

2014 ANNUAL REPORT

Industrial Alliance Insurance and Financial Services Inc.



**Invested
in you.**

Backed by over 120 years of experience, Industrial Alliance Insurance and Financial Services Inc. has renewed its identity in 2015 and is now operating under the brand iA. Going forward, the name iA Financial Group will be used in marketing the Company's products and services. This new corporate brand reflects the breadth and the great diversity of the products and services offered by the Company.

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

iA Financial Group serves over four million clients and employs more than 5,000 people. At December 31, 2014, the Company was managing and administering \$109.5 billion in assets. iA Financial Group is one of Canada's largest public companies and trades on the Toronto Stock Exchange under the ticker symbol IAG.

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General Information and Shareholder Information

The iA Financial Group 2014 Social Responsibility Report will be available in May 2015 on the ia.ca website.

Net Premiums, Premium Equivalents and Deposits (\$Billion)

10-Year CAGR¹: 10%



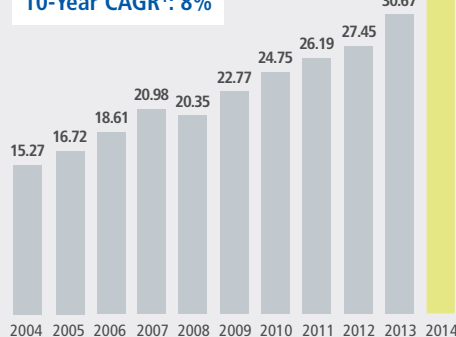
Assets Under Management and Administration (\$Billion, at December 31)

10-Year CAGR¹: 14%



Book Value per Common Share (\$, at December 31)

10-Year CAGR¹: 8%



¹ CAGR: Compound Annual Growth Rate

Financial Highlights (Consolidated Financial Data¹)

Years ended December 31

(in millions of dollars, unless otherwise indicated)

	2014	2013	Variation
Profitability			
Net income attributed to common shareholders	400.4	349.9	14%
Earnings per common share (diluted)	\$3.97	\$3.57	\$0.40
Return on common shareholders' equity	12.4%	12.6%	(20 bps)
Business Growth			
Net premiums, premium equivalents and deposits by line of business			
Individual Insurance	1,495.1	1,425.2	5%
Individual Wealth Management	3,362.1	3,358.8	0%
Group Insurance	1,374.6	1,389.5	(1%)
Group Savings and Retirement	963.6	1,001.0	(4%)
General Insurance	285.1	258.4	10%
Total	7,480.5	7,432.9	1%
Sales by line of business			
Individual Insurance	225.5	234.3	(4%)
Individual Wealth Management			
General fund	111.9	119.2	(6%)
Segregated funds	1,352.6	987.7	37%
Mutual funds	1,897.6	2,251.9	(16%)
Total	3,362.1	3,358.8	0%
Group Insurance			
Employee Plans	70.2	59.4	18%
Dealer Services - Creditor Insurance	378.6	382.4	(1%)
Dealer Services - P&C	157.2	143.0	10%
Special Markets Solutions	179.8	170.9	5%
Group Savings and Retirement	987.7	1,025.0	(4%)
Assets under management and administration			
Assets under management	76,793.6	69,490.6	11%
Assets under administration	32,687.2	29,289.7	12%
Total	109,480.8	98,780.3	11%
Financial Position (as at December 31)			
Book value per common share	\$33.83	\$30.67	10%
Capitalization	4,531.7	4,166.0	9%
Solvency ratio	209%	217%	(800 bps)
Debt ratios			
Debentures/capital structure	13.2%	12.0%	120 bps
Debentures and preferred shares/capital structure	23.7%	25.8%	(210 bps)
Quality of Investments (as at December 31)			
Net impaired investments as a % of total investments	0.07%	0.06%	1 bp
Bonds: BB and lower as a % of the portfolio	0.74%	0.18%	56 bps
Mortgages: delinquency rate	0.41%	0.28%	13 bps
Investment properties: occupancy rate	91.0%	93.5%	(250 bps)
Share Information (as at December 31)			
Number of common shares outstanding (in millions)	100.8	99.3	2%
Weighted average number of common shares - diluted (in millions)	100.8	97.9	3%
Share price	\$44.43	\$46.95	(5%)
Market capitalization	4,477.4	4,664.1	(4%)
Human Resources			
Number of employees	5,019	4,810	209

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

2014 in Review

iA Financial Group ended the year in excellent financial health.

Net income to common shareholders was up 14% for the year, return on equity was 12.4%, growth in book value per share was 10%, capital remained robust and the Group's financial flexibility leaves it well positioned for accelerated growth.

In business growth, assets under management and administration were up 11% in 2014. The year was highlighted by strong growth in segregated fund sales, adjustable rate disability sales and insurance sales in the United States.

The Group's investment portfolio continued to be of excellent quality. Its exposure to the much talked-about oil and gas industry is limited to just 0.5% of the value of the bond portfolio.

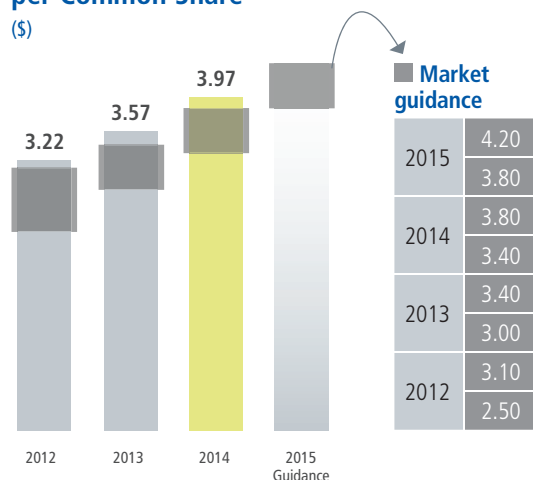
Results Exceeding Expectations

In 2014, despite a challenging interest rate environment, iA Financial Group's profitability surpassed market guidance for the third consecutive year.

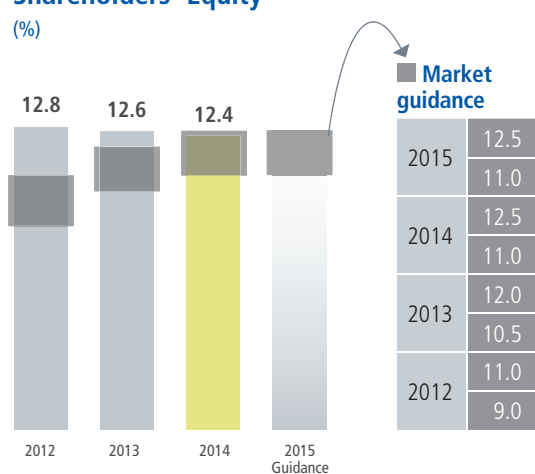
Financial Strength and Flexibility

Over the past few years, iA Financial Group has maintained a strong balance sheet, reduced its debt ratio and generated substantial excess capital. The Group is perfectly positioned to seize new business opportunities while conserving its capacity to absorb macroeconomic shocks.

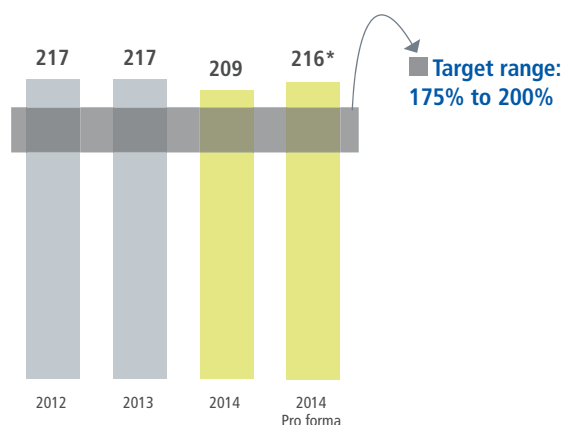
Diluted Earnings per Common Share (\$)



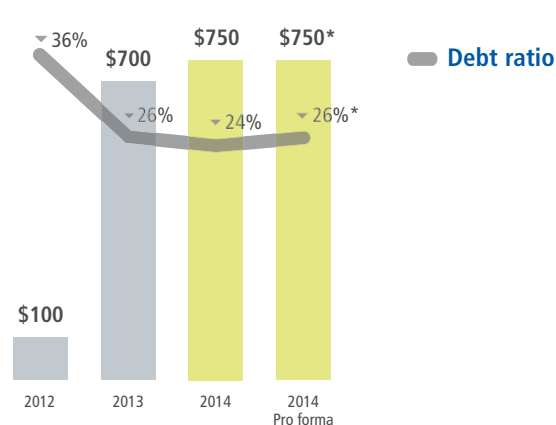
Return on Common Shareholders' Equity (%)



Solvency Ratio (%)



Excess Capital and Debt Ratio (\$Million) (%)



*Pro forma, after February 2015 announcement of \$250 million debenture issue and \$100 million Series F preferred share redemption

Message from the Chairman of the Board



iA Financial Group: these words evoke a deep sense of pride for Board members, senior management and employees alike. Adopted at the beginning of 2015, this new corporate identity reflects the unanimous observation that the Company has indeed become a large financial group. This of course is no surprise, but the time has come to recognize it in a clear and meaningful way.

The Board welcomes this rebranding as the next step in the Company's continued growth and development. iA Financial Group has always had a long-term vision, and it's that vision that has ensured its success over the last several decades and will continue to do so for decades to come.

By remaining true to this vision, the Company performed very well in 2014 despite a difficult macroeconomic environment marked by low interest rates, which once again proved to be a challenge, and a stock market slowdown in the second half of the year.

Highlights

The Company generated strong earnings for its shareholders in 2014 along with continued growth in its book value. Moreover, the Company's solvency ratio continued to surpass its target range and to be well above regulatory requirements.

In 2014, iA Financial Group became the first Canadian insurer to increase its dividend since 2008, raising it twice during the year for a total increase of over 14%.

In terms of business growth, assets under management and administration surpassed the \$100 billion mark, ending the year at \$109.5 billion. The Board is also pleased to see that sales were up in many of the Company's business lines and subsidiaries.

The Company maintained a strong capital position in 2014. Thanks to its financing activities, it was able to further improve its financial flexibility and strengthen its capital base.

These capital-raising measures were popular with investors, a testament to the Company's strength and reputation in the marketplace.

Reactions were equally positive at the Investor Day held by iA Financial Group in Toronto on June 11, 2014. The information provided at the event by senior management was very well received by the financial community, prompting many analysts to raise their estimates or improve their recommendations.

Board Activities

The Board of Directors met seven times in 2014, and the Board's various committees held a total of 17 meetings. The participation rate was 96.4% in Board meetings, and 94.1% in Board committee meetings.

I can strongly attest to the dedication and commitment of each and every Board member to ensuring the success and longevity of iA Financial Group.

On May 8, 2014, the Board of Directors welcomed three new Board members: Jocelyne Bourgon, Denyse Chicoyne and Danielle G. Morin. I'd like to thank each of them for the valuable contribution they've made since their arrival on the Board, which remains composed of 14 members.

In other news, Michel Gervais will be leaving the Board this year in accordance with the Company's maximum age policy for Board members. Mr. Gervais, who has been on the Board since 1997, served as chairman of the Audit Committee for a number of years and, in his last year, as chairman of the Ethics Committee. On behalf of the Board of Directors, I'd like to thank Mr. Gervais for his tremendous contribution to the Board and its committees and to the success of iA Financial Group.

In conclusion, the Board of Directors would like to express its thanks and appreciation for the hard work of iA Financial Group's senior management and employees over the past year. Their expertise, professionalism and dedication have once again contributed to the success of the entire organization and the satisfaction of its shareholders.

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

As we embark on 2015, we will continue to rely on the Company's long-term vision to ensure the ongoing success of iA Financial Group.

John LeBoutillier
Chairman of the Board

"In 2014, iA Financial Group became the first Canadian insurer to increase its dividend since 2008, raising it twice during the year."

**Quarterly Dividend
+14%**

President and Chief Executive Officer's Report



Our ambition

is to be the company that best meets our clients' needs for financial services and products, and to be an employer of choice offering an exciting career to our more than 5,000 employees.

How we performed

iA Financial Group finished 2014 on a strong note despite a tough year for interest rates. Earnings exceeded guidance and capital remained solid with significant financial flexibility to deal with market gyrations and to execute on our growth ambitions.

We delivered a record \$400.4 million in net income for the year with a return on shareholders' equity of 12.4%. Our retail insurance and wealth management operations, which are our largest businesses, accounted for 89% of this result. For the third consecutive year, we performed better than the guidance we provided to investors.

Our balance sheet closed out the year on solid ground despite the drop in long-term interest rates in 2014. Our book value per share grew by 10% to \$33.83 and our solvency ratio of 209% at year-end was above our target range. During the year, we were the first in our peer group to move our quarterly dividend up since the financial crisis.

Overall business growth in 2014 was satisfactory, with outstanding performances by our segregated funds, our US operations and our individual adjustable disability business. Premiums and deposits were robust at \$7.5 billion and fee-earning assets amounted to \$109.5 billion at year-end.

A customer-centric organization

The ambition of iA Financial Group has always been to be the company that best meets our clients' needs for financial services and products, in partnership with our distributors, and to be an employer of choice offering an exciting career to our more than 5,000 employees.

Three strengths have come to define iA Financial Group—distribution, execution and talent development.

iA Financial Group has a proven ability to build long-lasting relationships with our client-facing partners. The size and diversity of our distribution network in Canada is a key competitive advantage for our retail insurance and wealth businesses.

Our business processes are focused on defining our strategic priorities and acting upon them. Since 2010, iA Financial Group has been using the Lean philosophy to hone our processes and to mobilize our human resources toward the achievement of our customer-centric ambition.

iA Financial Group is focused on the development of talent internally. This ensures that we are supported by a capable and dedicated team committed to the long-term goals of our organization.

These will remain the building blocks of our corporate strategy through which we will achieve our ambition, regardless of where our endeavours take us as we continue to develop our organization.

iA Financial Group, invested in you

On March 3, 2015, Industrial Alliance unveiled its new visual identity displayed in this annual report. Over the last two decades, we have evolved to become a full-fledged financial services company, second to none in the range of insurance and wealth management products and services that we offer our clients, be it through traditional face-to-face meetings or digital applications. Our new logo reflects this reality.

Building Blocks
of iA Financial
Group

Distribution + Execution + Talent

Adapting to a changing environment

Our continued success depends on our ability to operate profitably in a changing external environment.

One of the biggest challenges facing our industry today is an aging population. This trend means an aging workforce, consolidation in our distribution networks and new client needs. Competition for talent will increase over the next years, distribution networks will need to be rejuvenated and new products will be required to meet the needs of an aging clientele.

The evolution of interest rates over the long term remains a large unknown. It is predicted that the average return of the main asset classes, that is stocks and bonds, will be lower than the average return during the last thirty years. A weak economic environment remains an ongoing challenge, hence the continued importance of our work to protect our organization against fluctuations in interest rates and equity markets.

Life insurance companies have been slower than others to adapt their business models to new technology. The changing behaviour of customers with respect to digital applications has not yet had a profound impact on the way we do business, although it is a factor in the pre-purchase research process and an area in which the industry is experimenting with respect to service and product distribution.

Changes on the regulatory front also have the potential to impact our business model in a significant way. For example, in Canada, new regulatory initiatives are being considered that could have a material impact on our mutual fund operations. Elsewhere in the world, the globalization of accounting and actuarial standards could lead to profound changes in long-term guaranteed products such as insurance and segregated funds that make up a large part of our business.

Change does not come without opportunity for growth. At iA Financial Group, we are fully invested in assuring that we have the right lifecycle products

for our customers, that we are delivering our products and services at the time and place of their choice, and that we have appropriate strategies to minimize the impact of macroeconomic events. Just as importantly, we are working to assure the future of our organization by attracting, retaining and developing the talent to support our long-term goals.

I feel confident that we are on the right course to sustain our strong track record of growth and long-term value creation.

I respectfully sign this letter on behalf of all management and staff of iA Financial Group.



Yvon Charest

President and Chief Executive Officer

The Ultimate Question

Would you recommend
iA Financial Group
to friends?

Beginning in 2015, we are using the Net Promoter Score to align each and every employee of iA Financial Group with our ambition to put our clients at the centre of our preoccupations.

iA Financial Group Planning Committee



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

President and Chief
Executive Officer



René Chabot
F.S.A., F.C.I.A.

Executive Vice-President
and Chief Actuary



Carl Mustos
M.B.A.

President, IA Clarington



Normand Pépin
F.S.A., F.I.C.A.

Executive Vice-President
Life Subsidiaries and
Individual Insurance
and Annuities



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

Executive Vice-President
Business Development



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

President, IA American



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

Executive Vice-President
and Chief Investment
Officer

Notice

Legal Constitution and General Information

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.

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

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

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

Unless otherwise indicated, all information presented in the Management's Discussion and Analysis is established as at December 31, 2014, or for the period ended on that date.

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

The Management's Discussion and Analysis is dated February 12, 2015.

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 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 often 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 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, under *About IA*, in the *Investor Relations* section. 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.

2014 Management's Discussion and Analysis

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Description of Industrial Alliance

- Corporate Growth Strategy
- Geographic Presence
- Business Lines, Divisions and Subsidiaries
- Distribution Network

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

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

Industrial Alliance has a distribution network that comprises over 25,000 representatives. Through this network, it offers a vast range of financial products and services including life and health insurance, savings and retirement plans, mutual and segregated funds, securities, auto and home insurance and creditor insurance on both an individual and group basis.

One of the four largest life and health insurance companies in Canada with close to \$110 billion in assets under management and administration at the end of 2014, Industrial Alliance serves over 4 million clients and employs over 5,000 people.

Industrial Alliance is listed on the Toronto Stock Exchange under the ticker symbol IAG. At December 31, 2014, the Company had 100.8 million issued and outstanding common shares and its market capitalization was close to \$4.5 billion.

Corporate Growth Strategy

Industrial Alliance's business model is built on its ability to generate steady organic growth through the diversification of its distribution networks, its geographic presence and its market segments. It also rests on its ability to generate growth through strategic acquisitions. Since 2000, the Company has increased its book value per share at an annually compounded rate of 10% through December 31, 2014.

To sustain its successful track record, the Company employs a variety of growth strategies.

In the Individual Insurance and Wealth Management sectors, it competes head-on with all industry players in all markets and geographic regions in Canada. Its key competitive advantage is the ability to build strong distribution networks for its products and services.

In Group Insurance Employee Plans, Group Savings and Retirement and through IA Auto and Home, the Company competes selectively by market and geography where it can leverage corporate relationships and competencies.

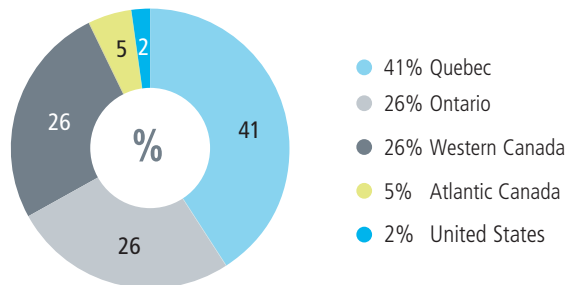
In Group Insurance Dealer Services and Special Markets Solutions, it competes in niche markets where it has few competitors and it holds a leading market position.

Finally, Industrial Alliance is opportunistic in underserved markets where there are a limited number of players. In the United States, for example, the Company's capital strength makes it one of the largest players in its particular market segment. In Canada, it is currently leveraging its country-wide distribution network to grow sales of its adjustable individual disability product outside Quebec.

Geographic Presence

Industrial Alliance has developed its North American footprint through a combination of organic growth and acquisitions. In Canada, it has a coast-to-coast presence through a distribution network that stands out for its size and diversity. It also has operations in the United States, where it distributes products in niche markets.

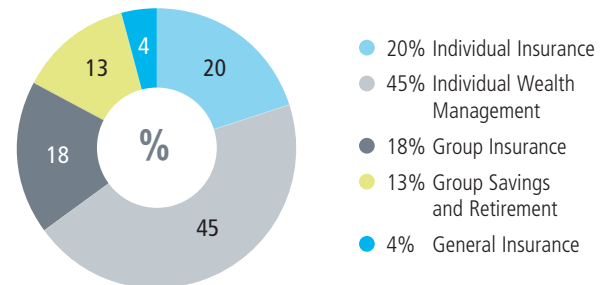
Premiums and Deposits by Region – 2014



Business Lines, Divisions and Subsidiaries

Industrial Alliance's four main lines of business are Individual Insurance and Individual Wealth Management, which address the needs of retail customers, and Group Insurance and Group Savings and Retirement, which address the needs of groups and businesses. The Company also provides general insurance through its Dealer Services division (P&C products) and the IA Auto and Home subsidiary. The table on the following two pages provides a complete description of the Company's business activities with related product offerings, distribution networks and operating units.

Premiums and Deposits by Line of Business – 2014



Distribution Network

Industrial Alliance's comprehensive distribution network enables it to provide a vast range of products and services in all market segments in Canada and in niche markets in the United States.

In the retail sectors in Canada, the Company distributes insurance and wealth management products through dedicated agents (Career network), IA affiliates, managing general agents and independent advisors. In the United States, the Company distributes insurance products through independent marketing organizations (IMOs).

In the group sectors, the Company's distribution platform includes specialized brokers and actuarial consulting firms as well as automobile and other motor vehicle dealers across Canada.

In the Company's general insurance subsidiary (IA Auto and Home), which operates only in Quebec, distribution is carried out through direct sales, together with referrals from the Industrial Alliance network.

The table below provides a summary of the number of representatives and advisors in the Company's distribution networks.

Activities	Network	Number of Representatives/Advisors
Retail lines of business: Individual Insurance and Individual Wealth Management	Career	1,930
	Managing General Agents	13,000
	National Accounts	1,400
	Independent Advisors	7,000
	Independent Marketing Organizations in the US	7,000
	Investia Financial Services Inc.	1,813
	FundEX Investments Inc.	578
	IA Securities	250
	Private Wealth	77
Group lines of business	Employee Plans	300
	Dealer Services	3,200
	Special Markets Solutions	780
	Group Savings and Retirement	1,000
General Insurance	IA Auto and Home, direct agents	254

Note that a representative or advisor may be registered under more than one distribution network. The numbers shown are approximations at December 31, 2014, and may vary over time.

Business Overview

	Activities	Products and Services
Personal Financial Services	■ Individual Insurance	<ul style="list-style-type: none"> – Life (Universal, permanent and term) – Critical illness – Short and long-term disability – Accidental death and dismemberment (AD&D) – Creditor (life and disability)
	■ Individual Wealth Management	<ul style="list-style-type: none"> – Segregated funds – Mutual funds – Securities – Life and fixed-term annuities – Registered savings and disbursement plans (RRSP, RESP, TFSA and RRIF) – Investment advice – Private wealth management
	General Insurance	<ul style="list-style-type: none"> – Auto and home insurance
Group Products and Services	■ Group Insurance:	
	● Employee Plans	<ul style="list-style-type: none"> – Life and health, AD&D, dental care, short and long-term disability, critical illness and home care insurance – Voluntary benefits (life, AD&D and critical illness) – Out-of-Canada medical insurance
	● Dealer Services	<ul style="list-style-type: none"> – Creditor insurance (life, disability and critical illness) – Replacement insurance, extended warranties and other ancillary products – Car loans
	● Special Markets Solutions	<ul style="list-style-type: none"> – AD&D, travel medical, term life, critical illness, disability – Other specialized products
	■ Group Savings and Retirement	<ul style="list-style-type: none"> – Capital accumulation products – Insured annuities

■ Business Line ● Division

Distribution Networks	Manufacturers and Subsidiaries
<ul style="list-style-type: none"> – Career (IA) – Managing General Agents – National Accounts – Michel Rhéaume et Associés Ltée – Solicour Inc. – Independent marketing organizations (US) – Independent advisors 	<ul style="list-style-type: none"> – Industrial Alliance: <ul style="list-style-type: none"> – The Excellence Life Insurance Company – IA American Life Insurance Company – American-Amicable Life Insurance Company of Texas
<ul style="list-style-type: none"> – Career (IA) – Managing General Agents – Professional associations – National Accounts – IA affiliated entities – Independent advisors 	<ul style="list-style-type: none"> – Industrial Alliance: <ul style="list-style-type: none"> – IA Clarington Investments Inc. – Industrial Alliance Trust Inc. – Industrial Alliance Investment Management Inc. – Investia Financial Services Inc. – FundEX Investments Inc. – Industrial Alliance Securities Inc. – T.E. Wealth Management – Leon Frazer and Associates – Hahn Investment Stewards
<ul style="list-style-type: none"> – Direct sales – Referrals from IA networks 	<ul style="list-style-type: none"> – Industrial Alliance Auto and Home Insurance Inc.
<ul style="list-style-type: none"> – Specialized brokers – Actuarial consulting firms 	<ul style="list-style-type: none"> – Industrial Alliance
<ul style="list-style-type: none"> – Direct distribution with automobile and other motor vehicle dealers 	<ul style="list-style-type: none"> – Industrial Alliance: <ul style="list-style-type: none"> – SAL Marketing Inc. – National Warranties MRWV Limited – Industrial Alliance Pacific General Insurance Corporation
<ul style="list-style-type: none"> – Distribution partners – Specialized insurance brokers – Actuarial consulting firms – Mortgage brokers – Direct sales 	<ul style="list-style-type: none"> – Industrial Alliance
<ul style="list-style-type: none"> – Specialized advisors – Actuarial consulting firms – Career (IA) – Managing General Agents 	<ul style="list-style-type: none"> – Industrial Alliance

2014 Highlights

Industrial Alliance achieved a 14% increase in net income in 2014 and 11% growth in assets under management and administration. Premiums and deposits remained relatively stable compared to 2013 following a slowdown in mutual fund sales. The Company maintained a solvency ratio above its target range and improved its financial flexibility, while the quality of its investment portfolio continues to be excellent. Lastly, the Company made two increases to the quarterly dividend payable to common shareholders, for a total increase of over 14%.

Profitability

Net income to common shareholders amounted to \$400.4 million in 2014 compared to \$349.9 in 2013. Refer to the Profitability section for more information on the Company's profitability in 2014.

Business Growth

Assets under management and administration were up 11% in 2014 to reach \$109.5 billion at December 31, while premiums and deposits were up 1%. Individual Insurance saw a 5% increase in premiums despite a slight drop in sales. Individual Wealth Management saw a significant increase in segregated fund sales, while mutual fund sales were down after an exceptional year in 2013. Total sales were up 4% in the three divisions that make up the Group Insurance sector, but were down 4% in Group Savings and Retirement.

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

Assets Under Management and Administration

(In millions of dollars, unless otherwise indicated)	As at December 31		
	2014	2013	Variation
Assets under management	76,793.6	69,490.6	11%
Assets under administration	32,687.2	29,289.7	12%
Total	109,480.8	98,780.3	11%

Premiums and Deposits¹

(In millions of dollars, unless otherwise indicated)	2014	2013	Variation
Individual Insurance	1,495.1	1,425.2	5%
Individual Wealth Management	3,362.1	3,358.8	0%
Group Insurance	1,374.6	1,389.5	(1%)
Group Savings and Retirement	963.6	1,001.0	(4%)
General Insurance	285.1	258.4	10%
Total	7,480.5	7,432.9	1%

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), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance and Group Savings and Retirement sectors and mutual fund deposits.

Sales by Line of Business²

(In millions of dollars, unless otherwise indicated)	2014	2013	Variation
Individual Insurance			
Minimum premiums	195.1	193.7	1%
Excess premiums	30.4	40.6	(25%)
Total	225.5	234.3	(4%)
Individual Wealth Management			
General fund	111.9	119.2	(6%)
Segregated funds	1,352.6	987.7	37%
Mutual funds	1,897.6	2,251.9	(16%)
Total	3,362.1	3,358.8	0%
Group Insurance			
Employee Plans	70.2	59.4	18%
Dealer Services	535.8	525.4	2%
Special Markets Solutions (SMS)	179.8	170.9	5%
Group Savings and Retirement	987.7	1,025.0	(4%)

Financial Strength

The solvency ratio was 209% at December 31, 2014. This ratio is above the Company's 175% to 200% target range. At the same time, the Company's capital totalled more than \$4.5 billion and equity accounted for 86% of total capital.

The book value per common share showed good growth again this year, increasing by 10%.

The coverage ratio, which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, improved in 2014, ending the year at 7.9x. The debt ratio including debentures and preferred shares also improved during the year, dropping to 23.7% at December 31, 2014.

For detailed comments on financial strength, refer to the Capitalization and Solvency section of this Management's Discussion and Analysis.

Solvency and Capitalization

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2014	2013
Solvency ratio	209%	217%
Capitalization ³	4,531.7	4,166.0
Book value per common share	\$33.83	\$30.67
Debt ratio		
Debtures/capital	13.2%	12.0%
Debtures and preferred shares/capital	23.7%	25.8%
Coverage ratio	7.9x	6.2x

Dividends

In 2014, the Company made two increases to the dividend per common share. As a result, the quarterly dividend went up more than 14%, from \$0.2450 at the end of 2013 to \$0.2800 at the end of 2014.

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

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

Quality of Investments

The quality of the Company's investment portfolio continued to be excellent in 2014. The proportion of net impaired investments continues to be very low at 0.07% of total investments, bonds rated BB and lower account for just 0.74% of the bond portfolio, the delinquency rate on mortgage loans remains low at 0.41% and the occupancy rate of the real estate portfolio remains high at 91.0%. In 2014, the value of the Company's investment properties grew by \$110.9 million. This increase was due to acquisitions, an increase in the fair value of the properties and renovation work on certain properties. Refer to the Investments section of this Management's Discussion and Analysis for more information.

The following table shows the main investment quality indices.

Investment Quality Indices

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2014	2013
Net impaired investments	18.7	13.8
Net impaired investments as a % of total investments	0.07%	0.06%
Bonds – Proportion rated BB and lower	0.74%	0.18%
Mortgage loans – Delinquency rate	0.41%	0.28%
Investment properties – Occupancy rate	91.0%	93.5%

Sensitivity Analysis

The analysis of the Company's sensitivity to macroeconomic fluctuations was updated at the end of 2014. The main results are shown in the table below and explanations on the results of this analysis are provided under Investment Risk in the Risk Management section of this Management's Discussion and Analysis.

Sensitivity Analysis

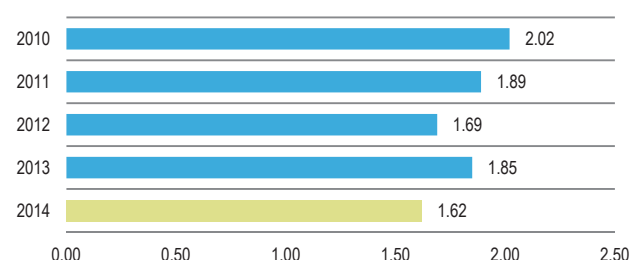
(In millions of dollars, unless otherwise indicated)	As at December 31	
	2014	2013
Drop in the S&P/TSX ¹ index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities	32%	23%
Drop in the S&P/TSX ¹ index that would decrease the solvency ratio to 175%	39%	36%
Drop in the S&P/TSX ¹ index that would decrease the solvency ratio to 150%	51%	48%
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(28)	(25)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	(35)	(20)
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(59)	(59)

Value of New Business

The value of new business 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. The Company's value of new business amounted to \$164.0 million in 2014, or \$1.62 per common share, compared to \$181.5 million in 2013. The year-over-year decrease can be explained by assumption changes and pricing adjustments in the Individual Insurance sector, and by the reduction of management fees on certain segregated funds as well as additional hedging in the Individual Wealth Management sector.

Value of New Business per Common Share

(\$)



Market Guidance for 2015

Return on common shareholders' equity – Maintain the 11.0% to 12.5% target range.

Earnings per common share – New target of \$3.80 to \$4.20.

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 2015.

Effective tax rate – New target range of 18% to 20%.

New business strain – New target of 30% (±5%) of sales in Individual Insurance.

The guidance for the return on equity and earnings per share exclude any variations that could result from changes in actuarial assumptions in 2015.

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

Profitability

2014 Highlights

Net income totalled \$400.4 million in 2014, an increase of 14% over the previous year. Diluted net earnings per common share (EPS) amounted to \$3.97 after deducting a \$0.04 premium per share paid on December 31, 2014 when the Series E preferred shares were redeemed. Return on common shareholders' equity amounted to 12.4%, compared to 12.6% in 2013.

Profitability

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Income attributed to shareholders	432.9	384.5	333.7	127.2	276.3
Less: dividends to preferred shareholders	28.5	34.6	30.1	23.9	22.9
Less: premium on preferred share redemption	4.0	---	---	---	---
Net income attributed to common shareholders	400.4	349.9	303.6	103.3	253.4
Net earnings per common share					
Basic	\$4.01	\$3.60	\$3.35	\$1.20	\$3.04
Diluted	\$3.97	\$3.57	\$3.22 ¹	\$1.18	\$2.93
Return on common shareholders' equity	12.4%	12.6%	12.8%	4.7%	12.8%

The 2014 results were affected by certain non-recurring items, which had a positive net impact of \$0.38 per share. These non-recurring items can be summed up as follows:

- › *Income tax* – A \$49.9 million gain (+\$0.49 per common share) was generated by a decrease in the income tax expense following the recognition of tax benefits for certain investment income that was exempt from income tax under the Company's status as a multinational insurer for years since 2006, and for previous years' tax losses in the United States that were recovered during the year. This decrease in the income tax expense is net of the impact of these tax benefits on the actuarial reserves.
- › *Hedging program* – This program generated a loss of \$2.5 million after tax (-\$0.02 per share) compared to expectations. This program, which is primarily designed to reduce the sensitivity of net income to the volatility of the financial markets with respect to the capital guarantees offered on certain segregated funds, generated gains of \$28.5 million after tax (+\$0.30 per share) in 2013.
- › *Unclaimed property* – The identification and treatment of unclaimed insurance amounts in the United States reduced net income by \$2.0 million (-\$0.02 per share).
- › *Changes in actuarial assumptions* – At December 31, 2014, these changes led to a strengthening of the reserves of \$3.2 million after tax, resulting in a \$0.03 decrease in earnings per share. The new actuarial standards published by the Canadian Institute of Actuaries in October 2014 allowed the Company to increase the ultimate reinvestment rate (URR) from 3.1% to 4.0% at December 31, 2014. However, the positive impact of this change was neutralized by three items: 1) the decrease in the initial reinvestment rate (IRR) in 2014; 2) the increased protection against a potential drop in the stock markets; and 3) the change in policy lapse assumptions. The

strengthening of the reserves primarily affected the Individual Insurance sector.

- › *Redemption of preferred shares* – The redemption of Series E preferred shares on December 31, 2014 led to the payment of a \$4.0 million premium, reducing diluted EPS by \$0.04 per share.

The 2014 profitability results are explained in more detail in the remainder of this section.

Sources of Earnings

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

Expected profit on in-force – Expected profit on in-force amounted to \$457.0 million in 2014, a year-over-year increase of \$58.4 million before tax. The increase primarily comes from the Individual Wealth Management sector.

The expected profit on in-force reflects the best estimates determined by management when the 2014 budget was prepared. The expected profit for the savings sectors is updated quarterly to reflect the evolution of the stock markets and net fund entries.

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

Despite a notable improvement in the last quarter, the Company ended the year with experience losses of \$16.5 million before tax, compared to experience gains of \$66.6 million in 2013. The losses recorded in 2014 primarily came from the Group Insurance sector. The paragraphs that follow comment on the experience gains (losses) for each line of business.

