Caisse de dépôt et placement du Québec

COMBINED FINANCIAL STATEMENTS 2013

MANAGEMENT’S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the “Caisse”) are the responsibility of management. The combined financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management’s best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2013.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. The Caisse’s internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse’s objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place with regards to operations, assets and records. Moreover, the Caisse’s internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec and Ernst & Young LLP (the “co-auditors”) have audited the combined financial statements of the Caisse, and their report covers the nature and scope of the audit and expresses their opinion. The co-auditors have unrestricted access to the Audit Committee to discuss any matter relating to their audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2013. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the co-auditors, examines the combined financial statements and recommends their approval to the Board of Directors.

Michael Sabia
President and Chief Executive Officer

Maarika Paul, CPA, CA, CBV
Executive Vice-President and
Chief Financial Officer

Montréal, February 25, 2014

INDEPENDENT AUDITORS' REPORT

To the National Assembly

Report on the combined financial statements

We have audited the accompanying combined financial statements of the Caisse de dépôt et placement du Québec, which comprise the combined statement of net assets as at December 31, 2013, and the combined statement of income and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information included in the notes to the combined financial statements.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles (GAAP) and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making such risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate to 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Caisse de dépôt et placement du Québec as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on other legal and regulatory requirements

As required by the *Auditor General Act* (CQLR, chapter V-5.01), we report that, in our opinion these principles have been applied on a basis consistent with that of the preceding year.

Acting Auditor General of Québec

Michel Samson, CPA auditor, CA

Michel Samson, CPA auditor, CA

Montréal, February 25, 2014

Ernst & Young LLP

Ernst & Young LLP

CPA auditor, CA, permit no. A112431

Montréal, February 25, 2014

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
(CQLR, chapter C-2)

COMBINED STATEMENT OF NET ASSETS
AS AT DECEMBER 31

	2013	2012
	(in millions of dollars)	
ASSETS		
Investments *(note 3a)*	240,940	210,460
Advances to depositors	996	797
Investment income, accrued and receivable	851	751
Transactions being settled	1,368	153
Other assets *(note 4)*	846	1,002
	245,001	213,163
LIABILITIES		
Liabilities related to investments *(note 3b)*	39,998	34,129
Transactions being settled	1,969	155
Other liabilities *(note 5)*	1,386	1,300
	43,353	35,584
COMBINED NET ASSETS	201,648	177,579
Less:		
Non-controlling interests *(note 6c)*	2,201	2,006
DEPOSITORS' NET HOLDINGS IN ACCORDANCE WITH CANADIAN GAAP *(note 6a)*	**199,447**	**175,573**

COMMITMENTS AND CONTINGENCIES *(note 11)*

The accompanying notes are an integral part of the combined financial statements

SUPPLEMENTAL INFORMATION *(note 6b)*

DEPOSITORS' NET HOLDINGS IN ACCORDANCE WITH CANADIAN GAAP	**199,447**	**175,573**
Consolidation adjustment arising from early adoption of IFRS by a specialized portfolio	702	637
DEPOSITORS' NET HOLDINGS BEFORE CONSOLIDATION ADJUSTMENT	200,149	176,210

For the Board of Directors,

Michael Sabia

François Joly

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS
FOR YEARS ENDED DECEMBER 31

	2013	2012
	(in millions of dollars)	
Investment income *(note 7a)*	6,587	5,904
Less:		
Operating expenses *(note 8)*	287	284
Net investment income	6,300	5,620
Gains on the sale of investments *(note 7c)*	4,433	2,127
Total realized income	10,733	7,747
Unrealized increases in value of investments and liabilities related to investments *(note 7d)*	12,303	6,644
Net investment results	23,036	14,391
Depositors' net deposits	1,171	2,308
Other changes in non-controlling interests *(note 6c)*	(138)	(582)
INCREASE IN COMBINED NET ASSETS	24,069	16,117
COMBINED NET ASSETS, BEGINNING OF YEAR	177,579	161,462
COMBINED NET ASSETS, END OF YEAR	201,648	177,579

Attributable to depositors

	2013	2012
Net investment results *(note 7e)*	23,036	14,391
Less:		
Net investment results attributable to non-controlling interests *(note 7e)*	333	91
Net investment results attributable to depositors *(note 7e)*	22,703	14,300
Depositors' net deposits	1,171	2,308
INCREASE IN DEPOSITORS' NET HOLDINGS	**23,874**	**16,608**
DEPOSITORS' NET HOLDINGS, BEGINNING OF YEAR	**175,573**	**158,965**
DEPOSITORS' NET HOLDINGS IN ACCORDANCE WITH CANADIAN GAAP	**199,447**	**175,573**

The accompanying notes are an integral part of the combined financial statements

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS
COMPLEMENTARY NOTES
AS AT DECEMBER 31, 2013

1. Constitution and operations

The Caisse de dépôt et placement du Québec (the “Caisse”), a legal person established in the public interest within the meaning of the *Civil Code*, is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (CQLR, chapter C-2) (the “Act”). It receives all funds whose deposit is provided under the Act. Pursuant to the federal and provincial income tax acts, the Caisse is not subject to income taxes.

Combined financial statements

The combined financial statements comprise the accounts of the subsidiaries controlled by the Caisse, the General Fund, the individual funds and the specialized portfolios.

General Fund (consolidated statements)

The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing of the Caisse).

Individual funds

The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300: Québec Pension Plan Fund, administered by the Régie des rentes du Québec;

Fund 301: Government and Public Employees Retirement Plan, administered by the Commission administrative des régimes de retraite et d’assurances;

Fund 302: Pension Plan of Management Personnel, administered by the Commission administrative des régimes de retraite et d’assurances;

Fund 303: Special Plans Fund, administered by the Commission administrative des régimes de retraite et d’assurances;

Fund 305: Pension Plan of Elected Municipal Officers, administered by the Commission administrative des régimes de retraite et d’assurances;

Fund 306: Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d’urgence, administered by Aon Hewitt;

Fund 307: Fonds de l’assurance automobile du Québec, administered by the Société de l’assurance automobile du Québec;

Fund 311: Supplemental Pension Plan for Employees in the Québec Construction Industry – General Account, administered by the Commission de la construction du Québec;

Fund 312: Supplemental Pension Plan for Employees in the Québec Construction Industry – Retirees Account, administered by the Commission de la construction du Québec;

Fund 313: Supplemental Pension Plan for Employees in the Québec Construction Industry – Supplementary Account, administered by the Commission de la construction du Québec;

Fund 314: Deposit Insurance Fund, administered by the Autorité des marchés financiers;

Fund 315: Compte dédié, administered by La Financière agricole du Québec;

Fund 316: Retirement Plans Sinking Fund – RREGOP, administered by the ministère des Finances et de l’Économie, Government of Québec;

Fund 317: Retirement Plans Sinking Fund – PPMP, administered by the ministère des Finances et de l’Économie, Government of Québec;

Fund 318: Retirement Plans Sinking Fund, administered by the ministère des Finances et de l’Économie, Government of Québec;

Fund 326: Crop Insurance Fund, administered by La Financière agricole du Québec;

Fund 328: Survivor's Pension Plan, administered by the Secrétariat du Conseil du trésor, Government of Québec;

Fund 329: Fonds d'assurance-garantie, administered by the Régie des marchés agricoles et alimentaires du Québec;

Fund 330: Fonds de la santé et de la sécurité du travail, administered by the Commission de la santé et de la sécurité du travail;

Fund 332: Fonds des cautionnements des agents de voyages – cautionnements individuels, administered by the Office de la protection du consommateur;

Fund 333: Compensation Fund for Customers of Travel Agents, administered by the Office de la protection du consommateur;

Fund 341: Education and Good Governance Fund – Treasury Fund, administered by the Autorité des marchés financiers;

Fund 342: Régime de retraite de l'Université du Québec, administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343: Parental Insurance Fund, administered by the Conseil de gestion de l'assurance parentale;

Fund 347: Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec, administered by Aon Hewitt;

Fund 351: Generations Fund, administered by the ministère des Finances et de l'Économie, Government of Québec;

Fund 353: Superannuation Plan for the Members of the Sûreté du Québec – caisse participants, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 354: Superannuation Plan for the Members of the Sûreté du Québec – caisse employeurs, administered by the ministère des Finances et de l'Économie, Government of Québec;

Fund 361: Pension Plan of the Non-Teaching Staff of the Commission des écoles catholiques de Montréal, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 362: Régime de retraite pour certains employés de la Commission scolaire de la Capitale, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 363: Régime de retraite des employés de la Ville de Laval, administered by the Comité du Régime de retraite des employés de la Ville de Laval;

Fund 367: Fund Management System, administered by the ministère des Finances et de l'Économie, Government of Québec;

Fund 368: Education and Good Governance Fund – Capitalized Fund, administered by the Autorité des marchés financiers;

Fund 369: Accumulated Sick Leave Fund, administered by the ministère des Finances et de l'Économie, Government of Québec;

Fund 371: Fonds des congés de maladie accumulés – ARQ, administered by the Agence du revenu du Québec (created April 1, 2012);

Fund 372: Fonds commun de placement des régimes de retraite de l'Université Laval, administered by the Comités de retraite (created July 1, 2012);

Fund 373: Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges, administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 374: Fiducie globale Ville de Magog, administered by the Comité de retraite mixte (created October 1, 2012);

Fund 376: Régime de retraite des employées et employés de la Ville de Sherbrooke, administered by the Comité de retraite des employées et employés de la Ville de Sherbrooke (created January 1, 2013); and

Fund 378: Pension Plan of Peace Officers in Correctionnal Services – Fonds des cotisations des employés, administered by the Commission administrative des régimes de retraite et d'assurances (created July 1, 2013).

Specialized portfolios

The specialized portfolios are pooled funds for participation deposits of the various funds. The specialized portfolios are the following:

- Real Estate (710) (IFRS)
- Canadian Equity (720)
- EAFE Equity (Europe, Australasia and Far East) (730)
- U.S. Equity (731)
- Emerging Markets Equity (732)
- Global Equity (735) (being dissolved)
- Global Quality Equity (736) (created January 1, 2013)
- Short Term Investments (740)
- Real Estate Debt (750) (consolidated statements)
- Bonds (760)
- Real Return Bonds (762)
- Long Term Bonds (764)
- Hedge Funds (770) (consolidated statements)
- Asset Allocation (771)
- ABTN (772)
- Private Equity (780) (consolidated statements)
- Infrastructure (782) (consolidated statements)

2. Accounting policies

a) Presentation

The combined financial statements of the Caisse are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The Caisse is considered an investment company pursuant to Accounting Guideline AcG-18, “Investment Companies,” of Part V of the CPA Canada Handbook. Accordingly, all the investments of the Caisse as well as liabilities related to investments are presented at fair value with all fair value variations recognized in the net investment results.

The Caisse consolidates its subsidiaries when they do not meet some of the conditions provided in AcG-18. All transactions and balances between related parties have been eliminated. The summary financial statements for the specialized portfolios are found in the section “Supplementary information.”

The preparation of the financial statements requires that management make estimates and assumptions, which have an impact on the determination of the fair value of assets and liabilities as well as revenues and expenses during the financial year covered by the combined financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented, as it would provide no further useful information for the comprehension of cash flows during the year.

b) Investments and related operations

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties who are under no compulsion to act, established at year-end.

Transaction costs that are directly attributable to the acquisition and sale of investments are included in income and applied against Gains (losses) on the sale of investments. Transaction costs include commissions, stock exchange fees and professional and legal fees related to investment operations.

Other financial assets and liabilities, including advances to depositors, investment income accrued and receivable, accounts receivable, interest payable on derivative financial instruments and investment income accrued and payable are initially recorded at fair value and subsequently recorded at cost, wich approximates fair value given their short-term maturity. Other financial assets are classified in the receivables category and other financial liabilities are classified in the other financial liabilities category.

Cash is designated at fair value and is measured initially and subsequently at fair value.

Fixed-income securities

Fixed-income securities comprise short-term investments, bonds, asset-backed term notes (ABTNs), mortgages, commercial paper payable, term notes, mortgage loans payable and other loans payable. Acquisitions and sales of fixed-income securities are recorded at the transaction date, except for mortgages, which are recorded at the settlement date.

i) Valuation method

The fair value of fixed-income securities with the exception of mortgages is determined by the market price, when such a value is available. When a market price is not available, the fair value of the securities is established according to valuation methods used in capital markets, such as discounting of future cash flows, or according to similar transactions on an arm's-length basis. These valuations are supported by observable or non-observable input data, such as interest rate yield curves, credit spreads or discount rates. The valuation method for ABTNs is discussed in note 3e.

The fair value of mortgages is determined from the present value of future contractual cash flows at the market interest rate. The rate is that which could be obtained for loans or securities with similar conditions and maturities. Where the timing of future cash flows cannot be estimated in a reasonably reliable manner, the fair value corresponds either to the fair value of any collateral, less expected realization costs and any amount legally owed to borrowers, or to the observable market price for the mortgages.

The fair value of most fixed-income securities is reviewed biannually by independent external firms.

The valuation methods are applied on a consistent basis.

ii) Investment income and gains (losses) on the sale of investments

Investment income from fixed-income securities includes amortization of the premium or the discount, which makes it possible to maintain a constant effective yield until maturity. Income from mortgages is reduced by operating expenses and is recorded under the item Investment income – Fixed-income securities.

Gains (losses) on the sale of investments represent the difference between the amortized cost and the net realizable value on the sale of investments. The amortized cost corresponds to the acquisition cost adjusted to reflect amortization of the premium or the discount.

Variable-income securities

Variable-income securities comprise equities and convertible securities, investment funds as well as real estate holdings. Acquisitions and sales of equities and convertible securities are recorded at the transaction date, whereas acquisitions and sales of real estate holdings and investment funds are recorded at the settlement date.

i) Valuation method

The fair value of listed equities and convertible securities is determined from prices on major stock exchanges. For unlisted equities and convertible securities, prices are provided by recognized financial institutions or valuations are made according to commonly used valuation methods, such as the earnings multiples of comparable listed companies or discounting of cash flows, or on the basis of similar transactions on an arm's-length basis. These valuations are supported by observable or non-observable input data, such as EBITDA multiples, price/earnings ratios, price/book value ratios, discount rates and future cash flows. The valuations of unlisted equities and convertible securities are reviewed biannually by a valuation committee made up of independent experts or by independent external firms.

The fair value of investment funds is recorded under the item Equities and convertible securities is determined from the fair value provided by the general partner or the administrator, in accordance with commonly used valuation methods.

Real estate holdings include partial or full ownership of income properties through interests in a company or a partnership. The fair value of income properties included in real estate holdings is determined and certified biannually by external, recognized and independent chartered real estate appraisers. The valuation techniques used for income properties are based mainly on three recognized methodologies: discounting of cash flows at the market rate, comparison with recent similar market transactions and capitalization of earnings. These valuations are supported by observable or non-observable input data, such as leases, operating expenses, rates of return and discount rates. The valuations are established in accordance with commonly used professional valuation standards.

The valuation methods are applied on a consistent basis.

ii) Investment income and gains (losses) on the sale of investments

Dividend income is recognized when the Caisse obtains the right to the dividend, generally on the ex-dividend date. Income from real estate holdings is reduced by operating expenses related to real estate holdings, operating expenses and loan financial expenses, and is recorded under the item Investment income – Variable-income securities.

Gains (losses) on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost of investments corresponds to the acquisition cost, with the exception of the cost of investments in joint ventures, which are recorded on the basis of the equity method.

Derivative financial instruments

In managing its investments, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded under the item Investments, whereas those whose fair value is unfavourable are recorded under the item Liabilities related to investments.

i) Valuation method

For over-the-counter derivative financial instruments, prices are provided by recognized financial institutions or valuations are made from similar transactions on an arm's-length basis or with recognized, commonly used models. The models used include discounting of future cash flows at the current rate of return and the Black-Scholes model. These models require the use of assumptions regarding the amount and timing of future cash flows and the current rate of return. The assumptions are prepared with observable and non-observable input data, such as interest rate yield curves, credit spreads and foreign exchange rates as well as the volatility and correlation of equity prices, commodity prices and interest rates. The fair value estimates of most over-the-counter derivative financial instruments are reviewed biannually by independent external firms. The fair value of listed derivative financial instruments, if any, is determined from prices on major stock exchanges.

The valuation methods are applied on a consistent basis.

ii) Investment income and gains (losses) on the sale of investments

Investment income as well as gains (losses) on the sale of investments on derivative financial instruments is included with investment income and gains (losses) on the sale of investments, depending on the underlying investments.

Securities acquired under reverse repurchase agreements

The Caisse conducts securities-borrowing operations involving short-term investments and bonds to cover short sales or to generate additional income. These securities-borrowing operations are recorded in Securities acquired under reverse repurchase agreements under the item Investments. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

Securities sold under repurchase agreements

The Caisse conducts securities-lending operations involving short-term investments and bonds to generate cash flow liquidity or additional income. These securities-lending operations are recorded in Securities sold under repurchase agreements under the item Liabilities related to investments. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

Short selling of securities

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover its positions. Interest expenses related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas expenses related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains (losses) on commitments related to short selling of short-term investments and bonds are recorded under the item Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded under the item Gains (losses) on the sale investments – Variable-income securities.

Lending and borrowing of securities

The Caisse conducts securities lending and borrowing operations involving equities to cover short selling or to generate additional income. Such transactions are not derecognized or recorded in net assets because the transferor retains a right to the transferred shares. Investment income from lending of securities is included under the item Investment income – Variable-income securities.

Hierarchy of fair value

The Caisse's financial instruments are classified according to the following hierarchy:

Level 1: Calculation of the fair value of the instrument is based on prices (not adjusted) quoted on active markets for identical assets or liabilities.

Level 2: Calculation of the fair value of the instrument is based on data other than the quoted prices contemplated in level 1, which are observable directly (in the form of prices) or indirectly (determined from prices). This level includes instruments whose valuation is based on prices quoted on markets that are not active for identical instruments and instruments whose valuation is based on prices observed for similar instruments as well as valuation techniques based on assumptions that take into account observable market data.

Level 3: Calculation of the fair value of the instrument uses data that are not based on observable market data (non-observable data). This level includes instruments whose valuation is based on prices observed for similar instruments, adjusted to reflect the differences between the instruments being valued and the available market data. This level also includes instruments whose valuation is based on valuation techniques using assumptions that take into account market data that are observable but are adjusted significantly to reflect the specific characteristics of the instrument being valued.

The classification of financial instruments in the levels of the hierarchy is established at the time of the initial valuation of the instrument and reviewed on each subsequent valuation date. Transfers between the hierarchical levels are measured at fair value at the start of each year.

Quantitative information on the hierarchy of fair value is given in note 3f.

c) Administered assets and assets under management

The Caisse and its subsidiaries administer and manage assets entrusted to them by clients and on their behalf. These assets are not included in the Combined statement of net assets of the Caisse. The Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and transferred mortgages.

d) Foreign currency translation

The fair value of investments, liabilities related to investments as well as any other monetary assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at year-end.

To present in the Combined statement of income and changes in net assets the amount of gains (losses) on the sale of investments or unrealized gains (losses), the cost of investments in equities and that of real estate holdings from integrated foreign operations and the amortized cost of investments in short-term investments, bonds, mortgages and liabilities related to investments are translated at the rate of exchange prevailing on the acquisition date. The cost of investments in self-sustaining foreign operations is translated at the rate prevailing at year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized Real Estate portfolio, which is translated at the average rate for the year.

e) Operating expenses

Operating expenses represent all expenses related to portfolio management and administration, with the exception of those related to external management. Operating expenses are recorded under a separate line item in the Combined statement of income and changes in net assets. Expenses related to management of the specialized Real Estate and Real Estate Debt portfolios are included in operating expenses. Expenses related to the real estate and real estate debt subsidiaries are deducted from real estate holdings investment income and mortgages investment income, respectively.

f) External management fees

External management fees represent amounts paid to external financial institutions, principally institutional fund managers active on international stock markets, for the management of Caisse funds on behalf of the Caisse. Basic external management fees and management fees related to the performance of external managers are deducted from Investment income and Gains (losses) on the sale of investments, respectively.

g) Future changes to accounting framework

In February 2008, the Accounting Standards Board of Canada (AcSB) confirmed that publicly accountable enterprises would be required to apply International Financial Reporting Standards (IFRS) to fiscal years beginning on or after January 1, 2011. For companies applying AcG-18, however, the AcSB authorized a postponement of the adoption of IFRS to fiscal years beginning on or after January 1, 2014, pending finalization by the International Accounting Standards Board (IASB) of its proposals for investment entities. In October 2012, the IASB issued *Investment Entities* (amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*) requiring that a company considered an investment entity measure each of its controlled entities at fair value, rather than consolidating them. Accordingly, the Caisse will prepare its first annual combined financial statements in accordance with IFRS as of December 31, 2014.

3. Investments and liabilities related to investments

a) Investments

	2013		2012	
	(in millions of dollars)			
	Fair value	Cost	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	1,083	1,093	391	407
Foreign	733	832	941	1,178
	1,816	1,925	1,332	1,585
Bonds				
Issued or guaranteed by:				
Government of Canada	15,692	15,748	16,212	15,816
Province of Québec	13,977	14,486	10,419	9,797
Other Canadian provinces	2,490	2,497	1,090	1,021
Municipalities and other Canadian agencies	1,325	1,296	1,374	1,303
Canadian government corporations	12,159	12,159	13,207	12,610
U.S. government	712	847	924	945
Other foreign governments	2,037	1,936	- -	- -
Mortgage securities				
Canadian	12	13	122	117
Foreign	- -	109	- -	109
Canadian corporations	13,191	12,866	8,791	8,134
Foreign corporations	6,490	6,761	4,948	5,213
Inflation-indexed securities				
Canadian	979	1,032	1,252	1,123
Foreign	473	462	65	59
	69,537	70,212	58,404	56,247
ABTNs *(note 3e)*	9,752	10,093	9,894	11,203
Mortgages				
Canadian	8,583	8,499	7,411	7,126
Foreign	1,946	1,801	1,647	1,733
	10,529	10,300	9,058	8,859
Total fixed-income securities	91,634	92,530	78,688	77,894
Variable-income securities				
Equities and convertible securities				
Canadian	24,035	19,468	22,650	21,023
U.S.	35,039	27,734	31,509	30,235
Foreign and emerging markets	39,347	34,394	34,648	33,815
Hedge funds	3,843	3,702	3,228	3,252
	102,264	85,298	92,035	88,325
Real estate holdings				
Canadian	18,050	11,411	15,857	11,041
Foreign	11,451	12,438	9,904	11,115
	29,501	23,849	25,761	22,156
Total variable-income securities	131,765	109,147	117,796	110,481

	2013		2012	
	(in millions of dollars)			
	Fair value	**Cost**	**Fair value**	**Cost**
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	10,958	10,958	8,629	8,629
Foreign	4,582	4,575	2,754	2,737
Amount pertaining to derivative financial instruments *(note 10)*				
Canadian	1,329	1,141	1,905	1,160
Foreign	672	194	688	101
	17,541	16,868	13,976	12,627
Total investments	240,940	218,545	210,460	201,002

b) Liabilities related to investments

	2013		2012	
	(in millions of dollars)			
	Fair value	**Cost**	**Fair value**	**Cost**
Securities sold under repurchase agreements				
Canadian	8,571	8,571	3,762	3,762
Foreign	3,679	3,674	862	861
Commercial paper payable				
Canadian	1,529	1,527	1,017	1,018
Term notes				
Canadian	9,020	8,289	8,879	8,287
Short selling of securities				
Canadian	6,605	5,170	7,792	7,020
Foreign	5,087	4,825	4,427	4,270
Mortgage loans payable				
Canadian	282	270	502	478
Foreign	1,797	1,596	1,722	1,750
Other loans payable				
Canadian	1,264	1,280	2,613	2,641
Foreign	453	446	398	398
Amount pertaining to derivative financial instruments *(note 10)*				
Canadian	435	- -	915	- -
Foreign	1,276	160	1,240	88
Total liabilities related to investments	39,998	35,808	34,129	30,573

Term notes are redeemable at maturity and are guaranteed by the assets of the Caisse. Fixed-rate term notes denominated in U.S. dollars and in Canadian dollars have an optional prepayment clause at the option of the issuer.

Mortgage loans are repayable half-yearly, monthly or at maturity and are guaranteed by real estate holdings. Some mortgage loans may also be guaranteed by cash.

Most of the other loans payable are repayable at maturity. Those related to investments in ABTNs have a prepayment clause prorated to net cash flows received on investments in ABTNs and are guaranteed by them.

The fair value of the real estate holdings that guarantee the mortgage loans and some other loans payable is $5,815 million ($6,661 million in 2012).

c) Joint ventures and non-consolidated interests

As at December 31, the item Investments – Real estate holdings includes assets and liabilities of joint ventures and non-consolidated interests, recorded at fair value. The details of these investments are as follows:

	2013	2012
	(in millions of dollars)	
Investments in joint ventures and non-consolidated interests	12,210	11,073
Real estate holdings	16,731	15,195
Short-term investments	32	10
Mortgages	47	- -
Derivative financial instruments	17	- -
Investment income, accrued and receivable	66	54
Other assets	629	555
	17,522	15,814
Mortgage loans payable	4,451	3,923
Other liabilities	768	741
Non-controlling interests	93	77
	5,312	4,741

d) Breakdown of net holdings

The following table gives a summary of the Caisse's net holdings as at December 31:

	2013	2012
	(in millions of dollars)	
Investments *(note 3a)*	240,940	210,460
Other assets	4,061	2,703
Total assets	245,001	213,163
Liabilities related to investments *(note 3b)*	39,998	34,129
Other liabilities	3,355	1,455
Non-controlling interests *(note 6c)*	2,201	2,006
Depositors' net holdings in accordance with Canadian GAAP *(note 6a)*	199,447	175,573

The following table gives the breakdown of net holdings at fair value according to the specialized portfolios available to depositors as at December 31:

	2013	2012
	(en millions de dollars)	
Fixed income		
Short Term Investments	3,512	8,916
Bonds	55,016	43,790
Long Term Bonds	1,896	3,679
Real Estate Debt	8,818	7,574
	69,242	63,959
Inflation-sensitive investments		
Real Return Bonds	1,188	1,228
Infrastructure	8,048	6,307
Real Estate	21,868	17,337
	31,104	24,872
Equities		
Canadian Equity	23,069	22,024
Global Quality Equity	17,225	- -
Global Equity	3,485	13,753
U.S. Equity	9,730	10,175
EAFE Equity	9,832	9,828
Emerging Markets Equity	10,256	8,718
Private Equity	20,182	17,796
	93,779	82,294
Other investments		
Hedge Funds	3,667	3,185
Asset Allocation	1,156	1,103
ABTN	(107)	(834)
	4,716	3,454
Overlay strategies and treasury operations	606	994
Depositors' net holdings in accordance with Canadian GAAP	**199,447**	**175,573**

e) ABTNs and related financial instruments

ABTNs represent debt backed by a variety of financial instruments. The underlying instruments are essentially credit default swaps as well as assets given as collateral for MAV 1 and MAV 2, whereas MAV 3 contains traditional assets, such as residential and commercial mortgage debt. In addition, the Caisse uses derivative financial instruments, such as interest rate swaps and credit default swaps, to obtain an economic hedge in order to reduce the risk of loss inherent in a fluctuation of the fair value of the ABTNs as well as eventual collateral calls.

The ABTNs as well as other related financial instruments consist of the following as at December 31:

			2013			**2012**
			(in millions of dollars)			
	Fair value	**Unrealized increases (decreases) in value**	**Cost**	**Fair value**	**Unrealized increases (decreases) in value**	**Cost**
Investments						
MAV 1[1]	8,251	(170)	8,421	8,684	(705)	9,389
MAV 2[1]	157	38	119	143	24	119
MAV 3[1]	114	(125)	239	134	(144)	278
Funding facility	(21)	(21)	- -	(210)	(210)	- -
Subtotal	8,501	(278)	8,779	8,751	(1,035)	9,786
ABTNs excluded from the restructuring agreement	1,251	(63)	1,314	1,143	(274)	1,417
Total ABTNs	9,752	(341)	10,093	9,894	(1,309)	11,203
Amount pertaining to derivative financial instruments[2]	24	(1,116)	1,140	259	(881)	1,140
Total investments	9,776	(1,457)	11,233	10,153	(2,190)	12,343
Liabilities related to investments[2]	842	3	839	1,411	(1)	1,412
	8,934	(1,460)	10,394	8,742	(2,189)	10,931

[1] Master Asset Vehicles, or MAVs.

[2] Included under the items in notes 3a and b.

MAV 1 ABTNs and certain ABTNs excluded from the restructuring agreement consist essentially of credit default swaps. The fair value of the credit default swaps is established with valuation techniques based as much as possible on observable market data, such as credit spreads, correlation factors and an illiquidity premium, which is calculated from the spread between the bid and ask prices for similar financial instruments in the market. For the other ABTNs, the Caisse has established fair values using a valuation technique based on a financial model whose assumptions use as much as possible observable market data, such as interest rates and credit quality. Moreover, a favourable court judgment was rendered in the summer of 2013 in respect of litigation involving an ABTN excluded from the restructuring agreement. After an analysis of the conclusions of the judgment, the Caisse considered this development favourable in determining the fair value of the related investment.

As at December 31, 2013, the funding facility, which represents commitments in respect of MAV 1, totals \$6,167 million (\$6,167 million in 2012) and matures in July 2017. The Caisse establishes the fair value of this funding facility by applying a valuation technique based on CDX.IG index tranches plus a financing premium. The funding facility represents indemnification agreements that may eventually oblige the Caisse to make payments to the beneficiaries of the guarantee.

A 1% downward variation of credit spreads would involve an increase in the fair value of the ABTNs net of the economic hedge of approximately \$2 million (\$6 million in 2012). A 1% upward variation, however, would result in a decrease of approximately \$2 million in the fair value (\$5 million in 2012).

f) Hierarchy of fair value

The following tables summarize the allocation of the fair value of the investments and the liabilities related to investments among the three levels of the hierarchy as at December 31:

				2013
	(in millions of dollars)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Fixed-income securities				
Short-term investments	- -	1,784	32	1,816
Bonds	- -	65,043	4,494	69,537
ABTNs	- -	- -	9,752	9,752
Mortgages	- -	8,366	2,163	10,529
Total fixed-income securities	- -	75,193	16,441	91,634
Variable-income securities				
Equities and convertible securities	73,577	3,065	25,622	102,264
Real estate holdings[1]	- -	- -	29,501	29,501
Total variable-income securities	73,577	3,065	55,123	131,765
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	- -	15,540	- -	15,540
Amount pertaining to derivative financial instruments	25	1,941	35	2,001
	73,602	95,739	71,599	240,940
Liabilities related to investments				
Securities sold under repurchase agreements	- -	12,250	- -	12,250
Commercial paper payable	- -	1,529	- -	1,529
Term notes	- -	9,020	- -	9,020
Short selling of securities	7,483	4,166	43	11,692
Mortgage loans payable	- -	282	1,797	2,079
Other loans payable	- -	1,717	- -	1,717
Amount pertaining to derivative financial instruments	11	1,653	47	1,711
	7,494	30,617	1,887	39,998

[1] Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

	2012			
	(in millions of dollars)			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Fixed-income securities				
Short-term investments	- -	1,182	150	1,332
Bonds	- -	54,948	3,456	58,404
ABTNs	- -	- -	9,894	9,894
Mortgages	- -	7,395	1,663	9,058
Total fixed-income securities	- -	63,525	15,163	78,688
Variable-income securities				
Equities and convertible securities	64,080	3,904	24,051	92,035
Real estate holdings[1]	- -	- -	25,761	25,761
Total variable-income securities	64,080	3,904	49,812	117,796
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements	- -	11,383	- -	11,383
Amount pertaining to derivative financial instruments	23	2,290	280	2,593
	64,103	81,102	65,255	210,460
Liabilities related to investments				
Securities sold under repurchase agreements	- -	4,624	- -	4,624
Commercial paper payable	- -	1,017	- -	1,017
Term notes	- -	8,879	- -	8,879
Short selling of securities	8,231	3,938	50	12,219
Mortgage loans payable	- -	503	1,721	2,224
Other loans payable	- -	3,011	- -	3,011
Amount pertaining to derivative financial instruments	14	2,043	98	2,155
	8,245	24,015	1,869	34,129

[1] Investments in real estate holdings include partial or full ownership of income properties through interests in a company or a partnership.

Level 3: Reconciliation between opening and closing balances

For the financial instruments classified in level 3 of the hierarchy, the details of the reconciliation between the opening and closing balances are as follows:

	2013 (in millions of dollars)								
	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	150	108	756	(227)	- -	(755)	- -	32	(15)
Bonds	3,456	42	6	(135)	1,377	(280)	28	4,494	26
ABTNs	9,894	960	- -	- -	- -	(1,102)	- -	9,752	967
Mortgages	1,663	212	- -	- -	812	(551)	27	2,163	218
Equities and convertible securities	24,051	3,545	3,388	(4,692)	- -	- -	(670)	25,622	2,310
Real estate holdings	25,761	1,919	3,888	(2,067)	- -	- -	- -	29,501	1,642
Net amount pertaining to derivative financial instruments[3]	182	(199)	- -	- -	- -	2	3	(12)	(190)
Short selling of securities	(50)	(6)	13	- -	- -	- -	- -	(43)	6
Mortgage loans payable	(1,721)	(198)	- -	- -	(488)	610	- -	(1,797)	(185)

Transfers between levels 1, 2 and 3 of the hierarchy of fair value

During fiscal 2013, financial instruments with a fair value of $588 million and $82 million were transferred out of level 3 and added to the level 2 and level 1 financial instruments, respectively, as a result of additional observable data taken into account in the valuation method.

	2012 (in millions of dollars)								
	Opening balance	Total gains (losses) recorded in results[1]	Purchases	Sales	Issuance	Settlement	Net transfers to and from level 3	Closing balance	Total gains (losses) attributable to investments held at year-end, recorded in results[2]
Short-term investments	211	(44)	1,504	(70)	3	(1,454)	- -	150	(42)
Bonds	3,209	(36)	- -	(97)	852	(457)	(15)	3,456	(32)
ABTNs	7,901	2,424	- -	(310)	- -	(121)	- -	9,894	2,575
Mortgages	1,363	28	- -	- -	979	(633)	(74)	1,663	35
Equities and convertible securities	25,527	1,439	3,400	(6,291)	- -	(23)	(1)	24,051	660
Real estate holdings	22,033	652	3,742	(666)	- -	- -	- -	25,761	648
Net amount pertaining to derivative financial instruments[3]	974	(801)	- -	- -	- -	9	- -	182	(796)
Short selling of securities	(60)	(17)	27	- -	- -	- -	- -	(50)	(16)
Mortgage loans payable	(1,720)	(10)	- -	- -	9	- -	- -	(1,721)	(10)
Other loans payable	(9)	- -	- -	- -	- -	9	- -	- -	- -

[1] Recorded under the items Gains on the sale of investments and Unrealized increases in value of investments and liabilities related to investments.

[2] Recorded under the item Unrealized increases in value of investments and liabilities related to investments.

[3] Derivative assets and derivative liabilities are recorded on a net basis in the reconciliation between opening and closing balances.

Transfers between levels 2 and 3 of the hierarchy of fair value

During fiscal 2012, financial instruments were transferred out of level 3 and added to the level 2 financial instruments as a result of additional observable data taken into account in the valuation method.

Level 3: Fair value measurement based on reasonable alternative assumptions

In certain cases, the assumptions used in the valuation techniques are based on non-observable data or observable market data adjusted significantly to reflect the specific characteristics of the instrument being valued. Although the Caisse considers that its fair value measurements are appropriate, the use of reasonably possible alternative assumptions could result in different fair values. It is possible that different entities will arrive at different valuations of the fair value of the same financial instrument on the same measurement date. Even so, the valuation techniques and input data used by such entities can meet the objective of fair value measurement. The fact that different valuations of fair value exist reflects the judgment and assumptions applied, as well as the uncertainty surrounding fair value measurement of instruments.

The analysis that follows shows the sensitivity of the valuations to reasonable alternative assumptions of the non-observable data. Equities and convertible securities, bonds and the net amount pertaining to derivative financial instruments are sensitive mainly to the EBITDA multiple and the discount rate used in the valuation, which may reasonably range from 5.0 to 12.9 and from 7.8% to 13.7%, respectively, in 2013 (from 5.5 to 11.0 and from 8.0% to 12.0%, respectively, in 2012). Mortgage loans payable are sensitive mainly to the credit spread, which may reasonably vary by about 1.0% in 2013 (1.0% in 2012). The fair value of real estate holdings is sensitive mainly to the capitalization rate or the discount rate used in the valuation of the property, which may reasonably vary by about 0.3% in 2013 (0.3% in 2012). The fair value of the investment funds for which the Caisse does not have access to information on the underlying investments is based on the fair value provided by the general partner or the external manager. Accordingly, given that no additional information indicates that it is necessary to adjust such fair value, no other reasonably possible assumptions can be used.

Substitution of reasonable alternative assumptions for the main assumptions would result in an increase of approximately $1,147 million ($881 million in 2012) or a decrease of approximately $1,092 million ($966 million in 2012) in the total fair value of the level 3 instruments, excluding ABTNs, real estate investments and investment funds. The impact of such substitution on the fair value of the ABTNs is described in note 3e.

4. Other assets

	2013	2012
	(in millions of dollars)	
Cash	448	646
Accounts receivable	243	213
Fixed assets	155	143
	846	1,002

5. Other liabilities

	2013	2012
	(in millions of dollars)	
Interest payable on derivative financial instruments	85	84
Investment income, accrued and payable	217	165
Income tax liabilities, payable and future	423	390
Other liabilities	661	661
	1,386	1,300

6. Depositors' net holdings and non-controlling interests

a) Depositors' net holdings

Demand deposits and term deposits bear interest at variable and fixed rates, respectively, and constitute indebtedness on the part of the Caisse toward the depositors. The average annual rates paid on demand and term deposits are 1.0% and 1.5%, respectively (1.0% and 1.5% in 2012).

During the year, the Caisse paid $4 million ($5 million in 2012) of interest on both demand and term deposits.

Participation deposits are expressed in units. Each unit gives its holder a proportionate share in the net holdings and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains (losses) on the sale of investments are allocated to participation deposit holders. At the opening of the following period, the amounts allocated are paid out to the depositors' demand deposit accounts. Generally, the balance of demand deposits is reinvested in participation deposits at the opening of each monthly period based on the depositors' investment policies. The number of issued units of participation deposits depends on the fair value determined at the end of the previous monthly period.

During the year, the Caisse paid $11,382 million ($7,552 million in 2012) in net income to participation deposit holders.

	2013	2012
	(in millions of dollars)	
Caisse's indebtedness toward depositors		
Demand deposits	371	887
Term deposits	92	134
Net income to be paid out to participation deposit holders	1,328	1,612
	1,791	2,633
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	159,017	149,861
Units issued	13,647	9,725
Units cancelled	(497)	(569)
Balance, end of year	172,167	159,017
Unallocated gains on the sale of investments of specialized portfolios	8,282	8,898
Unrealized increases in value of investments and liabilities related to investments net of non-controlling interests	17,909	5,662
Consolidation adjustment arising from early adoption of IFRS by a specialized portfolio *(note 6b)*	(702)	(637)
	197,656	172,940
Depositors' net holdings in accordance with Canadian GAAP	199,447	175,573

The Caisse defines its capital as the net holdings of the holders of participation deposits, demand deposits and term deposits. The Caisse is not subject to external capital requirements.

The mission of the Caisse is to receive moneys on deposit as provided by law and to manage them with a view to achieving an optimal return on depositors' capital within the framework of their investment policies. Through its wholly owned subsidiary CDP Financial Inc., the Caisse issues capital securities to optimize financing costs and to fund certain investments.

b) Consolidation adjustment arising from early adoption of IFRS by a specialized portfolio

The document *Investment Entities,* published in October 2012 by the IASB, requires that a company considered an investment entity value each of its controlled entities at fair value instead of consolidating them. The AcSB has incorporated this document into Part I of the CPA Canada Handbook. The standard for investment entities is applicable to fiscal years beginning on or after January 1, 2014, but early application is allowed. The Caisse elected to early adopt IFRS for the financial statements of the specialized Real Estate portfolio as of the year ended December 31, 2012.

IFRS for investment entities differ from the provisions of AcG-18 mainly in their accounting treatment of certain subsidiaries. In accordance with Canadian GAAP, the specialized Real Estate portfolio consolidated its subsidiaries whereas, according to IFRS, an investment entity must not consolidate its subsidiaries but instead measure and present them at fair value, as an investment. Measurement of the fair value of the investments held by the specialized Real Estate portfolio is henceforth based on an enterprise value technique. This change in the valuation method increased the fair value of the investments in the specialized Real Estate portfolio.

The combined financial statements of the Caisse for the years ended December 31, 2013 and 2012, have been prepared in accordance with Canadian GAAP and, pursuant to AcG-18, the subsidiaries of the specialized Real Estate portfolio have been consolidated. Accordingly, a consolidation adjustment was required to exclude from depositors' net holdings established in accordance with Canadian GAAP an amount of $702 million as at December 31, 2013, and $637 million as at December 31, 2012, arising from early adoption of IFRS by the specialized Real Estate portfolio. As supplemental information, these amounts are presented separately from depositors' net holdings under the item Consolidation adjustment arising from early adoption of IFRS by a specialized portfolio in the Combined statement of net assets as well as in note 6a. When the first annual combined financial statements according to IFRS are published as at December 31, 2014, the adjustment of $637 million will be recorded in depositors' net holdings as at January 1, 2013, the date of the transition to IFRS. Moreover, an amount of $65 million, corresponding to the increase in the enterprise fair value of the investments of the specialized Real Estate portfolio, will be recorded for the year ended December 31, 2013, namely the comparative year established according to IFRS.

In addition to the adjustment arising from non-consolidation of the subsidiaries of the specialized Real Estate portfolio, the Caisse is continuing its analysis of the other impacts of adopting IFRS on the combined financial statements, the individual funds, the General Fund and the other specialized portfolios. The Caisse is therefore not yet in a position to determine the complete impact of the transition on its first annual combined financial statements that will be prepared in accordance with IFRS as of December 31, 2014.

c) Non-controlling interests

Non-controlling interests represent interests of non-controlling shareholders in consolidated subsidiaries that are not directly or indirectly attributable to the Caisse. Non-controlling interests are recorded at their share of the fair value of the investment and are allocated a proportional share of combined net assets and net investment results. Changes in the Caisse's interest in a subsidiary that do not result in a loss of control thereof are recorded as transactions on combined net assets.

As at December 31, the details of non-controlling interests are as follows:

	2013	2012
	(in millions of dollars)	
Balance, beginning of year	2,006	2,497
Net investment results attributable to non-controlling interests *(note 7e)*	333	91
Other changes in non-controlling interests[1]	(138)	(582)
Balance, end of year	2,201	2,006

[1] In 2013, the other changes are due mainly to distributions as well as to an increase in non-controlling interests in consolidated subsidiairies. In 2012, the other changes are due mainly to the dissolution of a subsidiary, distributions and the buyback by the Caisse of non-controlling interests in consolidated subsidiaries.

As at December 31, the details of the cost and the fair value of non-controlling interests are as follows:

	2013		2012	
	(in millions of dollars)			
	Fair value	**Cost**	**Fair value**	**Cost**
Canadian	2,071	1,780	1,901	1,654
Foreign	130	125	105	112
	2,201	1,905	2,006	1,766

7. Investment income, gains (losses) on the sale of investments and unrealized increases (decreases) in value of investments and liabilities related to investments

a) Investment income

	2013	2012
	(in millions of dollars)	
Fixed-income securities		
Short-term investments	171	241
Bonds	1,575	1,611
Mortgages	365	354
	2,111	2,206
Variable-income securities		
Equities and convertible securities	3,474	2,828
Real estate holdings *(note 7b)*	1,016	850
	4,490	3,678
Other income	(5)	30
Less:		
External management fees	9	10
	6,587	5,904

Investment income – Fixed-income securities were increased by $33 million ($74 million in 2012) as net income (net expenses) related to securities acquired (sold) under reverse repurchase (repurchase) agreements. In addition, those related to short-term investments were reduced by $11 million ($11 million in 2012) as interest expense on commercial paper, and those related to bonds were reduced by $320 million ($307 million in 2012) as interest expense on term notes.

b) Net income from real estate holdings

	2013	2012
	(in millions of dollars)	
Income from real estate holdings	2,795	2,614
Less:		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	1,389	1,351
Operating expenses	69	58
Loan financial expenses	321	355
	1,779	1,764
	1,016	850

c) Gains (losses) on the sale of investments

	2013	2012
	(in millions of dollars)	
Fixed-income securities		
Short-term investments	175	(88)
Bonds	840	1,312
ABTNs	(7)	(151)
Mortgages	7	(2)
	1,015	1,071
Variable-income securities		
Equities and convertible securities	3,711	923
Real estate holdings	(178)	203
	3,533	1,126
Less:		
Transaction costs of investments	113	69
External management fees	2	1
	4,433	2,127

The amount of $4,433 million of gains on the sale of investments ($2,127 million in 2012) recorded in the Combined statement of income and changes in net assets includes $985 million of foreign exchange losses ($292 million in 2012).

d) Unrealized increases (decreases) in value of investments and liabilities related to investments

	2013	2012
	(in millions of dollars)	
Fixed-income securities		
Short-term investments	177	(320)
Bonds	(3,313)	(1,639)
ABTNs	734	1,802
Mortgages	13	(24)
Securities acquired under reverse repurchase agreements	(10)	24
	(2,399)	(157)
Variable-income securities		
Equities and convertible securities	13,308	6,235
Real estate holdings	2,028	539
	15,336	6,774
	12,937	6,617
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	4	1
Commercial paper payable	3	(1)
Term notes	139	106
Short selling of securities	768	511
Mortgage loans payable	217	(5)
Other loans payable	19	1
Derivative financial instruments	(516)	(640)
	634	(27)
	12,303	6,644

The unrealized increases in value in the amount of $12,303 million ($6,644 million in 2012) recorded in the Combined statement of income and changes in net assets include unrealized increases in value of $3,481 million related to foreign exchange (decreases in value of $641 million in 2012).

e) Net investment results attributable to depositors and non-controlling interests

	2013			2012		
	(in millions of dollars)					
	Depositors	**Non-controlling interests**	**Total**	**Depositors**	**Non-controlling interests**	**Total**
Investment income	6,330	257	6,587	5,590	314	5,904
Less:						
Operating expenses	287	- -	287	284	- -	284
Net investment income	6,043	257	6,300	5,306	314	5,620
Gains (losses) on the sale of investments	4,413	20	4,433	2,454	(327)	2,127
Total realized income	10,456	277	10,733	7,760	(13)	7,747
Increases in value of investments and liabilities related to investments	12,247	56	12,303	6,540	104	6,644
Net investment results	22,703	333	23,036	14,300	91	14,391

8. Operating expenses

	2013	2012
	(in millions of dollars)	
Salaries and employee benefits	153	149
Information technology and professional services	47	50
Data services and subscriptions	13	13
Premises and equipment	16	18
Depreciation of fixed assets	28	27
Other	17	15
	274	272
Safekeeping of securities	13	12
	287	284

9. Identification and management of risks related to investment operations

The Caisse has implemented a number of policies, directives and procedures to oversee its operations.

Risk management is based on an integrated risk management policy adopted by the Board of Directors. This policy, which is revised on a regular basis, is intended to promote a risk management culture and ensure stringent risk management practices to help the Caisse carry out its mission on behalf of its depositors. More specifically, the policy defines risk management governance, establishes the acceptable level of risk so as to avoid excessive loss, links the level of risk to the target value added and aims for an efficient allocation of risk.

Governance of risk management is based on three levels of control:

1 - Portfolio managers, who are primarily responsible for managing the risks related to operations under their purview;

2 - The Investment-Risk Committee, a subcommittee of the Executive Committee, with assistance from the Risk Department and the Policies and Compliance Senior Vice-Presidency; and

3 - The Board of Directors, its Audit Committee and its Investment and Risk Management Committee, as well as Internal Audit.

The policy includes reporting mechanisms for each of these levels. It also includes a framework for outsourcing management of investments, management of operational risks and management of derivative financial instruments.

To ensure the objectivity and rigour required to manage risks, teams that are independent of the portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies applying to the specialized portfolios.

The financial risks defined in the integrated risk management policy include the following:

a) Market risk;

b) Credit risk;

c) Counterparty risk related to derivative financial instruments; and

d) Financing-liquidity risk.

Investment policies are designed to oversee the activities performed by the portfolio managers. For each specialized portfolio, an investment policy establishes the philosophy, management type, investment universe, benchmark index, value-added target and risk oversight, including concentration and risk limits. The managers must abide by the limits in their investment activities.

a) Market risk

Market risk represents the risk of financial loss arising from changes in the value of financial instruments. Such value is affected by changes in certain market variables, such as interest rates, exchange rates, share prices and commodity prices. The risk derives from the volatility in the price of a financial instrument, which itself results from the volatility of such market variables.

The Caisse manages all market risks according to an integrated approach. The major factors contributing to risk, such as sectors, countries and issuers, are taken into account.

The Caisse may use derivative financial instruments traded on exchanges or negotiated directly with banks and securities dealers, to manage market risks.

The Caisse measures its market risk using the method known as Value at Risk (VaR), which is based on a statistical estimate of the volatility of the fair value of each position and its correlations. VaR is a statistical estimate of a portfolio's potential loss according to a predetermined confidence level during a given exposure period. The VaR of the market is estimated with a 99% confidence level over an exposure period of one year. The VaR calculated by the Caisse therefore presents the level of loss that a portfolio should reach or exceed in 1% of cases. The Caisse estimates VaR for each instrument in its specialized portfolios and aggregates the information for the overall portfolio.

The Caisse uses the historical-simulation method to estimate VaR. This method is based essentially on the assumption that the future will be similar to the past. It requires that historical data series on all the risk factors needed to estimate the returns on instruments be available. In the absence of historical data, alternative methods are used. A history of 1,500 days of observation of risk factors, such as variations in exchange rates, interest rates and financial asset prices, is used to estimate the volatility of returns and the correlation between asset returns.

The Caisse calculates two types of risk: absolute risk and active risk. The absolute risk, or absolute VaR, of the Caisse's benchmark portfolio (target portfolio of the depositors as a whole) is the result of the risk of the benchmark indexes of the asset classes in the portfolio. For example, should the depositors elect to increase the weight of equities in their respective benchmark portfolios, such risk would increase automatically because of the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (consisting of the actual investments) corresponds to the risk (volatility) of the positions in the Caisse's overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated with the same method but they relate to different portfolios, namely the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by the depositors.

Active risk, or VaR related to active management, represents the possibility that the Caisse will record a return different from that of its benchmark portfolio as a result of active management of its overall portfolio. The higher the active risk, the more the absolute return expected from the overall portfolio will stand out from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio and the active risk and absolute risk of the overall portfolio are measured on a regular basis and are subject to various limits.

As at December 31, the overall portfolio's absolute risk and active risk, according to a 99% confidence level and a 1,500-day history, are as follows:

Absolute risk of the overall portfolio

	2013	**2012**
	(as a %)	
Fixed income	9.2	9.1
Inflation-sensitive investments	38.7	39.8
Equities	44.6	46.8
Other investments[1]	1.2	1.2
Overall risk	29.4	30.6

Active risk of the overall portfolio

	2013	**2012**
	(as a %)	
Fixed income	2.0	1.4
Inflation-sensitive investments	9.2	12.9
Equities	4.9	5.4
Other investments[1]	1.3	1.1
Overall risk	3.7	4.4

[1] The VaR for the Other investments category is presented as a percentage of the net assets of the Caisse.

Foreign exchange risk

Foreign exchange risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of variations in foreign currency exchange rates. This risk is integrated into the overall measurement of VaR.

To manage foreign exchange risk, the Caisse also uses instruments negotiated with banks. The maturities of these instruments generally range from one to 12 months for forward contracts and options, and from one to two years for foreign currency swaps. On maturity, new derivative financial instruments are negotiated to maintain effective long-term management of the foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

The allocation of investments, liabilities related to investments and non-controlling interests denominated in foreign currencies is as follows as at December 31:

2013

(in millions of dollars)

		Currency[1]					
	Canadian dollar	**U.S. dollar**	**Euro**	**Pound sterling**	**Other**	**Subtotal**	**Total**
Investments							
Fixed-income securities	81,417	4,388	3,526	544	1,759	10,217	91,634
Variable-income securities							
Equities and convertible securities	23,929	42,005	10,255	6,576	19,499	78,335	102,264
Real estate holdings	18,050	5,389	4,095	265	1,702	11,451	29,501
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	10,958	1,519	3,063	- -	- -	4,582	15,540
Amount pertaining to derivative financial instruments	1,329	547	46	46	33	672	2,001
	135,683	53,848	20,985	7,431	22,993	105,257	240,940
Liabilities related to investments							
Conventional products[2]	19,819	10,759	7,576	17	116	18,468	38,287
Amount pertaining to derivative financial instruments	435	896	280	77	23	1,276	1,711
	20,254	11,655	7,856	94	139	19,744	39,998
Non-controlling interests	2,071	14	18	92	6	130	2,201
	113,358	42,179	13,111	7,245	22,848	85,383	198,741

2012

(in millions of dollars)

		Currency[1]					
	Canadian dollar	**U.S. dollar**	**Euro**	**Pound sterling**	**Other**	**Subtotal**	**Total**
Investments							
Fixed-income securities	72,711	3,400	1,045	498	1,034	5,977	78,688
Variable-income securities							
Equities and convertible securities	22,364	37,910	8,984	5,277	17,500	69,671	92,035
Real estate holdings	15,857	4,114	3,846	613	1,331	9,904	25,761
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	8,629	2,328	426	- -	- -	2,754	11,383
Amount pertaining to derivative financial instruments	1,905	433	86	29	140	688	2,593
	121,466	48,185	14,387	6,417	20,005	88,994	210,460
Liabilities related to investments							
Conventional products[2]	17,822	10,553	3,240	188	171	14,152	31,974
Amount pertaining to derivative financial instruments	915	826	115	177	122	1,240	2,155
	18,737	11,379	3,355	365	293	15,392	34,129
Non-controlling interests	1,901	9	14	82	- -	105	2,006
	100,828	36,797	11,018	5,970	19,712	73,497	174,325

[1] Investments are recorded under the foreign currency they are denominated in and are translated into Canadian dollars.

[2] Conventional products include liabilities related to investments with the exception of the amount pertaining to derivative financial instruments.

The impact of translation of the fair value of foreign currency investments into Canadian dollars included under the item Gains on the sale of investments and under Unrealized increases in value of investments and liabilities related to investments is favourable by $4,226 million (unfavourable by $1,273 million in 2012). The impact of exchange rate hedging related to a portion of such investments is unfavourable by $1,730 million (favourable by $340 million in 2012). The net impact on net investment results is favourable by $2,496 million (unfavourable by $933 million in 2012).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All interest-bearing assets and liabilities as well as their effective rates are shown in note 9d in the table presenting the exposure to liquidity risk. This risk is integrated into the overall measurement of VaR.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes arising from interest rate risk or foreign exchange risk), whether such changes derive from the characteristics of the instrument itself or of its issuer, or from elements affecting all similar financial instruments traded on the market. This risk is integrated into the overall measurement of VaR.

b) Credit risk

Credit risk is the possibility of a loss of fair value in the event that a borrower, endorser, guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial commitment, or sees its financial position deteriorate. Sources of credit risk include fixed-income securities, derivative financial instruments, provision of financial collateral and lending commitments.

Analysis of credit risk includes the probability of default and the recovery rate on debt securities held by the Caisse, as well as monitoring of changes in the credit quality of issuers or groups of issuers whose securities are held in all the portfolios of the Caisse.

Analysis of concentration measures the fair value of a group of financial instruments, particularly fixed-income and variable-income securities, related to a single issuer or to a group of issuers controlled by a parent company, with similar characteristics (region, sector and credit rating).

The concentration limit by group of issuers is 3% of the Caisse's total assets, with the exception of securities issued by the Government of Canada, of Québec or another Canadian province or territory, as well as by their departments and agencies, which are not subject to concentration limits. Sovereign issuers rated AAA are also excluded from this concentration limit. Specific concentration limits also apply to investments in emerging markets. Concentration by issuer is monitored on a monthly basis or on initiation of a transaction requiring approval from the Investment-Risk Committee.

The concentration by credit rating of the Caisse's groups of issuers is as follows as at December 31:

	2013	**2012**
	Value as a % of investments[1]	
Credit rating:[2]		
AAA – AA	19.2	17.8
A	23.6	23.4
BBB	13.8	13.4
BB or lower	2.8	3.4
No credit rating:		
- Real estate assets	16.4	16.3
- ABTNs	0.6	0.7
- Private equity	7.2	5.4
- Private investment funds and hedge funds	6.5	6.8
- Mortgages and mortgage securities	5.3	5.1
- Other	4.6	7.7
	100.0	100.0

[1] The percentage of investments represents net positions by group of issuers.

[2] Credit ratings are obtained from the main recognized credit rating agencies and are aggregated according to an algorithm developed in house. For the purposes of this concentration, only long-term credit ratings from the main agencies are used.

In the table above, the groups of issuers for which no credit rating is available are categorized. For most of these groups, the absence of a credit rating from the main recognized credit rating agencies is due to the private nature of the investments, the absence of any debt, restructuring of the investments or a combination of these elements. Most of the issuers, however, are evaluated with an internal rating system that is used to closely monitor changes in the credit cycle. The system includes exposure limits by sector and country (or region) and by external credit rating (no limit for internal credit ratings).

As at December 31, 2013, 149 groups of issuers (146 in 2012) whose securities are held by the Caisse received a credit upgrade from the main credit rating agencies, while 131 others received a downgrade (176 in 2012). The Caisse frequently monitors changes in credit ratings by the agencies and compares them with the internal credit ratings when they are available.

In the case of mortgages with no assigned credit rating, the analysis of credit risk is based in part on the loan-to-value ratio. In this ratio, the amount of the loan is divided by the fair value of any asset received as collateral on the subscription date or the date funds were granted, or at any other time during the term of the loan.

The table below shows the breakdown of mortgages as at December 31:

	2013	**2012**
Loan-to-value ratio	**Value as a % of mortgages**	
0 to 55%	27.1	31.7
55 to 65%	34.4	32.1
65 to 75%	38.0	35.8
75 to 85%	0.3	0.4
More than 85%	0.2	0.0
	100.0	100.0

Credit risk is measured by the fair value of investments before collateral or other credit upgrades are taken into account. For off-balance-sheet items, the value taken into account to determine maximum exposure to credit risk corresponds to the amount guaranteed or incurred.

The maximum exposure to credit risk is as follows as at December 31:

	2013	**2012**
	(in millions of dollars)	
Investments		
Fixed-income securities	91,634	78,688
Amounts receivable with respect to investments	17,541	13,976
	109,175	92,664
Off-balance-sheet		
Collateral pledged *(note 12)*	17,230	11,894
Guarantees and loan guarantees *(note 11)*	649	906
Funding facility *(note 11)*	6,167	6,167
	24,046	18,967
Total maximum exposure	**133,221**	**111,631**

In reality, this exposure is less because the Caisse takes various measures to mitigate credit risk, such as the taking of guarantees (refer to note 12).

c) Counterparty risk related to derivative financial instruments

Some over-the-counter derivative financial instruments give rise to counterparty risk, because they are negotiated by private contract without being traded through a clearing house. Counterparty risk corresponds to the credit risk from current or potential exposures arising from transactions involving this type of instrument in the event that the counterparty becomes unable to respect the terms of the contracts.

To limit its exposure to counterparty risk arising from transactions involving over-the-counter derivative financial instruments, the Caisse carries out transactions with financial institutions whose credit ratings are established by recognized credit rating agencies and according to operational limits set by management. Moreover, the Caisse enters into legal agreements based on the standards of the International Swaps and Derivatives Association (ISDA), which allows it to benefit from the offset between the amounts at risk and the exchange of collateral to limit its net exposure to this risk.

This risk is measured by counterparty, pursuant to the applicable legal agreement, from which it is possible to calculate the net exposure resulting from all over-the-counter derivative financial instruments and collateral exchanged. Actual exposure to counterparty risk is measured on a daily basis, pursuant to the applicable legal agreement. Potential exposure to counterparty risk is measured on a monthly basis.

As at December 31, 2013, the legal agreements and the collateral received helped reduce exposure to the counterparty risk of over-the-counter derivative financial instruments. The maximum exposure to this risk is $110 million ($58 million in 2012), in respect of 60 active counterparties (59 in 2012).

d) Financing-liquidity risk

Financing-liquidity risk corresponds to the possibility that the Caisse may not always be able to fulfill the commitments related to its financial liabilities without having to obtain funds at abnormally high prices or having to sell assets. It also corresponds to the risk that the Caisse may not be able to sell investments quickly or to purchase investments without having a significant unfavourable effect on the price of the investment in question.

Analysis of compliance with established rules is monitored on a monthly basis, and the liquidity status is determined daily. The Caisse uses various scenario simulations to estimate the potential impact of various market events on its liquidity. Managers evaluate the liquidity of the markets on which the Caisse obtains financing for its operations. They also ensure that the Caisse is active on various financial markets and maintains relationships with the recognized credit rating agencies that rate the Caisse as well as with capital providers.

The summary of maturities at par value of investments and liabilities related to investments as at December 31 is as follows:

					2013		2012
	(in millions of dollars)						
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Fixed-income securities							
Short-term investments							
Canadian	671	158	297	1,126	3.9	608	2.4
Foreign	223	526	66	815	2.8	926	2.9
	894	684	363	1,941	3.4	1,534	2.7
Bonds							
Issued or guaranteed by:							
Government of Canada	2,300	9,849	4,561	16,710	1.5	14,709	1.5
Province of Québec	8	867	12,877	13,752	3.5	8,529	3.4
Other Canadian provinces	- -	196	2,310	2,506	3.4	906	3.7
Municipalities and other Canadian agencies	110	829	368	1,307	2.6	1,302	4.1
Canadian government corporations	17	5,487	5,577	11,081	2.6	11,080	2.8
U.S. government	- -	- -	673	673	3.8	721	3.8
Other foreign governments	- -	2,039	- -	2,039	0.3	- -	- -
Mortgage securities							
Canadian	- -	5	8	13	6.1	117	4.6
Foreign	- -	109	- -	109	- -	109	- -
Canadian corporations	342	5,213	7,050	12,605	5.4	8,685	5.0
Foreign corporations	1,102	2,500	3,238	6,840	4.9	4,722	5.9
Inflation-indexed securities							
Canadian	- -	2	616	618	0.9	679	0.9
Foreign	292	101	- -	393	0.3	50	0.7
	4,171	27,197	37,278	68,646	3.2	51,609	3.2
ABTNs	387	9,654	112	10,153	- -	11,260	- -

	2013					2012	
	(in millions of dollars)						
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Effective interest rate %	Total	Effective interest rate %
Mortgages							
Canadian	136	3,013	5,538	8,687	4.0	7,317	3.6
Foreign	1,011	713	77	1,801	3.5	1,732	2.5
	1,147	3,726	5,615	10,488	3.9	9,049	3.4
	6,599	41,261	43,368	91,228	3.4	73,452	3.3
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements							
Canadian	10,960	- -	- -	10,960	1.0	8,632	1.0
Foreign	4,582	- -	- -	4,582	0.1	2,754	0.1
	15,542	- -	- -	15,542	0.7	11,386	0.8
Liabilities related to investments							
Securities sold under repurchase agreements	12,250	- -	- -	12,250	0.7	4,625	0.8
Commercial paper payable	1,531	- -	- -	1,531	0.8	1,019	1.1
Term notes	2,125	1,000	5,286	8,411	3.9	7,963	3.8
Short selling of securities	5	2,054	1,739	3,798	1.7	3,543	1.9
Mortgage loans payable	351	1,649	54	2,054	3.0	2,421	4.1
Other loans payable	895	839	- -	1,734	1.2	3,038	1.2
	17,157	5,542	7,079	29,778	1.9	22,609	2.4

The Caisse is a party to various commitments and issues financial guarantees that may have an impact on its liquidity (refer to notes 3e, 11 and 12).

10. Derivative financial instruments

Derivative financial instruments are financial contracts whose value fluctuates as a function of the underlying asset, and which do not require holding or delivering the underlying asset itself. The underlying may be of a financial nature (interest rate, foreign currency or stock market security or index) or may be a commodity (precious metal, good or crude oil). