 1 capital, which contains more permanent equity items and which is primarily composed of equity attributable to common shareholders, preferred shares and the eligible amount of innovative capital instruments. Goodwill and other intangible assets are deducted from the capital of this category.
- Tier 2 capital, which is primarily composed of subordinated debentures.

The available capital represents the total Tier 1 and Tier 2 capital, less the deductions prescribed by the AMF.

Required capital is determined according to 4 risk categories, namely asset default risk, insurance risk, changes in interest rate environment risk and segregated fund risk. Component capital requirements are determined using factor-based or other methods that are applied to specific on- and off-Statement of Financial Position assets or liabilities.

The capital adequacy ratio (solvency ratio) is calculated by dividing available capital by required capital.

According to the AMF guideline, the Company must set a target level of available capital that exceeds the minimum requirements. The guideline also stipulates that most of the capital must be Tier 1, which absorbs the losses related to current operations.

In the management of its capital, the Company has set a target range of 175% to 200% 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, 2012 and 2011, the Company maintained ratios that satisfy both the regulatory requirements and the target level it has set for itself.

The Company's regulatory capital situation is detailed as follows:

Regulatory Capital

	2012	2011
	$	$
Available capital		
Total Tier 1 capital (net)	**2,956**	2,462
Total Tier 2 capital (net)	**640**	587
Total	**3,596**	3,049
Required capital	**1,658**	1,614
Solvency ratio	**217%**	189%

Various elements influence the capital adequacy ratio (solvency ratio) and make it increase or decrease. The sale of the U.S. business block of fixed annuities and the issuance of the preferred shares for an amount of $250 lead to an increase in the capital adequacy ratio. However, the increase in required capital with regards to the investment fair value increase and the rebalancing of investments are elements that lead to a decrease of the capital adequacy ratio.

Also recall that the Company has chosen to use the transitory period in order to defer the impact of IFRS accounting standards adoption on available capital. The total value of the deferral is $72 and is amortized, in whole, over 8 quarters until December 31, 2012.

The Company made an accounting adjustment as at January 1, 2011 that has a $59 impact on retained earnings. More detailed information is provided in the accounting adjustment section of Note 2. Given that the solvency ratio that was reported to the regulatory authorities will not be amended, the Company did not adjust this ratio in its presentation of 2011 data. The entire accounting adjustment was considered in the calculation of the 2012 solvency ratio. If the ratio had been adjusted, it would have had an impact of 4%.

18 › Share Capital

The authorized share capital consists of the following:

Common Shares

Unlimited common shares without par value, with voting rights.

Preferred Shares

10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, with a non-cumulative preferential dividend of 1% until 2004, to be subsequently revised at a rate that will be based on market prices, issuable in series with equal ranking as for dividend and capital.

3,000,000 Series 1 preferred shares, redeemable at the issuing value at the Company's option under certain conditions, including approval by the AMF, convertible at the option of the holder into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, redeemable at the option of the Company at the issuing value, increased by a 5.26% premium under certain conditions, including the necessity to proceed with the issue of series 3 preferred shares.

3,000,000 Series 3 preferred shares, redeemable after 5 years at their issue value at the Company's option, subject to prior approval by the AMF, or convertible into common shares at their market value.

An unlimited number of class A – Series A preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company after December 31, 2008, subject to approval by the AMF, for 25 dollars per share.

An unlimited number of class A – Series B preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company 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.

An unlimited number of class A – Series C preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash of 0.3875 dollars per share, redeemable in full or in part at the option of the Company after December 31, 2013 and 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.

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 of 0.375 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 of 0.36875 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 on June 30 of every five years thereafter.

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 on June 30 of every five years thereafter.

An unlimited number of class A – Series YY preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.450 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, convertible at the option of the shareholders into common shares at each conversion date, on the last day of June and December of each year commencing on June 30, 2014.

An unlimited number of class A – Series ZZ preferred shares, without par value, without voting rights, non-cumulative semi-annual dividend in cash of 0.5625 dollars per share, redeemable at the option of the Company for 25 dollars per share or convertible into common shares after December 31, 2008, subject to approval by the AMF. Also, convertible at the option of the shareholders into common shares at each conversion date, the last day of June and December of each year commencing on June 30, 2014.

	2012		2011	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning	**90,383**	**861**	83,887	653
Shares issued on exercise of stock options	**439**	**12**	496	14
Shares issued	**224**	**6**	6,000	194
Cancellation of shares held in treasury	**(22)**	**---**	---	---
Balance at end	**91,024**	**879**	90,383	861
Shares held in treasury	**---**	**---**	(22)	---
	91,024	**879**	90,361	861
Preferred shares, class A				
Balance at beginning	**17,004**	**425**	17,004	425
Shares issued – Series G	**10,000**	**250**	---	---
Redemption of shares held in treasury – Series A	**(4)**	**---**	---	---
Balance at end	**27,000**	**675**	17,004	425
Shares held in treasury	**---**	**---**	(4)	---
	27,000	**675**	17,000	425
Total share capital		**1,554**		1,286

Issue of Share Capital
On September 15, 2011, the Company issued 6,000,000 common shares for a net cash amount of $194.

On June 1, 2012, the Company issued 6,000,000 Preferred shares Class A - Series G for a cash amount of $150 and June 28, 2012, the Company issued 4,000,000 additional Preferred shares Class A – Series G for a cash amount of $100.

Dividends
The table below presents the dividends accrued or paid on the various classes of shares issued by the Company.

	2012		2011	
	Gross $	**Per share $**	Gross $	Per share $
Common shares	**89**	**0.9792**	84	0.9800
Preferred shares				
Category A – Series B	**6**	**1.1500**	6	1.1500
Category A – Series C	**6**	**1.5500**	6	1.5500
Category A – Series E	**6**	**1.5000**	6	1.5000
Category A – Series F	**6**	**1.4750**	6	1.4750
Category A – Series G	**6**	**0.6252**	---	---
Total	**119**		108	

Dividends declared and not recognized on common shares
A dividend of $0.245 per share was approved by the Board of Directors on February 15, 2013. This dividend will be paid on March 15, 2013 to the shareholders of record as of March 1, 2013. This dividend was not recorded as a liability in these financial statements. It will be recognized in the equity on March 1, 2013.

Dividend reinvestment and stock purchase plans
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 are also recognized as dividends. Issued shares with regards to the terms of this plan are recognized in the share capital.

19 › Accumulated Other Comprehensive Income

	Bonds	**Stocks**	**Currency Translation**	**Hedging**	**Total**
	$	**$**	**$**	**$**	**$**
Balance as at December 31, 2010	33	29	(12)	9	59
Unrealized gains (losses)	62	(9)	---	---	53
Income taxes on unrealized gains (losses)	(17)	---	---	---	(17)
Other	---	---	4	(6)	(2)
Income taxes on Other	---	---	---	1	1
	45	(9)	4	(5)	35
Realized gains (losses)	(29)	(10)	---	---	(39)
Income taxes on realized gains (losses)	8	1	---	---	9
	(21)	(9)	---	---	(30)
Balance as at December 31, 2011	57	11	(8)	4	64
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**

20 › 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 Life and Health Insurance - Offers individual life insurance products and long-term care insurance.

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

Group Life and Health Insurance - Offers group life insurance products and group insurance for long-term care.

Group Savings and Retirement - Offers group products and services for savings plans, retirement funds and segregated funds.

Other activities - General insurance products, products related to car insurance, subsidiaries non related to insurance sector, and assets and liabilities unallocated and allocated to the surplus as well as eliminations and consolidation entries.

Segmented Income Statements

	2012					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
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	389	771	755	126	2,675
Ceded benefits on contracts	(169)	(21)	(60)	(21)	1	(270)
Net transfer to segregated funds	---	1,146	---	244	---	1,390
Increase (decrease) of insurance contract liabilities	1,301	13	109	(21)	(8)	1,394
Net increase (decrease) of investment contract liabilities	---	---	20	---	---	20
Decrease (increase) in reinsurance assets	(95)	(8)	10	(2)	5	(90)
Commissions, general and other expenses	683	632	463	61	12	1,851
Financing charges	43	7	5	2	(5)	52
	2,397	2,158	1,318	1,018	131	7,022
Income before income taxes	363	160	38	27	(131)	457
Less: income taxes	50	43	8	5	6	112
Net income before allocation of other activities	313	117	30	22	(137)	345
Allocation of other activities	(130)	2	(5)	(4)	137	---
Net income	183	119	25	18	---	345
Net income attributed to participating policyholders	3	---	---	---	---	3
Net income attributed to shareholders	180	119	25	18	---	342

	2011					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
Revenues						
Net premiums	1,248	1,766	1,142	637	199	4,992
Investment income	1,586	277	114	330	(56)	2,251
Other revenues	61	711	32	50	(60)	794
	2,895	2,754	1,288	1,017	83	8,037
Operating expenses						
Gross benefits on contracts	554	258	731	708	109	2,360
Ceded benefits on contracts	(119)	---	(43)	(21)	3	(180)
Net transfer to segregated funds	---	1,550	---	76	---	1,626
Increase (decrease) of insurance contract liabilities	1,678	233	157	167	1	2,236
Net increase (decrease) of investment contract liabilities	---	---	28	---	---	28
Decrease (increase) in reinsurance assets	105	(1)	(3)	6	---	107
Commissions, general and other expenses	620	622	382	51	19	1,694
Financing charges	25	8	2	2	(5)	32
	2,863	2,670	1,254	989	127	7,903
Income before income taxes	32	84	34	28	(44)	134
Less: income taxes	(38)	16	5	4	6	(7)
Net income before allocation of other activities	70	68	29	24	(50)	141
Allocation of other activities	(43)	3	(5)	(5)	50	---
Net income	27	71	24	19	---	141
Net income attributed to participating policyholders	13	---	---	1	---	14
Net income attributed to shareholders	14	71	24	18	---	127

Segmented Premiums

	2012					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
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**

	2011					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
Gross premiums						
Invested in general fund	1,467	417	1,238	141	168	3,431
Invested in segregated funds	---	1,362	---	516	---	1,878
Total	1,467	1,779	1,238	657	168	5,309
Premiums ceded						
Invested in general fund	219	13	96	20	(31)	317
Net premiums	1,248	1,766	1,142	637	199	4,992

Segmented Statements of Financial Position

	2012					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
Assets						
Invested assets and segregated fund assets	**15,115**	**11,772**	**1,951**	**8,588**	**568**	**37,994**
Reinsurance assets	**947**	**584**	**324**	**126**	**(13)**	**1,968**
Intangible assets	**93**	**332**	**19**	**3**	**14**	**461**
Goodwill	**50**	**40**	**54**	**---**	**9**	**153**
Other	**---**	**---**	**---**	**---**	**1,171**	**1,171**
Total assets	**16,205**	**12,728**	**2,348**	**8,717**	**1,749**	**41,747**
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**	**(44)**	**748**
Other	**12**	**---**	**---**	**---**	**2,227**	**2,239**
Equity	**2,255**	**544**	**312**	**141**	**44**	**3,296**
Total liabilities and equity	**16,036**	**12,529**	**2,320**	**8,663**	**2,199**	**41,747**

	2011					
	Individual		Group			
	Life and Health $	Wealth Management $	Life and Health $	Savings and Retirement $	Other $	Total $
Assets						
Invested assets and segregated fund assets	13,390	11,324	1,675	7,976	1,072	35,437
Reinsurance assets	150	3	190	123	(1)	465
Intangible assets	94	324	21	2	7	448
Goodwill	75	38	54	---	11	178
Other	---	---	---	---	913	913
Total assets	13,709	11,689	1,940	8,101	2,002	37,441
Liabilities						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	11,568	11,098	1,699	7,972	(13)	32,324
Debentures	572	125	56	34	(39)	748
Other	18	---	---	---	1,517	1,535
Equity	1,960	460	232	141	41	2,834
Total liabilities and equity	14,118	11,683	1,987	8,147	1,506	37,441

21 › General Expenses

General expenses according to their nature and function are as follows:

General expenses by nature

	2012	2011
	$	$
Salaries and benefits	**329**	291
Stock-based compensation	**5**	3
Professional and audit fees	**144**	143
Rent	**24**	21
Depreciation of fixed assets	**11**	10
Depreciation of own-use properties	**3**	2
Depreciation of intangible assets	**13**	16
Amortization of deferred expenses	**---**	1
Impairment of goodwill and intangible assets	**24**	---
Real estate operating expenses	**70**	67
Other administrative expenses	**130**	109
Total	**753**	663

General expenses by function

	2012	2011
	$	$
Operating expenses	**609**	532
Investment and management fees	**74**	64
Real estate operating expenses	**70**	67
Total	**753**	663

22 › Financing Charges

Financing charges consist of the following:

	2012	2011
	$	$
Interest on debentures	**42**	31
Other	**10**	1
	52	32

23 › Income Taxes

a) Income tax expense (recovery) for the period

Income taxes charged to the Income Statement are divided as follows:

	2012	2011
	$	$
Current income taxes		
Income taxes charged to income statement	**87**	66
Adjustments of prior years	**5**	(1)
	92	65
Deferred income taxes		
Creation and reversal of temporary differences	**30**	(48)
Adjustments of prior years	**(9)**	(8)
Variation in tax rates	**(1)**	(16)
	20	(72)
Total	**112**	(7)

b) Reconciliation of income tax (recovery) expense

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

	2012		2011	
	$	%	$	%
Income before income taxes	**457**	**---**	134	---
Income tax expense at Canadian statutory tax rate	**127**	**28**	38	28
Increase (decrease) in income taxes due to:				
Tax-exempt investment income	**(20)**	**(4)**	(16)	(12)
Unused tax losses not recognized as deferred tax assets	**29**	**6**	---	---
Non-taxable portion of the change in fair value of investment properties	**(15)**	**(3)**	(1)	(1)
Adjustments of prior years	**(4)**	**(1)**	(9)	(7)
Variation in tax rates	**(1)**	**---**	(14)	(10)
Other	**(4)**	**(1)**	(5)	(3)
Income tax expense (recovery) and effective income tax rate	**112**	**25**	(7)	(5)

c) Deferred income taxes

i) Recognized deferred tax assets and liabilities

Deferred 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.

The following table represents the deferred income tax assets and liabilities in the Statement of Financial Position by source of temporary differences:

	Statement of Financial Position	
	2012	2011
	$	$
Deferred tax assets		
Insurance contract liabilities[1]	**13**	61
Real estate	**2**	(2)
Bonds	**(1)**	(7)
Post-employment benefits	**---**	1
Others	**37**	31
	51	84
Deferred tax liability		
Insurance contract liabilities	**55**	91
Real estate	**100**	78
Bonds	**70**	89
Stocks	**37**	21
Post-employment benefits	**(19)**	(17)
Others	**4**	4
	247	266
Net deferred tax liability	**196**	182

[1] Consists of insurance contract liabilities and investment contract liabilities, less reinsurance assets and policy loans.

In 2012, the Company made an accounting adjustment as at January 1, 2011 concerning the estimates used to establish deferred income tax liabilities for prior periods and under which the deferred tax liability was overvalued by $74. More detailed information is presented in the accounting adjustment section of Note 2.

ii) The movement in net deferred tax assets (liabilities) are as follow:

	Insurance contract liabilities	Real estate	Bonds	Stocks	Post-employment benefits	Other	Total
	$	$	$	$	$	$	$
Balance as at December 31, 2010	(358)	(94)	(141)	(85)	22	327	(329)
Accounting adjustment	373	19	---	21	---	(339)	74
Balance as at January 1, 2011	15	(75)	(141)	(64)	22	(12)	(255)
Recognized in net income	(44)	(5)	48	43	(4)	34	72
Recognized in other comprehensive income	(2)	---	(2)	---	---	(1)	(5)
Impact of changes in foreign exchange rates	1	---	(1)	---	---	1	1
Recognized in goodwill	---	---	---	---	---	1	1
Reclassification between the income taxes payable and the deferred income tax liabilities	---	---	---	---	---	2	2
Recognized in equity other than accumulated other comprehensive income	---	---	---	---	---	2	2
Balance as at December 31, 2011	(30)	(80)	(96)	(21)	18	27	(182)
Recognized in net income	**(16)**	**(18)**	**24**	**(16)**	**1**	**5**	**(20)**
Recognized in other comprehensive income	**5**	**---**	**1**	**---**	**---**	**---**	**6**
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)**	**19**	**33**	**(196)**

Unused tax losses for which a deferred tax asset has not been recognized amount to $81 ($0 in 2011). These losses will expire between the years 2013 and 2027.

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.

	2012	2011
Net income attributed to common shareholders	**312**	103
Weighted average number of outstanding shares (in millions of units)	**90.6**	85.9
Basic earnings per share (in dollars)	**3.44**	1.20

Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares. The Company has two categories of potentially dilutive items: stock options from the stock based compensation plan and the debenture Series A.

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). An average of 793,497 (185,875 in 2011) antidilutive stock options was excluded from the calculation.

The debenture Series A is convertible into 40 category A, series YY preferred shares per $1,000 starting June 30, 2014. These preferred shares are convertible into common shares. The net income attributed to common shareholders is also adjusted for interest paid on this debenture, net of related income taxes.

	2012	2011
Net income attributed to common shareholders	**312**	103
Add: interest on the debenture Series A (net of income taxes)	**6**	6
Net income attributed to common shareholders on a diluted basis	**318**	109
Weighted average number of outstanding shares (in millions of units)	**90.6**	85.9
Add: dilutive effect of stock options granted and outstanding (in millions of units)	**0.2**	0.6
Add: dilutive effect of debenture Series A (in millions of units)	**5.4**	6.0
Weighted average number of outstanding shares on a diluted basis (in millions of units)	**96.2**	92.5
Earnings per diluted share (in dollars)	**3.31**	1.18

No transaction took place on the common shares that could affect these calculations after the closing date and before the authorized publication date of these financial statements.

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 5 days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first 4 anniversaries of the grant. In certain cases, the Human Resources and Corporate Governance Committee can modify the number of options acquired following an event forwarding the expiration date of the option.

The Board can grant options for a total of 7,850,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of the Company, per person eligible for the plan.

No options will be granted to the directors before approval by the shareholders.

The following table presents the activities:

	2012		2011	
	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	**3,942**	**30.18**	3,944	28.22
Options granted	**507**	**26.03**	505	38.45
Options exercised	**(439)**	**21.29**	(496)	23.00
Options cancelled	**(70)**	**32.41**	(11)	31.07
At end	**3,940**	**30.59**	3,942	30.18
Exercisable at end	**2,714**	**30.74**	2,708	29.02

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 2012 is $4.12 ($8.29 in 2011). The pricing model assumes the following information:

	2012	2011
Risk free interest rate	**1.64%**	3.18%
Expected volatility	**25%**	25%
Expected life	**6.4 years**	6.3 years
Expected dividends	**3.74%**	2.56%

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. Changes in assumptions can materially affect estimates of fair values.

Exercise prices (in dollars)	Options outstanding Number of options outstanding (in thousands)	Weighted average exercise price (in dollars)	Average remaining life (in years)	Number of exercisable options (in thousands)
18.63 – 23.44	704	20.64	4.25	586
23.45 – 28.72	867	27.15	6.17	362
28.73 – 32.08	939	31.17	5.01	700
32.09 – 38.48	1,430	37.19	5.65	1,066
Total	3,940	30.59	5.36	2,714

The stock-based compensation expense during the year is $2 ($3 in 2011), 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 Company's contribution is charged as a general expense. The share purchase plan for employees does not involve the issuance of new shares. The shares acquired by employees are already outstanding shares of the Company and they are purchased on the market. During the year, the remuneration expense for this plan is $1 (lower than $1 in 2011). The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years.

Deferred Share Units (DSU)
The plan is offered to the Company's directors and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration or management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 309,604 (287,401 in 2011) units and the remuneration expense for the plan is $2 ($(3) in 2011) and the liability is $10 ($7 at December 31, 2011).

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, 2012, 37,309 performance share units are outstanding, and the compensation expense and liabilities recognized in respect of this plan are $1.

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 defined benefit plans are end of career plans based on the average of the best 5 years of salary. No indexation clause is included in the plan.

The Company provides other post-retirement benefits. These include additional health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits such as salary continuation for short-term disabilities. Other plans are, contributory life and health care plans with employee contributions adjusted annually, and non-contributory life insurance plans.

The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2011 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2011. The next required valuation will be performed as at December 31, 2012 and will be available later in 2013.

	2012		2011	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Defined benefit plan assets				
Fair value at beginning	**543**	**---**	527	---
Expected return of plan assets	**38**	**---**	37	---
Actuarial gains (losses)	**9**	**---**	(34)	---
Company contributions	**23**	**---**	22	---
Employee contributions	**13**	**---**	11	---
Benefits paid	**(21)**	**---**	(20)	---
Fair value at end	**605**	**---**	543	---
Accrued benefit plan obligations				
Balance at beginning	**630**	**39**	536	33
Current service cost	**24**	**2**	20	1
Interest cost	**31**	**2**	29	2
Employee contributions	**13**	**---**	11	---
Benefits paid	**(21)**	**(1)**	(20)	(1)
Actuarial losses (gains)	**52**	**2**	54	4
Balance at end	**729**	**44**	630	39

	2012		2011	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Reconciliation of funded status to the amounts recorded in the financial statements				
Fair value of plan assets	**605**	**---**	543	---
Accrued benefit plan obligations	**653**	**---**	563	---
Funded status of plans	**(48)**	**---**	(20)	---
Obligations under unfunded defined benefit plans	**(76)**	**(44)**	(67)	(39)
Unamortized net actuarial losses (gains)	**103**	**5**	60	3
Accrued benefit asset (liability), net of valuation allowance	**(21)**	**(39)**	(27)	(36)
The amounts presented in the Statement of Financial Position are:				
Other assets (Note 8)	**43**	**---**	35	---
Other liabilities (Note 14)	**64**	**39**	62	36

Funded plans with accrued benefit obligations in excess of plan assets:

Included in the above accrued benefit plan obligations and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

	2012		2011	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $
Funded status – plan deficit				
Accrued benefit plan obligations	**474**	**---**	400	---
Fair value of plan assets	**423**	**---**	373	---
Funded status – plan deficit	**(51)**	**---**	(27)	---
Benefit for all plan expenses				
Current service cost	**24**	**2**	20	1
Interest cost	**31**	**2**	29	2
Expected return of plan assets	**(38)**	**---**	(37)	---
Defined benefit costs recognized	**17**	**4**	12	3

The Company believes that it will have to contribute an amount of $19 to its defined benefit plans during 2013.

Plan assets, evaluated on December 31 of each year, are divided as follows:

	2012	2011
	%	%
Asset categories		
Bonds	**35**	41
Stocks	**65**	59
Total	**100**	100

The pension plan assets did not include any common shares of the Company in 2012 and 2011.

The actual return of plan assets is 9% (1% in 2011).

Significant Assumptions

	2012		2011	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit plan obligations				
Discount rate	**4.5%**	**4.5%**	4.9%	4.9%
Rate of compensation increase	**3.5%**	**---**	3.5%	---
Benefit plan expenses				
Discount rate	**4.9%**	**4.9%**	5.4%	5.4%
Expected long-term rate of return on plan assets	**7.0%**	**---**	7.0%	---
Rate of compensation increase	**3.5%**	**---**	3.5%	---
Rate of mortality (table)	**UP94G**	**UP94G**	UP94G	UP94G

	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**	**---**	**---**

	2011			
	Other plans			
	Drugs	Medical	Dental	Other
Assumed health care cost trend rates				
Initial health care cost trend rates	7.78%	8.80%	4.50%	4.75%
Cost trend rate declines to	4.75%	4.25%	4.50%	4.75%
Number of years required to stabilize the rate	14	14	---	---

Sensitivity Analysis
Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects for 2012.

	Increase	**Decrease**
	$	**$**
Total of service and interest cost	**1**	**---**
Accrued benefit obligations	**7**	**(5)**

The total of service and interest cost for 2012 and 2011 is less than $1.

The following table shows the history of experience adjustments.

	2012		2011		2010	
	Pension plans $	**Other plans $**	Pension plans $	Other plans $	Pension plans $	Other plans $
Present value of defined benefit obligation	**729**	**44**	630	39	536	33
Fair value of plan assets	**605**	**---**	543	---	527	---
Deficit	**(124)**	**(44)**	(87)	(39)	(9)	(33)
Experience adjustments on plan liabilities	**52**	**2**	54	4	(13)	(1)
Experience adjustments on plan assets	**9**	**---**	(34)	---	15	---

Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is $1 ($1 in 2011). The liability related to this plan is presented in *Other liabilities* (Note 14 included in *Accounts payable*) for an amount of $1 ($2 in 2011).

27 › Related Party Transactions

The Company eliminates transactions done with its subsidiaries and done between the different members of its group of companies on consolidation.

The Company concludes transactions with an associate. These transactions are concluded in the normal course of business and were subject to normal market conditions.

Key Management Personnel

Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

a) Compensation of directors and 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.

The compensation of directors and key management personnel for the year was as follows:

	2012	2011
	$	$
Salaries and other long-term benefits	**5**	2
Post-retirement benefits	**2**	2
Stock-based compensation	**1**	2
Total	**8**	6

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.

During the year 2012, the Company committed to a third party for one of its subsidiaries. This commitment represents a maximum amount of $80. The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

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 minimum obligations for each of the next 6 years and thereafter are as follows:

2013	2014	2015	2016	2017	2018 and thereafter
$	$	$	$	$	$
38	24	18	17	15	51

The Company is also part of operating leases, including offices and equipement. Minimum lease payments over future periods are as follow :

	2012	2011
	$	$
Maturing in one year	**13**	13
More than 1 year and less than 5 years	**30**	23
More than 5 years	**5**	3
Total	**48**	39

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, 2012 is $1 ($1 as at December 31, 2011).

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.

	Expires in		
	30 days $	31 to 366 days $	2014 and thereafter $
	56	98	52

Letters of Credit
In the normal course of its operations, the Company issues bank letters of credit. The balance of these letters is $2 ($4 in 2011).

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, 2012, the Company had operating lines of credit totalling $57 ($80 as at December 31, 2011). As at December 31, 2012 and 2011, 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 conducts 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 our 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, 2012	Ownership Percentage %	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 funds, segregated fund and mutual fund portfolios
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec, Canada	Property and casualty insurance company.

SOCIAL RESPONSIBILITY REPORT

"Industrial Alliance is committed to acting as a responsible corporate citizen and promoting transparent, ethical behaviour at all times and in all situations."

Yvon Charest
President and Chief Executive Officer

COMMUNITY

Strategic direction

› Contribute to the wellbeing of communities in which employees of Industrial Alliance and its subsidiaries live and work by supporting local, regional and national communities through donations, sponsorships and programs to encourage volunteering.

Main achievements

› In 2012, Industrial Alliance paid the equivalent of $675 per employee in donations and sponsorships, mainly in the fields of health and education, and for numerous family events as well.

› United Way campaign
  › The 2012 campaign raised more than $936,000, as seen below:

Vancouver and Calgary	$47,655
Toronto	$185,717
Montreal	$160,938
Quebec City	$498,915
Rest of Quebec	$43,065
Total	$936,290

› Employee involvement in fundraising events
  › Light the Night (the Leukemia and Lymphoma Society of Canada)
  › Relay for Life (the Canadian Cancer Society)
  › Run for the Cure (Quebec Breast Cancer Foundation)

› The Industrial Alliance Foundation for Learning a Second Language
  › 16 grants to college students for a language immersion stay in San Francisco, California
  › 12 grants to students for a language immersion stay in an English-speaking community
  › 4 grants for study sessions at an English-speaking high school, college or university

› Through its internal donation and volunteer encouragement policy, Industrial Alliance paid $76,550 to over 60 organizations in which its employees were involved.

› Assistance by Industrial Alliance Auto and Home Insurance managers to flood victims in the Richelieu region.
  › In June 2012, the Industrial Alliance Auto and Home Insurance (IAAH) Executive Committee devoted a day of work to renovating a home damaged by severe flooding in the Richelieu region.
  › In July 2012, about 50 IAAH managers repaired four flooded homes in the same region.

ENVIRONMENT

Strategic direction

› Respect the three main principles of Industrial Alliance's environmental policy: use less, use recycled materials and recycle what is used.

Main achievements

› Use less
  › Transportation: Industrial Alliance promotes mass transit for its employees through the Greater Quebec City Transit Authority's BUS Pass program, and through a free carpooling program in partnership with The Carpooling Network for Quebec City and Montreal employees of Industrial Alliance and its subsidiaries. In addition, Industrial Alliance Auto and Home Insurance covers the cost of a monthly pass for employees who take the bus to work.
  › Supplies: Industrial Alliance uses washable dishes and utensils for the 160,000 meals served in its cafeteria and for the 10,000 coffees served in its meeting rooms each year.

› Use recycled materials

Since 2007, the Company's annual report has been printed on paper made from 100% postconsumer recycled fibres for those who don't read the report online. The paper used for this report is produced using biogas and is EcoLogo certified. It is treated without elemental chlorine and is alkaline based or neutral.

› Recycle what is used

› In 2012, over three tonnes of kitchen and table scraps from the head office cafeteria were composted.

› A paper and cardboard recycling program in three buildings helped save almost 4,000 trees in 2012, or almost one tree per employee.

› A characterization study conducted by a specialized firm at the end of 2011 showed that the head office had an overall recovery rate of 72%, which allowed Industrial Alliance to obtain the *ICI ON RECYCLE!* program's level 3 performance certificate (bronze).

PEOPLE: OUR EMPLOYEES AND OUR CLIENTS

OUR EMPLOYEES

As at December 31, 2012, Industrial Alliance and its subsidiaries had 4,314 employees.

Strategic directions

› Be recognized as an employer that offers great career opportunities and provides its employees with a healthy and stimulating workplace by focusing on long-term development of talents and skills.

› Treat all employees fairly and equally with regard to employment and pay.

› Offer employees various training and educational assistance programs.

Main achievements

› Corporate health and wellness program:

› In 2012, the IA Health program offered a variety of stress management initiatives (onsite yoga/pilates workshops and various seminars).

› October was dedicated to raising awareness about breast cancer and November focused on men's health through the Movember campaign.

› For prevention purposes, workplace health assessments were offered to employees in Quebec City, Montreal and Toronto.

› The Company took part in various sporting events, such as the *Défi Entreprises 2012* in Quebec City, the *Défi Roulons* in Montreal and the Vancouver Sun Run.

› Share purchase plan:

› As at December 31, 2012, 1,535 eligible employees were enrolled in this plan in which they can acquire Company shares and benefit from an employer contribution equivalent to 50% of the invested amount, to a maximum of $1,000 per year.

› Training programs:

› In 2012, 268 Industrial Alliance employees successfully completed courses under the LOMA (Life Office Management Association, Inc.) program, 72 employees took advantage of the university studies program and 218 employees took onsite English classes.

OUR CLIENTS

Strategic directions

› Be considered the company that best meets client expectations, in close cooperation with its distribution network.

› Continue to stand out with distributors by maintaining preferred relationships with them and by offering them service that reflects the Company's standards of excellence.

› Make sure to earn clients' trust.

Main achievements

› As part of Industrial Alliance's continuous improvement philosophy, dozens of Lean workshops were held in various sectors to improve processes and better serve clients. These workshops lasted from a few days to several weeks. For example, a workshop in Group Insurance significantly accelerated the process for issuing life and disability insurance policies on financing products.

› Socially responsible funds – To meet client demand for socially responsible investments, IA Clarington Investments, a subsidiary of Industrial Alliance, offers Inhance funds, a series of six socially responsible mutual funds. Five of these funds obtained 1st or 2nd quartile returns in 2012, surpassing the median for funds in their category.

AWARDS AND HONOURS

› Maestria 4 Star Plus – Major Donor Certificate (greatest honour conferred by the United Way to an organization that supports it). This recognition is awarded to groups of employees in companies with a minimum of 500 employees with a participation rate in excess of 60% and a minimum average donation of $52.

› *Défi Entreprises 2012* in Quebec City – Most physically fit company, large company section.

› Level 3 certification – Performance, bronze category in Recyc-Québec's *ICI ON RECYCLE!* program for the Industrial Alliance head office.

› Level 2 certification – Commitment in Recyc-Québec's *ICI ON RECYCLE!* program for the Industrial Alliance Auto and Home Insurance head office.

› BOMA BESt certification for five new buildings in Industrial Alliance's real estate holdings in Quebec City and Montreal.

GOOD CORPORATE GOVERNANCE

On November 26, 2012 *The Globe and Mail* published the eleventh edition of its annual corporate governance rankings *(Annual Board Games Ranking on Corporate Governance)*. Industrial Alliance is ranked 32nd out of 244 companies.

INDUSTRIAL ALLIANCE BOARD OF DIRECTORS

◆ ▼

John LeBoutillier
C.M., LL.L., M.B.A.

Chairman of the Board
since 2005
Board member since 1997

Lawyer
Chairman of the Board of Industrial Alliance Insurance and Financial Services Inc.

▼

Anne Bélec
B.Comm., M.B.A.

Board member since 2006

Chief Executive Officer, Mosaic Group LLC, a consulting firm for business and brand strategies

● ◆

Pierre Brodeur

Board member since 1999

Corporate Director

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

Board member since 1999

Actuary
President and Chief Executive Officer of Industrial Alliance Insurance and Financial Services Inc.

◆ ▲

Robert Coallier
B.A. with Major in Economics, M.B.A.

Board member since 2008

Chief Executive Officer of Agropur cooperative

▲

L.G. Serge Gadbois
FCA, M.B.A.

Board member since 2006

Chartered Accountant
Corporate Director

▲

Michel Gervais
O.C., O.Q., Ph.D.

Board member since 1997

Consultant and Corporate Director

▲ ●

Lise Lachapelle
B.B.A.

Board member since 1995

Corporate Strategy Consultant

●

Claude Lamoureux
B.A., B. Comm., F.S.A., F.C.I.A.

Board member since 2010

Corporate Director

●

Jacques Martin
B.Comm., LL.B., M.B.A.

Board member since 2011

Private Investment Manager

▼

Francis P. McGuire
M.A., B.A.

Board member since 2001

Executive
President and Chief Executive Officer of Major Drilling Group International Inc., a drilling company with operations around the world

● ◆

Jim Pantelidis
B.Sc., M.B.A.

Board member since 2002

Degree in science
Corporate Director

▼

Hon. David R. Peterson
P.C., Q.C., O.Ont., C. St. J., L. d'H., D.U., LL.D.

Board member since 1991

Lawyer
Chairman and Senior Partner at Cassels Brock and Blackwell LLP, a law firm

▲

Mary C. Ritchie
FCA

Board member since 2003

Chartered Accountant
President of Richford Holdings Ltd., an investment consultation services company

Secretary of the Board
Douglas A. Carrothers
LL.B., M.B.A.

Assistant Secretary
Jennifer Dibblee
B.Sc., B.C.L., LL.B.

Assistant Secretary
Gregory D. Morris
J.D.

● Investment Committee
▲ Audit Committee
▼ Ethics Committee
◆ Human Resources and Corporate Governance Committee

MANAGEMENT OF INDUSTRIAL ALLIANCE AND ITS SUBSIDIARIES

Industrial Alliance Insurance and Financial Services Inc.

- Yvon Charest – F.S.A., F.C.I.A.
  President and Chief Executive Officer
- Gerald Bouwers – M.Math., F.S.A., F.C.I.A.
  President, Western Canada Operations
- Normand Pépin – F.S.A., F.C.I.A.
  Executive Vice-President
  Life Subsidiaries and
  Individual Insurance and Annuities
- Michel Tremblay – F.S.A., F.C.I.A., CFA
  Executive Vice-President and
  Chief Investment Officer

Jean-François Boulet – B.R.I., CHRP
Senior Vice-President
Human Resources and Communications

- René Chabot – F.S.A., F.C.I.A.
  Senior Vice-President and Chief Actuary

Gary J. Coles – F.L.M.I./M., A.C.S.
Senior Vice-President, Administration
Toronto Service Centre

Guy Daneau – B.B.A., M.B.A.
Senior Vice-President, Information
Systems

Clément Gignac – M.E.Sc.
Senior Vice-President and
Chief Economist

Paul R. Grimes – CFP, CLU, Ch.F.C.
Senior Vice-President, Sales
(Ontario and Western Canada)

Alnoor R. Jiwani – F.L.M.I.
Senior Vice-President
SAL Group

Bruno Michaud – B.B.A., F.L.M.I./M.
Senior Vice-President
Administration and Sales

Jacques Parent – F.S.A., F.C.I.A.
Senior Vice-President
Group Insurance

- Denis Ricard – F.S.A., F.C.I.A.
  Senior Vice-President
  Business Development

Douglas A. Carrothers – LL.B., M.B.A.
Vice-President, Legal Services
Corporate Secretary

Randall Fell – B.Proc., CFP, EPC
Vice-President, Individual Insurance and
National Accounts

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Vice-President
Accounting and Taxation

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Vice-President, Internal Audit

Normand Gervais – LL.B., M.Fisc.
Vice-President, Administration
Individual Insurance and Annuities

Scott Heard – B.A., CEBS
Vice-President, Sales and Marketing
Group Insurance

Renée Laflamme – CA, CFA
Vice-President
Group Savings and Retirement

François Lalande – CFA
Vice-President, Investments
Portfolio Management

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Vice-President, Mortgage Loans

Jacques Potvin – F.S.A., F.C.I.A.
Vice-President, Sales
Managing General Agents Section
Quebec and Atlantic Provinces

Johnny Roy – RLU, F.Pl.
Vice-President, Sales
Career Section

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Acquisitions and Corporate Development

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Vice-President, Administration
Individual Insurance and Annuities
Toronto Service Centre

Paul A. Tatay
Vice-President
Special Markets Solutions

Claude Tessier – B.Sc.A.
Vice-President
Real Estate Investments

IA American Life Insurance Company

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

Karen Davies – F.S.A., F.C.I.A.
Vice-President, U.S. Operations

American-Amicable Group of Companies

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President and Chief Executive Officer

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Executive Vice-President, Operations

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Chief Financial Officer and Treasurer

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Senior Vice-President, Marketing

Rick Weaver
Vice-President, Marketing

Industrial Alliance Pacific General Insurance Corporation

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President

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Azmina Karim-Bondy – B.A., LL.B.
Vice-President and Chief Legal Counsel

Paul Tatay
Vice-President

Manon Gauthier – CA, CFA
Chief Financial Officer

The Excellence Life Insurance Company

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Vice-President, Actuarial and Specialized
Products

Alain Jordan
Vice-President, Information Systems

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Vice-President, Administrative Services

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Vice-President, Marketing and
Product Development

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Vice-President, Legal Affairs

Mario Champagne – ASA
Regional Vice-President, Sales
Quebec and Atlantic Provinces

Marc-André Joly – CA
Controller

MRA

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Vice-President, Administration and Client
Service

Luc Daoust
Vice-President, Sales and Development

Julie Sigouin – CA
Controller

IA Clarington Investments Inc.

- David Scandiffio – B.Sc., CFA
  President

Andrew H. Dalglish – B.Comm., CA
Senior Vice-President
Finance and Operations

Eric Frape – CFA
Senior Vice-President
Product and Business Development

Carl Mustos – M.B.A.
Senior Vice-President and
National Sales Manager

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Senior Vice-President
Private Wealth Management

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Vice-President
Chief Legal Counsel and
Chief Compliance Officer

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Vice-President, Finance and
Chief Financial Officer

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Vice-President
Information Systems and Technology

Kim Jativa
Vice-President, Operations

Investia Financial Services Inc.

Louis H. DeConinck
President

Stéphane Blanchette – CA
Vice-President, Finance and Operations

Nancy Lachance
Chief Compliance Officer

FundEX Investments Inc.

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President

Robert Corbett
Vice-President
Sales and Business Development

Paul Manns
Vice-President, Finance

Sandy Sproule
Vice-President, Operations

Karen Woodman
Chief Compliance Officer

Industrial Alliance Securities Inc.

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President

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Executive Vice-President

Bruno Blouin – CGA
Vice-President and Chief Financial Officer

Linda Boiteau
Chief Compliance Officer

Industrial Alliance Trust Inc.

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President

Liliane Dubois
Vice-President, Auto Financing

Daniel Marceau – F.S.A., F.C.I.A.
General Manager

Industrial Alliance Auto and Home Insurance Inc.

Michel Laurin – F.C.I.A., F.C.A.S.
President and Chief Operating Officer

Christian Alain – CGA
Vice-President, Administration

Sophie Duval – M.B.A., F.C.I.A., F.C.A.S.
Vice-President, Risk Management

Christine Hébert – CHRP
Vice-President, Claims and Assistance

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General Manager, Mobiliz Program

Jean-François L'Heureux
Vice-President, Business Development

Marcel Lortie
Vice-President, Technology

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Vice-President, Continuous Improvement

Suzanne Michaud – M.A.Sc.
Vice-President, Client Experience

Sylvie Racine – FPAA
Vice-President, Sales

- Member of the Planning Committee

OFFICES OF INDUSTRIAL ALLIANCE AND ITS SUBSIDIARIES

INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC.

Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5000
1 800 463-6236
inalco.com

Individual Insurance and Individual Wealth Management

Toronto Service and Sales Centre
522 University Avenue
Toronto, ON M5G 1Y7
Administration: 416 585-8862
1 800 242-9751
Sales and Marketing:
416 487-0242

Vancouver Service and Sales Centre
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
Administration: 604 737-9384
1 800 363-2166
Sales and Marketing:
604 737-9110

Moncton
200 Champlain Street
Suite 260
Dieppe, NB E1A 1P1
506 855-5310
1 800 577-4747

Winnipeg
201 Portage Avenue
Suite 1505
Winnipeg, MB R3B 3K6
204 956-2802
1 800 268-4886

Calgary
1414 8th Street S.W.
Suite 320
Calgary, AB T2R 1J6
403 241-9817
1 877 656-9817

Group Insurance Employee Plans

Halifax
Corporate Campus, Suite 320
238 Brownlow Avenue
Dartmouth, NS B3B 1Y2
902 422-6479
1 800 255-2116

Quebec City
925 Grande Allée West
Suite 420
Quebec City, QC G1S 1C1
418 684-5205
1 800 463-7274

Montreal
680 Sherbrooke Street West
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-3800

Toronto
522 University Avenue
Toronto, ON M5G 1Y7
416 585-8055

Calgary
777 8th Avenue S.W.
Suite 2050
Calgary, AB T2P 3R5
403 532-1500

Vancouver
1055 West Hastings Street
Suite 1130
Vancouver, BC V6E 2E9
604 689-0388

Mortgage Loans

Quebec City
925 Grande Allée West
Suite 200
Quebec City, QC G1S 1C1
418 686-7738
1 888 368-7738

Montreal
2000 McGill College Avenue
Suite 1550
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-6680
1 800 361-2173

Toronto
522 University Avenue, 10th Floor
Toronto, ON M5G 1Y7
416 585-8832
1 877 585-8832

Vancouver
1188 West Georgia Street
Suite 1910
Vancouver, BC V6E 4A2
604 688-8631
1 866 688-8631

Group Savings and Retirement

Halifax
238 Brownlow Avenue
Suite 320
Dartmouth, NS B3B 1Y2
902 422-6479
1 800 255-2116

Quebec City
925 Grande Allée West
Suite 420
Quebec City, QC G1S 1C1
418 684-5576
1 800 549-4097

Montreal
2000 McGill College Avenue
Suite 2100
Montreal, QC H3A 3H3
514 499-6600
1 800 697-9767

Toronto
522 University Avenue
13th Floor
Toronto, ON M5G 1Y7
416 585-8917
1 877 902-4920

Calgary
777 8th Avenue S.W.
Suite 2000
Calgary, AB T2P 3R5
403 218-3248
1 888 532-1505, ext. 248

Vancouver
1188 West Georgia Street
Suite 1910
Vancouver, BC V6E 4A2
604 689-0388, ext. 223
1 800 557-2515

Group Insurance Special Markets Solutions

Divisional Headquarters – Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
604 734-1667
1 800 665-4458

Halifax
238A Brownlow Avenue
Suite 302
Dartmouth, NS B3B 2B4
902 468-5043
1 855 468-5043

Montreal
680 Sherbrooke Street West
17th Floor
PO Box 790, Station B
Montreal, QC H3B 3K6
514 499-3748
1 866 499-3748

Toronto
515 Consumers Road, Suite 400
Toronto, ON M2J 4Z2
416 498-8319
1 800 611-6667

Calgary
777 8th Avenue S.W., Suite 2050
Calgary, AB T2P 3R5
403 266-7582
1 800 661-1699

Vancouver
1188 West Georgia Street
Suite 1910
Vancouver, BC V6E 4A2
604 688-9641
1 888 725-2886

Group Insurance Dealer Services

Divisional Headquarters – Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
604 734-1667
1 800 665-4458

Halifax
238A Brownlow Avenue
Suite 302
Dartmouth, NS B3B 2B4
902 468-8698

Montreal
8840 Taschereau Boulevard
Brossard, QC J4X 1C2
450 465-0630

Toronto
1155 North Service Road West
Unit 6
Oakville, ON L6M 3E3
905 847-7900

Winnipeg
865 Waverley Street, Suite 102
Winnipeg, MB R3T 5P4
204 942-8907

Edmonton
Terrace Plaza, Suite 840
4445 Calgary Trail Southbound
Edmonton, AB T6H 5R7
780 435-1833

Vancouver
9440 202nd Street, Suite 305
Langley, BC V1M 4A6
604 882-8220

IA AMERICAN LIFE INSURANCE COMPANY

Head Office – Scottsdale, Arizona
17550 North Perimeter Drive
Suite 210
Scottsdale, AZ 85255
USA
480 473-5540
1 888 473-5540
iaamerican.com

THE EXCELLENCE LIFE INSURANCE COMPANY

Head Office – Montreal
5055 Metropolitain Boulevard East
Suite 202
Montreal, QC H1R 1Z7
514 327-0020
1 800 465-5818
iaexcellence.com

MRA
Head Office – Montreal
5055 Metropolitain Boulevard East
Suite 200
Montreal, QC H1R 1Z7
514 329-3333
1 800 363-5956
info@cabinetmra.com

IA CLARINGTON INVESTMENTS INC.
Head Office – Quebec City
1080 Grand Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5565
iaclarington.com

Montreal
2200 McGill College Avenue
Suite 300
Montreal, QC H3A 3P8
514 499-3871
1 866 425-5861

2000 McGill College Avenue
Suite 260
Montreal, QC H3A 3H3
514 788-3555
1 877 856-6845

Toronto
522 University Avenue, Suite 700
Toronto, ON M5G 1Y7
416 860-9880
1 888 860-9888

Calgary
777 8th Avenue S.W., Suite 2020
Calgary, AB T2P 3R5
403 806-1078
1 888 806-1078

Vancouver
885 West Georgia Street
Suite 2240
Vancouver, BC V6C 3E8
604 408-2818
1 877 341-1144

INVESTIA FINANCIAL SERVICES INC.
Head Office – Quebec City
6700 Pierre-Bertrand Boulevard
Suite 300
Quebec City, QC G2J 0B4
418 684-5548
1 888 684-5548
investia.ca

Halifax
3650 Hammonds Plains Road
Unit 14, Suite 341
Upper Tantallon, NS B3Z 4R3
1 888 684-5548

Vaughan
400 Applewood Crescent
Vaughan, ON L4K 0C3
1 888 684-5548

Winnipeg
200-5 Donald Street
Winnipeg, MB R3L 2T4
1 888 684-5548

Calgary
1414 8th Street S.W., Suite 320
Calgary, AB T2R 1J6
1 888 684-5548

Vancouver
2165 Broadway West
PO Box 5900
Vancouver, BC V6B 5H6
1 888 684-5548

FUNDEX INVESTMENTS INC.
Head Office – Vaughan
400 Applewood Crescent, 3rd Floor
Vaughan, ON L4K 0C3
905 305-1651
1 800 324-6048
fundex.com

INDUSTRIAL ALLIANCE SECURITIES INC.
Head Office – Montreal
2200 McGill College Avenue
Suite 350
Montreal, QC H3A 3P8
514 499-1066
1 800 361-7465
iagto.ca

St. John's (Newfoundland)
354 Water Street, Suite 301
St. John's, NL A1C 5W8
709 754-4274

Quebec City
6700 Pierre-Bertrand Boulevard
Suite 300
Quebec City, QC G2J 0B4
418 684-5171
1 866 684-5171

1040 Belvédère Avenue, Suite 101
Quebec City, QC G1S 3G3
418 681-2442
1 800 207-2445

Sherbrooke
2665 King Street West, Suite 650
Sherbrooke, QC J1L 2G5
819 569-2772
1 877 569-2772

Montreal
2057 Mansfield Street
Montreal, QC H3A 1Y7
514 499-1066

2075 University Street, Suite 810
Montreal, QC H3A 2L1
514 499-1066

100 Alexis-Nihon Boulevard
Suite 990
Ville Saint-Laurent, QC H4M 2P5
514 748-7177

Toronto
121 King Street West, Suite 2160
Toronto, ON M5H 3T9
416 203-4567

5090 Explorer Drive, Suite 402
Mississauga, ON L4W 4T9
905 272-8004

Vancouver
4044 200 B Street
Unit 5
Langley, BC V3A 1N9
604 539-8187

Immigrant Investor Program – Montreal
2200 McGill College Avenue
Suite 320
Montreal, QC H3A 3P8
514 499-1170

INDUSTRIAL ALLIANCE AUTO AND HOME INSURANCE INC.
Head Office – Quebec City
925 Grande Allée West
Suite 230
Quebec City, QC G1S 1C1
418 650-4600
1 800 463-4382
industriellealllianceauto.com

INDUSTRIAL ALLIANCE TRUST INC.
Head Office – Quebec City
1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3
418 684-5000
iatrust.ca

NATIONAL FINANCIAL INSURANCE AGENCY INC.
Head Office – Quebec City
6700 Pierre-Bertrand Boulevard
Suite 300
Quebec City, QC G2J 0B4
418 684-5548
1 888 684-5548
nfiai.ca

SOLICOUR INC.
Head Office – Quebec City
Place-Iberville-IV, Suite 720
2954 Laurier Boulevard
Quebec City, QC G1V 4T2
418 650-2211
1 888 852-4444

Montreal
Place Val-des-Arbres
Tower A, Suite 615
1600 Saint-Martin Boulevard East
Laval, QC H7G 4R8
450 669-9454
1 888 243-7152

This annual report was jointly produced by the Industrial Alliance Actuarial, Accounting, Investor Relations, Communications and Public Relations departments.

Legal deposit: March 2013 | ISSN 1711-8883
Bibliothèque nationale du Québec
National Library of Canada

Ce rapport est également disponible en français.

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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 128 and the inside back cover of this annual report to find the office nearest you.

The elephant, symbol of our 100 years of strength and longevity.

Shareholder Information

Head Office
Industrial Alliance Insurance and Financial Services Inc.

1080 Grande Allée West
PO Box 1907, Station Terminus
Quebec City, QC G1K 7M3

Telephone: 418 684-5000
Toll-free: 1 800 463-6236

Stock Exchange Listing
Industrial Alliance's common shares are listed on the Toronto Stock Exchange under the stock symbol IAG.

Annual Meeting of Shareholders
Thursday, May 9, 2013 at 2:00 PM
Quebec City Convention Centre
1000 René-Lévesque Blvd.
Quebec City, Quebec

Shareholder Services
For questions regarding share accounts, dividends, changes of address and ownership and other related matters, contact our transfer agent:

Computershare Investor Services Inc.

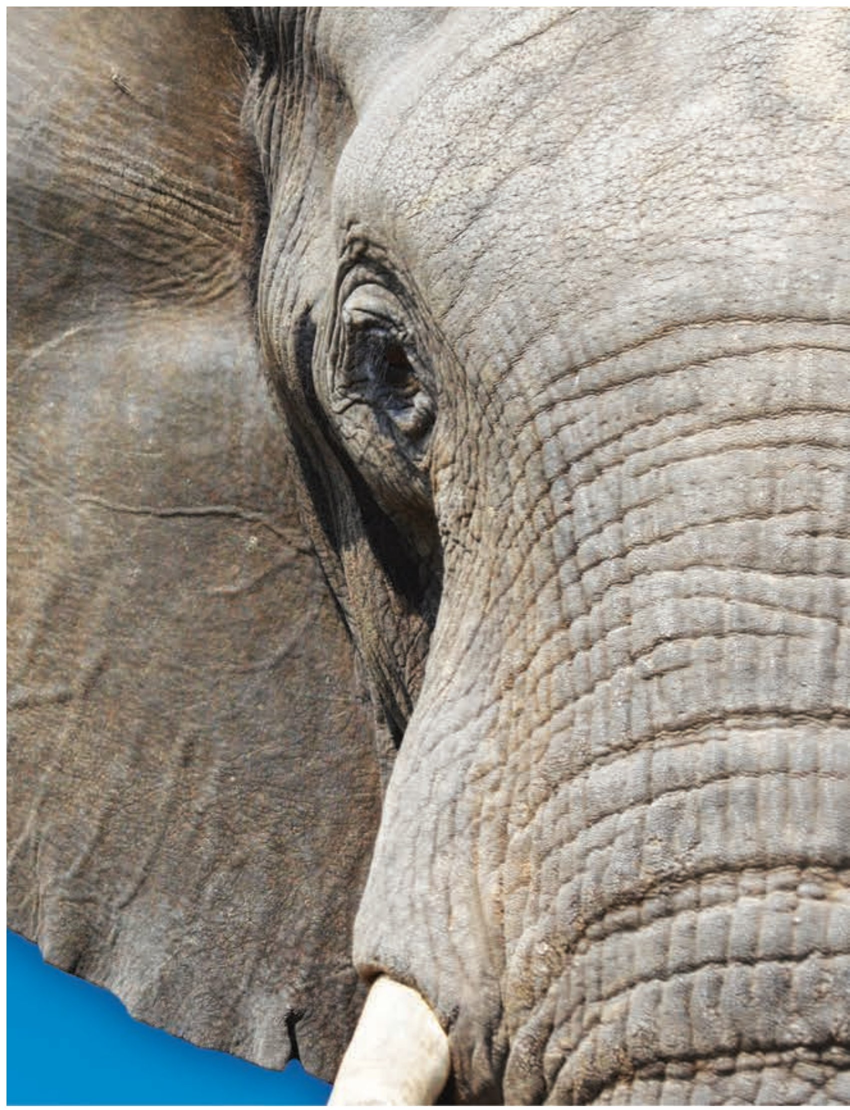
Telephone: 514 982-7555
Toll-free: 1 877 684-5000
inalco@computershare.com

Dividend Reinvestment and Share Purchase Plan
Computershare Trust Company of Canada

Telephone: 514 982-7555
Toll-free: 1 877 684-5000
inalco@computershare.com

Investor Relations
For analysts, portfolio managers and investors requesting financial information, contact our Investor Relations Department:

Telephone: 418 684-5000, extension 5862
Toll-free: 1 800 463-6236, extension 5862
Fax: 418 684-5192
investors@inalco.com



INDUSTRIAL ALLIANCE
INSURANCE AND FINANCIAL SERVICES INC.