- › *Individual Insurance* – The sector posted a positive variance of \$6.4 million before tax (\$4.5 million after tax or \$0.04 per common share) compared to estimates. This variance is due to a gain associated with the Universal Life policy funds, which helped increase EPS by \$0.07 per share. On the other hand, losses were generated by the treatment of unclaimed property in the United States (-\$0.02 per share) and policyholder behaviour (-\$0.01 per share).
- › *Individual Wealth Management* – A loss of \$0.2 million before tax was recorded in 2014. As explained earlier, the hedging program generated a loss of \$2.5 million after tax (-\$0.02 per share). However, this loss was offset by a positive variance in annuitant longevity.
- › *Group Insurance* – The sector realized a loss of \$22.2 million before tax, compared to a gain of \$4.3 million before tax in 2013. After tax, the loss realized in 2014 amounts to \$16.3 million or \$0.16 per share. Despite a strong recovery in the fourth quarter, the Employee Plans division was impacted by poor disability insurance experience in 2014.

¹ Diluted EPS was \$3.34 in 2012 excluding the dilution for the Industrial Alliance Trust Securities (IATS), which were redeemed on June 30, 2013.

The sector's other divisions, Dealer Services and Special Markets Solutions, had some difficulty in the last two quarters of the year with regard to claims.

› *Group Savings and Retirement* – This sector's results were in line with expectations (slight negative variance of \$0.5 million before tax).

Sources of Earnings¹

(In millions of dollars)	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Expected profit on in-force	236.8	233.6	149.2	111.4	49.2	37.7	21.8	15.9	457.0	398.6
Experience gains (losses)	6.4	16.6	(0.2)	36.1	(22.2)	4.3	(0.5)	9.6	(16.5)	66.6
Gain (strain) on sales	(58.7)	(49.2)	(1.6)	(2.5)	0.0	0.0	(1.8)	(3.1)	(62.1)	(54.8)
Changes in assumptions	(2.9)	(2.8)	(0.7)	(0.3)	(0.7)	(5.0)	(0.7)	0.2	(5.0)	(7.9)
Operating profit	181.6	198.2	146.7	144.7	26.3	37.0	18.8	22.6	373.4	402.5
Income on capital	82.2	59.6	(3.2)	2.1	8.6	14.4	3.8	7.8	91.4	83.9
Income taxes	8.4	(41.9)	(31.3)	(39.9)	(5.3)	(12.4)	(3.7)	(7.7)	(31.9)	(101.9)
Net income attributed to shareholders	272.2	215.9	112.2	106.9	29.6	39.0	18.9	22.7	432.9	384.5
Less: preferred share dividends	19.7	24.0	5.3	6.0	2.5	3.0	1.0	1.6	28.5	34.6
Less: premium on preferred share redemption	2.9	---	0.7	---	0.3	---	0.1	---	4.0	---
Net income attributed to common shareholders	249.6	191.9	106.2	100.9	26.8	36.0	17.8	21.1	400.4	349.9
Additional information according to the financial statements:										
Net premiums (excluding general insurance)	1,495.1	1,425.2	1,464.5	1,106.9	1,262.0	1,272.6	919.5	943.6	5,141.1	4,748.3
Net income attributed to shareholders	272.2	215.9	112.2	106.9	29.6	39.0	18.9	22.7	432.9	384.5
Less: preferred share dividends	19.7	24.0	5.3	6.0	2.5	3.0	1.0	1.6	28.5	34.6
Less: premium on preferred share redemption	2.9	---	0.7	---	0.3	---	0.1	---	4.0	---
Net income attributed to common shareholders	249.6	191.9	106.2	100.9	26.8	36.0	17.8	21.1	400.4	349.9

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 that describe each sector's activities in detail.

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

In the Individual Insurance sector, new business strain was \$58.7 million in 2014, which is 19% higher than the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 26% in 2014, compared to 21% in 2013. The increase observed in 2014 reflects the impact of the sales mix during the year and of the new actuarial standards adopted in October 2014.

Given the existing product pricing structure and the current macroeconomic environment, the Company believes the strain percentage should be around 30% (±5%) in 2015.

Changes in assumptions – At the end of each quarter, the Company ensures the sufficiency of its provisions given the existing economic environment. It also does a complete update of all of its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its

own experience in terms of mortality, morbidity, lapse rates, unit costs and other factors.

Following the update carried out at the end of 2014, the Company strengthened its provisions for future policy benefits by \$5.0 million before tax, which is equal to \$3.2 million after tax or \$0.03 per common share. The assumption changes were explained in the highlights at the beginning of this section.

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 \$91.4 million before tax in 2014, up \$7.5 million or 9% compared to 2013. The increase in income on capital during the year reflects an increase in profit by the IAAH subsidiary and the decrease in financing expenses over the past year.

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

Income taxes were down in 2014, amounting to \$31.9 million after consideration of the impact of the tax benefits for the year on the reserves. The reasons for this decrease were described in the highlights of this section.

Capitalization and Solvency

Capitalization

Industrial Alliance's capital structure can be divided into three categories: equity, debentures, and the participating policyholders' account. At December 31, 2014, the Company's capital reached \$4.5 billion, a year-over-year increase of 8.8%, with equity (excluding the participating policyholders' account) making up 86% of total capital.

The main reason for the increase was the contribution of retained earnings (resulting from the net profits realized during the year, net of dividends paid to common shareholders). The redemption of debentures and preferred shares and the issue of new debentures (discussed in the *Redemption and Issue of Financial Instruments* section below) had an overall neutral impact on capital in 2014.

Capital Structure

(In millions of dollars)	As at December 31				
	2014	2013	2012	2011	2010
Equity					
Common shares	1,243.5	1,183.5	878.6	860.7	652.5
Preferred shares	475.0	575.0	675.0	425.0	425.0
Retained earnings	2,081.9	1,857.4	1,553.5	1,418.6	1,341.5
Contributed surplus	21.1	19.8	23.5	23.6	23.3
AOCI ¹	63.6	(15.3)	39.3	64.4	59.3
Subtotal	3,885.1	3,620.4	3,169.9	2,792.3	2,501.6
Debentures	597.2	498.5	757.9	747.7	499.1
Participating policyholders' account	49.4	47.1	44.2	41.3	26.9
Total	4,531.7	4,166.0	3,972.0	3,581.3	3,027.6

Financial Leverage and Coverage Ratio

The debt ratio, measured by debentures over the capital structure, was 13.2% at December 31, 2014. If the preferred shares are added to the debentures, the ratio was 23.7%. The ratio's decrease from 25.8% twelve months ago resulted from the increase in capital described above.

At December 31, 2014, the coverage ratio was 7.9x, compared to 6.2x at December 31, 2013. In 2014, the ratio benefited from an increase in pre-tax earnings and a decrease in financing expenses generated by the financing strategy (discussed in the *Redemption and Issue of Financial Instruments* section below). The coverage ratio represents the Company's earnings for the last twelve months before interest and income tax expenses divided by its interest and dividend expenses.

Debt Ratios and Coverage Ratio

	As at December 31				
	2014	2013	2012	2011	2010
Debt ratios					
Debentures/capital structure	13.2%	12.0%	18.9%	21.2%	16.5%
Debentures and preferred shares/capital structure	23.7%	25.8%	35.9%	33.3%	30.5%
Coverage ratio (number of times)	7.9	6.2	6.1	2.8	6.2

Solvency

The solvency ratio amounted to 209% at December 31, 2014, 8 percentage points below the December 31, 2013 ratio, but still above the Company's 175% to 200% target range.

The two main reasons for this change were:

- › Macroeconomic changes, in particular the drop in long-term interest rates of around one hundred basis points in 2014, which pushed the solvency ratio down 14 percentage points.
- › Recurring items, including the contribution of net income to available capital, which had a positive impact of 8 percentage points.

All other items that affected the solvency ratio in 2014 had a combined negative impact of 2 percentage points. These include:

- › The impact on available capital of the amendment to accounting standard IAS-19 regarding employee benefits.
- › The Company's various investment strategies, which had the net effect of increasing the required capital with regard to its assets.
- › The changes in assumptions made at the end of the year.

Solvency

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2014	2013	2012	2011	2010
Available capital					
Tier 1 (net)	3,217.0	3,166.3	2,956.1	2,461.7	2,303.8
Tier 2 (net)	667.4	496.7	640.0	587.4	340.9
Total	3,884.4	3,663.0	3,596.1	3,049.1	2,644.7
Required capital	1,860.6	1,687.2	1,657.7	1,613.8	1,306.8
Solvency ratio	209%	217%	217%	189%	202%

Dividends

In 2014, the Company made two increases to the dividend per share. As a result, the quarterly dividend went up more than 14%, from \$0.2450 at the end of 2013 to \$0.2800 at the end of 2014. Industrial Alliance paid out \$0.2600 per common share in the first three quarters of 2014 and \$0.2800 per common share in the fourth quarter, for a total yearly dividend of \$1.06 per common share.

In total, the Company paid out \$105.9 million in dividends to common shareholders in 2014 and the dividend payout ratio for the year was 26% of the net income attributed to common shareholders.

Dividends

	2014	2013	2012	2011	2010
Dividends paid per common share	\$1.06	\$0.98	\$0.98	\$0.98	\$0.98
Dividend payout ratio	26%	27%	29%	82%	32%

¹ AOCI: Accumulated other comprehensive income

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, 2014 was 100,774,924, an increase of 1,433,016 compared to December 31, 2013. This increase is explained by two items: the issuance of 476,750 common shares following the exercise of options under the Stock Option Plan for executives and the issuance of 956,266 common shares under the Dividend Reinvestment and Share Purchase Plan.

The Company did not buy back any of its common shares in 2014.

Common Shares

(In millions)	As at December 31				
	2014	2013	2012	2011	2010
Number of common shares outstanding	100.8	99.3	91.0	90.4	83.9

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 the year at \$44.43, for a market capitalization of close to \$4.5 billion.

Stock Price and Market Capitalization

(In millions of dollars, unless otherwise indicated)	End of period				
	2014	2013	2012	2011	2010
Stock price	\$44.43	\$46.95	\$31.38	\$26.29	\$36.81
Market capitalization	4,477.4	4,664.1	2,856.3	2,376.2	3,087.9

Book Value per Common Share

The book value per common share was \$33.83 at the end of 2014, up 10% during the year. This growth comes primarily from the contribution of retained earnings.

Book Value per Common Share

	As at December 31				
	2014	2013	2012	2011	2010
Book value per common share	\$33.83	\$30.67	\$27.45	\$26.19	\$24.75

Redemption and Issue of Financial Instruments

In 2014, the Company redeemed the following two financial instruments:

- › June 30: All subordinated debentures at 5.13% maturing on June 30, 2019, representing a nominal value of \$150 million.
- › December 31: All Class A Preferred Shares Series E, representing a nominal value of \$100 million, for a cash consideration of \$104 million including a redemption premium of \$4 million.

The Company also issued subordinated debentures at 2.80% on May 13, 2014 that will mature on May 16, 2024, for a nominal value of \$250 million.

These three actions were part of a financial strategy to improve the Company's coverage ratio by reducing financing expenses.

Preferred Shares

In 2014, the Company paid \$28.5 million in dividends to preferred shareholders with Class A Shares, Series B, E, F and G. As indicated earlier, Series E was redeemed at the end of the year. The Company's capital currently includes three series of Class A Preferred Shares, as shown in the table on the following page.

Debentures

The Company had three series of debentures on its balance sheet at December 31, 2014, with a total book value of \$597.2 million, as shown in the table on the following page. These debentures were classified as "other financial liabilities," at their amortized cost based on their effective interest rate. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors.

In 2013, the financing expense on the debentures included \$32.8 million in interest and a \$9.3 million redemption charge. In 2014, the financing expense, made up of interest only, amounted to \$26.0 million.

Stock Option Plan

In accordance with the Stock Option Plan adopted by the Board of Directors in 2001, the Human Resources and Governance Committee issued 489,500 new share purchase options in 2014. These new options, which will expire in 2024, were granted at an average weighted exercise price of \$43.38. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 3,430,750, or 3.4% of the number of issued and outstanding shares as at December 31, 2014.

Dividend Reinvestment and Share Purchase Plan for Common Shareholders

The plan allows participants to have their dividend payments automatically reinvested in Industrial Alliance common shares and to make cash purchases of additional common shares from the Company. This plan led to the issuance of 956,266 common shares in 2014.

Preferred Shares and Debentures

Class A Preferred Shares – Series B

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

Class A Preferred Shares – Series F

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

Class A Preferred Shares – Series G

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

Subordinated debentures issued on December 14, 2011 and maturing on December 14, 2021

Nominal value:	\$250.0 million
Book value:	\$248.7 million
Interest:	4.75% until December 14, 2016. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 3.20% for the last five years, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after December 14, 2016, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of \$1.3 million.

Subordinated debentures issued on August 1, 2008 and maturing on August 1, 2023

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

Subordinated debentures issued on May 13, 2014 and maturing on May 16, 2024

Nominal value:	\$250.0 million
Book value:	\$248.6 million
Interest:	2.80% until May 16, 2019. 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 0.79%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after May 16, 2019, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of \$1.4 million.

More information about the features of the preferred shares and debentures can be found in the prospectus documents, which are available on the Company's website at inalco.com, under *About IA*, in the *Investor Relations* section.

Declaration of Fourth Quarter Dividends

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

The Board of Directors has declared the payment of a quarterly dividend of \$0.2800 per common share. The dividend is payable in cash on March 16, 2015, to the common shareholders of record as at February 27, 2015.

The Board of Directors has declared the payment of a quarterly dividend of \$0.2875 per non-cumulative Class A Preferred Share – Series B. The dividend is payable in cash on March 31, 2015, to the preferred shareholders of record as at February 27, 2015.

The Board of Directors has declared the payment of a quarterly dividend of \$0.36875 per non-cumulative Class A Preferred Share – Series F. The dividend is payable in cash on March 31, 2015, to the preferred shareholders of record as at February 27, 2015.

The Board of Directors has declared the payment of a quarterly dividend of \$0.26875 per non-cumulative Class A Preferred Share – Series G. The dividend is payable in cash on March 31, 2015, to the preferred shareholders of record as at February 27, 2015.

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

Credit Ratings

Industrial Alliance receives credit ratings from three independent rating agencies. These ratings confirm the Company's financial strength and its ability to meet its commitments to policyholders and creditors.

On February 27, 2014, A.M. Best upgraded Industrial Alliance's financial strength rating from A (Excellent) to A+ (Superior). All other credit ratings assigned by A.M. Best also received a one-notch increase, while those assigned by Standard & Poor's and DBRS remained unchanged in 2014, with a stable outlook.

Credit Ratings

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

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

Description of Sector

In the Individual Insurance sector, the Company distributes a wide range of life insurance (universal, permanent and term), critical illness 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.

Industrial Alliance distributes its products through networks of licensed representatives. The Company likes to have solid relationships with a variety of distributors in order to reach a broad clientele. Given the intense competition in the individual insurance market, the Company strives to continually improve by developing sales tools that are both functional and practical and effectively promoting its product and service offer. The Company's decisions are also guided by its 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.

Business Growth

The insurance industry enjoyed a somewhat favourable macroeconomic environment in 2014 due to strong equity markets, but was impacted by the sharp drop in long-term interest rates during the year, which had a negative effect on insurance product profitability. Nevertheless, many insurers reduced premiums on permanent insurance products in 2014. To remain competitive, Industrial Alliance also lowered rates on Universal Life and whole life policies in October 2014.

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

Individual Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Sales ¹					
Minimum premiums ²	195.1	193.7	200.9	174.4	150.9
Excess premiums ²	30.4	40.6	42.4	35.0	35.7
Total	225.5	234.3	243.3	209.4	186.6
Growth	(4%)	(4%)	16%	12%	27%
Number of policies	100,848	105,927	112,618	114,046	117,091
Growth	(5%)	(6%)	(1%)	(3%)	4%
Premiums	1,495.1	1,425.2	1,339.3	1,248.2	1,112.9
Growth	5%	6%	7%	12%	--- ³

Growth in premium income is important because it is the key long-term profitability driver for the sector. Carried by new sales and good business persistency, premium income in the Individual Insurance sector grew 5% in 2014, and is now approaching the \$1.5 billion mark. New sales are dependent on the ongoing growth of the population (and its growing need for protection), the collective enrichment of the population, the size of the Company's distribution networks and new emerging niches for insurance products.

The sector ended the year with \$225.5 million in sales, down 4% from the previous year. This marginal decrease can be explained by a few important factors. Firstly, efforts to improve the sector's profitability by controlling new business strain led to less competitive pricing of the Company's permanent insurance products, resulting in lower sales by the Managing General Agents network. The decreased popularity of Universal Life insurance in favour of participating whole life insurance, a market in which the Company does not compete, also explains the year.

Excess premiums under Universal Life policies were down considerably in 2014. This was largely due to a change to the *Income Tax Act* at the beginning of the year regarding the compliance of life insurance policies that offer the ability to take out a loan using funds accumulated in the policy as collateral.

On an industry basis, Industrial Alliance ranked fourth in Canada for life insurance sales for the first nine months of the year, with a market share of 9.0%. For Universal Life policies, the Company is ranked second, with a market share of 16.1% in 2014 compared to 24.4% the previous year. The Company is also ranked second in Canada for the sale of critical illness insurance, with a market share of 18.3%.

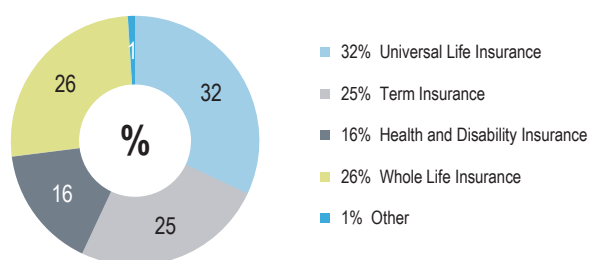
¹ In the Individual Insurance sector, sales are defined as first-year annualized premiums.

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

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

Sales by Product

2014



It was a difficult year for Universal Life Insurance, with sales down 25%. As noted earlier, sales growth in the high net worth market was down in 2014 following a change to the *Income Tax Act* at the beginning of the year. Sales were also impacted by considerable competition in the market. Nevertheless, Universal Life policies continue to be the Company's most popular product, accounting for 32% of the sector's sales in 2014 (41% in 2013). Universal Life products accounted for 28% of industry sales for the first nine months of the year, compared to 31% for the same period in 2013. This can be explained by the general shift from Universal Life products to participating whole life policies.

Term insurance sales grew by 5% in 2014. This type of insurance now accounts for 25% of sales for the sector.

In terms of health and disability insurance, sales grew by 9% in 2014. This increase was driven by sales growth outside Quebec by the Excellence subsidiary and by the popularity of Industrial Alliance's critical illness product.

Sales of whole life insurance, which now account for 26% of the sector's sales, were up 20% over 2013. The vast majority of this increase comes from simplified issue products sold by the Company's US subsidiary, with US sales accounting for 64% of whole life insurance sales. This performance south of the border can be explained by a substantial increase in sales by the US subsidiary's main distributors and by the recruitment of new distributors.

Profitability

The sector's operating profit before tax amounted to \$181.6 million in 2014, down 8% from the year before. This decrease can be explained by lower experience gains in 2014 and an increase in new business strain.

What's New in 2014?

- › *Revised compensation* – A new compensation agreement was adopted for the Career network at the beginning of 2014.
- › *Pricing adjustments to term insurance products* – In order to remain competitive, the Company lowered its rates for this type of product in January 2014 and June 2014.
- › *Pricing adjustments to permanent insurance products* – The Company adjusted its competitive position in October 2014 by lowering rates on Universal Life and whole life insurance.

- › *Universal Life insurance* – To continue its penetration of the high net worth market, the Company continued its business relationship with a major distributor that targets this market. The design of a new product began in 2014, with a scheduled launch in 2015. This product will have unique characteristics to allow the Company to compete in the participating life insurance market while remaining competitive in the Universal Life market.
- › *Health and disability insurance* – Sales growth for these types of products can be explained by two factors stemming from the Excellence subsidiary. Once again this year, sales were up considerably outside Quebec, primarily due to training and distribution efforts. Sales were also bolstered by the addition of a return of premiums rider upon death and at maturity for the Cancer Guard product in June 2014.

Individual Wealth Management

Description of Sector

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

Business Growth

Gross sales for the Individual Wealth Management sector remained stable in 2014 at nearly \$3.4 billion.

For guaranteed return products (essentially guaranteed interest accumulation products and annuities), which are found in the Company's general fund, sales were down 6%, primarily due to the Company's decision to opt for less competitive pricing.

Gross mutual fund sales were down 16% compared to an outstanding year in 2013, while gross segregated fund sales were up 37%. Renewed interest in these products can be attributed to an improved lineup of segregated fund products and new sales teams dedicated to promoting savings and retirement products.

Individual Wealth Management Sales¹

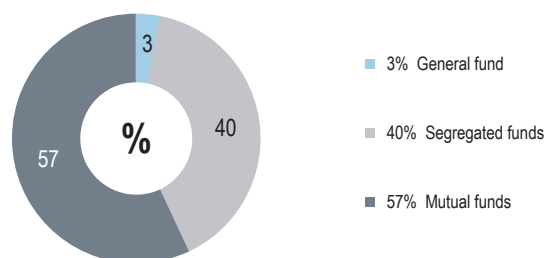
(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
General fund	111.9	119.2	325.1	403.6	441.1
Segregated funds	1,352.6	987.7	1,126.0	1,362.3	1,488.0
Mutual funds	1,897.6	2,251.9	1,649.5	1,777.7	1,747.2
Total	3,362.1	3,358.8	3,100.6	3,543.6	3,676.3
Growth	0%	8%	(13%)	(4%)	56%

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

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

Gross Sales by Product

2014



The Company's net mutual fund sales were negative in 2014, coming in at -\$119.3 million, compared to positive net sales of \$673.9 million in 2013. This decrease is the result of lower gross sales and higher disbursements. Nevertheless, mutual fund assets under management were still up 4% in 2014.

The Company's net segregated fund sales amounted to \$288.7 million in 2014, compared to -\$88.7 million in 2013. As in 2013, net industry sales continued to be negative throughout 2014.¹

Investment Funds Net Sales

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Segregated funds	288.7	(88.7)	308.7	768.6	925.0
Mutual funds	(119.3)	673.9	455.7	729.5	797.1
Total	169.4	585.2	764.4	1,498.1	1,722.1
As a percentage of sales	5%	18%	28%	48%	53%

Funds under management totalled \$28.5 billion as at December 31, 2014, up 7% from the end of the previous year. This represents good asset growth given the negative net mutual fund sales and the weakening of stock markets at the end of 2014.

For segregated fund assets, the Company was ranked fourth¹ in Canada at December 31, 2014, with 10.9% of the market (10.7% of the market at December 31, 2013). For mutual funds, Industrial Alliance was ranked 19th² in terms of sales and 16th² in terms of assets at the end of 2014 (13th in 2013).

Individual Wealth Management Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2014	2013	2012	2011	2010
General fund	1,234.7	1,226.9	1,274.5	1,848.9	1,751.4
Segregated funds	11,826.0	10,809.0	9,858.1	9,098.7	8,794.6
Mutual funds ^{3, 4}	11,832.9	11,413.2	8,978.9	8,138.6	7,910.8
Other ⁴	3,576.6	3,061.7	---	---	---
Total	28,470.2	26,510.8	20,111.5	19,086.2	18,456.8
Growth	7%	32%	5%	3%	21%

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.

Profitability

In 2014, the Individual Wealth Management sector recorded an operating profit before tax of \$146.7 million, an increase of 1% over 2013. The sector benefited from stock market growth during the year, but was impacted in the fourth quarter by a loss arising from the hedging program for segregated fund guarantees.

What's New in 2014?

- › *Segregated funds* – The Company's product offering was updated, including the addition of the FORLIFE Series to the IAG Savings and Retirement Plan. This new series allows investors to save for retirement and benefit from a guaranteed income for life.
- › *Mutual funds* – The IA Clarington subsidiary introduced a new program in the fall for high net worth clients. The portfolio management team was also enhanced in 2014.
- › *Sales network* – The network support strategy picked up speed in 2014, and a new team is now responsible for Ontario and Western Canada.

Auto and Home Insurance Operations

Description of Activities

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

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

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

¹ Source: Investor Economics

² Source: IFIC

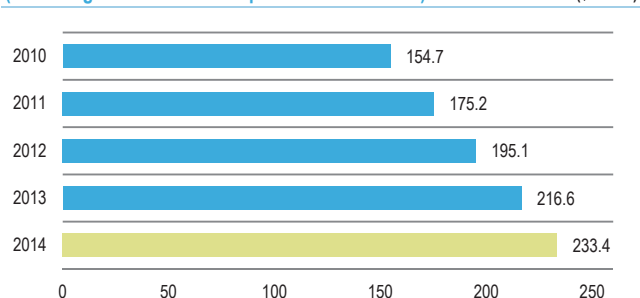
³ Data from 2010 to 2012 have been restated to reflect a change in interfund eliminations.

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

Business Growth

Direct written premiums grew by 8% in 2014, bringing the 4-year composite average to almost 11%, compared to an industry composite average of 2% for the same period. IAAH's business volume now amounts to \$233.4 million.

Direct Written Premiums (Excluding Warranties and Replacement Insurance)

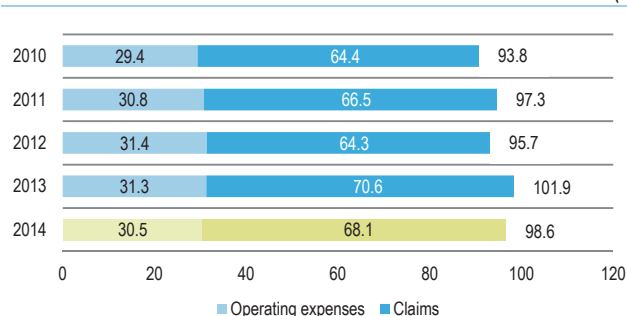


Profitability

From a profitability standpoint, the claims rate improved by 2.5 percentage points in 2014, decreasing to 68.1%. Despite a harsh winter that led to high auto insurance claims in the first quarter, the absence of any major weather events (compared to four such events in 2013) was more than enough to even out claims experience for the year.

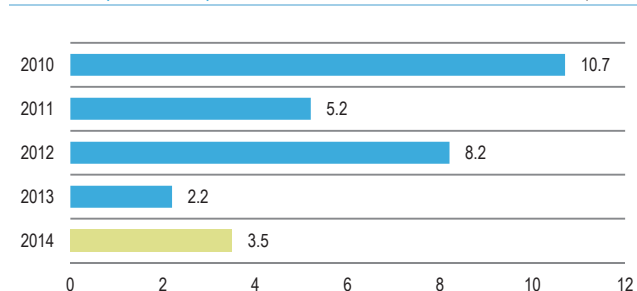
In terms of operating expenses, IAAH's operating expense to premium ratio was 30.5% in 2014, down 0.6 percentage points. This brings the combined rate (claims plus operating expenses) back below the 100% mark, at 98.6%.

Combined Ratio



Since IAAH is not a separate line of business for financial reporting purposes, its results are included in the Company's income on capital and later allocated among the four business lines.

Net Income (Before AOCI)¹



What's New in 2014?

The biggest development in 2014 was the rollout of *Exigen Suite™* in May. This IT system replaces the current underwriting, policy administration, billing, claims and CRM system. Implementation was extremely smooth and was completed in just two years.

This advanced, multi-line platform will make it easier to attract new customer service and IT resources, and will provide excellent flexibility for developing new products, improving processes and maximizing the potential of existing and future business partnerships.

¹ 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

Description of Division

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

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

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

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

The products are marketed Canada-wide through specialized brokers and actuarial consulting firms. The division has nearly 500 employees, has signed agreements with some 1,900 groups, and serves over 560,000 plan members. The Company has sales and service offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

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

Business Growth

Total sales for the Group Insurance Employee Plans division amounted to \$70.2 million in 2014, up 18% from 2013. Gross sales growth is primarily dependent on the size of the Company's distribution network and the quotation success rate.

Premiums, premium equivalents and investment contracts totalled \$914.2 million in 2014, down slightly from 2013. Growth in premiums and premium equivalents is a function of the increase in gross sales, in-force business persistency and growth in premiums from renewed contracts. Premiums from renewed groups are a function of the change in the number of employees within in-force groups, salary growth and changes in group experience.

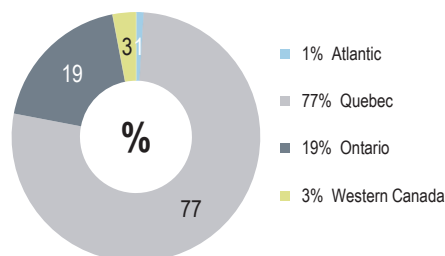
Group Insurance – Employee Plans Business Growth

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Sales ¹	70.2	59.4	46.1	131.9	72.2
Growth	18%	29%	(65%)	83%	(4%)
Premiums	801.6	809.0	788.7	788.3	714.6
Premium equivalents ²	42.0	43.9	48.2	43.9	51.0
Investment contracts ³	70.6	73.0	128.1	122.7	115.6
Total	914.2	925.9	965.0	954.9	881.2
Growth	(1%)	(4%)	1%	8%	---

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

Sales by Region in Canada

2014



By group size, the proportion of sales in the Company's target market of groups with 50 to 2,000 employees decreased from 74% in 2013 to 36%. However, if we exclude the only large group sold in 2014, which represents \$36 million alone in annual premiums, the proportion of groups in the target market remained stable.

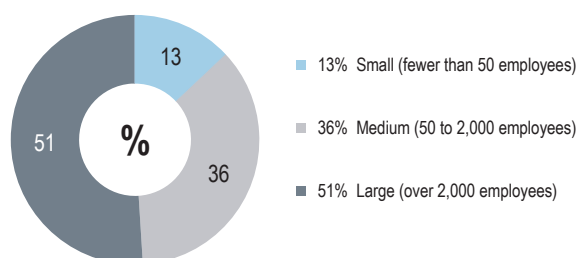
¹ In the Group Insurance Employee Plans division, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only).

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

³ Premiums from Hold Harmless Agreements

Sales by Group Size

2014



For the first nine months of the year, industry sales were down 15% from 2013. In terms of market share, Industrial Alliance is ranked sixth¹ in Canada, with 5% of the new sales market (tenth in 2013, with 2.5% of the market). For groups with 50 to 1,000 employees, the market closest to the division's target market, industry sales were down 8% in 2014. This left Industrial Alliance in sixth position, with 4% of the market (eighth in 2012, with 5% of the market).

Profitability

The division's profitability was below expectations in 2014. Claims experience for health, dental care and short-term disability insurance posted losses during the year, which were offset in part by an improvement in long-term disability results in the fourth quarter. Deficits for certain major groups also resulted in losses for the division in 2014. A number of initiatives are currently under way to improve profitability.

What's New in 2014?

- Plan members were given access to WebRx, a drug cost management tool that can be used to look up reimbursement amounts online and suggest less costly alternatives.
- As part of the Lean initiative, two major processes were improved to simplify and enhance customer service and to increase capacity by being more efficient. Other product and service processes were also improved through various Lean workshops.
- Promotional activities to increase the number of members signed up for direct deposit of benefits and notification services helped boost the use of these services considerably, reducing the Company's postage and handling costs.
- Periodic client surveys showed a considerable improvement in the Net Promoter Score during the year.

Group Insurance Dealer Services

Description of Division

The Dealer Services division distributes creditor insurance products (life, disability and critical illness), car loan financing and P&C (Property and Casualty) protection (extended warranties, replacement insurance and a full range of P&C ancillary products).

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

The Dealer Services division also uses synergies with other Industrial Alliance entities to offer car loan 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 aftermarket needs and through the Dealer Services division, Industrial Alliance is one of the few companies that can meet this demand.

Business Growth

Dealer Services division sales totalled \$535.8 million, up 2% from 2013.

Dealer Services – Creditor Insurance²

Creditor insurance operations posted sales of \$378.6 million in 2014, down just 1% from the previous year. Sales growth underperformed auto industry growth, which is explained by lower market penetration and the loss of a few large dealers. The Canadian light vehicle industry shows light vehicle sales up 5.0%³ compared to 2013.

Dealer Services – Creditor Insurance Business Growth

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Sales	378.6	382.4	351.7	284.8	201.7
Reinsurance	53.0	47.7	39.9	35.4	34.5
Premiums	325.6	334.7	311.8	249.4	167.2
Growth	(3%)	7%	25%	49%	17%

¹ Source: LIMRA

² Includes all creditor insurance business sold by the Company

³ Source: DesRosiers Automotive Consultants Inc., November 2014 year-to-date information

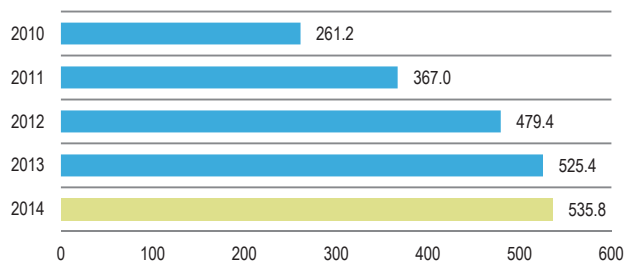
Dealer Services – P&C

P&C sales with motor vehicle dealers were very strong in 2014, up 10% from 2013 to reach \$157.2 million. Mechanical warranty sales were extremely strong as well, with sales up 17% over last year.

Dealer Services – P&C¹ Business Growth

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Underwritten	151.9	138.4	122.8	77.0	54.0
Non-Underwritten	5.3	4.6	4.9	5.2	5.5
Total	157.2	143.0	127.7	82.2	59.5
Growth	10%	12%	55%	38%	20%

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



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.

Dealer Services profitability was slightly affected by adverse disability experience in 2014.

What's New in 2014?

- › In Q4 Honda Canada announced their decision to select IA as a partner to white-label F&I (Finance and Insurance) products sold through their dealerships network.

Group Insurance Special Markets Solutions

Description of Division

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

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

Business Growth

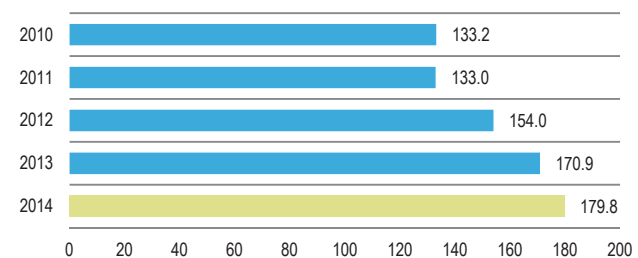
Sales growth of 5% allowed the division to achieve \$179.8 million in gross premiums in 2014. The travel medical, critical illness, disability and group medical lines all performed well in 2014, contributing to the \$9 million growth over 2013.

Similarly, net sales, defined as gross premiums net of reinsurance, experienced good growth in 2014. Net sales in 2014 were also 5% above 2013 net sales.

Special Markets Solutions Business Growth

(In millions of dollars, unless otherwise indicated)	2014	2013	2012	2011	2010
Sales (gross premiums)	179.8	170.9	154.0	133.0	133.2
Net sales	167.8	159.7	143.8	123.1	124.2
Growth	5%	11%	16%	0%	13%

Sales (Gross Premiums) (\$Million)



¹ P&C premiums include replacement insurance business, which was underwritten by IAAH from October 2010 to April 2013.

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

Profitability

The Special Markets Solutions division's profitability was lower in 2014 than in 2013, due to poor life and disability claim results. However, AD&D and critical illness profitability continues to be good.

What's New in 2014?

- › Much work has been done in the advancement of our marketing techniques, including more success with online and social media marketing.
- › Enhancements and premium rate reductions on our critical illness products were fully implemented, helping us to maintain a competitive edge.
- › 2014 product development activities included further enhancing our critical illness, mortgage creditor and group medical products.
- › Product and pricing changes to the disability business were implemented in early 2014.

Profitability for Entire Group Insurance Sector

Operating profit for the sector's three divisions totalled \$26.3 million before tax in 2014, down 29% from 2013. Despite an improvement in the fourth quarter, disability claims experience, particularly in the Employee Plans division, was unfavourable for the year.

Group Savings and Retirement

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 Managing General Agents networks (in the Personal Financial Services sectors).

The Group Savings and Retirement sector has approximately 190 employees, has signed agreements with nearly 9,600 groups and serves approximately 310,000 plan members. The Company has sales offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

Business Growth

Group Savings and Retirement ended the year with \$987.7 million in sales, a decrease of 4% 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)	2014	2013	2012	2011	2010
Accumulation Products					
Recurring premiums	582.5	550.7	482.9	435.2	405.1
Transfers	229.2	344.6	276.2	107.1	203.2
Premium equivalents	44.1	57.4	82.3	71.8	55.5
Subtotal	855.8	952.7	841.4	614.1	663.8
Insured Annuities	131.9	72.3	27.0	114.6	56.2
Total	987.7	1,025.0	868.4	728.7	720.0
Growth	(4%)	18%	19%	1%	---

Accumulation Products

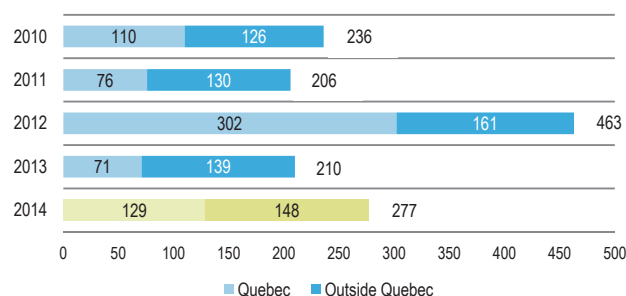
Recurring premiums are the core of the sector's strategy, since they represent sustainable business development. They correspond to regular member contributions, which are collected from in-force group clients. Recurring premiums for 2014 were up 6% from the previous year.

At \$855.8 million, accumulation product sales were down from 2013. This can be explained by a 33% drop in new group transfers and a 23% decrease in premium equivalents compared to 2013.

Accumulation Products

New Plan Sales²

(\$Million)



For the sector to successfully grow its business volume, it is essential to sell new plans and maintain existing ones. New plan sales totalled \$276.9 million in annualized premiums², which is up from the previous year.

Accumulation Products

Net Fund Entries

(In millions of dollars)	2014	2013	2012	2011	2010
Entries	855.8	952.7	841.4	614.1	663.8
Disbursements	896.3	632.5	604.1	597.9	469.3
Net entries	(40.5)	320.2	237.3	16.2	194.5

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

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

In 2014, disbursements were higher than fund entries, resulting in negative net fund entries for the year. This was primarily due to a decrease in fund entries from new groups and an increase in disbursements for client transfers, mainly in the institutional money management sector.

Insured Annuities

In the insured annuities segment, the year ended with \$131.9 million in sales. The Company continues to aim for selective, prudent growth by focusing on appropriate risk management, primarily in terms of longevity.

Funds Under Management

Funds under management totalled nearly \$11.3 billion at year-end, an increase of 10% over the previous year. This is primarily due to financial market gains and the acquisition of a block of accumulation product business with over \$200 million in assets under management. Growth in assets under management is important because it is the key long-term profitability driver for the sector.

Group Savings and Retirement Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2014	2013	2012 ¹	2011	2010
Accumulation Products	8,070.0	7,234.6	6,285.4	5,350.0	5,356.1
Insured Annuities	3,213.3	2,998.4	3,128.7	3,147.8	2,941.8
Total	11,283.3	10,233.0	9,414.1	8,497.8	8,297.9
Growth	10%	9%	11%	2%	15%

Profitability

Excluding the impact of the year-end changes in valuation assumptions, the sector recorded an operating profit before tax of \$19.5 million in 2014, compared to \$22.4 million the year before.

What's New in 2014?

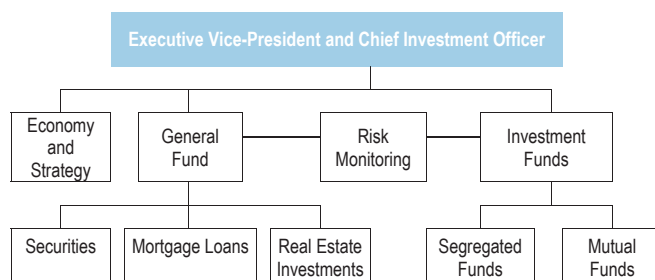
- › Improved competitiveness of the Company's service offering in accumulation products:
 - › Revamped secure website for plan members, which received the Best of Show Award from the Insurance and Financial Communicators Association (IFCA).
 - › Revamped secure website for plan sponsors.
 - › New member enrolment process and award of excellence from IFCA for online enrolment.
- › Acquisition of a block of accumulation product business with over \$200 million in assets under management, some 500 contracts and 25,000 members.
- › Addition of the voluntary retirement savings plan (VRSP) to the plan lineup.
- › The Net Promoter Score (NPS), a tool for measuring customer satisfaction, was calculated for the third year in a row using the results of a client survey. As part of an ongoing strategy to improve its overall service offering, the sector's goal is to see a continual improvement in survey results. The results of the 2014 survey greatly exceeded expectations as well as the 2012 and 2013 results.

¹ 2012 data have been restated for comparison with 2013 data.

Investments

Description of Sector

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



The Investments sector management teams are based in five main cities: Quebec City, Montreal, Toronto, Vancouver and Scottsdale, Arizona. 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 quantifying the risks, the team helps develop strategies for managing these risks effectively.

Most of Industrial Alliance's investment professionals work for Industrial Alliance Investment Management Inc., where they look after asset allocation and securities selection for the general fund and for several segregated and mutual funds, in addition to supervising all external fund managers.

The Investments team is supported by Clément Gignac, Senior Vice-President and Chief Economist, through his wealth of expertise and in-depth analysis of market and economic developments. In addition to directly managing certain investment funds, namely diversified segregated funds where asset allocation plays a key role, Mr. Gignac acts as a spokesperson on economic matters to both the Company's wealth management marketing networks and their clients, as well as to the media.

Assets Under Management and Administration

At December 31, 2014, Industrial Alliance had \$109.5 billion in assets under management and administration, an increase of \$10.7 billion, or 11%, over the previous year.

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as "Other"), were up \$7.3 billion (+11%) in 2014. All components of assets under management contributed to this growth.

Assets under administration were up \$3.4 billion (+12%) thanks to the positive contribution of all the financial product subsidiaries. Assets under administration primarily include third-party assets that are administered through the mutual fund brokerage companies (Investia Financial Services Inc. and FundEX Investments Inc.), the securities brokerage company (Industrial Alliance Securities Inc.) and the trust company (Industrial Alliance Trust Inc.). As of the end of 2013, assets under administration also include amounts that were formerly administered by Jovian's financial services companies.

Assets Under Management and Administration

(In millions of dollars)	As at December 31				
	2014	2013	2012	2011	2010
Assets under management					
General fund ¹	31,591.2	27,195.5	26,697.3	23,718.1	20,544.6
Segregated funds	18,748.2	16,921.4	15,021.2	13,722.9	13,563.7
Mutual funds ²	11,832.9	11,413.2	8,978.9	8,151.0	7,922.4
Other ¹	14,621.3	13,960.5	8,934.5	6,199.8	5,010.6
Subtotal	76,793.6	69,490.6	59,631.9	51,791.8	47,041.3
Assets under administration ²	32,687.2	29,289.7	23,833.3	21,858.1	22,223.3
Total	109,480.8	98,780.3	83,465.2	73,649.9	69,264.6

Evolution of Financial Markets in 2014

2014 saw the emergence of a number of dominant themes.

Despite concerns early in the year of a possible slowdown in emerging economies, the stock markets were quick to set a more positive tone. As volatility approached record lows in the summer, many worried that investors were being too complacent, a sign that markets may be fragile. In the fall, when the Federal Reserve officially ended its quantitative easing program, world markets quickly corrected before rebounding at the end of the year.

In the bond market, everyone expected a slow and steady rise in interest rates during the year. What happened was just the opposite. The change was still linear, but rates went down instead of up. Thus, in 2014, the FTSE TMX Universe Bond Index posted a gain of 8.8%, corporate bonds were up 7.6% and short-term bonds up 3.1%. Long-term bonds were the big winners, with a return of 17.5%.

¹ At December 31, 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.

² Includes assets acquired with Jovian Capital Corporation on October 1, 2013.

The US bond market once again delivered a return for Canadian investors of over 20% including the exchange rate gain. The momentum of the US economy boosted corporate profitability along with investor confidence, driving the stock market to new historical highs all year long. The S&P 500 Index delivered a total return of 13.7% (24.0% in Canadian dollars). The US market also avoided a technical correction in October, with the pullback stopping at 9.5%, just short of the 10.0% technical threshold. And so the bull market continues, reaching the 62-month mark in December.

After being ranked the number one developed market in the first few months of 2014, the Canadian stock market (represented by the S&P/TSX Index) suffered from the drop in oil prices that began in the summer. With Energy, Materials and Banks accounting for nearly 70% of its market capitalization, the Canadian market once again made domestic and foreign investors nervous as OPEC abandoned its price-stabilizing strategy in favour of dealing head-on with North American producers who have been infringing on their market share for the last few years. The Canadian stock market entered a technical correction phase in October with a pullback of over 10% since September's high. At year-end, it still hadn't returned to its September level. This marks another year of relative underperformance for the Canadian market, which posted a 10.6% gain in 2014.

Outside North America, stock markets delivered mixed returns. The Japanese Nikkei Index posted a return of 7.1% (2.7% in Canadian dollars) following a difficult economic year that saw dwindling investor confidence in Abe's reform plan. European stock markets had a roller-coaster year, pushing the MSCI Europe Index up 2.0% (-0.3% in Canadian dollars). Emerging markets, which continue to depend on foreign investments, were only up 2.6% (4.0% in Canadian dollars) during the year.

General Fund

2014 Highlights

- › Active management of investments
 - › Successful strategy for the stock portfolio
 - › Diversification of the bond portfolio
- › Net impaired investments: 0.07% of investments
- › Bond portfolio
 - › Bonds rated A or higher: 83.9%
 - › No new defaulted bonds at December 31, 2014
- › Mortgage loan portfolio
 - › Delinquency rate: 0.41%
 - › Proportion of insured loans: 72.6%
- › Real estate portfolio
 - › Occupancy rate: 91.0%
 - › Value of investment properties up \$110.9 million following the reappraisal of the real estate holdings and the acquisition of two new properties

Notable Achievements in 2014

Managers in the Investments sector continued to work hard in 2014, with the results of their efforts including above-target returns on the various portfolios and increased diversification.

Bond managers also had a busy year in 2014, taking advantage of market opportunities and increasing diversification by region and type of issuer without compromising the quality of the portfolio.

Composition of General Fund Investments

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

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

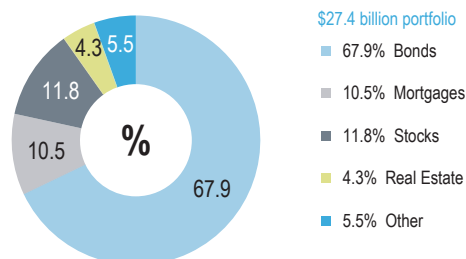
At the end of 2014, 67.9% of the Company's investments were invested in bonds and 10.5% in mortgages, for a total of 78.4% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 75% and 78% over the last five years, while stocks have varied between 11% and 13%.

General Fund Investments

	As at December 31				
(In millions of dollars)	2014	2013	2012	2011	2010
Bonds	18,575.3	15,106.7	14,643.1	13,676.8	11,121.2
Mortgages	2,886.0	2,596.6	2,603.6	3,251.4	3,334.5
Stocks	3,242.0	3,120.2	2,794.6	2,408.5	2,195.2
Real estate	1,190.1	1,079.2	953.1	788.5	716.1
Other invested assets	1,515.7	1,287.1	1,989.1	1,589.4	1,356.7
Total	27,409.1	23,189.8	22,983.5	21,714.6	18,723.7

Investments by Asset Category

As at December 31, 2014



Overall Quality of Investments

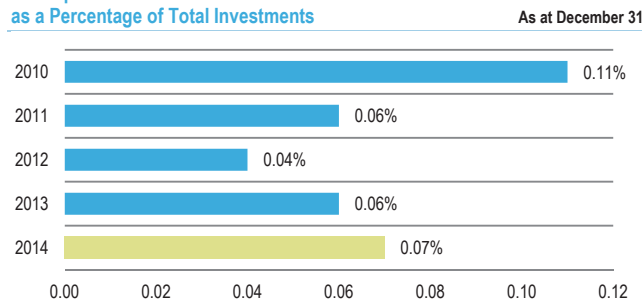
The overall quality of investments continued to be very good in 2014. Net impaired investments went from \$13.8 million at December 31, 2013 to \$18.7 million at December 31, 2014. However, on a \$27.4 billion portfolio, they represent just 0.07% of total investments (0.06% at December 31, 2013).

Net Impaired Investments (Excluding Insured Loans)

	As at December 31				
(In millions of dollars)	2014	2013	2012	2011	2010
Bonds	7.2	7.3	8.0	8.4	8.4
Mortgages	11.5	6.5	1.0	4.7	13.1
Total	18.7	13.8	9.0	13.1	21.5

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



In recent years, the Company has had very little exposure to government or corporate-issued bonds from countries that have experienced financial or political difficulties. The Company's exposure to the oil and gas industry (in stocks and bonds) totalled \$1.4 billion at December 31, 2014, including \$1.0 billion in bonds (5% of the total bond portfolio). However, its direct exposure is limited to just \$100 million (0.5% of the portfolio). The Company's investments in the oil and gas industry are mainly concentrated in the pipelines market, making them less sensitive to fluctuations in oil prices.

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as "available for sale" amounted to just \$0.9 million at December 31, 2014 (\$18.3 million at December 31, 2013).

At the end of 2014, the Company did not hold any bonds whose market value was 20% or more lower than the nominal value for six or more months.

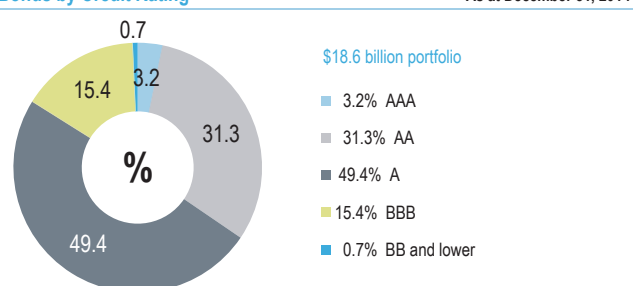
Bond Portfolio

The quality of the bond portfolio, which totalled \$18.6 billion at December 31, 2014, continued to be very good and did not contain any new defaulted bonds on that date.

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

The proportion of bonds rated A or higher represented 83.9% of the portfolio at the end of 2014, compared to 87.7% at the end of 2013. At December 31, 2014, bonds rated BB and lower represented just \$136.9 million (0.7% of the portfolio), compared to \$27.1 million at December 31, 2013 (0.2% of the portfolio).

Bonds by Credit Rating



In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company like Industrial Alliance. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2014, private issue bonds totalled \$3.3 billion, which represents 17.7% of the bond portfolio.

In 2014, bond managers continued to increase the portfolio's diversification by region and by type of issuer without compromising the very good quality of the portfolio.

Bond Portfolio

	As at December 31				
	2014	2013	2012	2011	2010
Book value of the portfolio (\$Million)	18,575.3	15,106.7	14,643.1	13,676.8	11,121.2
Distribution by category of issuer (%)					
Governments ¹	49.7	55.2	60.5	59.0	63.2
Municipalities	5.2	4.1	3.9	3.0	1.5
Corporates – Public issues	27.4	24.2	20.3	23.6	21.1
Corporates – Private issues	17.7	16.5	15.3	14.4	14.2
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.00	0.00	0.01	0.01	0.01

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

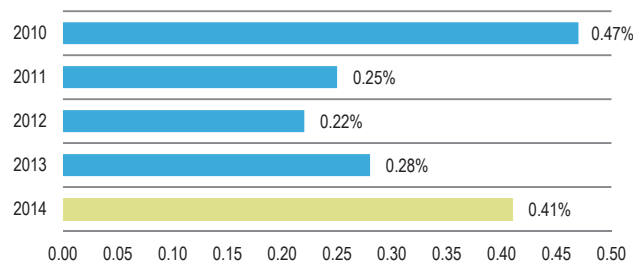
Mortgage Loan Portfolio

The mortgage loan portfolio is made up of \$2.8 billion in mortgages as such and \$0.1 billion in personal loans not connected to mortgages. The quality of the portfolio continued to be excellent in 2014 despite a somewhat higher delinquency rate (excluding personal loans), which increased from 0.28% at December 31, 2013 to 0.41% at December 31, 2014. In total, delinquent loans represented just \$11.4 million at December 31, 2014. The delinquency rate data includes both insured and uninsured loans.

Delinquency Rate

as a Percentage of Mortgage Loans

As at December 31



As shown in the table below, insured loans have represented nearly three-quarters of the portfolio in recent years (72.6% in 2014).

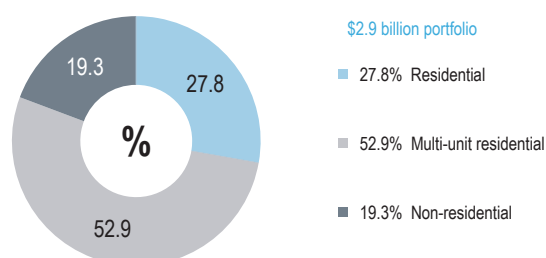
Mortgage Loan Portfolio

	As at December 31				
	2014	2013	2012	2011	2010
Book value of the portfolio (\$Million)	2,886.0	2,596.6	2,603.6	3,251.4	3,334.5
Distribution by type of loan (%)					
Insured loans	72.6	73.0	73.4	64.8	68.4
Conventional loans	27.4	27.0	26.6	35.2	31.6
Total	100.0	100.0	100.0	100.0	100.0
Delinquency rate (%)	0.41	0.28	0.22	0.25	0.47

At December 31, 2014, the proportion of loans secured by single-family and multi-unit residential properties was 80.7% (81.3% at December 31, 2013). This number has consistently been above 80% for the last eight years.

Mortgage Loans by Type of Property

As at December 31, 2014



The sum of the Company's mortgage loans and assets managed for third parties amounted to \$10.8 billion at December 31, 2014 (\$10.4 billion at December 31, 2013). Loans managed for third parties have grown considerably in the past few years as the Company capitalizes on its underwriting, compliance, customer service and management expertise.

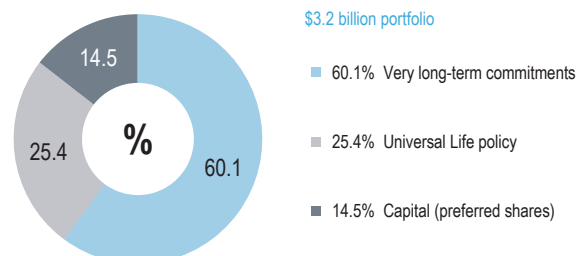
Stock Portfolio

At December 31, 2014, investments in equity securities amounted to \$3.2 billion, or 11.8% of the Company's total investments, compared to \$3.1 billion or 13.5% a year earlier.

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

Stock Portfolio by Type of Matching

As at December 31, 2014



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

Over the last year, the Company continued to invest in US and private equities. In addition, managers continued to be active in the high dividend share market, which generally tends to produce better returns in the long term while offering a certain amount of protection against market downturns. These strategies proved to be successful in 2014. The return of the stock portfolio surpassed both the return used for the actuarial reserve assumptions (for stocks matched to long-term insurance contract liabilities) and the return targeted by the portfolio managers.

At December 31, 2014, of all the assets backing the long-term insurance contract liabilities, 18% were made up of stocks.

Stock Portfolio

	As at December 31				
	2014	2013	2012	2011	2010
Book value of the portfolio (\$Million)	3,242.0	3,120.2	2,794.6	2,408.5	2,195.2
Distribution by category of stock (%)					
Common shares and investment fund units	59.4	60.4	59.8	58.4	47.4
Preferred shares	16.6	16.7	15.5	8.3	8.6
Market indices	14.2	18.4	21.2	30.2	41.5
Private equities	9.8	4.5	3.5	3.1	2.5
Total	100.0	100.0	100.0	100.0	100.0

Real Estate Portfolio

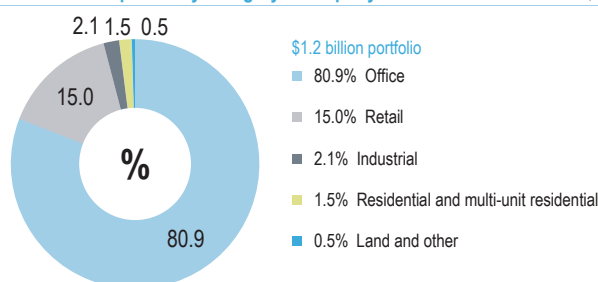
The Company recognizes investment properties at fair value. At December 31, 2014, the book value of investment properties totalled \$1.2 billion, an increase of \$110.9 million compared to the end of 2013. This growth is due to the net amount of acquisitions and dispositions, the increase in the fair value of investment properties that were reappraised during the year and renovations done to certain properties. Real estate investments represented 4.3% of total investments at December 31, 2014, compared with 4.7% at December 31, 2013.

The occupancy rate of the Company's investment properties was down slightly in 2014 (91.0% at December 31, 2014 compared to 93.5% at December 31, 2013), but continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for over 80% of real estate investments.

Investment Properties by Category of Property

As at December 31, 2014



Investment Properties

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2014	2013	2012	2011	2010
Book value of the real estate portfolio	1,190.1	1,079.2	953.1	788.5	716.1
Occupancy rate	91.0%	93.5%	95.2%	94.6%	92.9%

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 primarily made up of interest rate, equity and foreign exchange swaps, as well as futures and forward contracts.

Derivative financial instruments are used primarily as part of the Company's hedging program. This program aims to alleviate the sensitivity of the capital guarantees on certain segregated fund products to interest rate and stock market fluctuations.

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

The table below presents certain values pertaining to the Company's financial instruments. For more information, refer to note 8 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

(In millions of dollars)	As at December 31	
	2014	2013
Net fair value ¹	8	(216)
Notional amount ²	10,797	7,375

Other Invested Assets

The Other Invested Assets category (5.5% of the investment portfolio) is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), short-term investments and other investments.

Asset and Liability Matching

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

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

Liquidity

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

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

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

Investment Funds (Segregated Funds and Mutual Funds)

Investment Fund Assets

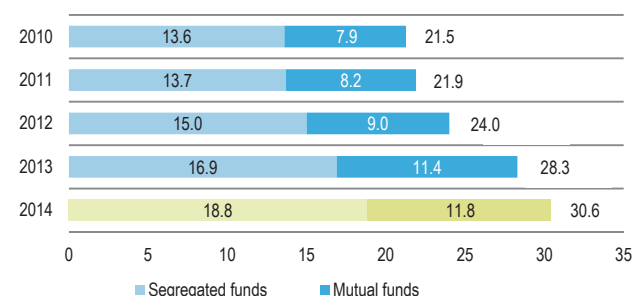
Investment fund assets for the Industrial Alliance Group totalled \$30.6 billion at December 31, 2014 (\$18.8 billion in segregated funds and \$11.8 billion in mutual funds), an increase of 8% over the previous year. This increase can be explained by favourable financial markets and the positive contribution of net segregated fund sales.

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

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

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

Segregated Fund and Mutual Fund Assets as at December 31



Range of Funds

Industrial Alliance offers a broad range of segregated funds designed for its individual and group clients. At December 31, 2014, 77 funds open to new premiums were available through the Individual sector and 82 were available through Group Savings and Retirement.

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 continuous improvement, the Company continued to make adjustments to its fund families in 2014, and in cooperation with IA Clarington, announced a few changes to its mutual fund lineup.

In the Individual Wealth Management sector, the Company launched three new segregated funds at year-end: one foreign fixed income fund and two guaranteed lifetime income products for clients looking to grow their retirement savings through market investments in order to generate a stable, guaranteed lifetime retirement income.

IA Clarington launched five new mutual funds in the past year and merged some of its existing funds, bringing the number of funds it offers to 61 at the end of 2014. The new offerings include two balanced funds (one global and one North American), one bond fund, one US equity fund and one North American small cap fund.

In the Group Savings and Retirement sector, the Company's fund offering in 2014 didn't change much from the previous year. Close to 15 funds were added at the end of 2013 to offer a more diverse choice of strategies.

At December 31, 2014, 51% of the Industrial Alliance Group's investment fund assets were managed by the Company's in-house managers, while 49% were 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, 2014		
	Assets (\$Billion)	Distribution of assets	Proportion of assets managed in-house ¹
Segregated funds	18.8	61%	67%
Mutual funds	11.8	39%	24%
Total	30.6	100%	51%

Investment Fund Performance

The financial markets performed well in 2014, both in terms of stocks and fixed-income securities. The Company's investment funds benefited from this environment, achieving very good nominal returns. They also performed well in relation to our competitors, with nearly 60% of assets surpassing their respective medians.

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

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

Risk Management

The Risk Management section of the Management's Discussion and Analysis contains certain information required under IFRS-7 *Financial Instruments: Disclosures* 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, 2014, 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.

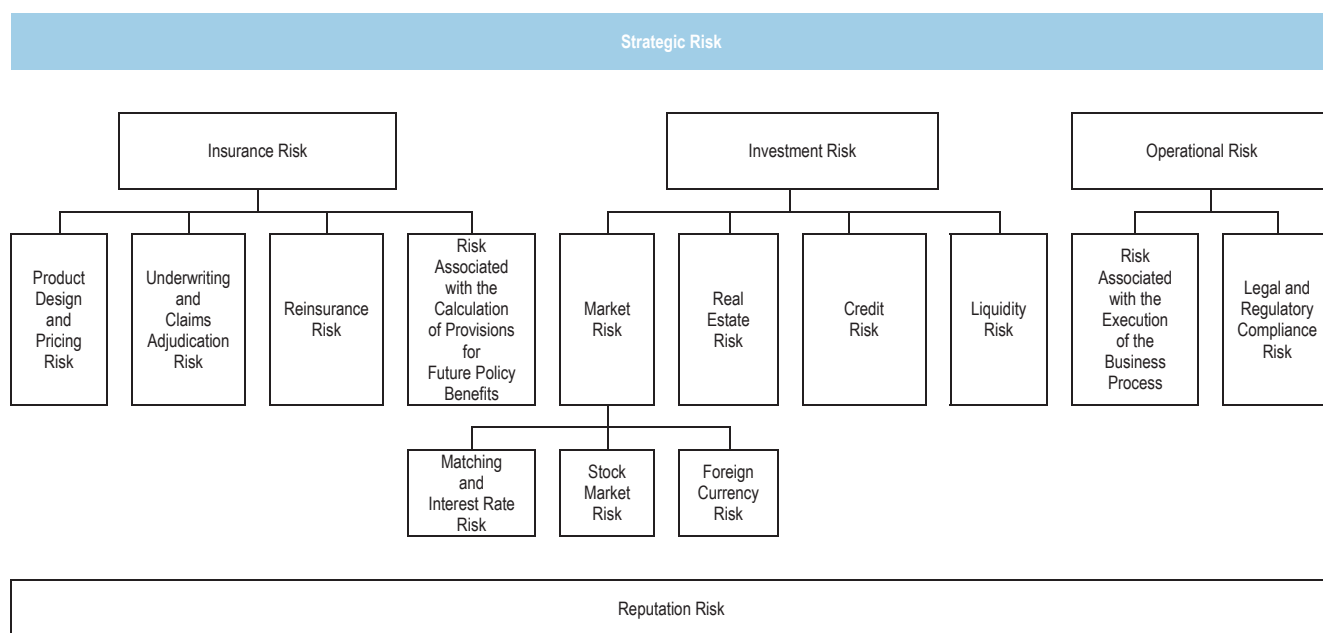
The Company maintains an overall vision and demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required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

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

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

Risk 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.



Risk Management Principles and Responsibilities

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

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

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

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

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

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

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

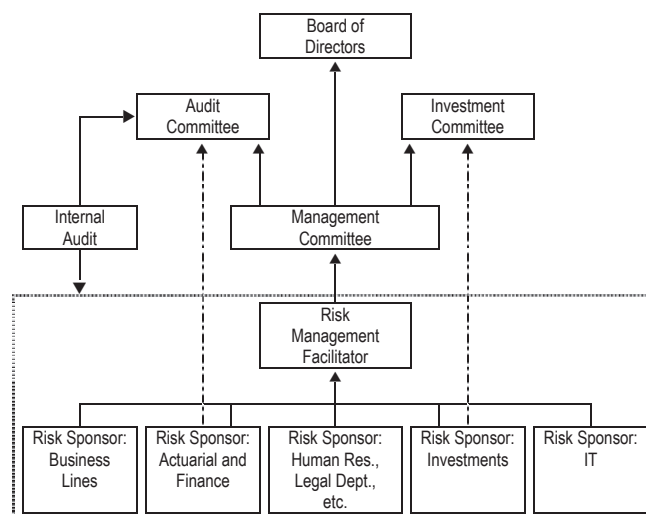
The Senior Vice-President and Chief Actuary, who acts as the Risk Management Facilitator, is responsible for coordinating the program within the Company and ensuring that appropriate policies and procedures are established and implemented by the risk sponsors. He is also responsible for summarizing and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

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

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

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

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



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, 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.

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

The Company has established guidelines pertaining to underwriting and claims adjudication risk that 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.

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. Reinsurance risk is the risk of loss resulting from unfavourable changes in the reinsurance market, inadequate reinsurance coverage or the reinsurer's risk of insolvency.

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.

The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured. These agreements apply to events that may produce losses in excess of \$50 million, up to a maximum of \$150 million, which is equivalent to a maximum claim of up to \$100 million.

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 due to inadequate use of experience results in establishing the assumptions 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 any other relevant body), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

The Company's Sensitivity to Certain Insurance Risks

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

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

In millions of dollars	2014	2013
Insurance risk: adverse deviation of 5%		
Mortality rate ¹	162	131
Lapse rate ²	167	158
Unit costs ³	41	34
Morbidity rate ⁴	41	36

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

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 foreign currency risk.

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

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

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.

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.

Net Liabilities According to Type of Matching

	As at December 31			
	2014		2013	
	\$M	%	\$M	%
Immunized liabilities				
On a cash flow basis	7,279	35%	6,976	39%
Universal Life policy accounts	1,476	7%	1,429	8%
Subtotal	8,755	42%	8,405	47%
Non-immunized liabilities	11,987	58%	9,374	53%
Total	20,742	100%	17,779	100%

1) Liabilities Immunized on a Cash Flow Basis

This category represents 42% 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 58% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets.

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

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

During the period ended December 31, 2014, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate variations, the Company used hedge accounting through derivative instruments with a nominal value of \$138 million in 2014 (\$119 million in 2013). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2014.

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

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

In millions of dollars	2014	2013
Decrease in net income		
Fee income collected on the investment funds managed by the Company	20	17
Discounted future revenues on Universal Life policy funds	8	8
Income on capital generated by the assets backing the Company's capital	0	0
Strengthening of the provisions for future policy benefits	0	0
Total	28	25
Decrease in accumulated other comprehensive income	30	34

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

In millions of dollars	2014	2013
Decrease in net income		
Fee income collected on the investment funds managed by the Company	49	43
Discounted future revenues on Universal Life policy funds	20	19
Income on capital generated by the assets backing the Company's capital	0	0
Strengthening of the provisions for future policy benefits	8	31
Total	77	93
Decrease in accumulated other comprehensive income	94	85

An upward market variance of 10% would have had the same impact on net income, but in the opposite direction. If the markets were to drop more than 32% from their levels at December 31, 2014, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

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

	2014	2013
Solvency ratio as at December 31	209%	217%
S&P/TSX Index as at December 31	14,632	13,622
Level of S&P/TSX index for the solvency ratio to be at 175%	8,900	8,700
Level of S&P/TSX index for the solvency ratio to be at 150%	7,100	7,000

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.

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2014, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

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

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

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

**Individual Wealth Management
Segregated Fund Assets Under Management**

In millions of dollars	2014	2013
Assets under management (a)	11,826	10,809
Guaranteed minimum value	10,016	9,406
Value of assets underlying the hedged guarantees (b)	9,150	6,861
Value of assets underlying the minimum guarantees ² (c)	1,812	1,025
Proportion of hedged guarantees excluding minimum guarantees (b) ÷ ((a) – (c))	91%	70%

The hedging program involves short selling futures contracts on market indices traded on stock exchanges, as well as signing agreements for forward exchange contracts for currencies traded on stock exchanges, interest rate swaps and internal total-rate-of-return swaps on indices traded on stock exchanges. 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.

² Represents the value of assets for which the catastrophe risk of the guarantees is limited and which we decided not to include in the hedging program.

Hence, a large part of the variations in the economic worth of the liabilities are offset by variations in assets held under the hedging program. In the last eight quarters, the quarterly effectiveness of our hedging program fluctuated between 88% and 94% depending on the volatility of the financial markets. In addition, it has had a 92% effectiveness rate since it was implemented in October 2010, which is excellent.

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

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

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

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

The Company's investment policy also stipulates that derivative financial instruments may be used in hedge accounting to minimize the adverse impact that stock market fluctuations could have on its results. However, no hedge accounting was used in 2014 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, 2014, 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, 2014, the Company was not exposed to any material foreign currency risk.

In 2014, the Company terminated a currency risk hedging relationship for financial assets classified as available for sale. For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2014.

The Company's Sensitivity to Certain Market Risks

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

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

In millions of dollars	2014	2013
Investment risk		
25 basis point decrease in the initial reinvestment rate (IRR) ¹	88	49
10 basis point decrease in the ultimate reinvestment rate (URR)	59	59
10% drop in the stock markets ²	28	25

Increase in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

In millions of dollars	2014	2013
Investment risk		
25 basis point drop in interest rates ³	3	10

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 2015, 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, 2014.

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.

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.

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.

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, private placements and corporate bonds, 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 7 of the consolidated financial statements as at December 31, 2014.

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

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

Liquidity Risk

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

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

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

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

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

Given the quality of its investment portfolio, and despite the financial market volatility, the Company does not believe its current liquidity level to be an issue.

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, inappropriate modelling, inadequate management of human resources, failure to be environmentally responsible, breach of contract, 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 network security frameworks); risk of loss of data integrity (this risk is controlled through malware 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.

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. In addition, the Company continually monitors the Web for elements that could have a negative impact on the Company's reputation and produces a report on the subject once a year. It also keeps a log of complaints found on social media.

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

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

Legal and Regulatory Compliance Risk

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

The Company ensures the sound management of this risk by developing tools and controls in 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 contracts. Managing the aspects pertaining to regulatory compliance risk allows the Company to understand the impact of 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.

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

Accounting Matters and Additional Information

Fourth Quarter 2014

The Company showed strong profitability in the fourth quarter, with net income to common shareholders of \$112.4 million, compared to a net income of \$91.1 million in the fourth quarter of 2013. Diluted earnings per common share (EPS) amounted to \$1.11 (\$0.91 in the fourth quarter of 2013). The annualized return on common shareholders' equity was 13.4% for the quarter, compared to 12.2% in the fourth quarter of 2013.

Fourth quarter income was weakened by a loss arising from the hedging program, a \$3.2 million strengthening of the provisions for future policy benefits (\$0.03 per common share) and the payment of a \$4.0 million premium (\$0.04 per common share) on the redemption of preferred shares.

Conversely, the performance for the quarter benefited from exceptional income tax gains.

In terms of business growth, net premiums, deposits and premium equivalents were down 2% in the fourth quarter compared to the same period in 2013.

Highlights

(In millions of dollars, unless otherwise indicated)	Fourth quarter		Year	
	2014	2013	2014	2013
Net income attributed to shareholders	123.7	99.8	432.9	384.5
Less: dividends on preferred shares	7.3	8.7	28.5	34.6
Less: premium on preferred share redemption	4.0	---	4.0	---
Net income attributed to common shareholders	112.4	91.1	400.4	349.9
Earnings per common share (diluted)	1.11	\$0.91	3.97	\$3.57
Return on common shareholders' equity ¹	13.4%	12.2%	12.4%	12.6%
Net premiums, premium equivalents and deposits	1,802.1	1,835.8	7,480.5	7,432.9
	December 31, 2014	December 31, 2013 ²	December 31, 2012 ³	
Assets under management and administration	109,480.8	98,780.3	83,465.2	

¹ Annualized for the quarter. Trailing twelve months for the year to date.

² In 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.

³ In 2013, a change in interfund eliminations led to a retroactive adjustment for 2012.

Quarterly Results

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

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

Net premiums amounted to \$1.3 billion in the fourth quarter, a year-over-year increase of 7%. At year-end, net premiums were up 8% over 2013.

In 2014, investment income increased by nearly \$3.1 billion year over year, primarily due to the impact of interest rates on the fair value of the bond portfolio. From an accounting standpoint, the majority of stocks and bonds are classified as "Designated at fair value through profit or loss" and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities. Investment income is made up of investment income as such (including interest income, dividends and rental income from real estate), gains realized and losses sustained on the disposition of assets available for sale and changes in the fair value of assets designated at fair value through profit or loss.

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

Other revenues varied between \$270.5 million and \$272.1 million for the four quarters of the year, totalling \$1,084.0 million in 2014 compared to \$931.3 million in 2013.

Quarterly Results

(In millions of dollars, unless otherwise indicated)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Net premiums	1,345.9	1,356.1	1,259.5	1,464.7	1,256.3	1,152.6	1,292.1	1,305.7
Investment income	939.8	482.0	809.4	938.8	341.5	86.9	(550.1)	206.4
Other revenues	270.5	270.9	272.1	270.5	252.2	228.0	227.2	223.9
Total	2,556.2	2,109.0	2,341.0	2,674.0	1,850.0	1,467.5	969.2	1,736.0
Income before income taxes	106.9	119.4	98.9	109.8	124.1	149.4	107.1	109.9
Income taxes	17.9	(20.9)	22.5	(19.3)	(22.8)	(34.8)	(24.7)	(20.7)
Net income	124.8	98.5	121.4	90.5	101.3	114.6	82.4	89.2
Less: net income attributed to participating policyholders	1.1	0.0	0.7	0.5	1.5	0.2	0.5	0.8
Net income attributed to shareholders	123.7	98.5	120.7	90.0	99.8	114.4	81.9	88.4
Less: preferred share dividends	7.3	7.0	7.1	7.1	8.7	8.6	8.6	8.7
Less: premium on preferred share redemption	4.0	---	---	---	---	---	---	---
Net income attributed to common shareholders	112.4	91.5	113.6	82.9	91.1	105.8	73.3	79.7
Earnings per common share								
Basic	\$1.12	\$0.91	\$1.14	\$0.83	\$0.92	\$1.08	\$0.75	\$0.85
Diluted	\$1.11	\$0.91	\$1.13	\$0.83	\$0.91	\$1.07	\$0.74	\$0.83
Premiums invested in segregated funds	69.5	114.0	57.4	184.6	73.2	(40.5)	112.5	63.5
Increase (decrease) in insurance contract liabilities	660.3	408.4	722.6	780.5	16.0	44.0	(935.0)	196.5
Increase (decrease) in investment contract liabilities	6.9	8.3	12.2	10.8	3.8	3.5	(4.0)	5.4
Total general fund assets ¹	31,591.2	30,352.5	29,432.1	28,210.6	27,195.5	26,959.9	26,883.9	27,903.8
Segregated fund net assets	18,748.2	18,557.6	18,236.8	17,756.0	16,921.4	15,997.5	15,556.8	15,617.0

¹ On December 31, 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.

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 opposite summarizes the Company's consolidated cash flows.

In 2014, operating activities generated cash flows of \$130.1 million compared to cash flows of \$195.2 million used in 2013. This difference reflects the normal evolution of working capital and regular investment activities (purchase and sale of securities) during the period.

Investing activities required net cash flows of \$53.1 million in 2014, compared to \$139.7 million in 2013, a difference of \$86.6 million. 2013 included the acquisition of Jovian Capital Corporation.

Financing activities used cash flows of \$108.1 million in 2014, compared to \$240.1 million used in 2013. The Company redeemed Class A Preferred Shares, Series E for a book value of \$100 million. It also issued debentures with a nominal value of \$250 million and redeemed debentures with a nominal value of \$150 million. In 2013, the Company issued common shares for a net amount of \$240.6 million, redeemed debt instruments for a nominal value of \$250 million and redeemed preferred shares for a book value of \$100 million.

Cash Flows

(In millions of dollars)	2014	2013
Cash flows related to the following activities:		
Operating	130.1	(195.2)
Investing	(53.1)	(139.7)
Financing	(108.1)	(240.1)
Foreign currency gains (losses) on cash	6.2	2.3
Increase (decrease) in cash and short-term investments	(24.9)	(572.7)
Cash and short-term investments at the beginning of the year	523.1	1,095.8
Cash and short-term investments at the end of the year	498.2	523.1

Related Party Transactions

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

Significant Accounting and Actuarial Policies

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

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

Policy Liabilities

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

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

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

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

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

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

Best Estimate Assumptions and Main Risk Factors

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

Mortality – Mortality refers to the occurrence of death in a given population. The Company establishes its mortality assumptions based on its 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 multiple lives insured.

Reinsurance assets are posted on the balance sheet. These assets totalled \$1,367.8 million at December 31, 2014, compared to \$1,591.2 million at the end of 2013.

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

Morbidity – Morbidity refers to the occurrence of accidents and sickness in a given population. The Company uses industry morbidity experience tables appropriate to its type of business, modified to reflect Company experience. Compared to the assumptions, the Company's morbidity experience in 2014 was favourable in Individual Insurance but unfavourable in Group Insurance Employee Plans.

Lapse – Lapse refers to the lapse rate of contracts, or in other words, the termination of policies due to non-payment of premiums. Policies may also be terminated by their policyholders through a policy surrender. Lapse rate assumptions are generally based on the Company's recent lapse experience. These assumptions are adjusted, however, to take into account industry experience where the Company's experience is limited, and include margins for conservatism. The assumptions are determined based on the type of product contained in each policy. Overall, 2014 lapse results were unfavourable 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, 2014 results were unfavourable in comparison with the Company's assumptions. The sensitivity of the Company's net income to a variance in actual results compared to the assumptions is presented in the Risk Management section of this report.

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

Investment Return – The Company segments the assets backing liabilities by sector and geographic market, and establishes investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with the projected cash flows from the future asset purchases/sales to determine expected rates of return for future periods. The reinvestment strategies are based on the Company's target investment policies for each segment, and are derived from current market rates for fixed interest investments and the Company's projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed-income assets. In 2014, the losses on mortgages and defaults on bonds were lower than those projected in the Company's assumptions.

A decrease in interest rates or a stock market downturn can have a negative impact on the Company's income. Overall, the impact of interest rates and the stock markets on the Company's 2014 income was unfavourable compared to the assumptions. The sensitivity of the Company's net income to an unfavourable variance in interest rates or the stock markets compared to the assumptions is described in the Risk Management section of this report.

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

Accounting Standards and Policies Changes to Accounting Policies in 2014 and Future Accounting Changes

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2014. None of these standards had an impact on the Company's financial statements. For more information on the impact of these amendments and new standards, refer to note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies".

Reconciliation of Certain Non-IFRS Measures With IFRS Measures

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

Reconciliation of the Sources of Earnings with IFRS

(In millions of dollars)	2014	2013
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	373.4	402.5
Income on capital (according to sources of earnings)	91.4	83.9
Income attributable to participating contracts and other items	2.3	4.1
Tax items reallocated for sources of earnings and other items	(32.1)	---
Earnings before taxes according to the financial statements	435.0	490.5
Income taxes:		
On the operating profit and on income on capital	(31.9)	(101.9)
Amount for participating contracts and other items	--	(1.1)
Tax items reallocated for sources of earnings and other items	32.1	---
Income taxes according to financial statements	0.2	(103.0)
Net income according to financial statements	435.2	387.5

Controls and Procedures Disclosure Controls and Procedures

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

The Company's President and Chief Executive Officer and the 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, 2014, 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 President and Chief Executive Officer and the 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, 2014, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the Internal Control – Integrated Framework report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the period, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

Selected Annual Information

Deferred Income Taxes on Intangible Assets and Goodwill

In 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount of \$87 million, was reflected retroactively to January 1, 2013.

Long-Term Financial Liabilities

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

Long-Term Financial Liabilities

(In millions of dollars)	As at December 31		
	2014	2013	2012
Debentures	597.2	498.5	757.9
Preferred shares	475.0	575.0	675.0
Total	1,072.2	1,073.5	1,432.9

Acquisitions of Business

No major acquisitions took place during the period.

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

Dispositions of Business

No major dispositions were made during the period.

Business Mergers

No major mergers took place during the period.

Guarantees, Commitments and Contingencies

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, 2014, the Company's contractual obligations and commitments were as follows:

Contractual Obligations Payments Due by Period

(In millions of dollars)	As at December 31, 2014			
	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures ¹	597.2	---	---	597.2
Capital lease	1.2	0.5	0.7	---
Operating lease	59.3	17.7	39.6	2.0
Purchasing commitments	174.5	41.7	132.8	---
Other long-term commitments ²	2,512.3	1,316.5	716.3	479.6
Total of contractual obligations	3,344.5	1,376.4	889.4	1,078.8

The Company has a commitment to a third party for one of its subsidiaries for a maximum amount of \$74.3 million (\$73.6 million in 2013). The Company also has third-party commitments to guarantee the funds offered by one of its subsidiaries.

The Company has lines of credit to facilitate the financing of its day-to-day operations and meet its temporary working capital requirements. At December 31, 2014, the maximum amount authorized for these lines of credit was \$57.1 million (\$57.0 million at December 31, 2013). As at December 31, 2014, none of the lines of credit were used.

In the normal course of business, the Company concludes investment commitments that are not recognized in the consolidated financial statements. At the end of 2014, these investment commitments totalled \$522.6 million (\$360.2 million in 2013), including \$342.8 million that will be maturing in the next year (\$212.4 million in 2013), and \$179.8 million that will be maturing in more than one year (\$147.8 million in 2013).

Preferred Shares

On December 31, 2014, the Company redeemed 4,000,000 Class A Preferred Shares, Series E for a cash amount of \$104 million.

Outstanding Shares

On February 12, 2015, Industrial Alliance had 100,774,924 issued and outstanding common shares.

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

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

² Includes long-term financial liabilities only.

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)	2014	2013	2012
Revenues	9,680.2	6,022.7	7,479.5
Policy benefits and expenses	9,245.2	5,532.2	7,033.5
Income before income taxes	435.0	490.5	446.0
Less: income taxes	(0.2)	103.0	109.1
Net income	435.2	387.5	336.9
Less: net income attributed to participating policyholders	2.3	3.0	3.2
Net income attributed to shareholders	432.9	384.5	333.7
Less: dividends to preferred shareholders	28.5	34.6	30.1
Less: premium on referred share redemption	4.0	---	---
Net income attributed to common shareholders	400.4	349.9	303.6
Earnings per common share			
Basic	\$4.01	\$3.60	\$3.35
Diluted	\$3.97	\$3.57	\$3.22

Revenues

Revenues, whose components are indicated in the following table, totalled nearly \$9.7 billion in 2014, a substantial increase of 60% over 2013. This increase was primarily due to investment income, as explained below.

Revenues

(In millions of dollars)	2014	2013	2012
Net premiums	5,426.2	5,006.7	4,996.0
Investment income	3,170.0	84.7	1,549.3
Other revenues	1,084.0	931.3	934.2
Total	9,680.2	6,022.7	7,479.5

Net premiums totalled \$5.4 billion in 2014, an increase of 8% over the previous year. This increase is primarily due to the increase in segregated fund premiums.

Investment income amounted to nearly \$3.2 billion in 2014, compared to \$84.7 million in 2013. As explained earlier, this increase is primarily due to the increase in value of the bond portfolio, a result of lower interest rates in 2014. These increases were largely neutralized, however, by a corresponding increase in insurance contract liabilities, such that they had no impact on net income. From an accounting standpoint, most of the bonds are classified as "Designated at fair value through profit or loss" and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities.

Other revenues totalled \$1,084.0 million in 2014, an increase of \$152.7 million. This increase was primarily due to the growth in assets under management and administration from the brokerage and mutual fund management subsidiaries and the addition of operations from Jovian Capital Corporation, which was acquired on October 1, 2013, to the Company's business volume. Other revenues represent fees earned from the management of investment funds (segregated funds and mutual funds), income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and loans managed for third parties.

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

Net Premiums

(In millions of dollars)	2014	2013	2012
Net premiums			
General fund	3,290.8	3,167.6	3,145.3
Segregated funds	2,135.4	1,839.1	1,850.7
Total	5,426.2	5,006.7	4,996.0

Investment Income

(In millions of dollars)	2014	2013	2012
Investment income	992.4	909.6	836.6
Variation in the fair value of investment properties	(0.8)	43.6	117.5
Realized profits on available-for-sale assets	14.8	15.8	32.2
Variation in the fair value of assets designated at fair value through profit or loss	2,163.6	(882.4)	564.6
Change in provision for losses	0.0	(1.9)	(1.6)
Total	3,170.0	84.7	1,549.3

Policy Benefits and Expenses

Policy benefits and expenses totalled \$9.2 billion in 2014, which represents a \$3.7 billion increase over 2013. Policy benefits and expenses are made up of the items shown in the table below.

Policy Benefits and Expenses

(In millions of dollars)	2014	2013	2012
Net policy benefits	3,741.5	3,527.7	3,285.9
Net transfer to segregated funds	425.5	208.7	504.6
Increase (decrease) in insurance contract liabilities	2,571.8	678.5	1,397.8
Increase (decrease) in investment contract liabilities	38.2	8.7	19.8
Decrease (increase) in reinsurance assets	316.5	465.8	(89.6)
Commissions	1,118.9	1,038.3	1,014.4
General expenses	897.9	815.7	764.5
Other	134.9	146.0	136.1
Total	9,245.2	5,532.2	7,033.5

Net policy benefits in 2014 were \$213.8 million higher than in 2013, which reflects the normal course of operations. Net policy benefits include benefits paid due to death, disability, illness or contract terminations, as well as annuity payments.

Net transfers to segregated funds totalled \$425.5 million in 2014, an increase of \$216.8 million compared to 2013. Net transfers to segregated funds can fluctuate for various reasons. Certain contracts contain funds that can be invested in segregated portfolios according to the choices made by policyholders. As a result, net transfers to segregated funds are made up of amounts invested in segregated portfolios, less any amounts withdrawn from these portfolios. Net transfers to segregated funds can vary from one period to another depending on the demand from clients, who at times favour products that generally offer guaranteed returns, and at other times are more attracted by segregated fund products, whose return fluctuates with the markets. Also, in a sector like Group Savings and Retirement, segregated fund deposits can fluctuate substantially from one quarter to another according to the size of the mandates granted by certain groups.

Insurance contract liabilities increased by nearly \$2.6 billion in 2014 compared to a \$678.7 million decrease in 2013, which represents an expense variation of nearly \$1.9 billion for this item on the consolidated income statement. This variation reflects the increase in the fair value of assets matched to the provisions for future policy benefits (attributable to the impact of the interest rate decrease on the bond portfolio) and neutralizes the increase in investment income related to these assets.

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

Investment contract liabilities increased by \$38.2 million in 2014, a \$29.5 million increase compared to 2013. This variation is the result of the normal evolution of business.

The Company reports reinsurance assets separately from insurance contract liabilities. However, the factors that have an impact on the change in insurance and investment contract liabilities generally impact reinsurance assets as well. In 2014, a positive amount of \$316.5 million was posted as a change in reinsurance assets, compared to \$465.8 million in 2013. This represents a difference of \$149.3 million.

Commissions increased by \$80.6 million in 2014, which primarily reflects the growth of the in-force block of business. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.

General expenses increased by \$82.2 million compared to 2013, totalling \$897.9 million in 2014. This increase is primarily explained by the increase in salary and employee benefit costs and the addition of Jovian Capital Corporation to the Company's operations.

Income Taxes

The consolidated financial statements indicate an income tax gain of \$0.2 million. This amount represents the Company's income tax expense net of all adjustments for prior years. During the year, the Company recognized tax benefits for certain investment income that was exempt from income tax under the Company's status as a multinational insurer and recovered tax losses incurred in the United States during previous years.

Ten-Year History

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
PROFITABILITY										
Net income										
Net income	435.2	387.5	336.9	141.6	277.3	218.3	74.8	249.2	231.3	134.6
Less: net income (loss) attributed to participating policyholders	2.3	3.0	3.2	14.4	1.0	(1.3)	2.9	1.2	3.4	2.4
Net income attributed to shareholders	432.9	384.5	333.7	127.2	276.3	219.6	71.9	248.0	227.9	132.2
Less: preferred share dividends	28.5	34.6	30.1	23.9	22.9	13.8	5.8	5.8	4.9	---
Less: premium on preferred share redemption	4.0	---	---	---	---	---	---	---	---	---
Net income attributed to common shareholders	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2
Less: gain on unusual items ³	---	---	37.4	---	---	---	---	---	---	---
Net income attributed to common shareholders excluding unusual items	400.4	349.9	266.2	103.3	253.4	205.8	66.1	242.2	223.0	132.2
Earnings per common share										
Basic	\$4.01	\$3.60	\$3.35	\$1.20	\$3.04	\$2.56	\$0.82	\$3.02	\$2.77	\$1.66
Diluted	\$3.97	\$3.57	\$3.22	\$1.18	\$2.93	\$2.55	\$0.82	\$2.99	\$2.74	\$1.65
Diluted - adjusted for IATS ⁴	---	---	\$3.34	\$1.19	\$3.01	---	---	---	---	---
Diluted - adjusted for IATS ⁴ and unusual items ³	---	---	\$2.93	\$1.19	\$3.01	---	---	---	---	---
Return on common shareholders' equity ⁵	12.4%	12.6%	12.8%	4.7%	12.8%	11.9%	4.0%	15.1%	15.7%	10.3%
Net income (loss) available to common shareholders by line of business										
Individual Insurance	249.6	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4
Individual Wealth Management	106.2	100.9	116.8	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)
Group Insurance	26.8	36.0	20.4	22.4	42.4	34.8	42.6	45.3	46.8	35.1
Group Savings and Retirement	17.8	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1
Total	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2
SPECIFIED ITEMS										
Impact on net income to common shareholders										
Impact of credit										
Provision on investments	---	---	---	---	---	(2.6)	(3.6)	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	---	(0.1)	(10.8)	---	---	---
Decrease in value of non-bank-sponsored ABCP ⁶	---	---	---	---	---	---	(10.6)	(7.3)	---	---
Provision for the Norshield funds ⁷	---	---	---	---	---	---	---	---	---	(52.1)
Impact of market on expected earnings^{8,9}										
Increase (decrease) in income on UL policies	6.9	12.0	2.7	(8.8)	2.2	3.8	(9.8)	---	---	---
Higher (lower) than expected management fees	3.8	10.4	(2.2)	(9.8)	(1.0)	8.7	(23.9)	---	---	---
Higher (lower) than expected income on capital	---	---	---	---	0.2	0.8	(4.6)	---	---	---
Impact of dynamic hedging	(2.5)	28.5	11.5	(8.9)	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	---	(5.4)	7.6	0.6	---	---
Changes in assumptions and management actions	(3.2)	(6.1)	(21.2)	(152.3)	(8.4)	(0.8)	(138.2)	(0.7)	0.4	(1.5)
Restructuring charges ¹⁰	---	(4.6)	---	---	---	---	---	---	(3.0)	(4.1)
Impact of the tax reduction on the future income tax liability	---	---	---	---	---	---	---	---	11.5	---
Change of reinsurer	---	---	---	---	---	---	---	---	---	4.2

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
SPECIFIED ITEMS (continued)										
Impact on earnings per common share¹¹										
Impact of credit										
Provision on investments	---	---	---	---	---	(\$0.04)	(\$0.04)	---	---	---
Permanent loss in value on investments (net of realized gains or losses on previously devalued investments)	---	---	---	---	---	---	(\$0.14)	---	---	---
Decrease in value of non-bank-sponsored ABCP ⁶	---	---	---	---	---	---	(\$0.13)	(\$0.09)	---	---
Provision for the Norshield funds ⁷	---	---	---	---	---	---	---	---	---	(\$0.65)
Impact of market on expected earnings^{8,9}										
Increase (decrease) in income on UL policies	\$0.07	\$0.12	\$0.03	(\$0.10)	\$0.03	\$0.05	(\$0.12)	---	---	---
Higher (lower) than expected management fees	\$0.04	\$0.11	(\$0.02)	(\$0.11)	(\$0.01)	\$0.11	(\$0.30)	---	---	---
Higher (lower) than expected income on capital	---	---	---	---	---	\$0.01	(\$0.05)	---	---	---
Impact of dynamic hedging	(\$0.02)	\$0.30	\$0.13	(\$0.10)	---	---	---	---	---	---
Other										
Net variation in the fair value of the debentures and the underlying assets	---	---	---	---	---	(\$0.07)	\$0.09	\$0.01	---	---
Changes in assumptions and management actions	(\$0.03)	(\$0.06)	(\$0.23)	(\$1.76)	(\$0.10)	(\$0.01)	(\$1.71)	(\$0.01)	\$0.01	(\$0.02)
Restructuring charges ¹⁰	---	(\$0.05)	---	---	---	---	---	---	(\$0.04)	(\$0.05)
Impact of the tax reduction on the future income tax liability	---	---	---	---	---	---	---	---	\$0.14	---
Change of reinsurer	---	---	---	---	---	---	---	---	---	\$0.05
SOURCES OF EARNINGS BY LINE OF BUSINESS										
Individual Insurance										
Operating profit										
Expected profit on in-force	236.8	233.6	219.0	233.5	211.0	197.4	200.4	184.5	172.5	156.0
Experience gain (loss)	6.4	16.6	0.4	(27.4)	(4.7)	17.4	(34.2)	(8.9)	2.6	5.7
Strain on sales	(58.7)	(49.2)	(95.6)	(111.4)	(104.3)	(89.0)	(81.6)	(83.0)	(102.7)	(82.9)
Changes in assumptions and management actions	(2.9)	(2.8)	(39.8)	(194.1)	(2.2)	68.6	(175.6)	(1.6)	(1.7)	(1.5)
Total	181.6	198.2	84.0	(99.4)	99.8	194.4	(91.0)	91.0	70.7	77.3
Income on capital	82.2	59.6	84.0	89.3	80.5	51.3	41.5	57.2	50.6	41.4
Income taxes	8.4	(41.9)	(0.2)	23.5	(40.7)	(68.1)	17.8	(42.2)	(40.6)	(37.4)
Net income (loss) attributed to shareholders, before other items	272.2	215.9	167.8	13.4	139.6	177.6	(31.7)	106.0	80.7	81.3
Less: preferred share dividends	19.7	24.0	25.1	18.5	16.1	8.0	---	---	---	---
Less: premium on preferred share redemption	2.9	---	---	---	---	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	249.6	191.9	142.7	(5.1)	123.5	169.6	(31.7)	106.0	80.7	81.3
Other items ¹²	---	---	8.9	---	---	(3.4)	4.8	0.3	5.1	(0.9)
Net income (loss) attributed to common shareholders	249.6	191.9	151.6	(5.1)	123.5	166.2	(26.9)	106.3	85.8	80.4

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Individual Wealth Management										
Operating profit										
Expected profit on in-force	149.2	111.4	97.0	128.5	103.3	59.2	117.9	106.0	92.9	55.8
Experience gain (loss)	(0.2)	36.1	20.3	(15.9)	4.5	(4.4)	(32.1)	6.1	9.4	13.6
Strain on sales	(1.6)	(2.5)	(9.7)	(8.3)	(7.7)	(5.5)	(3.7)	(4.6)	(5.4)	(8.3)
Changes in assumptions and management actions	(0.7)	(0.3)	10.3	(16.5)	(6.8)	(16.9)	(1.9)	(0.9)	1.4	(1.6)
Total	146.7	144.7	117.9	87.8	93.3	32.4	80.2	106.6	98.3	59.5
Income on capital	(3.2)	2.1	(1.0)	0.2	2.4	8.4	5.9	5.4	4.8	11.7
Income taxes	(31.3)	(39.9)	(27.7)	(16.5)	(22.3)	(11.7)	(23.6)	(34.2)	(26.2)	(22.2)
Net income attributed to shareholders, before other items	112.2	106.9	89.2	71.5	73.4	29.1	62.5	77.8	76.9	49.0
Less: preferred share dividends	5.3	6.0	0.9	2.0	4.0	5.8	5.8	5.8	4.9	0.0
Less: premium on preferred share redemption	0.7	---	---	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	106.2	100.9	88.3	69.5	69.4	23.3	56.7	72.0	72.0	49.0
Other items ¹²	---	---	28.5	---	---	(0.4)	0.6	0.1	0.9	(50.4)
Net income (loss) attributed to common shareholders	106.2	100.9	116.8	69.5	69.4	22.9	57.3	72.1	72.9	(1.4)
Group Insurance										
Operating profit										
Expected profit on in-force	49.2	37.7	47.1	45.7	39.1	48.1	53.4	46.0	40.5	44.0
Experience gain (loss)	(22.2)	4.3	(24.1)	(15.0)	11.1	(10.4)	(8.3)	0.4	5.3	(0.3)
Strain on sales	---	---	---	---	---	---	---	---	---	---
Changes in assumptions and management actions	(0.7)	(5.0)	(0.3)	(8.2)	(2.3)	(0.9)	(1.0)	1.5	1.3	(1.1)
Total	26.3	37.0	22.7	22.5	47.9	36.8	44.1	47.9	47.1	42.6
Income on capital	8.6	14.4	8.9	10.8	11.4	12.6	9.0	15.1	13.2	10.1
Income taxes	(5.3)	(12.4)	(8.5)	(8.8)	(15.3)	(13.6)	(11.9)	(17.8)	(16.1)	(17.0)
Net income attributed to shareholders, before other items	29.6	39.0	23.1	24.5	44.0	35.8	41.2	45.2	44.2	35.7
Less: preferred share dividends	2.5	3.0	2.7	2.1	1.6	---	---	---	---	---
Less: premium on preferred share redemption	0.3	---	---	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	26.8	36.0	20.4	22.4	42.4	35.8	41.2	45.2	44.2	35.7
Other items ¹²	---	---	---	---	---	(1.0)	1.4	0.1	2.6	(0.6)
Net income attributed to common shareholders	26.8	36.0	20.4	22.4	42.4	34.8	42.6	45.3	46.8	35.1
Group Savings and Retirement										
Operating profit (loss)										
Expected profit on in-force ⁹	21.8	15.9	13.7	17.0	14.4	15.8	19.7	16.2	15.3	12.5
Experience gain (loss)	(0.5)	9.6	1.0	1.4	3.5	1.3	(17.8)	1.7	1.4	---
Strain on sales	(1.8)	(3.1)	(0.6)	(1.2)	(0.2)	(1.1)	(2.7)	(2.1)	(1.3)	(1.2)
Changes in assumptions and management actions	(0.7)	0.2	0.2	(0.9)	---	(51.9)	(16.7)	---	(0.4)	2.1
Total	18.8	22.6	14.3	16.3	17.7	(35.9)	(17.5)	15.8	15.0	13.4
Income on capital	3.8	7.8	7.0	5.9	8.2	7.4	6.0	9.2	9.4	11.3
Income taxes	(3.7)	(7.7)	(5.1)	(4.4)	(6.6)	11.0	3.8	(6.6)	(6.8)	(6.5)
Net income (loss) attributed to shareholders, before other items	18.9	22.7	16.2	17.8	19.3	(17.5)	(7.7)	18.4	17.6	18.2
Less: preferred share dividends	1.0	1.6	1.4	1.3	1.2	---	---	---	---	---
Less: premium on preferred share redemption	0.1	---	---	---	---	---	---	---	---	---
Net income (loss) attributed to common shareholders, before other items	17.8	21.1	14.8	16.5	18.1	(17.5)	(7.7)	18.4	17.6	18.2
Other items ¹²	---	---	---	---	---	(0.6)	0.8	0.1	(0.1)	(0.1)
Net income (loss) attributed to common shareholders	17.8	21.1	14.8	16.5	18.1	(18.1)	(6.9)	18.5	17.5	18.1

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
SOURCES OF EARNINGS BY LINE OF BUSINESS (continued)										
Total company										
Operating profit										
Expected profit on in-force	457.0	398.6	376.8	424.7	367.8	320.5	391.4	352.7	321.2	268.3
Experience gain (loss)	(16.5)	66.6	(2.4)	(56.9)	14.4	3.9	(92.4)	(0.7)	18.7	19.0
Strain on sales	(62.1)	(54.8)	(105.9)	(120.9)	(112.2)	(95.6)	(88.0)	(89.7)	(109.4)	(92.4)
Changes in assumptions and management actions	(5.0)	(7.9)	(29.6)	(219.7)	(11.3)	(1.1)	(195.2)	(1.0)	0.6	(2.1)
Total	373.4	402.5	238.9	27.2	258.7	227.7	15.8	261.3	231.1	192.8
Income on capital	91.4	83.9	98.9	106.2	102.5	79.7	62.4	86.9	78.0	74.5
Income taxes	(31.9)	(101.9)	(41.5)	(6.2)	(84.9)	(82.4)	(13.9)	(100.8)	(89.7)	(83.1)
Net income attributed to shareholders, before other items	432.9	384.5	296.3	127.2	276.3	225.0	64.3	247.4	219.4	184.2
Less: preferred share dividends	28.5	34.6	30.1	23.9	22.9	13.8	5.8	5.8	4.9	---
Less: premium on preferred share redemption	4.0	---	---	---	---	---	---	---	---	---
Net income attributed to common shareholders, before other items	400.4	349.9	266.2	103.3	253.4	211.2	58.5	241.6	214.5	184.2
Other items ¹²	---	---	37.4	---	---	(5.4)	7.6	0.6	8.5	(52.0)
Net income attributed to common shareholders	400.4	349.9	303.6	103.3	253.4	205.8	66.1	242.2	223.0	132.2
BUSINESS GROWTH										
Net premiums, premium equivalents and deposits by line of business										
Individual Insurance	1,495.1	1,425.2	1,339.3	1,248.2	1,112.9	---	---	---	---	---
Individual Wealth Management	3,362.1	3,358.8	3,100.6	3,543.6	3,676.3	---	---	---	---	---
Group Insurance	1,374.6	1,389.5	1,395.3	1,308.5	1,154.2	---	---	---	---	---
Group Savings and Retirement	963.6	1,001.0	848.9	708.6	657.1	---	---	---	---	---
General Insurance ¹³	285.1	258.4	220.0	199.6	150.7	---	---	---	---	---
Total	7,480.5	7,432.9	6,904.1	7,008.5	6,751.2	---	---	---	---	---
Net premiums and deposits by line of business										
Individual Insurance	---	---	---	---	---	938.4	920.7	897.3	838.6	768.7
Individual Wealth Management	---	---	---	---	---	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2
Group Insurance	---	---	---	---	---	962.4	956.5	860.5	749.6	694.9
Group Savings and Retirement	---	---	---	---	---	839.8	1,114.9	828.3	820.1	564.8
General Insurance	---	---	---	---	---	140.6	128.4	118.2	107.2	95.1
Total	---	---	---	---	---	5,231.2	5,542.9	5,826.2	4,990.6	3,583.7
Individual Insurance										
Sales¹⁴										
Canada	171.5	192.7	199.6	178.2	170.8	145.6	145.8	155.1	147.6	136.5
United States	54.0	41.6	43.7	31.2	15.8	1.5	1.1	3.9	6.0	4.8
Total	225.5	234.3	243.3	209.4	186.6	147.1	146.9	159.0	153.6	141.3
Net premiums										
Canada	1,332.9	1,287.6	1,206.2	1,117.6	1,055.6	923.6	907.1	880.5	820.0	751.0
United States	162.2	137.6	133.1	130.6	57.3	14.8	13.6	16.8	18.6	17.7
Total	1,495.1	1,425.2	1,339.3	1,248.2	1,112.9	938.4	920.7	897.3	838.6	768.7
Individual Wealth Management										
Sales¹⁴										
General fund	111.9	119.2	325.1	403.6	441.1	404.3	345.5	334.4	289.2	242.4
Segregated funds	1,352.6	987.7	1,126.0	1,362.3	1,488.0	866.2	815.7	990.6	958.3	805.2
Mutual funds	1,897.6	2,251.9	1,649.5	1,777.7	1,747.2	1,079.5	1,261.2	1,796.9	1,227.6	412.6
Total	3,362.1	3,358.8	3,100.6	3,543.6	3,676.3	2,350.0	2,422.4	3,121.9	2,475.1	1,460.2
Net investment fund sales										
Segregated funds	288.7	(88.7)	308.7	768.6	925.0	476.4	322.9	578.7	607.6	547.4
Mutual funds	(119.3)	673.9	455.7	729.5	797.1	281.4	289.5	799.2	267.0	148.7
Total	169.4	585.2	764.4	1,498.1	1,722.1	757.8	612.4	1,377.9	874.6	696.1
Assets under management										
General fund	1,162.0	1,226.9	1,274.5	1,848.9	1,751.4	1,672.8	1,627.9	1,584.4	1,631.7	1,695.5
Segregated funds	11,826.0	10,809.0	9,858.1	9,098.7	8,794.6	7,204.5	5,562.1	6,695.9	6,046.8	4,851.2
Mutual funds ^{15,16}	11,832.9	11,413.2	8,978.9	8,138.6	7,910.8	6,601.9	5,264.0	6,834.7	6,281.2	5,659.8
Other ¹⁶	3,576.6	3,061.7	---	---	---	---	---	---	---	---
Total	28,397.5	26,510.8	20,111.5	19,086.2	18,670.1	15,479.2	12,454.0	15,115.0	13,959.7	12,206.5

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
BUSINESS GROWTH (continued)										
Group Insurance										
Sales ¹⁴										
Employee Plans	70.2	59.4	46.1	131.9	72.2	75.0	92.9	72.0	70.8	52.3
Dealer Services - Creditor Insurance ¹⁷	378.6	382.4	351.7	284.8	201.7	173.8	194.2	192.0	176.4	158.8
Dealer Services - P&C	157.2	143.0	127.7	82.2	59.5	49.6	34.4	n.a.	n.a.	n.a.
Special Markets Solutions (SMS)	179.8	170.9	154.0	133.0	133.2	118.2	117.3	109.4	100.2	97.7
Net premiums and premium equivalents										
Employee Plans	801.6	809.0	788.7	788.3	714.6	727.7	684.1	594.8	509.2	475.4
Dealer Services - Creditor Insurance	292.6	303.9	286.5	230.5	148.8	121.5	159.5	161.3	147.8	132.1
Special Markets Solutions (SMS)	167.8	159.7	143.8	123.1	124.2	113.2	112.9	104.4	92.6	87.4
Total net premiums	1,262.0	1,272.6	1,219.0	1,141.9	987.6	962.4	956.5	860.5	749.6	694.9
Premium equivalents and deposits										
Administrative services only contracts (ASO)	42.0	43.9	48.2	43.9	51.0	115.9	101.9	94.7	124.1	102.9
Investment contracts	70.6	73.0	128.1	122.7	115.6	---	---	---	---	---
Total	1,374.6	1,389.5	1,395.3	1,308.5	1,154.2	1,078.3	1,058.4	955.2	873.7	797.8
Group Savings and Retirement										
Sales ¹⁴										
Accumulation contracts										
General fund	28.9	43.9	34.4	26.6	34.0	33.9	18.1	20.9	29.2	25.8
Segregated funds	782.8	851.4	724.7	515.7	574.3	685.8	845.9	575.0	595.7	384.7
Total	811.7	895.3	759.1	542.3	608.3	719.7	864.0	595.9	624.9	410.5
Insured annuities (general fund)	131.9	72.3	27.0	114.6	56.2	120.1	250.9	232.4	195.2	154.3
Deposits	44.1	57.4	82.3	71.8	55.5	---	---	---	---	---
Total sales	987.7	1,025.0	868.4	728.7	720.0	839.8	1,114.9	828.3	820.1	564.8
Assets under management										
Accumulation contracts										
General fund	243.2	252.2	232.5	235.6	236.8	212.8	181.7	181.1	178.8	185.1
Segregated funds	6,922.2	6,109.2	5,161.1	4,620.5	4,646.3	4,126.8	3,261.3	3,379.5	3,041.5	2,402.9
Other ¹⁸	904.6	873.2	891.8	493.9	473.0	---	---	---	---	---
Total	8,070.0	7,234.6	6,285.4	5,350.0	5,356.1	4,339.6	3,443.0	3,560.6	3,220.3	2,588.0
Insured annuities (general fund)	3,213.3	2,998.4	3,128.7	3,147.8	2,941.8	2,852.0	2,697.2	2,556.6	2,150.9	2,026.2
Total	11,283.3	10,233.0	9,414.1	8,497.8	8,297.9	7,191.6	6,140.2	6,117.2	5,371.2	4,614.2
General Insurance										
Sales ¹⁴										
IAAH (Auto & Home)	233.4	216.6	195.1	175.2	154.7	135.6	112.0	113.9	n.a.	n.a.
Distribution of net premiums, premium equivalents and deposits by region										
Atlantic provinces	4.4%	4.7%	4.3%	4.0%	4.6%	4.6%	4.7%	5.8%	4.7%	3.6%
Quebec	41.0%	36.7%	41.9%	40.6%	39.8%	44.9%	42.8%	43.1%	43.3%	51.5%
Ontario	25.8%	30.2%	27.2%	30.0%	29.4%	29.4%	31.8%	30.9%	31.6%	26.3%
Western provinces	26.4%	26.4%	23.9%	22.2%	23.1%	19.5%	19.6%	19.1%	18.9%	16.7%
Outside Canada	2.4%	2.0%	2.7%	3.2%	3.1%	1.6%	1.1%	1.1%	1.5%	1.9%
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 ¹⁹	31,591.2	27,195.5	26,697.3	23,718.1	20,544.6	17,626.5	15,415.2	15,104.3	13,090.7	11,972.9
Segregated funds	18,748.2	16,921.4	15,021.2	13,722.9	13,563.7	11,450.3	8,924.2	10,210.9	9,204.1	7,348.8
Mutual funds ^{15,16}	11,832.9	11,413.2	8,978.9	8,151.0	7,922.4	6,615.7	5,277.7	6,846.9	6,295.4	5,672.7
Other ^{16,20}	14,621.3	13,960.5	8,934.5	6,199.8	5,010.6	563.3	596.7	630.6	501.3	785.9
Total	76,793.6	69,490.6	59,631.9	51,791.8	47,041.3	36,255.8	30,213.8	32,792.7	29,091.5	25,780.3
Assets under administration ^{15,16}	32,687.2	29,289.7	23,833.3	21,858.1	22,223.3	22,150.8	19,258.4	17,618.9	17,812.6	12,390.9
Total	109,480.8	98,780.3	83,465.2	73,649.9	69,264.6	58,406.6	49,472.2	50,411.6	46,904.1	38,171.2
Human resources										
Number of employees	5,019	4,810	4,314	4,109	3,777	3,478	3,427	2,947	2,819	2,746
Number of Career representatives	1,931	1,791	1,838	1,860	1,761	1,688	1,597	1,608	1,550	1,445

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
INVESTED ASSETS										
Value and distribution of investments										
Book value of investment portfolio	27,409.1	23,189.8	22,983.5	21,714.6	18,723.7	16,490.2	14,396.3	14,214.3	12,256.2	11,226.9
Distribution of investments by financial instrument category										
Available for sale	12.7%	13.0%	10.9%	12.6%	12.4%	11.6%	10.0%	8.7%	---	---
Fair value through profit or loss	63.1%	62.0%	64.5%	59.8%	55.6%	53.9%	51.3%	58.6%	---	---
Loans and receivables	19.8%	20.2%	20.5%	23.9%	28.2%	30.5%	34.2%	27.8%	---	---
Investment properties	4.3%	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%	---	---
Other	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	1.5%	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---
Distribution of investments by asset category										
Bonds	67.9%	65.0%	63.7%	63.0%	59.6%	57.1%	55.2%	57.2%	58.6%	58.9%
Mortgages	10.5%	11.2%	11.3%	15.0%	17.8%	20.6%	24.3%	20.5%	20.1%	21.6%
Stocks	11.8%	13.5%	12.2%	11.1%	11.7%	11.5%	9.3%	12.4%	11.9%	10.4%
Investment properties	4.3%	4.7%	4.1%	3.6%	3.8%	3.9%	4.4%	3.4%	3.7%	4.0%
Other	5.5%	5.6%	8.7%	7.3%	7.1%	6.9%	6.8%	6.5%	5.7%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Distribution of investments by region										
Atlantic provinces	4.5%	5.2%	5.6%	3.9%	4.0%	4.2%	3.9%	4.1%	3.9%	4.8%
Quebec	33.8%	34.5%	39.4%	42.5%	45.8%	46.9%	48.6%	48.1%	48.0%	49.5%
Ontario	29.8%	30.1%	26.6%	23.4%	21.0%	21.5%	20.5%	20.6%	20.6%	20.3%
Western provinces	16.4%	15.9%	16.4%	16.4%	16.9%	18.1%	17.5%	16.8%	16.6%	16.9%
Outside Canada	15.5%	14.3%	12.0%	13.8%	12.3%	9.3%	9.5%	10.4%	10.9%	8.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Impaired investments and provisions										
Gross impaired investments (excluding insured loans)	22.5	17.6	11.2	17.8	25.6	16.7	14.0	20.7	95.2	96.8
Net impaired investments (excluding insured loans)										
Bonds	7.2	7.3	8.0	8.4	8.4	4.5	0.5	1.2	1.2	1.2
Mortgages	11.5	6.5	1.0	4.7	13.1	6.9	7.8	2.8	0.2	0.5
Real estate acquired to settle loans ²¹	---	---	---	---	---	1.6	0.5	7.7	6.5	5.9
Total	18.7	13.8	9.0	13.1	21.5	13.0	8.8	11.7	7.9	7.6
Provisions for losses										
At beginning of period	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2	39.1
Increase for the period	0.6	1.8	2.0	2.8	2.7	3.6	5.3	0.3	0.3	78.2
Decrease for the period	(0.6)	(0.2)	(4.5)	(2.2)	(2.3)	(5.1)	(7.3)	0.0	(2.2)	(28.1)
Impact of financial instrument as at January 1, 2007	---	---	---	---	---	---	---	(78.6)	---	---
Transfer of provisions to investments	---	---	---	---	---	---	(1.8)	---	---	---
At end of period	3.8	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2
Provisions for losses by type of investments										
Bonds	2.5	2.5	2.0	2.9	2.9	3.0	5.0	5.2	4.8	4.6
Mortgages	1.3	1.3	0.2	1.8	1.2	0.7	0.2	0.1	0.8	3.0
Real estate acquired to settle loans ²¹	---	---	---	---	---	---	---	3.7	3.7	3.7
Other ⁷	---	---	---	---	---	---	---	---	78.0	77.9
Total	3.8	3.8	2.2	4.7	4.1	3.7	5.2	9.0	87.3	89.2
Net impaired investments as a % of total investments	0.07%	0.06%	0.04%	0.06%	0.11%	0.08%	0.06%	0.08%	0.06%	0.07%
Provisions as a % of gross impaired investments	17.1%	21.4%	19.6%	26.4%	16.0%	22.2%	37.5%	43.6%	91.7%	92.1%
Real estate acquired to settle loans ²¹	---	---	---	---	---	---	---	---	---	---
Real estate held for resale	10.7	10.7	9.7	5.7	1.3	---	---	---	---	---

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

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
INVESTED ASSETS (continued)										
Bonds										
Book value of the bond portfolio	18,575.3	15,106.7	14,643.1	13,676.8	11,121.2	9,409.5	7,942.2	8,127.2	7,189.4	6,619.6
Distribution by financial instrument category										
Available for sale	16.9%	18.1%	15.6%	17.9%	18.1%	16.9%	14.7%	11.8%	---	---
Fair value through profit or loss	74.5%	73.7%	76.5%	74.7%	72.9%	73.1%	74.7%	78.8%	---	---
Loans and receivables	8.6%	8.2%	7.9%	7.4%	9.0%	10.0%	10.6%	9.4%	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---
Distribution by credit rating										
Rating – AAA	3.21%	2.83%	8.67%	8.84%	10.83%	11.30%	11.80%	13.70%	17.40%	12.28%
Rating – AA	31.26%	33.67%	23.12%	20.12%	16.68%	15.83%	18.24%	19.80%	17.93%	16.31%
Rating – A	49.42%	51.25%	58.55%	61.10%	65.37%	66.36%	63.06%	60.53%	58.25%	63.77%
Rating – BBB	15.37%	12.07%	9.56%	9.82%	7.00%	6.44%	6.67%	5.86%	6.11%	7.28%
Rating – BB and lower	0.74%	0.18%	0.10%	0.12%	0.12%	0.07%	0.23%	0.11%	0.31%	0.36%
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	49.7%	55.2%	60.5%	59.0%	63.2%	63.3%	61.1%	59.7%	56.9%	60.4%
Municipalities	5.2%	4.1%	3.9%	3.0%	1.5%	1.3%	1.4%	1.8%	1.7%	1.6%
Corporates – Public issues	27.4%	24.2%	20.3%	23.6%	21.1%	20.8%	21.6%	23.4%	26.1%	25.1%
Corporates – Private issues	17.7%	16.5%	15.3%	14.4%	14.2%	14.6%	15.9%	15.1%	15.3%	12.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other quality measures										
Delinquency rate	0.00%	0.00%	0.01%	0.01%	0.01%	0.00%	0.01%	0.02%	0.02%	0.02%
Mortgages										
Book value of the mortgage portfolio	2,886.0	2,596.6	2,603.6	3,251.4	3,334.5	3,405.0	3,508.1	2,920.2	2,457.2	2,420.8
Distribution by financial instrument category										
Loans and receivables	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---
Distribution by type of property										
Residential	27.8%	25.6%	21.8%	16.7%	19.3%	19.0%	19.4%	21.6%	20.4%	16.3%
Multi-residential	52.9%	55.7%	60.1%	63.6%	63.3%	65.2%	66.5%	60.2%	59.5%	58.9%
Non-residential	19.3%	18.7%	18.1%	19.7%	17.4%	15.8%	14.1%	18.2%	20.1%	24.8%
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	72.6%	73.0%	73.4%	64.8%	68.4%	71.8%	71.3%	65.0%	60.2%	55.6%
Conventional	27.4%	27.0%	26.6%	35.2%	31.6%	28.2%	28.7%	35.0%	39.8%	44.4%
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	0.04%	0.06%	0.24%	0.08%	0.06%	0.21%	0.08%	0.10%	0.09%	0.50%
Conventional loans	1.59%	1.17%	0.16%	0.57%	1.36%	0.72%	0.72%	0.27%	0.02%	0.05%
Total	0.41%	0.28%	0.22%	0.25%	0.47%	0.36%	0.26%	0.16%	0.06%	0.30%
Delinquency rate, including real estate acquired to settle loans ²¹	0.80%	0.76%	0.59%	0.43%	0.51%	0.40%	0.28%	0.55%	0.48%	0.69%
Stocks										
Book value of the stock portfolio	3,242.0	3,120.2	2,794.6	2,408.5	2,195.2	1,896.4	1,340.2	1,764.2	1,453.5	1,162.4
Distribution by financial instrument category										
Available for sale	10.0%	9.2%	8.5%	12.4%	13.7%	17.5%	19.2%	15.6%	---	---
Fair value through profit or loss	90.0%	90.8%	91.5%	87.6%	86.3%	82.5%	80.8%	84.4%	---	---
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	---	---
Distribution by category										
Common shares	51.6%	46.0%	44.9%	39.0%	22.3%	13.5%	18.8% ²²	5.7%	5.0%	4.9%
Preferred shares	16.6%	16.7%	15.5%	8.3%	8.6%	8.8%	10.3%	8.1%	10.9%	12.8%
Market indices	14.2%	18.4%	21.2%	30.2%	41.5%	43.2%	26.0%	25.6%	23.6%	18.2%
Investment fund units and other	17.6%	18.9%	18.4%	22.5%	27.6%	34.5%	44.9% ²²	60.6%	60.5%	64.1%
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)

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
INVESTED ASSETS (continued)										
Real estate (IFRS)										
Investment properties	1,190.1	1,079.2	953.1	788.5	716.1	---	---	---	---	---
Linearization of rents	9.3	9.4	11.0	10.9	9.9	---	---	---	---	---
Fair value of investment properties	1,199.4	1,088.6	964.1	799.4	726.0	---	---	---	---	---
Occupancy rate on investment properties	91.0%	93.5%	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
Market value of the real estate portfolio	---	---	---	---	---	823.5	814.6	623.7	530.5	509.9
Market value/book value	---	---	---	---	---	126.9%	129.4%	129.5%	117.4%	114.2%
Occupancy rate on real estate portfolio	---	---	---	---	---	94.4%	94.0%	95.5%	95.5%	96.8%
Other										
Provision for potential loss on fixed-income securities contained in the policy liabilities	318.6	235.5	234.7	204.6	138.0	95.8	83.4	78.3	73.1	77.7
SOLVENCY AND CAPITALIZATION										
Capital structure										
Debentures	597.2	498.5	757.9	747.7	499.1	519.8	385.9	309.8	310.1	373.0
Participating policyholders' account	49.4	47.1	44.2	41.3	26.9	25.7	27.0	24.1	23.1	19.7
Equity										
Common shares	1,243.5	1,183.5	878.6	860.7	652.5	545.7	541.0	513.1	507.7	510.6
Preferred shares	475.0	575.0	675.0	425.0	425.0	325.0	223.7	125.0	125.0	---
Contributed surplus	21.1	19.8	23.5	23.6	23.3	21.6	19.8	17.1	14.6	12.3
Retained earnings ^{1,5}	2,081.9	1,857.4	1,553.5	1,418.6	1,341.5	1,254.8	1,127.7	1,148.3	971.3	845.4
Accumulated other comprehensive income	63.6	(15.3)	39.3	64.4	59.3	10.5	(54.3)	(3.8)	---	---
Currency translation account	---	---	---	---	---	---	---	---	(6.8)	(7.1)
Total	3,885.1	3,620.4	3,169.9	2,792.3	2,501.6	2,157.6	1,857.9	1,799.7	1,611.8	1,361.2
Total capital structure	4,531.7	4,166.0	3,972.0	3,581.3	3,027.6	2,703.1	2,270.8	2,133.6	1,945.0	1,753.9
Debt measures⁵										
Debentures ²³ /capital structure	13.2%	12.0%	18.9%	21.2%	16.5%	19.2%	17.0%	14.5%	15.9%	21.3%
Debentures ²³ and preferred shares/capital structure	23.7%	25.8%	35.9%	33.3%	30.5%	31.3%	26.8%	20.4%	22.4%	21.3%
Coverage ratio (in number of times) ²⁴	7.9	6.2	6.1	2.8	6.2	6.3	3.9	12.2	12.1	11.0
Solvency ratio⁵										
Available capital										
Tier 1 (net) ²⁵	3,217.0	3,166.3	2,956.1	2,461.7	2,303.8	1,961.9	1,726.0	1,685.6	1,498.9	1,187.5
Tier 2 (net)	667.4	496.7	640.0	587.4	340.9	343.1	195.4	120.6	128.6	134.9
Total	3,884.4	3,663.0	3,596.1	3,049.1	2,644.7	2,305.0	1,921.4	1,806.2	1,627.5	1,322.4
Required capital	1,860.6	1,687.2	1,657.7	1,613.8	1,306.8	1,107.2	967.1	934.6	809.9	704.5
Solvency ratio	209%	217%	217%	189%	202%	208%	199%	193%	201%	188%
MISCELLANEOUS INFORMATION										
Market data										
Common shares										
Share price										
High	\$49.35	\$49.99	\$32.91	\$42.02	\$37.40	\$32.70	\$42.64	\$43.75	\$37.28	\$29.82
Low	\$40.78	\$31.18	\$20.55	\$24.75	\$29.69	\$13.75	\$19.50	\$34.25	\$29.14	\$26.55
Share price at end of period	\$44.43	\$46.95	\$31.38	\$26.29	\$36.81	\$32.20	\$23.31	\$42.58	\$36.14	\$29.07
Average share price	\$45.09	\$40.05	\$26.92	\$34.22	\$33.73	\$24.63	\$32.11	\$38.28	\$32.42	\$28.49
Number of common shares outstanding (in millions)	100.8	99.3	91.0	90.4	83.9	80.5	80.3	79.8	79.9	81.4
Weighted average number of common shares (in millions)										
Basic	99.9	97.2	90.6	85.9	83.1	80.3	80.2	80.1	80.5	79.6
Diluted	100.8	97.9	96.2	92.5	88.3	80.7	81.0	81.1	81.3	80.2
Diluted - adjusted for IATS ⁴	---	---	90.8	86.5	83.9	---	---	---	---	---
Dividends										
Dividends paid per common share	\$1.06	\$0.98	\$0.98	\$0.98	\$0.98	\$0.98	\$0.94	\$0.76	\$0.60	\$0.50
Dividend payout ratio	26%	27%	29%	82%	32%	38%	115%	25%	22%	30%

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

MISCELLANEOUS INFORMATION (continued)

Company's worth

	2014	2013	2012 ¹	2011	2010 ²	2009	2008	2007 ²	2006	2005
Market capitalization	4,477.4	4,664.1	2,856.3	2,376.2	3,087.9	2,592.5	1,872.5	3,399.6	2,887.6	2,366.3
Book value per common share ⁵	\$33.83	\$30.67	\$27.45	\$26.19	\$24.75	\$22.77	\$20.35	\$20.98	\$18.61	\$16.72
General expenses	897.9	815.7	764.5	663.3	611.6	399.9	358.4	333.5	314.0	273.1

For comparison purposes, certain previous data have been reclassified.

Cautionary Note regarding Non-IFRS Financial Measures

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

Notes

- ¹ Except for the coverage ratio and the solvency ratio, the 2012 amounts and measures have been adjusted for the adoption of the amendment to IAS-19 and the adoption of IFRS-10 in 2013.
- ² Adoption of the new financial instruments accounting standards in 2007 and adoption of IFRS on January 1, 2010.
- ³ After-tax gain on the sale of the US annuity business.
- ⁴ Since 2013, the company no longer makes adjustments for the potential dilutive impact of its innovative Tier 1 debt instruments (IATS) since these instruments were redeemed on June 30, 2013.
- ⁵ The increase in retained earnings at January 1, 2011 with respect to the deferred income tax liability was reflected retroactively in the 2011-2012 financial statements and book value per outstanding common share. All other measures and amounts were not modified. The modification was carried out at December 31, 2012.
- ⁶ ABCP: Asset-backed commercial paper.
- ⁷ 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.
- ⁸ Approximate impact of market variations as compared to the expected net earnings that the Company would have earned under normal market conditions.
- ⁹ Beginning in 2014, expected profit on in-force for the wealth management businesses is updated on a quarterly basis to reflect market growth and net sales.
- ¹⁰ The restructuring charge for 2004, 2005 and 2006 results from integration of the operations of National Life with those of the parent company, and for 2013 from the acquisition of Jovian Capital Corporation on October 1.
- ¹¹ Based on diluted weighted average number of common shares as of 2013. Based on diluted and adjusted weighted average number of common shares in 2010, 2011 and 2012 (see note 4 above).
- ¹² Between 2007 and 2011, other items are composed of gains or losses related to the asymmetric evolution of the fair value of debt instruments and the underlying assets. In 2012, other items are composed of after tax gain on the US annuity business mentioned in note 3.
- ¹³ Includes IA Auto and Home premiums, Dealer Services P&C premiums as well as some minor consolidation adjustments.
- ¹⁴ Sales are defined as follows: Individual Insurance: first-year annualized premiums; Individual Wealth Management: net premiums for the general fund and segregated funds and deposits for mutual funds; Group Insurance – Employee Plans: first-year annualized premiums, including administrative services only contracts (ASO); Dealer Services, Creditor Insurance: premiums before reinsurance and cancellations; Dealer Services, P&C Insurance: direct written premiums; Special Markets Solutions: gross premiums (premiums before reinsurance); Group Savings and Retirement: premiums, before reinsurance, and deposits; IA Auto and Home Insurance: direct written premiums.
- ¹⁵ In 2013, a change in the interfund eliminations led to an adjustment reflected in 2010, 2011 and 2012.
- ¹⁶ Includes assets acquired with Jovian Capital Corporation on October 1, 2013.
- ¹⁷ As of 2013 and reflected until 2009, sales for Dealer Services – Creditor Insurance are now defined as premiums before reinsurance and cancellations. Includes all creditor insurance business sold by the Company.
- ¹⁸ Adjusted retroactively in 2013 to present an asset that was not previously presented.
- ¹⁹ At December 31, 2014, an adjustment was made to recognize the deferred income taxes related to certain intangible asset items. This adjustment, which increased the goodwill and future income tax liability by an equivalent amount, was reflected retroactively to January 1, 2013. Years prior to 2013 were not adjusted.
- ²⁰ Mainly assets managed for third parties.
- ²¹ Since the conversion to IFRS on January 1, 2011, real estate acquired to settle loans is no longer included in the invested assets.
- ²² 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.
- ²³ Debt includes debentures.
- ²⁴ The coverage ratio is obtained by dividing pre-tax income for the last twelve months, before financing expenses, by financing expenses.
- ²⁵ The retained earnings are calculated according to the solvency rules. In 2013, the Company elected to take advantage of the transitional period in order to defer the impact of the amendment to IAS-19 accounting standards on available equity. The total value of the deferral was \$79 million and was amortized over eight quarters, through December 31, 2014.

Consolidated Financial Statements

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Responsibility for Financial Statements

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

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

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

The functions of the Audit Committee are to:

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

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

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

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

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

On behalf of Management,



Yvon Charest
President and Chief Executive Officer
Quebec, February 12, 2015

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, 2014 and 2013 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 12, 2015

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, 2014 and December 31, 2013, and the consolidated income statements, consolidated comprehensive income statements, consolidated equity statements and consolidated cash flows statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Industrial Alliance Insurance and Financial Services Inc.** as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



February 12, 2015
Quebec City, Canada

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

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2014	2013
	\$	\$
Revenues		
Premiums		
Gross premiums	5,872	5,431
Premiums ceded	(446)	(424)
Net premiums (Note 23)	5,426	5,007
Investment Income (Note 5)		
Interest and other investment income	1,007	924
Change in fair value of financial assets	2,163	(839)
	3,170	85
Other revenues	1,084	931
	9,680	6,023
Policy benefits and expenses		
Gross benefits and claims on contracts	4,156	3,845
Ceded benefits and claims on contracts	(415)	(318)
Net transfer to segregated funds	425	208
Increase (decrease) in insurance contract liabilities (Note 14)	2,572	(678)
Increase (decrease) in investment contract liabilities (Note 14)	38	9
Decrease (increase) in reinsurance assets (Note 14)	317	466
	7,093	3,532
Commissions	1,119	1,038
General expenses (Note 20)	898	816
Premium and other taxes	85	86
Financing charges (Note 21)	50	60
	9,245	5,532
Income before income taxes	435	491
Income taxes (Note 22)	---	103
Net income	435	388
Net income attributed to participating policyholders	2	3
Net income attributed to shareholders	433	385
Dividends attributed to preferred shares (Note 17)	29	35
Redemption premium on preferred shares (Note 17)	4	---
Net income attributed to common shareholders	400	350
Earnings per common share (in dollars) (Note 24)		
Basic	4.01	3.60
Diluted	3.97	3.57
Weighted average number of shares outstanding (in millions of units) (Note 24)		
Basic	99.9	97.2
Diluted	100.8	97.9
Dividends per common share (in dollars) (Note 17)	1.06	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)	2014	2013
	\$	\$
Net income	435	388
Other comprehensive income, net of income taxes		
Items that will be reclassified subsequently to net income:		
Unrealized gains (losses) on available for sale financial assets	79	(50)
Reclassification of losses (gains) on available for sale financial assets included in net income	(11)	(10)
Unrealized gains (losses) on currency translation in foreign operations	32	20
Hedges of net investment in foreign operations	(21)	(14)
	79	(54)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	(71)	49
Total other comprehensive income	8	(5)
Comprehensive income	443	383
Comprehensive income attributed to participating policyholders	2	3
Comprehensive income attributed to shareholders	441	380

Income Taxes Included in Other Comprehensive Income

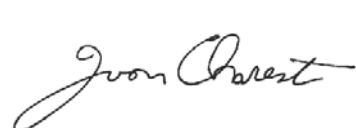
Years ended December 31 (in millions of dollars)	2014	2013
	\$	\$
Income taxes related to:		
Items that will be reclassified subsequently to net income		
Unrealized gains (losses) on available for sale financial assets	(29)	17
Reclassification of losses (gains) on available for sale financial assets included in net income	4	6
Hedges of net investment in foreign operations	8	5
	(17)	28
Items that will not be reclassified subsequently to net income		
Remeasurement of post-employment benefits	26	(18)
Total income taxes included in other comprehensive income	9	10

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)	2014 \$	2013 \$
Assets		
Cash and short-term investments	498	523
Bonds	18,575	15,107
Stocks	3,242	3,120
Mortgages	2,886	2,597
Derivative financial instruments (Note 8)	225	72
Policy loans	713	612
Other invested assets	80	80
Investment properties	1,190	1,079
Total investments (Note 5)	27,409	23,190
Other assets (Note 9)	1,772	1,432
Reinsurance assets (Note 14)	1,368	1,591
Fixed assets (Note 10)	153	145
Deferred income tax assets (Note 22)	59	40
Intangible assets (Note 11)	560	530
Goodwill (Note 11)	270	268
General fund assets	31,591	27,196
Segregated funds net assets (Note 12)	18,748	16,921
Total assets	50,339	44,117
Liabilities		
Insurance contract liabilities (Note 14)	22,021	19,288
Investment contract liabilities (Note 14)	693	647
Derivative financial instruments (Note 8)	217	288
Other liabilities (Note 15)	3,893	2,520
Deferred income tax liabilities (Note 22)	235	286
Debentures (Note 16)	597	499
General fund liabilities	27,656	23,528
Segregated funds liabilities (Note 12)	18,748	16,921
Total liabilities	46,404	40,449
Equity		
Share capital and contributed surplus	1,740	1,779
Retained earnings and accumulated other comprehensive income	2,146	1,842
Participating policyholders' account	49	47
	3,935	3,668
Total liabilities and equity	50,339	44,117

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



Yvon Charest
President and Chief Executive Officer



L.G. Serge Gadbois
Chairman of Audit Committee

Consolidated Equity Statements

Years ended December 31 (in millions of dollars)

	Participating policyholders' account	Common shares (Note 17)	Preferred shares (Note 17)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (Note 18)	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2012	44	879	675	23	1,554	39	3,214
Net income attributed to shareholders	---	---	---	---	385	---	385
Net income attributed to participating policyholders' account	3	---	---	---	---	---	3
Other comprehensive income	---	---	---	---	---	(5)	(5)
Comprehensive income for the year	3	---	---	---	385	(5)	383
Transfer of post-employment benefits	---	---	---	---	49	(49)	---
Equity transactions							
Stock option plan (Note 25)	---	---	---	3	---	---	3
Stock options exercised	---	---	---	(6)	---	---	(6)
Common shares issued (Note 17)	---	305	---	---	---	---	305
Redemption of preferred shares (Note 17)	---	---	(100)	---	---	---	(100)
Dividends on common shares (Note 17)	---	---	---	---	(96)	---	(96)
Dividends on preferred shares (Note 17)	---	---	---	---	(35)	---	(35)
Balance as at December 31, 2013	47	1,184	575	20	1,857	(15)	3,668
Net income attributed to shareholders	---	---	---	---	433	---	433
Net income attributed to participating policyholders' account	2	---	---	---	---	---	2
Other comprehensive income	---	---	---	---	---	8	8
Comprehensive income for the year	2	---	---	---	433	8	443
Transfer of post-employment benefits	---	---	---	---	(71)	71	---
Other	---	---	---	---	2	---	2
Equity transactions							
Stock option plan (Note 25)	---	---	---	4	---	---	4
Stock options exercised	---	---	---	(3)	---	---	(3)
Common shares issued (Note 17)	---	60	---	---	---	---	60
Redemption of preferred shares (Note 17)	---	---	(100)	---	---	---	(100)
Redemption premium on preferred shares (Note 17)	---	---	---	---	(4)	---	(4)
Dividends on common shares (Note 17)	---	---	---	---	(106)	---	(106)
Dividends on preferred shares (Note 17)	---	---	---	---	(29)	---	(29)
Balance as at December 31, 2014	49	1,244	475	21	2,082	64	3,935

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

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)	2014	2013
	\$	\$
Cash flows from operating activities		
Income before income taxes	435	491
Financing charges	50	60
Income taxes paid, net of refunds	(73)	(107)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	2,583	(662)
Increase (decrease) in investment contract liabilities	46	32
Decrease (increase) in reinsurance assets	315	456
Unrealized losses (gains) on investments	(2,163)	839
Amortization of premiums and discounts	30	15
Impairment of goodwill and intangible assets	---	2
Other depreciation	65	56
Other items not affecting cash	(50)	(33)
Operating activities affecting cash:		
Sales, maturities and repayments on investments	15,636	15,352
Purchase of investments	(17,551)	(16,739)
Realized gains (losses) on investment	(20)	(23)
Increase (decrease) in mortgage debt	(1)	11
Increase in securitization liabilities	189	149
Interest paid on mortgage debts and securitization of mortgages	(11)	(7)
Other items affecting cash	650	(87)
Cash flows from operating activities	130	(195)
Cash flows from investing activities		
Acquisition of businesses, net of cash	(8)	(62)
Other investment activities	(45)	(78)
Cash flows from investing activities	(53)	(140)
Cash flows from financing activities		
Issuance of common shares	15	256
Issuance of debentures	248	---
Redemption of debentures	(150)	(259)
Redemption of preferred shares	(100)	(100)
Redemption premium on preferred shares	(4)	---
Dividends paid on common shares	(65)	(68)
Dividends paid on preferred shares	(29)	(35)
Interest paid on debentures	(23)	(34)
Cash flows from financing activities	(108)	(240)
Foreign currency gains (losses) on cash	6	2
Increase (decrease) in cash and short-term investments	(25)	(573)
Cash and short-term investments at beginning	523	1,096
Cash and short-term investments at end	498	523
Supplementary information:		
Cash	424	408
Short-term investments	74	115
Total cash and short-term investments	498	523

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

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013 (in millions of dollars, unless otherwise indicated)

1 › General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company listed on the Toronto Stock Exchange, incorporated under the *Companies Act* (Quebec), governed by *An Act respecting insurance* and subject to the Autorité des marchés financiers (AMF). 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 12, 2015.

2 › Significant Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards on December 31, 2014. 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 IFRS Interpretations Committee (IFRS IC), formerly the International Financial Reporting Issues 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 are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

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

b) Important Estimates

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

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

c) Basis of Consolidation and Methods

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

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

d) Invested Assets and Investment Income

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

Financial assets are classified into one of the following categories:

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

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

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

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

Invested assets are accounted for using the methods described below.

i) Cash and Short-Term Investments

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

ii) Bonds

Designated at fair value through profit or loss

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

Available for sale

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

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

Loans and receivables

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

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

iii) Stocks

Designated at fair value through profit or loss

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

Available for sale

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

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

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

iv) Mortgages

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

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

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

Securitization of mortgages

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

v) Investment Properties

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

vi) Policy Loans

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

vii) Other Invested Assets

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

viii) Derivative Financial Instruments

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

Hedge accounting

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

Fair value hedging

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

Hedging of cash flows

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

Net investment hedge

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

ix) Embedded Derivative Financial Instruments

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

x) Derecognition

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

e) Other Assets

Other assets mainly include investment income due and accrued, outstanding premiums, accounts receivable, deferred sales commissions, post-employment benefits, prepaid expenses, real estate held for resale, linearization of rents, income tax receivable and securities purchased under reverse repurchase agreements. Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost. Real estate held for resale, 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 reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

f) Fixed Assets

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

g) Intangible Assets

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

Intangible assets with finite useful life primarily include capitalized software applications and distribution networks. These assets are depreciated linearly over their estimated useful life varying between 4 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. An impairment loss is recognized in the Income Statement under *General expenses* when the carrying value exceeds the recoverable value. Intangible assets are considered to have indefinite useful lives when, on the basis for analysis of all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash inflows for the Company.

h) Fair Value of Purchased Businesses in Force

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

i) Goodwill

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

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

j) Segregated Funds Assets

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

Segregated funds net assets

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

Segregated funds liabilities

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

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

k) Reinsurance Assets

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

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

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

l) Insurance and Investment Contract Liabilities

i) Classification of Contracts

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

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

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

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

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

ii) Insurance Contract Liabilities

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

iii) Investment Contract Liabilities

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

m) Other Liabilities

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

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

n) Income Taxes

The 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 previous periods are measured at the amount expected to be paid to or received from tax authorities using tax rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred income taxes are recorded based on the expected tax consequence of the difference between the assets and liabilities carrying value and their value for tax purposes, using those rates enacted or substantively enacted applicable to the periods the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences subject to certain exceptions, carry forward for unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which these assets can be utilized. The Company assesses all available evidence, both positive and negative, to determine the amount of deferred tax assets to be recognized.

Deferred tax liabilities are recognized for all taxable temporary differences, subject to certain exceptions in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset them, for the same legal entity and levied by the same taxation authority, and if the Company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The current and deferred taxes are presented in the Income Statement except when they relate to items that are recognized in other comprehensive income or directly in equity. In this case, they are presented in the Comprehensive Income Statement and the Statement of Financial Position respectively.

To determine the impact of taxes, the Company must comply with both IFRS and actuarial standards of practice. Consequently, according to the CALM method, the determination of insurance contract liabilities must account for all cash flows associated with the insurance contract liabilities provided, including income taxes. Insurance contract liabilities are determined by considering the tax impacts related to these contracts on a discounted basis, adjusted for all related deferred tax assets and liabilities. The net result of this adjustment is to leave the discounting effect of deferred taxes related to temporary differences on tax items related to insurance contracts in the insurance contract liabilities.

o) Debentures

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

p) Foreign Exchange Conversion

Transactions in foreign currencies are converted into the functional currency at the rate in effect when each transaction takes place. Items in the Statement of Financial Position are converted at the end of period exchange rate. Gains and losses on foreign currency conversions are posted in the Income Statement.

The financial statements of certain entities of the group, whose functional currency (the currency of the principal economic environment in which the entity operates) differs from the parent company, are converted into the reporting currency. Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the end of period exchange rate. Revenues and expenses are translated at the average rate. Gains and losses on foreign currency and hedge results of some of these investments, net of income taxes, are accounted for in other comprehensive income.

q) Premiums and Expenses

Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, including assumed premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

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

Expenses are recognized when incurred.

r) Other Revenues

Other revenues primarily represent fees earned from management of the Company's segregated fund and mutual fund assets, and administrative services only (ASO) income. Other revenues are recorded on an accrual basis when services are rendered.

s) Net Transfer to Segregated Funds

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

t) Post-Employment Benefits

The Company has established defined benefit plans and provides certain post-retirement benefits to eligible employees. In some cases, eligible retirees have to pay a portion of premiums for these benefits. The cost of the retirement plans is determined using the Projected Unit Credit Method and management's best estimate regarding the discount rate, salary increases, mortality and expected health care costs. Components of defined benefit cost are divided into three components: service cost and interest cost, which are shown in the Income Statement as *General expenses*, and revaluations presented in the other comprehensive income.

The revaluations of the defined plan net liability (asset) includes the actuarial gain or loss, the yield on plan assets (excluding amounts included in net interest on the defined plan net liability (asset)) and the variation of the effect of the asset ceiling, if applicable, and are recognized immediately as *Other liabilities (Other assets)* in the Statement of Financial Position and in the other comprehensive income on the other side. The Company decided to transfer the amounts recorded in other comprehensive income to the retained earnings. The cost of past services is recognized in net income in the period in which there has been a change, reduction or liquidation of the pension plan. The interest cost is calculated by multiplying the defined plan net liability (asset) at the beginning of the period by the discount rate. The difference between defined plan assets and defined benefit obligation under defined benefit plans is recognized as an asset or liability in the Statement of Financial Position. The discount rate used to determine obligations under defined benefit plans is based on the market interest rate at the valuation date for debt securities with high quality and cash flows in line with forecast benefit payments.

u) Stock-Based Compensation

Stock Option Plan

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

Share Purchase Plan for Employees

The Company's cash contribution is charged to the Income Statement as *General expenses* in the period the shares are purchased.

Deferred Share Units (DSU)

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

Medium-Term Incentive Plan

Measurement of the medium-term incentive plan, which is settled in cash, is based on the value of the Company's shares. At the end of each reporting period, the Company records a remuneration expense in the Income Statement and a liability in the Statement of Financial Position, equal to the average fair value of the Company's common shares of the reference period. This expense is amortized linearly according to the estimated number of shares expected to be vested at the end of the vesting period. Changes in the fair value of liabilities are recorded in *General expenses* in the Income Statement.

3 › Changes in Accounting Policies

New Accounting Standards Applied

The following table presents the description and the impact on the financial statements of the standards or amendments that the Company adopted on January 1, 2014.

Standards or amendments	Description of the standard and impact on financial statements of the Company
IAS-32 "Financial Instruments: Presentation"	<p><i>Description:</i> 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.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IAS-36 "Depreciation of Assets"	<p><i>Description:</i> The amendment provides additional disclosure on the recoverable amount of impaired assets in cases where this amount is based on the fair value less costs of disposal, and also clarifies the disclosure on this recoverable value following the application of IFRS-13 "Fair Value Measurement."</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>

IAS-39 "Financial Instruments: Recognition and Measurement"	<p><i>Description:</i> The amendment presents a strict exception to the discontinuation of hedge accounting in the specific situation where a derivative financial instrument must be novated to a central counterparty under laws or regulations.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IFRS-10 "Consolidated Financial Statements"	<p><i>Description:</i> The amendment proposes that entities controlled by an investment entity be recognized 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 applied). This means that entities that meet the definition of investment entity will be exempt from consolidation, but will have to recognize their overall share (including subsidiaries, associates and joint ventures) at fair value through profit or loss, as per IFRS-9. The amendment also requires additional disclosure on the concept of investment entity.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IFRIC-21 "Levies"	<p><i>Description:</i> This interpretation provides indications on the treatment of levies in the financial statements of the entity that pays them. The questions concern the timing for the recognition of a liability to pay levies according to IAS-37 "Provisions, Contingent Liabilities and Contingent Assets".</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>

Future Changes in Accounting Policies

On November 21, 2013 the IASB published a limited amendment to IAS-19 "Employee Benefits." This amendment, "Defined Benefit Plans: Employee Contributions," proposes that when the contributions payable in a particular period are linked solely to the employee's service rendered in that period, they may be recognized as a reduction in service cost in the period in which they are payable. The provisions of this amendment will apply to financial statements beginning on or after July 1, 2014. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On May 6, 2014, the IASB published an amendment to IFRS-11 "Joint Arrangements". This amendment, "Accounting for Acquisitions of Interests in Joint Operations" states that the Company will apply the principles in IFRS-3 "Business Combination" for the accounting related to the acquisition of an interest in a joint operation. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On May 12, 2014, the IASB published an amendment to IAS-16 "Property, Plant and Equipment" and to IAS-38 "Intangible Assets". This amendment, "Acceptable Methods of Depreciation and Amortisation" clarifies that the depreciation method based on revenues cannot be used. The depreciation must be based on the expected future economic benefits of the asset. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On May 28, 2014, the IASB published IFRS-15 "Revenue from Contracts with Customers", which replace IAS-11 "Construction Contracts" and IAS-18 "Revenue". This new standard specifies how and when to recognize revenues according to a single five-step model, and the additional disclosure requirements. The provisions of this new standard will apply to financial statements beginning on or after January 1, 2017. Early adoption is permitted. The Company is evaluating the impact of this standard on its financial statements.

On July 24, 2014, the IASB published the final version of IFRS-9 "Financial Instruments" which replaces the provisions of IAS-39 "Financial Instruments: Recognition and Measurement". It requires financial assets to be measured at amortized cost or at fair value on the basis of the entity's business model for managing assets. It also changes the accounting for financial liabilities measured using the fair value option. Also, this standard proposes a new accounting model related to the recognition of the expected credit losses. It requires the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date. Recognition of credit losses would no longer be dependent on the entity first identifying credit loss events. The standard modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities. The provisions of this new standard will apply to financial statements beginning on or after January 1, 2018. Early adoption is permitted. The Company is evaluating the impact of this standard on its financial statements.

On August 12, 2014, the IASB published an amendment to IAS-27 "Separate Financial Statements". This amendment, "Equity Method in Separate Financial Statements" adds another choice to account for the investment in subsidiaries, associates or joint ventures, namely the equity method. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. Early adoption is permitted. The Company is evaluating the impact of this amendment on its financial statements.

On September 16, 2014, the IASB published an amendment to IFRS-10 "Consolidated Financial Statements" and to IAS-28 "Investments in Associates and Joint Ventures". This amendment, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" clarifies the accounting for the gain or loss resulting from loss of control or from transfer of assets following a transaction with an associate or joint venture. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. Early adoption is permitted. The Company has completed the analysis of this amendment and concluded that will not have impact on its financial statements.

On December 18, 2014, the IASB published an amendment to IAS-1 "Presentation of Financial Statements". This amendment clarifies the disclosure and presentation requirements and the use of judgement on the relevance of information disclosed. The provisions of this amendment will apply to financial statements beginning on or after January 1, 2016. The Company is evaluating the impact of this amendment on its financial statements.

On December 18, 2014, the IASB published an amendment to IFRS-10 "Consolidated Financial Statements", to IFRS-12 "Disclosure of Interests in Other Entities" and to IAS-28 "Investments in Associates and Joint Ventures". This amendment clarifies that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2016. The Company is evaluating the impact of this amendment on its financial statements.

The IASB publishes annual IFRS improvements to amend certain standards. The annual improvements include adjustments or minor clarifications to standards. The IASB published the improvement on the 2010-2012 and the 2011-2013 cycles in December 2013 affecting 7 and 4 standards respectively. The provisions of these improvements will apply to financial statements beginning on or after July 1, 2014. The Company is evaluating the impact of these amendments on its financial statements. On September 29, 2014, the IASB published annual IFRS improvements-cycle 2012-2014 affecting 4 standards. The provisions of these improvements will apply to financial statements beginning on or after January 1, 2016. The Company is evaluating the impact of these amendments on its financial statements.

4 › Acquisition of Businesses

On October 1, 2013, the Company acquired 100% of the shares of Jovian Capital Corporation (Jovian) for a cash consideration of \$79 and a share consideration of \$13. Jovian owns financial services companies specializing in wealth management. Its main subsidiaries are MGI Securities Inc., T.E. Investment Counsel Inc., Leon Frazer & Associates Inc., Hahn Investment Stewards & Company Inc. and JovFinancial Solutions Inc.

Preliminary allocation of the acquisition price

The Company has 12 months following the acquisition date to complete the allocation of the acquisition price. Once the analysis is finalized, allocation of the preliminary purchase price and its distribution by activity sector could be adjusted.

Preliminary intangible assets with indefinite useful life related to this transaction were \$14, preliminary intangible assets with finite useful life were \$36, the preliminary depreciation periods were 15 years (depreciation of \$1 in 2013), preliminary goodwill was \$30 and deferred income tax liability was \$11.

Final allocation of acquisition price

The Company finalized the allocation of the acquisition price and, following the analysis, the Company recorded intangible assets with indefinite useful life of \$23, intangible assets with finite useful life of \$31, depreciable over periods varying between 5 years and 20 years (depreciation of \$2 in 2014), goodwill of \$28 and deferred income tax liability of \$13.

The goodwill is not deductible for tax purposes.

In 2013, a provision for restructuring costs for an amount of \$6 was recognized in the Income Statement under *General expenses* and in the Statement of Financial Position under *Other liabilities*. During the year 2014, an amount of \$4 was paid (less than \$1 in 2013) and an amount of \$2 was reversed on the liability for the restructuring provision. These restructuring costs include severance pay, contract termination and other costs. This provision for restructuring costs is recognized when a detailed formal plan is established, identifying the locations, function and number of employees to be compensated for termination of services, the businesses, sites as well as the expenditures to be incurred when the plan is implemented. The provision is the Company's best estimate of the expenditures that will be required to settle the Company's obligations under the plan and includes only those costs that are a result of the restructuring and that are not associated with ongoing activities. Restructuring costs that are not consistent with the previous definition are recorded in the Income Statement when incurred.

Other than the provision for restructuring costs detailed above, revenues and net income of the acquired entities did not have a significant impact on the Company's financial results in 2013.

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	2014					
	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$	Fair value \$
Cash and short-term investments	330	---	168	---	498	498
Bonds						
Governments	7,678	1,458	99	---	9,235	
Municipalities	862	100	---	---	962	
Corporate and other	5,285	1,585	1,508	---	8,378	
	13,825	3,143	1,607	---	18,575	18,719
Stocks						
Common stocks	1,664	10	---	---	1,674	
Preferred stocks	228	309	---	---	537	
Stock indexes	460	---	---	---	460	
Investment fund units	566	5	---	---	571	
	2,918	324	---	---	3,242	3,242
Mortgages						
Insured						
Residential	---	---	710	---	710	
Multi-residential	---	---	1,366	---	1,366	
Non-residential	---	---	20	---	20	
	---	---	2,096	---	2,096	
Conventional						
Residential	---	---	93	---	93	
Multi-residential	---	---	158	---	158	
Non-residential	---	---	539	---	539	
	---	---	790	---	790	
	---	---	2,886	---	2,886	3,059
Derivative financial instruments	225	---	---	---	225	225
Policy loans	---	---	713	---	713	713
Other invested assets	---	---	62	18	80	80
Investment properties	---	---	---	1,190	1,190	1,199
Total	17,298	3,467	5,436	1,208	27,409	27,735

2013

	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$	Fair value \$
Cash and short-term investments	337	---	186	---	523	523
Bonds						
Governments	6,869	1,419	51	---	8,339	
Municipalities	567	53	---	---	620	
Corporate and other	3,707	1,259	1,182	---	6,148	
	11,143	2,731	1,233	---	15,107	15,159
Stocks						
Common stocks	1,430	7	---	---	1,437	
Preferred stocks	271	250	---	---	521	
Stock indexes	547	27	---	---	574	
Investment fund units	585	3	---	---	588	
	2,833	287	---	---	3,120	3,120
Mortgages						
Insured						
Residential	---	---	577	---	577	
Multi-residential	---	---	1,297	---	1,297	
Non-residential	---	---	22	---	22	
	---	---	1,896	---	1,896	
Conventional						
Residential	---	---	87	---	87	
Multi-residential	---	---	151	---	151	
Non-residential	---	---	463	---	463	
	---	---	701	---	701	
	---	---	2,597	---	2,597	2,726
Derivative financial instruments	72	---	---	---	72	72
Policy loans	---	---	612	---	612	612
Other invested assets	---	---	57	23	80	80
Investment properties	---	---	---	1,079	1,079	1,089
Total	14,385	3,018	4,685	1,102	23,190	23,381

The "At fair value through profit or loss" category includes securities held for trading, mainly derivative financial instruments and short-term investments, and securities designated at fair value through profit or loss. Other invested assets are made up of notes receivable, cash in trust and investments in associates and joint arrangements accounted for using the equity method.

Fair value of investment properties is \$1,199 (\$1,089 in 2013) and is composed of investment properties of \$1,190 (\$1,079 in 2013) and of linearization of rents of \$9 (\$10 in 2013). 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 9 Other Assets. Rental income is recorded in the following investment income table and operating expenses for investment properties are reported in Note 20 General Expenses.

b) Cash and Short-Term Investments

	2014 \$	2013 \$
Cash	424	408
Short-term investments	74	115
Total	498	523

c) Investment Income

	2014				
	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$
Cash and short-term investments					
Interest	1	---	7	---	8
Change in fair value	2	---	---	---	2
Bonds					
Interest	353	85	85	---	523
Change in fair value	1,871	---	---	---	1,871
Realized gains (losses)	---	18	1	---	19
Stocks					
Dividends	111	13	---	---	124
Change in fair value	183	---	---	---	183
Realized gains (losses)	---	(3)	---	---	(3)
Mortgages					
Interest	---	---	119	---	119
Realized gains (losses)	---	---	4	---	4
Derivatives					
Interest	19	---	---	---	19
Change in fair value	143	---	---	---	143
Other	(35)	---	51	5	21
Real estate					
Rental income	---	---	---	138	138
Change in fair value	---	---	---	(1)	(1)
Total	2,648	113	267	142	3,170
Interest	354	85	211	---	650
Dividends	111	13	---	---	124
Derivatives	19	---	---	---	19
Rental income	---	---	---	138	138
Realized gains (losses)	---	15	5	---	20
Other	---	---	51	5	56
Interest and investment income	484	113	267	143	1,007
Cash and short-term investments	2	---	---	---	2
Bonds	1,871	---	---	---	1,871
Stocks	183	---	---	---	183
Derivatives	143	---	---	---	143
Investment properties	---	---	---	(1)	(1)
Other	(35)	---	---	---	(35)
Change in fair value of financial assets	2,164	---	---	(1)	2,163
Total	2,648	113	267	142	3,170

2013

	At fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Other \$	Total \$
Cash and short-term investments					
Interest	6	---	3	---	9
Bonds					
Interest	314	79	76	---	469
Change in fair value	(912)	---	---	---	(912)
Change in provision for losses	---	---	(1)	---	(1)
Realized gains (losses)	---	20	4	---	24
Stocks					
Dividends	89	10	---	---	99
Change in fair value	362	---	---	---	362
Realized gains (losses)	---	(4)	---	---	(4)
Mortgages					
Interest	---	---	118	---	118
Change in provision for losses	---	---	(1)	---	(1)
Realized gains (losses)	---	---	3	---	3
Derivatives					
Interest	20	---	---	---	20
Change in fair value	(349)	---	---	---	(349)
Other	16	---	58	3	77
Real estate					
Rental income	---	---	---	127	127
Change in fair value	---	---	---	44	44
Total	(454)	105	260	174	85
Interest	320	79	197	---	596
Dividends	89	10	---	---	99
Derivatives	20	---	---	---	20
Rental income	---	---	---	127	127
Realized gains (losses)	---	16	7	---	23
Other	---	---	56	3	59
Interest and investment income	429	105	260	130	924
Bonds	(912)	---	---	---	(912)
Stocks	362	---	---	---	362
Derivatives	(349)	---	---	---	(349)
Investment properties	---	---	---	44	44
Other	16	---	---	---	16
Change in fair value of financial assets	(883)	---	---	44	(839)
Total	(454)	105	260	174	85

6 › Fair Value of Financial Instruments

a) Methods and assumptions used to estimate fair values

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of various categories of financial instruments is determined as described below.

Financial assets

Short-term investments – Carrying value of these investments represents the fair value due to their short-term maturity.

Bonds – Bonds are valued based on quoted price, observed on active markets for identical or similar assets. If prices are not available on active markets, fair value is estimated using current valuation methods, including a model based on discounting expected cash flows or other similar techniques. These methods take into account current data observable on the market for financial instruments that have a similar risk profile and comparable terms. The significant data used in these models include, but is not limited to, rate curves, credit risk, issuer risk, volatility and liquidity valuation and other references published by the market. Management uses its best estimates when such data are not available.

Stocks – Each listed investment security is valued based on quote price, observed on active markets. If the price is not available on the active markets, fair value is determined using equity valuation models, which analyze the fair value of the net asset, and other techniques that rely on comparisons with reference data, such as market indices. Investment fund units are evaluated at the net asset value published by the fund manager.

Mortgages – The fair value of mortgage loans is estimated by discounting the cash flows with the interest rate currently prevailing on the market for loans with substantially the same credit risk and terms. The fair value of mortgages is only determined for disclosure purposes.

Derivative financial instruments – Fair value of derivative financial instruments is determined according to the type of derivative instrument. Fair value of derivative financial instruments, such as futures and options traded on the stock exchanges is determined in accordance with quoted prices on active markets. Derivative financial instruments that are traded over the counter are valued using valuation models such as actualized cash flow analysis and other valuation models used on the market. These valuations are based on observable data on the market, including interest rates, foreign exchange rates, financial index, rate differentials, credit risk and volatility.

Among derivative financial instruments, certain other derivative contracts are subject to trading restrictions that may apply to this type of instrument. In such situations, an illiquidity premium based on data that are not observable in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to the trading restrictions period, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

Policy loans – Policy loans are carried at amortized cost. They are guaranteed and may be reimbursed at any time. Their fair value approximates their carrying value due to their short-term nature.

Investment properties – The fair value of investment property is determined by various recognized methods and standards of assessment in the real estate sector. These methods are based on expected capitalization rates and models which update the expected future cash flows at prevailing interest rates on the market based on the characteristics, location and market of each property. The expected future cash flows include contractual and projected cash flows and projected operating expenses and reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected from leases in force, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, type and quality of the building, and current market data and projections as of the date of the appraisal. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. High and best use is one of the possible evaluation methods. High and best use is determined by taking into account the possible physical, legally permissible, financially feasible and in terms of market, even if the Company plans a different use. Assessments are carried out by external independent appraisers or by qualified company personnel. Each building is assessed by an external appraiser at least once every 3 years. During the year, 86.5% of the investment properties portfolio was assessed by independent appraisers (84.6% in 2013).

Other investments – The fair value of other investments, except notes receivable, is approximately the same as the carrying value due to the nature of these elements. The fair value of notes receivable is estimated by discounting cash flows at interest rates currently prevailing in the market for notes with significantly the same characteristics related to credit risk and duration. The fair value of notes receivable is determined for information purposes only. As at December 31, 2013 the carrying value and the fair value of notes receivable was respectively \$23 and \$23. As at December 31, 2014 the Company no longer has any amount receivable concerning these notes.

Other assets – The fair value of the other assets, except for securities purchased under reverse repurchase agreements, is approximately the same as the carrying value due to their short-term nature. The fair value of securities purchased under reverse repurchase agreements is \$785 as at December 31, 2014 (\$548 in 2013).

Financial liabilities

Other Liabilities

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

The fair value of mortgage debts is estimated by discounting the cash flows with the interest rate currently prevailing on the market, for new mortgage debt with substantially the same terms. The fair value of the mortgage debts is \$38 (\$40 in 2013). The mortgage debts are secured by real estate with a carrying value of \$129 (\$118 in 2013) and bear interest between 5.38% and 5.86% (5.38% and 5.86% in 2013) and mature between 2015 and 2016. The interest expense on the mortgage debts is \$2 (\$4 in 2013) and is included in Note 20, *General Expenses under Real estate operating expenses*. The carrying value of the mortgage debt is included in Note 15 *Other Liabilities*.

The fair value of securitization liabilities is estimated by discounting cash flows at interest rates currently prevailing in the market for new debt with substantially the same terms. This fair value is disclosed in Note 7 *Management of Risks Associated with Financial Instruments* in section b) iii).

The fair value of securities sold under repurchase agreements is \$758 as at December 31, 2014 (\$336 in 2013). The carrying value of securities sold under repurchase agreements is included in Note 15 *Other Liabilities*.

Short-selling securities, classified as held for trading, are measured using the observed market prices in active markets for identical or similar assets. If quoted prices in active markets are not available, fair value is estimated using standard methods of assessment, such as a model based on discounted future cash flows or similar techniques. These methods take into account the current observable market data for financial instruments with similar risk profile and comparable terms. Important data used in these models include yield curves, credit risk, issuer spreads, the measure of volatility and liquidity and other reference data published by the markets.

Debentures

The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have substantially the same conditions. This fair value can fluctuate due to interest rates and credit risks associated with these instruments. Fair value of debentures is presented in Note 16 *Debentures*.

Derivative financial instruments

The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 8 *Derivative Financial Instruments* and is equal to the carrying amounts reported in the negative fair value column. The fair value is determined according to the method and assumptions described in the Financial assets Section.

b) Hierarchy of the fair value

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuation models used to measure the fair value of the financial assets and liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. The three levels of the hierarchy are described below:

Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market are classified in Level 1.

Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.

Level 3 – Valuation model based on significant unobservable inputs that are supported by little or no market activity, using management's best estimates. Most private placements are classified in Level 3.

If a financial instrument classified as Level 1 subsequently ceases to be actively traded, it is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is directly classified into Level 3.

Financial assets

	2014			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	1	329	---	330
Bonds				
Designated at fair value through profit or loss				
Governments	120	7,533	25	7,678
Municipalities	---	862	---	862
Corporate and other	---	5,135	150	5,285
	120	13,530	175	13,825
Available for sale				
Governments	123	1,335	---	1,458
Municipalities	---	100	---	100
Corporate and other	---	1,577	8	1,585
	123	3,012	8	3,143
	243	16,542	183	16,968
Stocks				
Designated at fair value through profit or loss	2,564	---	354	2,918
Available for sale	6	310	8	324
	2,570	310	362	3,242
Derivative financial instruments				
Held for trading	33	192	---	225
Investment properties				
	---	---	1,190	1,190
General fund investments accounted at fair value	2,847	17,373	1,735	21,955
Segregated fund financial instruments	13,647	4,999	4	18,650
Total financial assets at fair value	16,494	22,372	1,739	40,605

	2013			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value assessments				
Cash and short-term investments				
Held for trading	1	336	---	337
Bonds				
Designated at fair value through profit or loss				
Governments	169	6,642	58	6,869
Municipalities	---	567	---	567
Corporate and other	---	3,627	80	3,707
	169	10,836	138	11,143
Available for sale				
Governments	206	1,213	---	1,419
Municipalities	---	53	---	53
Corporate and other	---	1,255	4	1,259
	206	2,521	4	2,731
	375	13,357	142	13,874
Stocks				
Designated at fair value through profit or loss	2,699	---	134	2,833
Available for sale	31	250	6	287
	2,730	250	140	3,120
Derivative financial instruments				
Held for trading	1	70	1	72
Investment properties				
	---	---	1,079	1,079
General fund investments accounted at fair value	3,107	14,013	1,362	18,482
Segregated fund financial instruments	12,537	4,329	4	16,870
Total financial assets at fair value	15,644	18,342	1,366	35,352

There were no transfers between level 1 and level 2 for the years ended December 31, 2014 and 2013.

Transfers from level 3 to level 2 during the period ended December 31, 2014 have a value of \$53 (\$249 in 2013). These transfers come from the fact that the Company is now able to evaluate some bonds designated at fair value through profit or loss and available for sale at market prices, which takes into account performance or market prices of financial instruments with comparable terms such as quality, maturity and type of investment. The fair value of these bonds was previously determined using internal evaluation models that required the use of assumptions, of which one of the main ones was not observable in the market.

The Company presents the transfers between hierarchy levels at the quarter end fair value during which the transfer occurred.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2014 are the discount rate, which is between 5.00% and 9.75% (between 5.00% and 9.75% in 2013) and the terminal capitalization rate, which is between 4.25% and 8.75% (between 4.25% and 8.75% in 2013). The discount rate is based on market activity by type of building, location and reflects the expected rate of return to be realized on investments over the next ten years. The terminal capitalization rate is based on market activity by type of building, location and reflects the expected rate of return on the investment over the remaining life after the ten-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

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

2014								Total unrealized gains (losses) included in net income on financial instruments still held
Balance as at December 31, 2013	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in Other Comprehensive Income	Purchases	Sales and settlements	Transfers in (out) of Level 3	Balance as at December 31, 2014		
\$	\$	\$	\$	\$	\$	\$		
Bonds								
Designated at fair value through profit or loss	138	18	---	73	(1)	(53)	175	17
Available for sale	4	---	1	3	---	---	8	---
Stocks								
Designated at fair value through profit or loss	134	34	---	200	(14)	---	354	34
Available for sale	6	---	---	2	---	---	8	---
Derivatives								
Held for trading	1	(1)	---	---	---	---	---	(1)
Investment properties	1,079	(1)	---	117	(5)	---	1,190	(1)
General fund investments accounted at fair value								
	1,362	50	1	395	(20)	(53)	1,735	49
Segregated fund financial instruments	4	---	---	---	---	---	4	---
Total	1,366	50	1	395	(20)	(53)	1,739	49

2013								
	Balance as at December 31, 2012 \$	Realized and unrealized gains (losses) included in net income \$	Realized and unrealized gains (losses) included in Other Comprehensive Income \$	Purchases \$	Sales and settlements \$	Transfers in (out) of Level 3 \$	Balance as at December 31, 2013 \$	Total unrealized gains (losses) included in net income on financial instruments still held \$
Bonds								
Designated at fair value through profit or loss	378	(13)	---	31	(38)	(220)	138	(10)
Available for sale	4	---	(2)	31	---	(29)	4	---
Stocks								
Designated at fair value through profit or loss	91	9	---	53	(19)	---	134	9
Available for sale	7	---	(1)	---	---	---	6	---
Derivatives								
Held for trading	---	(1)	---	2	---	---	1	(1)
Investment properties	953	44	---	97	(15)	---	1,079	44
General fund investments accounted at fair value	1,433	39	(3)	214	(72)	(249)	1,362	42
Segregated fund financial instruments	4	---	---	---	---	---	4	---
Total	1,437	39	(3)	214	(72)	(249)	1,366	42

Sales and settlements for investment properties included transfer to own-use properties for an amount of \$4 as at December 31, 2014 (\$9 in 2013).

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 12 *Segregated Funds Net Assets*. Realized and unrealized gains (losses) included in other comprehensive income are presented in Note 18 *Accumulated Other Comprehensive Income* in the unrealized gains (losses).

Fair value disclosed in the notes

The Company classifies certain financial instruments as loans and receivables. These financial instruments are measured at amortized cost and fair value is disclosed in the notes. The following table shows the hierarchy level of such fair values.

	2014			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Classified as loans and receivables				
Bonds				
Governments	---	18	85	103
Corporate and other	---	296	1,352	1,648
	---	314	1,437	1,751
Mortgages	---	3,059	---	3,059
Other assets				
Securities purchased under reverse repurchase agreements	---	785	---	785
Total of assets classified as loans and receivables	---	4,158	1,437	5,595

	2013			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Classified as loans and receivables				
Bonds				
Governments	---	6	49	55
Corporate and other	---	327	903	1,230
	---	333	952	1,285
Mortgages	---	2,726	---	2,726
Other investments – Notes receivable	---	23	---	23
Other assets				
Securities purchased under reverse repurchase agreements	---	548	---	548
Total of assets classified as loans and receivables	---	3,630	952	4,582

Financial liabilities

The following table presents financial liabilities measured at fair value on a recurring basis and those whose fair value is disclosed in a note by hierarchy level:

	2014			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Recurring fair value assessments				
Other liabilities				
Held for trading	766	66	---	832
Derivative financial instruments				
Held for trading	19	160	38	217
Total of liabilities classified as held for trading	785	226	38	1,049
Classified at amortized cost				
Other liabilities				
Mortgage debt	---	38	---	38
Securities sold under repurchase agreement	---	758	---	758
Securitization	---	594	---	594
	---	1,390	---	1,390
Debentures	---	627	---	627
Total of liabilities classified at amortized cost	---	2,017	---	2,017

	2013			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value assessments				
Other liabilities				
Held for trading	349	50	---	399
Derivative financial instruments				
Held for trading	117	144	27	288
Total of liabilities classified as held for trading	466	194	27	687
Classified at amortized cost				
Other liabilities				
Mortgage debt	---	40	---	40
Securities sold under repurchase agreement	---	336	---	336
Securitization	---	398	---	398
	---	774	---	774
Debentures	---	528	---	528
Total of liabilities classified at amortized cost	---	1,302	---	1,302

7 › 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 37 to 44. 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, 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 14, 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 \$9,150 as at December 31, 2014 (\$6,861 in 2013). More detailed information on the hedging program is provided in the shaded portion of the Risk Management section of the Management's Discussion and Analysis on page 41.

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. 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 8.

Impairment of financial assets classified as available for sale

During the year ended December 31, 2014, the Company reclassified the unrealized losses of stock classified as available for sale for \$3 (\$4 in 2013) from the other comprehensive income, net of income taxes, to investment income in the Income Statement.

Since the assets designated at fair value through profit or loss are fully matched, variations of fair value, other than those related to credit risk, are directly reflected in the increase (decrease) in insurance contract liabilities, which prevents a disparity of the treatment in the net income. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

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

	2014			2013		
	Fair value \$	Unrealized losses \$	Unrealized gains \$	Fair value \$	Unrealized losses \$	Unrealized gains \$
Bonds						
Governments	1,458	---	33	1,419	(25)	11
Municipalities	100	---	1	53	(1)	---
Corporate and other	1,585	(1)	24	1,259	(18)	10
	3,143	(1)	58	2,731	(44)	21
Stocks	324	(1)	9	287	(4)	4
Total	3,467	(2)	67	3,018	(48)	25

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.

	2014					
	Less than 12 months		12 months or over		Total	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
Bonds						
Governments	31	---	10	---	41	---
Municipalities	8	---	1	---	9	---
Corporate and other	161	(1)	19	---	180	(1)
	200	(1)	30	---	230	(1)
Stocks	62	(1)	---	---	62	(1)
Total	262	(2)	30	---	292	(2)

	2013					
	Less than 12 months		12 months or over		Total	
	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$	Fair value \$	Unrealized losses \$
Bonds						
Governments	907	(25)	1	---	908	(25)
Municipalities	47	(1)	---	---	47	(1)
Corporate and other	644	(18)	2	---	646	(18)
	1,598	(44)	3	---	1,601	(44)
Stocks	131	(4)	---	---	131	(4)
Total	1,729	(48)	3	---	1,732	(48)

b) Credit Risk

Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments to the Company. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgage loans and private placements, exposure to different investment portfolios, derivative transactions and reinsurance activities. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivative financial instruments is presented in Note 8.

b) i) Credit Quality Indicators
Bonds by investment grade

	2014	2013
	Carrying amount	
	\$	\$
AAA	596	428
AA	5,807	5,086
A	9,180	7,743
BBB	2,855	1,823
BB and lower	137	27
Total	18,575	15,107

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 \$1,601 (\$919 as at December 31, 2013).

Mortgages

	2014	2013
	\$	\$
Insured mortgage loans	2,096	1,896
Conventional mortgage loans	790	701
Total	2,886	2,597

The credit quality of mortgage loans is assessed internally by the regular review of portfolio.

Derivative Financial Instruments

The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2014, all counterparties to derivative financial instrument contracts have a credit rating of A+ or higher (A or higher as at December 31, 2013).

Reinsurance Assets

The Company assesses the financial soundness of the reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. It can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts. Reinsurance agreements without security held from reinsurers are with several well-established, highly rated reinsurers. The Company's reinsurance assets are with reinsurers who have a minimum credit rating of A- in a proportion of 99% (99% in 2013).

b) ii) Past Due or Impaired Financial Assets

To manage risk, the Company evaluates, among other things, the ability of the issuer to ensure current and future contractual payments of principal and interest. The Company follows up monthly to ensure that cash flows stipulated in the contract are recovered in a timely manner and takes the necessary action to address the outstanding amounts. In addition, the Company identifies the issuers that may have an unstable financial situation and classify each of the issuer's assets in one of the following quality lists:

Watchlist: the collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require monitoring. No impairment loss is recognized in respect of assets of these issuers.

List of securities under surveillance: the collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require increased monitoring. An asset is moved from the watchlist to the list of securities under surveillance when changes in facts and circumstances of the issuer increase the likelihood that a security suffers as a loss-generating event in the near future. No impairment loss is accounted for in respect of assets of these issuers.

List of impaired assets: the collection of current and future contractual payments of principal and interest is no longer assured. For investments classified as available for sale or carried at amortized cost, an impairment loss is recognized in income.

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired, as well as amounts for financial assets which have similar credit risks that are subject to a collective impairment test.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more or in foreclosure process is assumed to be impaired. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities according to actuarial standards.

Impaired Bonds

The Company did not hold any impaired bonds as at December 31, 2014 and 2013.

Past Due Mortgages

A mortgage is considered in arrears when the counterpart has not made a payment at a contractual date. The following table presents the carrying value of invested assets in arrears that are not classified as impaired investments. The Company considers mortgage loans 90 days in arrears and more which are not insured and fully guaranteed as impaired investments.

2014				
	30 – 59 days in arrears \$	60 – 89 days in arrears \$	90 days in arrears and more or in process of foreclosure \$	Total \$
Insured mortgage loans	2	---	1	3
Conventional mortgage loans	1	---	---	1
Total	3	---	1	4

2013				
	30 – 59 days in arrears \$	60 – 89 days in arrears \$	90 days in arrears and more or in process of foreclosure \$	Total \$
Insured mortgage loans	1	---	1	2
Conventional mortgage loans	2	---	---	2
Total	3	---	1	4

Foreclosed Properties

During the year ended December 31, 2014, the Company took possession of \$1 (\$4 in 2013) 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 9 *Other Assets*.

Provisions for Losses

2014			
	Bonds classified as loans and receivables \$	Mortgages \$	Total \$
Balance at beginning and at end	3	1	4

2013			
	Bonds classified as loans and receivables \$	Mortgages \$	Total \$
Balance at beginning	2	---	2
Increase in provision for losses	1	1	2
Balance at end	3	1	4

Impaired Investments

2014			
	Gross \$	Provisions \$	Total \$
Bonds classified as loans and receivables	10	3	7
Mortgage loans	13	1	12
Balance at end	23	4	19

2013			
	Gross \$	Provisions \$	Total \$
Bonds classified as loans and receivables	10	3	7
Mortgage loans	8	1	7
Balance at end	18	4	14

b) iii) Other information on Credit Risk**Investment properties**

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

	2014	2013
	\$	\$
Maturing in one year	48	51
More than 1 year and less than 5 years	174	177
More than 5 years	276	299
Total	498	527

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 years ended December 31, 2014 and 2013, as part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured mortgage loans to an unrelated counterparty. 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, 2014, the carrying value of ceded mortgage loans is \$587 (\$397 in 2013). The carrying value of the corresponding liability is \$584 (\$395 in 2013). Their fair values are \$594 and \$594 respectively (\$396 and \$398 respectively in 2013) for a net amount of \$0 (\$2 in 2013). The carrying value of mortgage loans prior to their transfer was \$673 (\$438 in 2013).

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 102% and 105% (between 102% and 105% in 2013) of the fair value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2014, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately \$481 (\$458 in 2013).

Right of offset, collateral held and transferred

The Company negotiates financial instruments in accordance with the Credit Support Annex, which forms part of the International Swaps and Derivative Association's (ISDA) Master Agreement and in accordance with the Supplemental Terms or Conditions Annex, which forms part of the Global Master Repurchase Agreement (GMRA). These agreements require guarantees by the counterparty or by the Company. The amount of assets to pledge is based on changes in fair value of financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of, but are not limited to cash, Treasury bills and Government of Canada bonds. The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. In addition, under the ISDA and the GMRA, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The following table presents the impact of conditional compensation on the financial situation and that of other similar agreements, namely the Global Master Repurchase Agreement (GMRA) and the Credit Support Appendices (CSA).

As at December 31, 2014

	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
	\$	Financial instruments	Financial collateral received/pledged	\$
Financial assets				
Derivative financial instruments (Note 8)	225	144	62	19
Securities purchased under reverse repurchase agreements	785	381	404	---
Total financial assets	1,010	525	466	19
Financial liabilities				
Derivative financial instruments (Note 8)	217	144	22	51
Securities sold under repurchase agreements	758	381	377	---
Total financial liabilities	975	525	399	51

As at December 31, 2013				
	Net amount of financial instruments presented in the Statements of Financial Position	Related amount not set off in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
	\$	\$	\$	\$
Financial assets				
Derivative financial instruments (Note 8)	72	64	---	8
Securities purchased under reverse repurchase agreements	548	265	283	---
Total financial assets	620	329	283	8
Financial liabilities				
Derivative financial instruments (Note 8)	288	64	183	41
Securities sold under repurchase agreements	336	265	71	---
Total financial liabilities	624	329	254	41

Financial collateral received/pledged shown in the table above exclude initial margin on over the counter derivatives and forward currency contracts, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was \$62 (\$0 as at December 31, 2013) on derivatives and \$783 (\$546 as at December 31, 2013) on securities purchased under reverse repurchase agreements. The Company's pledge was \$49 (\$224 as at December 31, 2013) on derivative financial instruments liabilities and \$762 (\$334 as at December 31, 2013) on securities sold under repurchase agreements.

Interests in non-consolidated structured entities

The Company has determined that its investments in asset-backed securities and its investments in investment fund units represent interests held in non-consolidated structured entities.

Asset-backed securities and mortgage securities are managed by entities that combine similar assets and sell them to investors who receive all or a portion of the cash flows generated. These entities are managed by managers who are not related to the Company.

The goal of the investment fund units in which the Company invests is to generate capital growth. These investment fund units are either managed by external managers or by internal managers through our subsidiaries. They apply various investment strategies to meet their respective objectives. The Company also invests in fund units through its segregated funds.

The table below presents the non-consolidated structured entities according to their type in the Statement of Financial Position.

	2014		2013	
	Carrying amount \$	Maximum Risk \$	Carrying amount \$	Maximum Risk \$
Government bonds				
Mortgage-backed securities (MBS)	37	37	38	38
Corporate and other bonds				
Commercial mortgage-backed securities (CMBS)	8	8	8	8
Asset-backed securities (ABS)	---	---	31	31
	45	45	77	77
Stocks				
Investment fund units managed internally	317	317	289	289
Investment fund units managed externally	254	254	299	299
	571	571	588	588
Total	616	616	665	665

The maximum risk represents the risk of total loss that the Company could suffer on investments in non-consolidated structured entities, which equals the carrying amount of these investments in the above table.

The Company markets investment products. The Company has determined that fee income resulting from managing mutual funds represents interests in non-consolidated structured entities. This fee income is based on the assets under management, and therefore, depends on the composition of the assets under management and fluctuations in financial markets. These fees, for an amount of \$319 (\$281 in 2013), are presented in the Income Statement as *Other revenues*.

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

	2014			
	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Total \$
Bonds (corporate and other)				
Financial services	1,440	1,110	302	2,852
Utilities	1,783	39	592	2,414
Consumer cyclical and non-cyclical	556	238	271	1,065
Energy	842	52	197	1,091
Industry	361	21	140	522
Communications	281	101	1	383
Other	22	24	5	51
Total	5,285	1,585	1,508	8,378

	2013 ¹			
	Designated at fair value through profit or loss \$	Available for sale \$	Loans and receivables \$	Total \$
Bonds (corporate and other)				
Financial services	1,198	812	264	2,274
Utilities	1,185	41	381	1,607
Consumer cyclical and non-cyclical	456	251	254	961
Energy	409	40	150	599
Industry	212	15	124	351
Communications	171	88	1	260
Other	76	12	8	96
Total	3,707	1,259	1,182	6,148

¹ In 2014, the Company modified the presentation of sectors of activity and adjusted the data as at December 31, 2013 to be on a comparative basis.

Mortgages by region and type

2014						
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
Insured mortgage loans						
Residential	1	638	57	14	---	710
Multi-residential	28	656	203	479	---	1,366
Non-residential	1	1	4	14	---	20
	30	1,295	264	507	---	2,096
Conventional mortgage loans						
Residential	---	88	2	2	1	93
Multi-residential	---	28	31	39	60	158
Non-residential	51	279	59	128	22	539
	51	395	92	169	83	790
Total	81	1,690	356	676	83	2,886

	2013					
	Atlantic provinces \$	Quebec \$	Ontario \$	Western provinces \$	Outside Canada \$	Total \$
Insured mortgage loans						
Residential	1	523	46	7	---	577
Multi-residential	32	628	207	429	---	1,296
Non-residential	1	1	5	16	---	23
	34	1,152	258	452	---	1,896
Conventional mortgage loans						
Residential	---	83	1	2	1	87
Multi-residential	---	33	32	38	48	151
Non-residential	43	210	57	135	18	463
	43	326	90	175	67	701
Total	77	1,478	348	627	67	2,597

Investment properties by type

	2014 \$	2013 \$
Residential and multi-residential	18	17
Office	963	866
Retail	178	165
Industrial	25	25
Land and other	6	6
Total	1,190	1,079

c) Interest Rate Risk

Interest rate risk arises from the uncertainty of the future interest rates in which maturing investments will be reinvested. The following table provides information on the maturity dates of the Company's investments subject to interest rate risk. Policy loans do not have a maturity date.

	2014		2013	
	Bonds \$	Mortgages \$	Bonds \$	Mortgages \$
Due in 1 year or less	794	241	780	180
Due after 1 year through 5 years	2,581	1,479	2,103	1,266
Due after 5 years through 10 years	2,322	607	1,797	623
Due after 10 years	12,878	559	10,427	528
Total	18,575	2,886	15,107	2,597

The effective yield is between 0.00% and 8.93% (0.10% and 11.47% in 2013) for bonds, between 1.76% and 24.90% (1.76% and 12.20% in 2013) for mortgages and between 3.75% and 4.50% (3.65% and 4.75% in 2013) 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 following tables present the maturities of financial liabilities:

	2014				
	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	98	---	---	---	98
Other policy liabilities	16	2	1	---	19
Mortgage debts	15	22	---	---	37
Amounts on deposit related to products other than insurance contracts	336	45	15	5	401
Short-selling securities	832	---	---	---	832
Investment contract liabilities	293	94	56	250	693
Derivative financial instruments	72	10	6	129	217
Other financial liabilities	550	9	3	1	563
Securities sold under repurchase agreement	758	---	---	---	758
Securitization	36	256	198	94	584
Debentures	---	---	---	597	597
Total	3,006	438	279	1,076	4,799

	2013				Total \$
	Due in 1 year or less \$	Due in 1 year to 3 years \$	Due in 3 years to 5 years \$	Due in over 5 years \$	
Benefits payable	92	---	---	---	92
Other policy liabilities	29	2	1	---	32
Mortgage debts	1	37	---	---	38
Amounts on deposit related to products other than insurance contracts	233	30	11	---	274
Short-selling securities	399	---	---	---	399
Investment contract liabilities	325	70	47	205	647
Derivative financial instruments	58	75	2	153	288
Other financial liabilities	459	4	---	---	463
Securities sold under repurchase agreement	336	---	---	---	336
Securitization	17	108	249	21	395
Debentures	---	---	---	499	499
Total	1,949	326	310	878	3,463

Annual interest payments will amount to \$2 for 2015 and to \$1 for 2016 on mortgage debts and to \$25 for the next 5 years on debentures.

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

8 › Derivative Financial Instruments

The Company is an end user of derivative financial instruments in the normal course of managing exposure to fluctuations in interest rates, currency exchange rates and fair values on invested assets. Derivative financial instruments are financial contracts whose value is derived from underlying interest rates, exchange rates, other financial instruments or index.

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are a transaction in which two counterparties exchange cash flows of the same nature and denominated in two different currencies.

Forwards, which are OTC contractual agreements negotiated between counterparties, and standardized futures contracts, which are traded on an organized market, are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price in advance during a given time or at a fixed date.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. The maximum credit risk of derivative financial instruments is \$223 (\$72 in 2013). 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.

	2014				Fair value	
	Notional amount			Total \$	Positive \$	Negative \$
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$			
Equity contracts						
Equity swaps	276	---	---	276	7	(3)
Futures contracts	321	---	---	321	2	(12)
Currency contracts						
Forward contracts	2,501	268	---	2,769	5	(53)
Currency swaps	10	81	719	810	1	(50)
Interest rate contracts						
Interest rate swaps	454	1,151	2,951	4,556	179	(54)
Bond contracts						
Forward contracts	1,519	250	---	1,769	31	(7)
Other derivative contracts						
	23	2	271	296	---	(38)
Total	5,104	1,752	3,941	10,797	225	(217)

	2013					
	Notional amount			Total	Fair value	
	Less than 1 year \$	1 to 5 years \$	Over 5 years \$		Positive \$	Negative \$
Equity contracts						
Equity swaps	278	---	---	278	12	---
Futures contracts	383	---	---	383	---	(14)
Currency contracts						
Forward contracts	1,418	---	---	1,418	1	(8)
Currency swaps	5	15	706	726	1	(18)
Futures contracts	147	---	---	147	---	---
Interest rate contracts						
Interest rate swaps	285	637	2,199	3,121	56	(118)
Bond contracts						
Forward contracts	523	550	---	1,073	1	(103)
Other derivative contracts	2	2	225	229	1	(27)
Total	3,041	1,204	3,130	7,375	72	(288)

Embedded derivative financial instruments

The Company owns perpetual preferred shares with call options which give the issuer the right to redeem the shares at a predetermined price. Accounting standards require that the value of the call options be measured separately from the preferred shares. The value of the call options for embedded derivative financial instruments is determined using a valuation which relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivative financial instruments are presented as other derivative contracts.

Hedge

	2014		
	Notional Amount	Fair Value	
		Positive \$	Negative \$
Derivative financial instruments not designated as hedge accounting	10,314	225	(211)
Net investment hedge	345	---	(6)
Fair value hedges			
Interest risk	138	---	---
Total of derivative financial instruments	10,797	225	(217)

	2013		
	Notional Amount	Fair Value	
		Positive \$	Negative \$
Derivative financial instruments not designated as hedge accounting	6,930	71	(286)
Net investment hedge	301	---	(2)
Fair value hedges			
Interest risk	119	1	---
Currency risk	25	---	---
Total of derivative financial instruments	7,375	72	(288)

Net investment hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than one year (less than one year in 2013). The effective portion of changes in fair value is recorded in Other comprehensive income such as foreign currency translation of the net investment in a foreign operation.

Fair value hedges

During the year ended December 31, 2014, the Company terminated a currency risk hedging relationship for financial assets classified as available for sale. However, during the year ended December 31, 2013, the Company used forward contracts to reduce its exposure to currency risk. These contracts, designated as currency risk hedging related to financial assets classified as available for sale, have maturities of less than one year. Changes in fair value due to the currency risk of the hedged item are recorded in investment income in the Income Statement against variations in fair value of the derivative financial instruments considered as a hedge.

The Company used bond forward contracts to reduce its exposure to interest rate risk. These contracts, designated as interest rate risk hedging related to financial assets classified as available for sale, have maturities of less than one year. Changes in fair value due to the interest rate of the hedged item are recorded in investment income in the Income Statement against variations in fair value of the derivative financial instruments considered as a hedge. Variations in fair value related to the credit risk of hedged items continue to be reported in the other comprehensive income.

The effects of fair value hedges on net income are composed as follows:

	2014		2013	
	Gains (losses) on derivatives	Gains (losses) for hedged items	Gains (losses) on derivatives	Gains (losses) for hedged items
	\$	\$	\$	\$
Interest rate risk	(6)	5	3	(4)

For the year ended December 31, 2014, the Company has hedge ineffectiveness creating a loss of \$1 (loss of \$1 in 2013).

Cash flow hedges

For the years ended December 31, 2014 and 2013, the Company has no cash flow hedges.

9 › Other Assets

	2014	2013
	\$	\$
Investment income due and accrued	127	137
Outstanding premiums	59	66
Due from reinsurers	52	44
Post-employment benefits	---	19
Due from agents	50	51
Accounts receivable	537	380
Deferred sales commissions	82	80
Prepaid expenses	15	13
Real estate held for resale	11	11
Linearization of rents	9	10
Income tax receivable	34	48
Securities purchased under reverse repurchase agreements	785	548
Miscellaneous	11	25
Total	1,772	1,432

The amount of *Other assets* that the Company expects to receive within the next 12 months is \$1,644 (\$1,282 as at December 31, 2013).

10 › Fixed Assets

	Own-use Property			
	Land	Real estate	Other	Total
	\$	\$	\$	\$
Cost				
Balance as at December 31, 2012	31	85	119	235
Acquisitions	---	6	17	23
Acquisitions through business combinations	---	---	6	6
Disposals/Write-offs	---	---	(3)	(3)
Transfer from investment properties	---	7	2	9
Balance as at December 31, 2013	31	98	141	270
Acquisitions	---	3	18	21
Disposals/Write-offs	---	---	(9)	(9)
Transfer from investment properties	2	2	---	4
Effect of changes in exchange rates	---	1	---	1
Balance as at December 31, 2014	33	104	150	287
Accumulated depreciation				
Balance as at December 31, 2012	---	34	75	109
Depreciation for the year	---	3	10	13
Depreciation acquired through business combinations	---	---	5	5
Depreciation on disposals/write-offs	---	---	(2)	(2)
Balance as at December 31, 2013	---	37	88	125
Depreciation for the year	---	4	13	17
Depreciation on disposals/write-offs	---	---	(8)	(8)
Balance as at December 31, 2014	---	41	93	134
Net carrying value as at December 31, 2014	33	63	57	153
Net carrying value as at December 31, 2013	31	61	53	145

The net carrying value of fixed assets held under a finance lease was \$1 as at December 31, 2014 (\$1 as at December 31, 2013).

11 › Intangible Assets and Goodwill

	Intangible assets			
	Software	Finite useful life	Indefinite useful life	Total
	application	Other	life	
	\$	\$	\$	\$
Cost				
Balance as at December 31, 2012	134	68	347	549
Acquisitions	26	7	---	33
Acquisitions through business combinations	3	41	14	58
Impairment	(3)	---	---	(3)
Balance as at December 31, 2013	160	116	361	637
Acquisitions	25	12	---	37
Acquisitions through business combinations	---	6	---	6
Reclassification after allocation of the purchase price	---	(5)	9	4
Effect of changes in exchange rates	---	1	---	1
Balance as at December 31, 2014	185	130	370	685
Accumulated depreciation				
Balance as at December 31, 2012	72	16	---	88
Depreciation for the year	8	6	---	14
Depreciation acquired through business combinations	1	5	---	6
Impairment	(1)	---	---	(1)
Balance as at December 31, 2013	80	27	---	107
Depreciation for the year	9	9	---	18
Balance as at December 31, 2014	89	36	---	125
Net carrying value as at December 31, 2014	96	94	370	560
Net carrying value as at December 31, 2013	80	89	361	530

Indefinite useful life intangible assets include funds management contracts. Finite useful life intangible assets presented in *Other* primarily represent the discounted value of future profits from distribution networks and from customer relationships.

	Preliminary goodwill \$	Goodwill \$	Total \$
Balance as at December 31, 2012	---	153	153
Adjustement ¹	---	87	87
Balance adjusted as at December 31, 2012	---	240	240
Acquisition of business	30	---	30
Effect of changes in exchange rates	---	(2)	(2)
Balance as at December 31, 2013	30	238	268
Acquisition of business	4	---	4
Transfer from preliminary goodwill to goodwill	(28)	28	---
Transfer from preliminary goodwill to intangible assets	(2)	---	(2)
Balance as at December 31, 2014	4	266	270

¹ During the year, a retroactive adjustment was made to recognize deferred income taxes related to certain intangible asset items.

No impairment was recognized in 2014 and 2013 in terms of goodwill and indefinite useful life intangible assets.

	2014		2013	
	Indefinite useful life intangible assets \$	Goodwill \$	Indefinite useful life intangible assets \$	Goodwill \$
Cash generating unit				
Individual Wealth Management	332	146	323	146
Individual Insurance	6	37	6	35
Group Insurance	1	55	1	55
General Insurance	2	11	2	11
U.S. Business	3	1	3	1
Other activities	26	20	26	20
Total	370	270	361	268

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if events or changes in circumstance occur that may cause the recoverable amount of a cash generating unit (CGU) to decrease to below its carrying value. The recoverable amount is the higher of fair value less selling costs and value in use. The value in use is based on the best estimates of future earnings, future expenses and the level and cost of future capital estimated on contract duration. The value attributed to new business is based on the Company's business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU, the Company uses judgment and various assumptions and estimates which could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the cost of capital, the discount rate, the value of new sales, expenses and any significant change in projected cash flows could result in significant changes in the recoverable values.

Individual Wealth Management, General Insurance and Other activities

The recoverable amount of CGU in the Individual Wealth Management, General Insurance and Other activities sectors was determined according to calculations of the value in use. These calculations call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in determining the recoverable value. The assumed discount rate for determining the value of the CGU is between 12% and 20% before tax (between 12% and 23% before tax in 2013). The assumptions used in the calculation are set for the growth rate between 2% and 9% (between 2% and 14% in 2013) and the long-term growth rate between 2% and 4% (between 2% and 4% in 2013).

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

Individual Insurance, Group Insurance and U.S. Business

The recoverable amount of CGU in the Individual Life Insurance, Group Insurance and U.S. Business sectors was determined according to calculations of the value in use. These calculations call upon discounted cash flow projections (or techniques) and represent estimated actuarial amounts which take into account the present value of shareholders net assets, future returns in force business and the returns of new business.

The assumed discount rate for determining the value of the CGU is more or less 11% before tax (more or less 12% before tax in 2013).

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.

12 Segregated Funds Net Assets

Policyholders can select from a variety of segregated funds. Although the underlying assets are registered in the name of the Company and the segregated funds policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the funds' investment performance. However, the Company offers guarantees on some contracts. The Company is exposed to equity market risk and interest rate risk as a result of these guarantees. Accordingly, the Company's exposure to loss from segregated fund products is limited to the value of these guarantees and the related liabilities are recorded in the insurance contract liabilities.

	2014	2013
	\$	\$
Assets		
Cash, short-term and other investments	946	616
Bonds	4,375	3,898
Stocks	13,420	12,399
Other assets	81	87
	18,822	17,000
Liabilities		
Accounts payable and accrued expenses	73	78
Currency contracts	1	1
	74	79
Net assets	18,748	16,921

	2014	2013
	\$	\$
Balance at beginning	16,921	15,021
Add:		
Amounts received from policyholders	2,633	2,073
Interest and dividends	591	595
Net realized gains	1,130	274
Net increase (decrease) in fair value	1	1,192
	21,276	19,155
Less:		
Amounts withdrawn by policyholders	2,169	1,917
Operating expenses	359	317
	2,528	2,234
Balance at end	18,748	16,921

The fair value of other assets and liabilities is approximately the same as the carrying value due to their short-term nature. The fair value of the assets, with the exception of the other assets, corresponds to the carrying value.

	2014	2013
	%	%
Type of funds		
Money market	1	1
Fixed income	24	21
Balanced	32	40
Equity	43	38
Total	100	100

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed grade income securities or high-yield bonds. The balanced funds consist of fixed income securities and a larger equity investment component. The equity funds which range from low volatility equity funds to aggressive equity funds, invest in a varying mix of Canadian, American and Global equities.

13 › Management of Insurance Risks

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, 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.

The Company has established guidelines pertaining to underwriting and claims adjudication risk 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.

Reinsurance Risk

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. Reinsurance risk is the risk of financial loss due to adverse developments in reinsurance markets, the risk of insolvency of a reinsurer or inadequate reinsurance coverage.

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 associated with the amounts ceded to reinsurers. This risk category includes legal risk, counterparty risk and liquidity risk resulting from reinsurance operations.

The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting several lives insured.

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 an increase in these provisions is required based on the periodic reviews of actuarial assumptions. A change of assumptions might arise from inadequate projection of experience results to determine future assumptions or non-compliance with actuarial valuation standards. These assumptions require professional judgment; and actual results may be different than the assumptions used. 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 CIA (or another relevant 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.

14 › Insurance Contract Liabilities and Investment Contract Liabilities

A) Insurance Contract Liabilities

Insurance contract liabilities are determined according to the Canadian Asset Liability Method (CALM) described in Note 2 *Significant Accounting Policies*, section I)

ii) *Insurance Contract Liabilities*. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits.

a) Composition

	2014	2013
	\$	\$
Provisions for future policy benefits	21,490	18,775
Other insurance contract liabilities		
Benefits payable and provision for unreported claims	212	202
Policyholders' amounts on deposit	287	280
Provisions for dividends to policyholders and experience rating refunds	32	31
	531	513
Balance at end	22,021	19,288

	Individual		2014 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Insurance contract liabilities (gross)						
Canada	14,350	1,275	1,366	3,416	(37)	20,370
United States	1,172	321	141	2	13	1,649
Other countries	2	---	---	---	---	2
Total	15,524	1,596	1,507	3,418	(24)	22,021
Reinsurance assets						
Canada	(4)	---	137	160	(5)	288
United States	555	291	128	2	15	991
Total	551	291	265	162	10	1,279
Net insurance contract liabilities	14,973	1,305	1,242	3,256	(34)	20,742

	Individual		2013 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Insurance contract liabilities (gross)						
Canada	11,986	1,147	1,269	3,207	(20)	17,589
United States	1,178	380	131	2	6	1,697
Other countries	2	---	---	---	---	2
Total	13,166	1,527	1,400	3,209	(14)	19,288
Reinsurance assets						
Canada	87	---	129	129	(1)	344
United States	677	356	124	2	6	1,165
Total	764	356	253	131	5	1,509
Net insurance contract liabilities	12,402	1,171	1,147	3,078	(19)	17,779

The fair value of assets backing net insurance contract liabilities as at December 31, 2014 was estimated at \$20,849 (\$17,882 as at December 31, 2013). Insurance contract liabilities are measured at fair value as per CALM method, except for liabilities backed by assets which are measured at amortized cost, such as mortgages.

b) Changes in Insurance Contract Liabilities and Reinsurance Assets

	2014			
	Provision for future policy benefits \$	Other insurance contract liability \$	Insurance contract liability \$	Reinsurance assets \$
Balance at beginning	18,775	513	19,288	1,509
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	2,638	---	2,638	(183)
On new policies	67	---	67	6
Changes in methods and assumptions	(133)	---	(133)	(144)
	2,572	---	2,572	(321)
Other	(3)	19	16	1
Changes in methods and assumptions	---	(6)	(6)	(1)
Acquisition of portfolio	8	---	8	---
Effect of change in exchange rates	138	5	143	91
Balance at end	21,490	531	22,021	1,279

	2013			
	Provision for future policy benefits	Other insurance contract liability	Insurance contract liability	Reinsurance assets
	\$	\$	\$	\$
Balance at beginning	19,334	494	19,828	1,892
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	(555)	---	(555)	(218)
On new policies	85	---	85	(23)
Changes in methods and assumptions	(208)	---	(208)	(219)
	(678)	---	(678)	(460)
Other	---	19	19	(9)
Changes in methods and assumptions		(3)	(3)	(1)
Effect of change in exchange rates	119	3	122	87
Balance at end	18,775	513	19,288	1,509

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts.

c) Risk Management and Assumptions for Valuation of Insurance Contract Liabilities

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their choice takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The margins for adverse deviations assumptions and methods used to establish the most significant assumptions are described below:

Mortality and Morbidity

Mortality represents the occurrence of death in a given population. The mortality assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative. For Individual Insurance, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates. For Individual Wealth Management and Group Savings and Retirement, annuity mortality improvement has been projected to occur throughout the future. For the Group Insurance segment, the expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

Morbidity represents the occurrence of accident or illness among insured risks. The morbidity assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative.

To manage mortality and morbidity risk, the Company uses uniform and detailed underwriting procedures that assess the insurability of the candidate and control exposure to large claims. The Company conducts monthly monitoring of technical results relating to claims and fixes retention limits that vary across markets and regions. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

As at December 31, 2014, the Company estimates that a 5% permanent deterioration in mortality rates would result in a \$162 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities (\$131 as at December 31, 2013). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

As at December 31, 2014, the Company estimates that a 5% deterioration in morbidity rates would result in a \$41 reduction in net income attributed to common shareholders (\$36 as at December 31, 2013). The 5% deterioration is expressed assuming 95% of the termination rate of disability when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is not invalid. An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

Investment return, interest rate risk and credit risk

The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of CALM is found in Note 2 *Significant Accounting Policies*, section I) ii) *Insurance Contract Liabilities*.

Interest rate risk is the risk of loss due to future changing interest rates. The investment returns are projected from the actual investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages the interest rate risk through an asset and liability matching policy which is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long term commitments, the Company favours an investment strategy that tends to achieve a balance between optimizing the after-tax return and capital protection since it is impossible to apply a complete immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

As at December 31, 2014, 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 \$34 after taxes (\$20 after taxes as at December 31, 2013). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about \$59 after taxes (\$59 after taxes as at December 31, 2013).

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, 2014, 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 \$28 lower than expected for its regular operations (\$25 as at December 31, 2013).

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.

Expenses

Maintenance expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. Policy maintenance expenses were calculated using the Company's internal expense allocation studies. No productivity gains are projected. Unit expense factors are projected to increase in the future assuming an inflation rate, established coherently with the interest rate assumption.

The risk related to expenses is the risk that the costs of future expenses are greater than the estimated costs in the measurement of liabilities or used in the design and pricing of products. A rigorous budget process is implemented annually. The budget is monitored on an ongoing basis throughout the year to assess the differences between budgeted costs and actual costs. To manage the risk, the Company prices its products to cover expected costs.

As at December 31, 2014, the Company estimates that a 5% deterioration in unit costs would result in a \$41 reduction in net income attributed to common shareholders (\$34 as at December 31, 2013). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

Lapses

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Expected lapse rate assumptions are generally based on the Company's recent lapse experience. Estimates of future lapse rates are adjusted to take into account industry experience where the Company's experience is limited. Long-term lapse rate assumptions take into account the usually lower lapse rates with respect to lapse-supported products compared to the rates of other products.

The Company reduces its exposure as much as possible through the way it develops its products. The contracts are built with modalities having a positive impact on the lapse rate. These modalities may result in charges for redemption, by limitations on the amounts redeemed or by limitations regarding the moment when redemptions may be made. Finally, the Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2014, the Company estimates that a 5% deterioration in lapse rates would result in a \$167 reduction in net income attributed to common shareholders (\$158 as at December 31, 2013). These rates were evaluated respecting the adjustability of certain products. An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

Premium Payment Patterns

For Universal Life contracts, the assumptions must be established according to the premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

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.

Guarantees on Segregated Funds

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. 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. The Company has set up a dynamic hedging program. In this program, a large part of the variations in the economic worth of the liability are offset by variations in assets held under the hedging program. 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.

A liability related to the segregated funds guarantees granted by the Company is maintained in the general fund. The amount of liability is at least as great as the amount determined using the methodology defined by the CIA.

Margins for Adverse Deviations

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the Appointed Actuary must adjust these assumptions to include margins for adverse deviation and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range for these margins is set out in standards issued by the CIA. The factors considered in the selection of appropriate margins include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back as an increase in the *Net income*.

d) Impact of Changes in Assumptions and Methodologies on Net Insurance Contract Liabilities

A review of the assumptions and methods is performed annually to reflect changing experience and to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in assumptions and methodologies as well as their explanation:

	2014	2013	
	\$	\$	
Mortality	(64)	(36)	Explained by the annual mortality study update
Morbidity	(4)	(1)	Explained by the annual update
Policyholders' behavior	268	163	Mainly explained by the behavior of Universal Life policyholders
Investment returns	(137)	(84)	Explained by the decrease in the initial investment rate (IRR) and by a change in actuarial standards of practice resulting in an increase in the ultimate reinvestment rate (URR) in 2014, and in 2013 by an increase of IRR and a decrease of URR.
Expenses	(73)	(2)	Explained by the adoption of Bill C-43 (taxes on investment income) and by the increase of the unit cost in 2014, and in 2013 by the decrease of the unit cost
Methodology and other	15	(32)	Various modelling improvements in the provisions for future policy benefits
Impact on net non-participating insurance contract liabilities	5	8	
Impact on net participating insurance contract liabilities	1	1	
Impact on net insurance contract liabilities	6	9	

B) Investment Contract Liabilities

a) Composition

Non-participating deficit reimbursement agreement group insurance contracts are classified as investment contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The investment contract liabilities fair value for non-participating deficit reimbursement agreement group insurance contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

	Individual	2014 Group		
	Insurance \$	Insurance \$	Savings and Retirement \$	Total \$
Investment Contract Liabilities (gross)				
Canada	---	668	1	669
Other countries	24	---	---	24
Total	24	668	1	693
Reinsurance assets				
Canada	---	89	---	89
Net investment contract liabilities	24	579	1	604

	Individual	2013 Group		
	Insurance \$	Insurance \$	Savings and Retirement \$	Total \$
Investment Contract Liabilities (gross)				
Canada	---	627	1	628
Other countries	19	---	---	19
Total	19	627	1	647
Reinsurance assets				
Canada	---	82	---	82
Net investment contract liabilities	19	545	1	565

Fair value of assets backing net investment contract liabilities as at December 31, 2014 represents approximately \$611 (\$570 as at December 31, 2013).

b) Variations in net investment contract liabilities

	2014		2013	
	Investment contract liabilities \$	Reinsurance assets \$	Investment contract liabilities \$	Reinsurance assets \$
Balance at beginning	647	82	615	75
Deposits	137	12	108	22
Withdrawals	(129)	(9)	(85)	(9)
Increase (decrease) in investment contract liabilities				
Interest	27	4	9	(6)
Other	11	---	---	---
	38	4	9	(6)
Balance at end	693	89	647	82

C) Assets backing liabilities and equity

The carrying value of total assets backing insurance contract liabilities, investment contract liabilities, other liabilities and equity are as follows:

	Individual		2014 Group					Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	Insurance contract liabilities total \$	Investment contract liabilities \$	Other liabilities and equity \$
Cash and short-term investments	285	124	20	25	---	454	9	35
Bonds	9,718	663	1,000	2,454	(18)	13,817	479	4,279
Mortgages	327	391	213	743	---	1,674	110	1,102
Stocks	2,709	6	10	33	---	2,758	6	478
Policy loans	709	2	---	---	---	711	---	2
Other invested assets	25	55	---	---	---	80	---	---
Derivative financial instruments ¹	(13)	64	(2)	---	---	49	---	(41)
Investment properties	1,213	---	1	1	(16)	1,199	---	(9)
Reinsurance assets	551	291	265	162	10	1,279	89	---
Others	---	---	---	---	---	---	---	2,814
Total	15,524	1,596	1,507	3,418	(24)	22,021	693	8,660

	Individual		2013 Group					Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	Insurance contract liabilities total \$	Investment contract liabilities \$	Other liabilities and equity \$
Cash and short-term investments	102	144	41	9	---	296	18	209
Bonds	7,696	656	879	2,288	(6)	11,513	431	3,163
Mortgages	382	404	196	749	---	1,731	111	755
Stocks	2,609	6	30	30	---	2,675	5	440
Policy loans	606	4	1	---	---	611	---	1
Other invested assets	23	29	---	---	---	52	---	28
Derivative financial instruments ¹	(121)	(72)	(1)	1	---	(193)	---	(23)
Investment properties	1,105	---	1	1	(13)	1,094	---	(15)
Reinsurance assets	764	356	253	131	5	1,509	82	---
Others	---	---	---	---	---	---	---	2,415
Total	13,166	1,527	1,400	3,209	(14)	19,288	647	6,973

¹ In its matching process, the Company considers the net value of derivative financial instruments, therefore, both assets and liabilities. Derivative financial instruments liabilities match Individual Insurance for an amount of \$96 (\$129 in 2013) and Individual Wealth Management for an amount of \$67 (\$128 in 2013).

15 Other Liabilities

	2014	2013
	\$	\$
Unearned premiums	432	373
Other policy liabilities	34	40
Mortgage debts	37	38
Post-employment benefits	199	118
Income taxes payable	31	58
Amounts on deposit on products other than insurance contracts	401	274
Accounts payable	515	425
Due to reinsurers	48	38
Deferred revenue	3	5
Securities sold under repurchase agreement	758	336
Short-selling securities	832	399
Securitization	584	395
Fair value of purchased business in force	13	13
Miscellaneous	6	8
Total	3,893	2,520

16 Debentures

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Subordinated debentures bearing interest at 2.80%	248	253	---	---
Subordinated debentures bearing interest at 4.75%	249	262	249	265
Subordinated debentures bearing interest between 5.63% and 7.00%	100	112	100	110
Subordinated debentures bearing interest at 5.13%	---	---	150	153
Total	597	627	499	528

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

Subordinated debentures bearing interest at 2.80%

Subordinated debentures maturing May 16, 2024, bearing interest of 2.80%, payable semi-annually from May 16, 2014 to May 16, 2019, and a variable interest rate equal to the three-month bank acceptance (Canadian Dealer Offered Rate (CDOR)) plus 0.79%, payable quarterly commencing August 16, 2019 until May 16, 2024. These subordinated debentures are redeemable by the Company starting May 16, 2019, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes transaction costs and issue premium for a total of \$1.

Subordinated debentures bearing interest at 4.75%

Subordinated debentures maturing December 14, 2021, bearing interest at 4.75%, payable semi-annually, commencing on June 14, 2012 until December 14, 2016. Thereafter, interest will be payable at a rate per annum equal to the three-month CDOR plus 3.20%, payable quarterly, commencing March 14, 2017. These subordinated debentures are redeemable by the Company starting December 14, 2016, in whole or in part, subject to approval by the regulatory authorities. The carrying value of the debentures includes transaction costs and issue premium for a total of \$1.

Subordinated debentures bearing interest at 5.63% and 7.00%

Subordinated debentures maturing on August 1, 2023. The principal debentures of \$88 bear interest at 5.63% payable semi-annually until August 1, 2018. The secondary debentures of \$12 bore 7.00% interest payable semi-annually until August 1, 2013 and bear interest of 5.63% payable semi-annually until 2018. After that date, the interest on the principal and secondary debentures will be the 90-day Bankers' Acceptance rate plus 1%, adjusted on the last day of each quarter and payable semi-annually. These subordinated debentures are redeemable by the Company after August 1, 2018, in whole, but not in part, at par, with the prior approval of the AMF.

Subordinated debentures bearing interest at 5.13%

On June 30, 2014, the Company redeemed all subordinated debentures with a nominal value of \$150, bearing interest at 5.13% payable semi-annually from June 30, 2004 to June 30, 2014, with a maturity date of June 30, 2019. On or after June 30, 2014, the Company may redeem the debentures in whole, but not in part, on each payment date of quarterly interest, at par, with the prior approval of the AMF. The Company paid to the holders of subordinated debentures a redemption price equal to the nominal value plus accrued and unpaid interest.

17 Share Capital

The authorized share capital consists of the following:

Common Shares

Unlimited common shares without par value, with voting rights.

Preferred Shares

Unlimited preferred shares of class A, without par value, without voting rights that can be issued in series and 10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, which can be issued in series.

3,000,000 Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the issuing value at the Company's option under certain conditions, including approval by the AMF, convertible at the option of the holder into common shares at 95% of the market value of these shares. This conversion option may itself lead to a conversion of the series 1 preferred shares into series 2 preferred shares at the Company's option.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the option of the Company at the issuing value, multiplied by 1.0526 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 and convertible at the option of the shareholders, subject to approval by AMF, into new Class A preferred shares.

An unlimited number of class A – Series C preferred shares, without par value, without voting rights, non-cumulative quarterly dividend and adjusted every 5 years with an initial annual rate in cash of 1.55 dollars per share, redeemable in whole or in part at the option of the Company after December 31, 2013 and thereafter on December 31 every 5 years, subject to approval by the AMF, for 25 dollars per share, and convertible at the option of the shareholders into class A – Series D preferred shares commencing on December 31, 2013 and thereafter on December 31 every 5 years.

An unlimited number of class A – Series D preferred shares, without par value, without voting rights, non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on December 31, 2018 and thereafter on December 31 every 5 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 every 5 years.

An unlimited number of class A – Series E preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash with an annual rate of 1.50 dollars per share, redeemable in whole or in part at the option of the Company commencing on December 31, 2014, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series F preferred shares, without par value, without voting rights, fixed non-cumulative quarterly dividend in cash with an annual rate of 1.475 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2015, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of class A – Series G preferred shares, without par value, without voting rights, non-cumulative quarterly dividend in cash with an annual rate equal to 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 5 years for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into class A – Series H preferred shares commencing on June 30, 2017 and thereafter on June 30 every 5 years.

An unlimited number of class A – Series H preferred shares, without par value, without voting rights, non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on June 30, 2022, and on June 30 every 5 years for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any other date other than at series H conversion dates after June 30, 2017, for an amount of 25.50 dollars, subject to approval by the AMF and convertible at the option of the shareholders into class A – Series G preferred shares commencing on June 30, 2022 and thereafter on June 30 every 5 years.

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

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

The capital issued by the Company is the following:

	2014		2013	
	Number of shares (in thousands)	Amount \$	Number of shares (in thousands)	Amount \$
Common shares				
Balance at beginning	99,342	1,184	91,024	879
Shares issued on exercise of stock options	477	18	982	35
Shares issued for Dividend Reinvestment and Stock Purchase plan	956	42	711	29
Shares issued	---	---	6,625	241
Balance at end	100,775	1,244	99,342	1,184
Preferred shares, class A				
Balance at beginning	23,000	575	27,000	675
Shares redeemed – Series C	---	---	(4,000)	(100)
Shares redeemed – Series E	(4,000)	(100)	---	---
Balance at end	19,000	475	23,000	575
Total of share capital		1,719		1,759

Common Shares

Issues

On February 27, 2013, the Company completed the closing of a common share issue. Under this offering, a total of 6,330,000 common shares were issued for a net cash amount of \$228.

On October 1, 2013, the Company issued 295,253 common shares for an amount of \$13 for the payment related to a business acquisition. (More details are presented in Note 4).

Preferred Shares

Redemption

On December 31, 2013, the Company redeemed all 4,000,000 preferred shares class A – Series C, at a price of \$25.00 per share, for a cash amount of \$100.

On December 31, 2014, the Company redeemed all of the 4,000,000 preferred shares class A - Series E, with a value of \$25.00 per share at a price of \$26.00 per share for a cash amount of \$104. The redemption premium of \$4 was recorded against retained earnings.

Dividends

	2014		2013	
	Gross \$	Per share \$	Gross \$	Per share \$
Common shares	106	1.06	96	0.98
Preferred shares				
Category A – Series B	6	1.15	6	1.15
Category A – Series C	---	---	6	1.55
Category A – Series E	6	1.50	6	1.50
Category A – Series F	6	1.48	6	1.48
Category A – Series G	11	1.08	11	1.08
	29		35	
Total	135		131	

Dividends declared and not recognized on common shares

A dividend of \$0.28 per share was approved by the Board of Directors on February 12, 2015. This dividend will be paid on March 16, 2015 to the shareholders of record as of February 27, 2015. This dividend was not recorded as a liability in these financial statements. It will be recognized in the equity on February 28, 2015.

Dividend Reinvestment and Share Purchase Plan

Since November 7, 2012, the Company offers a Dividend Reinvestment and a Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized. Dividends reinvested in common shares, under the terms of this plan, namely \$41 in 2014 (\$28 in 2013), are also recognized as dividends. Issued shares with regards to the terms of this plan \$1 in 2014 (\$1 in 2013) are recognized in the share capital.

18 › Accumulated Other Comprehensive Income

	Bonds	Stocks	Currency Translation	Hedging	Total
	\$	\$	\$	\$	\$
Balance as at December 31, 2012	38	8	(15)	8	39
Unrealized gains (losses)	(53)	(14)	---	---	(67)
Income taxes on unrealized gains (losses)	14	3	---	---	17
Other	---	---	20	(19)	1
Income taxes on other	---	---	---	5	5
	(39)	(11)	20	(14)	(44)
Realized losses (gains)	(20)	4	---	---	(16)
Income taxes on realized losses (gains)	6	---	---	---	6
	(14)	4	---	---	(10)
Balance as at December 31, 2013	(15)	1	5	(6)	(15)
Unrealized gains (losses)	103	5	---	---	108
Income taxes on unrealized gains (losses)	(27)	(2)	---	---	(29)
Other	---	---	32	(29)	3
Income taxes on other	---	---	---	8	8
	76	3	32	(21)	90
Realized losses (gains)	(18)	3	---	---	(15)
Income taxes on realized losses (gains)	5	(1)	---	---	4
	(13)	2	---	---	(11)
Balance as at December 31, 2014	48	6	37	(27)	64

19 › Capital Management

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

To reach its objectives, the Company has a program of integrated risk management that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This program includes a capital management policy which comprises a report on integrated risk management and a report on dynamic capital adequacy testing (DCAT) that enable the identification of risks and contains proposals for possible risk management actions. DCAT consists in quantifying the financial impact of adverse scenarios related among other things to stress on the stock market, interest rates and credit. These documents are revised annually and filed with the Board of Directors.

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

Regulatory Requirements and Solvency Ratio

The Company's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF.

According to this guideline, regulatory capital contains 2 categories:

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

Tier 2 capital, which is primarily composed of subordinated debentures.

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

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

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

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

The Company manages its capital on a consolidated basis. In the management of its capital, the Company has set a target range of 175% to 200% according to its financial flexibility for its solvency ratio. The Company also makes sure that most of its capital is Tier 1. As at December 31, 2014 and 2013, the Company maintained ratios that satisfy both the regulatory requirements and the target level it has set for itself. The Company also has subsidiaries in the United States, which meet the local regulatory capitalization and solvency requirements.

Regulatory Capital

	2014	2013
	\$	\$
Available capital		
Total Tier 1 capital (net)	3,217	3,166
Total Tier 2 capital (net)	667	497
Total	3,884	3,663
Required capital	1,861	1,687
Solvency ratio	209%	217%

20 › General Expenses

General expenses by nature

	2014	2013
	\$	\$
Salaries, benefits and stock-based compensation	429	383
Professional fees	145	139
Depreciation of fixed assets (Note 10)	13	10
Depreciation of own-use properties (Note 10)	4	3
Depreciation of intangible assets (Note 11)	18	14
Impairment of goodwill and intangible assets (Note 11)	---	2
Real estate operating expenses	81	73
Other administrative expenses	208	192
Total	898	816

General expenses by function

	2014	2013
	\$	\$
Operating expenses	718	648
Investment and management fees	99	95
Real estate operating expenses	81	73
Total	898	816

21 › Financing Charges

	2014	2013
	\$	\$
Interest on debentures	26	33
Premiums on redemption of debentures	---	9
Interest on securitization liabilities	9	5
Others	15	13
Total	50	60

22 › Income Taxes

a) Income tax expense for the year

Income tax	2014	2013
	\$	\$
Current income taxes		
Current year	86	70
Adjustments of previous years	(26)	30
	60	100
Deferred income taxes		
Creation and reversal of temporary differences	(22)	24
Adjustments of previous years	(38)	(21)
	(60)	3
Total	---	103
Tax recognized directly in equity		
	2014	2013
	\$	\$
Recognized in other comprehensive income		
Current income tax expense (recovery)	2	(5)
Deferred income tax expenses (recovery)	(11)	(5)
	(9)	(10)
Recognized in share capital and retained earnings		
Deferred income tax expenses (recovery)	---	(1)
	---	(1)

b) Reconciliation of income tax expense

The effective income tax rate is lower than the Canadian statutory tax rate due to the following items:

	2014		2013	
	\$	%	\$	%
Income before income taxes	435	---	491	---
Income tax expense at Canadian statutory tax rate	116	27	131	27
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	---	---	1	---
Tax-exempt investment income	(38)	(9)	(25)	(5)
Unused (used) tax losses not recognized as deferred tax assets	(12)	(3)	(5)	(1)
Non-taxable portion of the change in fair value of investment properties	(1)	---	(7)	(2)
Recovery of unrecognized tax losses from previous periods	(13)	(3)	---	---
Adjustments of previous years	(51)	(12)	9	2
Variation in tax rates	(1)	---	(1)	---
Income tax expense (recovery) and effective income tax rate	---	---	103	21

c) Deferred income taxes

i) Recognized deferred income tax assets and liabilities

	Deferred income tax assets		Deferred income tax liabilities	
	2014	2013	2014	2013
	\$	\$	\$	\$
Insurance contract liabilities ¹	(5)	---	(140)	(37)
Real estate	(2)	2	116	114
Bonds	(6)	2	107	55
Intangible assets	---	---	103	101
Stocks	---	---	83	89
Post-employment benefits	6	3	(51)	(28)
Others	66	33	17	(8)
	59	40	235	286
Net deferred income tax liability			176	246

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred tax relates to the same taxable entity and the same taxation authority and the Company intends either to settle on a net basis, or realize the asset and settle the liability simultaneously.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

	Insurance contract liabilities	Real estate	Bonds	Stocks	Intangible assets	Post- employment benefits	Other	Total
	\$	\$	\$	\$		\$	\$	\$
Balance as at December 31, 2012	(42)	(98)	(71)	(37)	3	49	30	(166)
Adjustment ¹	---	---	---	---	(87)	---	---	(87)
Balance adjusted as at December 31, 2012	(42)	(98)	(71)	(37)	(84)	49	30	(253)
Recognized in net income	61	(14)	17	(52)	(3)	---	(12)	(3)
Recognized in other comprehensive income	19	---	1	---	---	(18)	3	5
Acquired through business combinations	---	---	---	---	(3)	---	2	(1)
Effect of changes in exchange rates	(1)	---	---	---	---	---	1	---
Recognized as goodwill	---	---	---	---	(11)	---	---	(11)
Recognized in equity other than accumulated other comprehensive income	---	---	---	---	---	---	1	1
Other	---	---	---	---	---	---	16	16
Balance as at December 31, 2013	37	(112)	(53)	(89)	(101)	31	41	(246)
Recognized in net income	117	(6)	(60)	6	1	---	2	60
Recognized in other comprehensive income	(18)	---	---	---	---	26	3	11
Effect of changes in exchange rates	(1)	---	---	---	---	---	2	1
Recognized as goodwill	---	---	---	---	(3)	---	1	(2)
Balance as at December 31, 2014	135	(118)	(113)	(83)	(103)	57	49	(176)

¹ During the year, the Company made a retroactive adjustment to recognize deferred income taxes related to certain intangible asset items.

Non capital carryforward tax losses for which a deferred tax asset has not been recognized amount to \$13 (\$72 in 2013). These losses will expire between the years 2024 and 2034.

The Company is subject to income tax laws in Canada and the United States. Tax laws are complex and may be subject to different interpretations by the Company and by the tax authority. The provision for income taxes and deferred income taxes represent the Company's interpretation of the tax laws and estimates of current and future tax consequences of the transactions and events during the period. In addition, future events, such as changes in tax laws, tax regulations or the interpretations of such laws or regulations could have a material effect on the amounts of the tax expense, on the deferred income tax assets and liabilities and the effective tax rate during the year in which they occur.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, associates and joint ventures unless the Company is able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2014, temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which a deferred tax liability has not been recognized amount to \$111 (\$41 in 2013).

23 Segmented Information

The Company operates and manages its activities according to five reportable operating segments. The Company primarily operates in Canada and the operations outside Canada are not significant. The major products and services of each sector are:

Individual Insurance – Offers life, health, disability, and mortgage insurance products.

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

Group Insurance – Offers life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products.

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

Other activities – General insurance products, products related to car insurance, subsidiaries not related to the insurance sector, and assets and liabilities unallocated and allocated to the surplus as well as eliminations and consolidation entries.

Segmented Income Statements

	Individual		2014 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Revenues						
Net premiums	1,495	1,464	1,262	920	285	5,426
Investment income	2,624	243	136	329	(162)	3,170
Other revenues	117	965	33	62	(93)	1,084
	4,236	2,672	1,431	1,311	30	9,680
Operating expenses						
Gross benefits and claims on contracts	841	1,314	871	963	167	4,156
Ceded benefits and claims on contracts	(302)	(40)	(60)	(25)	12	(415)
Net transfer to segregated funds	---	315	---	110	---	425
Increase (decrease) in insurance contract liabilities	2,245	36	91	200	---	2,572
Increase (decrease) in investment contract liabilities	1	---	37	---	---	38
Decrease (increase) in reinsurance assets	271	93	(4)	(31)	(12)	317
Commissions, general and other expenses	763	793	464	69	13	2,102
Financing charges	117	11	3	2	(83)	50
	3,936	2,522	1,402	1,288	97	9,245
Income before income taxes	300	150	29	23	(67)	435
Income taxes	(37)	32	2	3	---	---
Net income before allocation of other activities	337	118	27	20	(67)	435
Allocation of other activities	(62)	(6)	3	(2)	67	---
Net income	275	112	30	18	---	435
Net income attributed to participating policyholders	3	---	---	(1)	---	2
Net income attributed to shareholders	272	112	30	19	---	433

	Individual		2013 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Revenues						
Net premiums	1,425	1,107	1,273	944	258	5,007
Investment income	297	(145)	64	58	(189)	85
Other revenues	61	810	35	60	(35)	931
	1,783	1,772	1,372	1,062	34	6,023
Operating expenses						
Gross benefits and claims on contracts	720	1,291	848	836	150	3,845
Ceded benefits and claims on contracts	(209)	(36)	(59)	(25)	11	(318)
Net transfer to segregated funds	---	(61)	---	269	---	208
Increase (decrease) in insurance contract liabilities	(88)	(511)	31	(116)	6	(678)
Increase (decrease) in investment contract liabilities	1	---	8	---	---	9
Decrease (increase) in reinsurance assets	210	260	9	(4)	(9)	466
Commissions, general and other expenses	681	666	478	63	52	1,940
Financing charges	111	12	5	3	(71)	60
	1,426	1,621	1,320	1,026	139	5,532
Income before income taxes	357	151	52	36	(105)	491
Income taxes	39	41	9	7	7	103
Net income before allocation of other activities	318	110	43	29	(112)	388
Allocation of other activities	(99)	(3)	(4)	(6)	112	---
Net income	219	107	39	23	---	388
Net income attributed to participating policyholders	3	---	---	---	---	3
Net income attributed to shareholders	216	107	39	23	---	385

Segmented Premiums

	Individual		2014 Group			Total \$
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	
Gross premiums						
Invested in general fund	1,835	131	1,390	161	220	3,737
Invested in segregated funds	---	1,352	---	783	---	2,135
Total	1,835	1,483	1,390	944	220	5,872
Premiums ceded						
Invested in general fund	340	19	128	24	(65)	446
Net premiums	1,495	1,464	1,262	920	285	5,426

	Individual		2013 Group			
	Insurance	Wealth	Insurance	Savings and	Other	Total
	\$	Management	\$	Retirement	\$	\$
		\$		\$		
Gross premiums						
Invested in general fund	1,711	149	1,395	116	220	3,591
Invested in segregated funds	---	988	---	852	---	1,840
Total	1,711	1,137	1,395	968	220	5,431
Premiums ceded						
Invested in general fund	286	30	122	24	(38)	424
Net premiums	1,425	1,107	1,273	944	258	5,007

Segmented Statements of Financial Position

	Individual		2014 Group			
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	Total \$
Assets						
Invested assets and segregated fund assets	22,804	14,030	2,183	10,361	(3,221)	46,157
Reinsurance assets	551	291	354	162	10	1,368
Intangible assets	115	394	18	8	25	560
Goodwill	59	146	54	---	11	270
Other	---	---	---	---	1,984	1,984
Total assets	23,529	14,861	2,609	10,531	(1,191)	50,339
Liabilities						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	15,548	13,421	2,175	10,342	(24)	41,462
Debentures	4,267	187	44	12	(3,913)	597
Other	13	---	---	---	4,332	4,345
Equity	2,672	789	332	93	49	3,935
Total liabilities and equity	22,500	14,397	2,551	10,447	444	50,339

	Individual		2013 Group			
	Insurance \$	Wealth Management \$	Insurance \$	Savings and Retirement \$	Other \$	Total \$
Assets						
Invested assets and segregated fund assets	17,511	12,645	2,045	9,349	(1,439)	40,111
Reinsurance assets	764	356	335	131	5	1,591
Intangible assets	99	383	19	5	24	530
Goodwill	60	145	54	---	9	268
Other	---	---	---	---	1,617	1,617
Total assets	18,434	13,529	2,453	9,485	216	44,117
Liabilities						
Insurance contract liabilities, investment contract liabilities and segregated fund liabilities	13,185	12,336	2,027	9,322	(14)	36,856
Debentures	2,490	161	37	18	(2,207)	499
Other	13	---	---	---	3,081	3,094
Equity	2,424	698	336	163	47	3,668
Total liabilities and equity	18,112	13,195	2,400	9,503	907	44,117

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.

	2014	2013
Net income attributed to common shareholders	400	350
Weighted average number of outstanding shares (in millions of units)	99.9	97.2
Basic earnings per share (in dollars)	4.01	3.60

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 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). In 2014, an average of 42,710 antidilutive stock options were excluded from the calculation (none in 2013).

	2014	2013
Net income attributed to common shareholders	400	350
Weighted average number of outstanding shares (in millions of units)	99.9	97.2
Add: dilutive effect of stock options granted and outstanding (in millions of units)	0.9	0.7
Weighted average number of outstanding shares on a diluted basis (in millions of units)	100.8	97.9
Earnings per diluted share (in dollars)	3.97	3.57

There was no transaction on common shares that could affect these calculations after the closing date and before the date of authorization for issue of these financial statements.

25 › Stock-Based Compensation

Stock Option Plan

The Company grants a certain number of common stock options to the 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 four anniversaries of the grant. In certain cases, the Human Resources and Corporate Governance Committee can modify the number of options purchased following an event forwarding the expiration date of the option.

The Board can grant options for a total of 7,893,300 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.

The following table presents the evolution of the plan:

	2014		2013	
	Number of stock options (in thousands)	Weighted average exercise price (in dollars)	Number of stock options (in thousands)	Weighted average exercise price (in dollars)
At beginning	3,418	31.94	3,940	30.59
Options granted	490	43.38	498	35.51
Options exercised	(477)	30.32	(982)	28.21
Options cancelled or expired	---	---	(38)	34.94
At end	3,431	33.80	3,418	31.94
Exercisable at end	2,215	32.00	2,196	31.39

The stock options outstanding as at December 31, 2014 by exercise prices are as follows:

Exercise prices (in dollars)	Number of options (in thousands)	Weighted average exercise price (in dollars)	Average remaining life (in years)
18.63 – 23.44	310	19.23	4.10
23.45 – 28.72	480	26.07	7.00
28.73 – 32.08	537	31.45	3.76
32.09 – 43.38	2,104	38.31	6.16
Total	3,431	33.80	5.71

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 2014 is \$10.28 (\$7.25 in 2013). The pricing model assumes the following information:

	2014	2013
Risk-free interest rate	1.81%	1.71%
Expected volatility	27.90%	25%
Expected life	6.4 years	6.3 years
Expected dividends	2.34%	2.67%
Exercise price	\$43.38	\$35.51

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

The stock-based compensation expense during the year is \$4 (\$3 in 2013), and an equivalent amount was accounted in *Contributed Surplus* of the Equity Statements.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding shares of the Company and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of 2 years. During the year, the remuneration expense for this plan is \$1 (\$1 in 2013).

Deferred Share Units (DSU)

The plan is offered to the Company's directors and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration or management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis and rights issued are generally vested immediately. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 321,544 (328,040 in 2013) units and the remuneration expense for the plan, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income*, is \$0 (\$6 in 2013) and the liability is \$14 (\$16 in 2013).

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 3 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, 2014, 106,068 (75,690 in 2013) performance share units are outstanding, and the compensation expense recognized in respect of this plan is \$2 (\$2 in 2013) and the liabilities are \$5 (\$3 in 2013).

Stock-based compensation expense

	2014	2013
	\$	\$
Expenses arising from equity-settled stock-based payment transactions	4	3
Expense arising from cash-settled stock-based payment transactions	3	9
Total of stock-based compensation expense	7	12

These expenses are recorded in the Income Statement as *General expenses*.

26 Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans which provide pension benefits and a defined contribution plan.

Defined Benefit Plans

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end of career plans based on the average of the best five years of salary. No indexation clause is included in the plan. The defined benefit plans are administered separately from the Company by retirement funds that are legally distinct entities. The retirement plan retirement committees are made up of members from the Company, members of retirement plans and non-members of retirement plans. The laws and regulations that the retirement plans are subject to require that the retirement committees act in the interests of the retirement funds and stakeholders, such as active, inactive and retired members. The retirement committees are responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2013 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2013. The next required valuation will be performed as at December 31, 2014 and will be available later in 2015.

Other Post-Retirement Benefits

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

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the period is as follows:

	2014		2013	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Accrued benefit plan obligations				
Balance at beginning	773	33	733	44
Current service cost	24	2	24	1
Interest cost	38	1	34	2
Employee contributions	17	---	18	---
Actuarial losses (gains) following re-measurement				
Actuarial losses (gains) on demographic assumption changes	---	1	43	1
Actuarial losses (gains) on financial assumption changes	132	5	(60)	(3)
Actuarial losses (gains) arising from members experience	(1)	(1)	2	(1)
Past service cost	---	---	---	(10)
Benefits paid	(25)	(1)	(21)	(1)
Balance at end	958	40	773	33

	2014		2013	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Defined benefit plan assets				
Fair value at beginning	708	---	605	---
Interest income	35	---	28	---
Actuarial gains (losses) following re-measurement				
Return of assets (excluding the amount included in the net interest)	39	---	49	---
Administrative expense	(1)	---	(1)	---
Employee contributions	17	---	18	---
Employer contributions	26	---	30	---
Benefits paid	(25)	---	(21)	---
Fair value at end	799	---	708	---

Amounts recognized in the net income and other comprehensive income

	2014		2013	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Service cost				
Current service costs	24	2	24	1
Past service costs	---	---	---	(10)
Net interest	3	1	6	2
Administrative expense	1	---	1	---
Components of the cost of defined benefits recognized in the net income	28	3	31	(7)
Re-measurement of net liabilities (assets) as defined benefits				
Rate of return of assets (excluding amounts included in the net interest above)	(39)	---	(49)	---
Actuarial losses (gains) on demographic assumption changes	---	1	43	1
Actuarial losses (gains) on financial assumption changes	132	5	(60)	(3)
Actuarial losses (gains) arising from members experience	(1)	(1)	2	(1)
Losses (gains) of components of the cost of defined benefits recognized in the accumulated other comprehensive income	92	5	(64)	(3)
Total of defined benefit cost components	120	8	(33)	(10)

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2013). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the Plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the period is 23.1 years (20.1 years in 2013) and 11.7 years (11.9 years in 2013) for the other plans. The Company estimates that it will have to contribute an amount of \$28 to its defined benefit plans in 2015.

The amount in the statement of financial position which results from the Company's obligation to defined benefit pension plans is detailed as follows:

	2014		2013	
	Pension plans	Other plans	Pension plans	Other plans
	\$	\$	\$	\$
Accrued benefit plan obligations	864	---	696	---
Fair value of plan assets	799	---	708	---
Funded status – plan deficit (excess)	65	---	(12)	---
Obligations in respect of non-capitalized defined benefit plans	94	40	78	33
Net liabilities (assets) resulting from the obligation in respect of defined benefits	159	40	66	33
The amounts presented in the Statement of Financial Position are:				
Other assets (Note 9)	---	---	19	---
Other liabilities (Note 15)	159	40	85	33

The plan assets are divided as follows:

	2014	2013
	%	%
Asset classes		
Fund units		
Money Market Fund	7	6
Bonds Fund	29	28
Canadian Equity Fund	28	29
Global Equity Fund	36	37
Total	100	100

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the Plan, the laws and regulations that the Plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The primary goal of the investment policy is to ensure protection of the Plan's capital while taking into account the return maximization restriction. The investment policy aims to protect the Plan's commitments and favour a regular increase in the annuities paid to retirees. The Plan is exposed to various investment risks, namely the risks that its investments suffer losses or do not produce the expected return. The investment policy contains several qualitative and quantitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as level 1.

The effective return of plan assets is 10% (12% in 2013). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of the Company in 2014 and 2013.

Significant Assumptions

	2014		2013	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit plan obligations				
Discount rate	4.1%	4.1%	4.9%	4.9%
Rate of compensation increase	3.5%	---	3.5%	---
Rate of mortality (table)	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ
Benefit plan expenses				
Discount rate	4.9%	4.9%	4.5%	4.5%
Rate of compensation increase	3.5%	---	3.5%	---
	2014			
	Other plans			
	Drugs	Dental	Other	
Assumed health care cost trend rates				
Initial health care cost trend rates	6.92%	4.50%	4.75%	
Cost trend rate declines to	4.75%	4.50%	4.75%	
Number of years required to stabilize the rate	10	---	---	

	2013			
	Other plans			
	Medical	Drugs	Dental	Other
Assumed health care cost trend rates				
Initial health care cost trend rates	8.10%	7.13%	4.50%	4.75%
Cost trend rate declines to	4.25%	4.75%	4.50%	4.75%
Number of years required to stabilize the rate	11	11	---	---

Sensitivity Analysis

Retirement Plan

The significant assumptions used to determine the obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

Sensitivity of key assumptions of benefit plan obligations

	2014		2013	
	Pension plans		Pension plans	
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Discount rate assumption				
Impact of an absolute change of 1.0%	(160)	223	(117)	156
Rate of compensation increase				
Impact of an absolute change of 1.0%	64	(52)	53	(45)
Rate of mortality				
Impact of a relative change of 10.0%	(14)	15	(10)	10

	2014	2013
Sample life expectancies based on mortality assumptions		
Male		
Age 65 in fiscal year	22.7	22.7
Age 65 in fiscal year + 30 years	25.1	25.0
Female		
Age 65 in fiscal year	24.6	24.5
Age 65 in fiscal year + 30 years	26.3	26.3

Other post-retirement benefits

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	2014		2013	
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Total of current service and interest cost	---	---	1	---
Accrued benefit obligations	6	(5)	5	(4)

The impact of the one percentage-point fluctuation in the assumed health care cost trend on the total of service and interest cost for 2014 and 2013 is less than \$1.

The Company could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is \$1 (\$3 in 2013). The liability related to this plan is presented in *Other liabilities* (Note 15, included in *Accounts payable*) for an amount of \$3 (\$3 in 2013).

27 ▶ Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various members of its group of companies on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company concludes transactions with associates. These transactions are concluded in the normal course of business and were subject to normal market conditions.

During the year 2013, the Company accounted for as *Financing charges*, an amount of \$5 and a redemption premium of \$3 for a transaction concluded with IA Capital Trust, which was not consolidated. This trust was dissolved in 2013.

The Company redeemed the debentures, Series A and the financing debenture, Series A on June 30, 2013.

Key Management Personnel

The Company's key management personnel are members of senior management, who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

	2014	2013
	\$	\$
Salaries and other short-term benefits	6	5
Post-retirement benefits	1	2
Stock-based compensation	3	2
Total	10	9

28 ▶ Guarantees, Commitments and Contingencies

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

Contracts

The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The Company is also part of operating leases, including offices and equipment. The minimum amounts of commitment for the next few years are as follows:

	2015	2016	2017	2018	2019 and following
	\$	\$	\$	\$	\$
Products and services	42	33	30	25	45
Operating leases	18	14	12	7	8
Total	60	47	42	32	53

Commitments

The Company committed to a third party for one of its subsidiaries. This commitment represents a maximum amount of \$74 (\$74 in 2013). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

Investments

In the normal course of business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements and real estate are not reflected in the financial statements and may not be fulfilled. There were \$523 (\$360 in 2013) of outstanding investment commitments as at December 31, 2014, of which \$73 (\$49 in 2013) mature in 30 days, \$270 (\$163 in 2013) mature in 31 to 365 days and \$180 (\$148 in 2013) mature in more than one year.

Letters of Credit

In the normal course of its operations, the Company issues bank letters of credit. The balance of these letters is \$2 (\$2 in 2013).

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, 2014, the Company had operating lines of credit totalling \$57 (\$57 as at December 31, 2013). As at December 31, 2014 and 2013, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

Litigations

The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

29 › Subsidiaries

The following is a list of directly and indirectly held major operating subsidiaries

As at December 31, 2014	Ownership (%)	Address	Description
The Excellence Life Insurance Company	100	Montreal, Canada	Life and health insurance company that specializes in distribution of life and health insurance products
IA American Life Insurance Company ¹	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. ¹	100	Quebec City, 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 City, Canada	Offers trust products and services
Industrial Alliance Investment Management Inc.	100	Quebec City, Canada	Investment advisor that oversees the management of the Industrial Alliance group's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Leon Frazer & Associates Inc.	100	Toronto, Canada	Asset portfolio management and mutual fund portfolio management
Hahn Investment Stewards & Company Inc.	100	Kelowna, Canada	International wealth management and mutual fund portfolio management (exchange-traded funds)
T.E. Investment Counsel Inc.	100	Toronto, Canada	Asset portfolio management and financial planning services

¹ These subsidiaries hold directly or indirectly other subsidiaries with essentially a 100% ownership.

Industrial Alliance Board of Directors



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since 2005
Board member since 1997

Lawyer
Chairman of the Board of
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and Financial Services Inc.



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P.C., O.C.

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International (PGI) Inc.



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Corporate Director



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President and Chief Executive
Officer of Industrial Alliance
Insurance and Financial
Services Inc.



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Corporate Director



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M.B.A.
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Chief Executive Officer of
Agropur cooperative



L.G. Serge Gadbois
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Chartered Accountant
Corporate Director



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O.C., O.Q., Ph.D.

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Consultant and
Corporate Director



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Corporate Director



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Private Investment Manager



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Officer of Major Drilling Group
International Inc.



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F.C.I.A.

Board member since 2014
Corporate Director



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B.Sc., M.B.A.

Board member since 2002
Degree in science
Corporate Director



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FCA

Board member since 2003
Chartered Accountant
President of Richford Holdings
Ltd., an investment consultation
services company

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LL.B., M.B.A.
Assistant Corporate Secretary
Jennifer Dibblee
B.Sc., B.C.L., LL.B.
Assistant Corporate Secretary
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J.D.

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- ▲ Audit Committee
- ▼ Ethics Committee
- ◆ Human Resources and Governance Committee

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Planning Committee, Corporate Services and Investments

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President
iA Clarington Investments Inc.

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Individual Insurance and Annuities

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iA American Life Insurance Company

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Information Systems

Clément Gignac – M.E.Sc.¹
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Chief Economist

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Corporate Secretary

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(Ontario and Western Canada)

Randall Fell – B.Proc., CFP, EPC
Vice-President, Sales
Personal Financial Services

Johnny Roy – RLU, F.PI.
Vice-President, Sales
Career Section

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The Excellence Life Insurance Company
Pierre Vincent – F.S.A., F.C.I.A.
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MRA
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President and General Manager

Dominique Laberge – Lawyer, B.B.A.
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Chief Operating Officer

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Products and Investments

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Luc Samson
Vice-President, Sales and Administration
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Renée Laflamme – CPA, CA, CFA
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¹ Member of the Management Committee

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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.

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Stock Exchange Listing

Industrial Alliance's common shares
are listed on the Toronto Stock Exchange
under the stock symbol IAG.

Annual Meeting of Shareholders

Thursday, May 7, 2015 at 2:00 PM
Quebec City Convention Centre
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Quebec City, Quebec

Dividend Reinvestment and Share Purchase Plan

Computershare Trust Company
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Telephone: 514-982-7555
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ia@computershare.com

Shareholder Services

For questions regarding share accounts,
dividends, changes of address
and ownership and other related
matters, contact our transfer agent:
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Investor Relations

For analysts, portfolio managers and
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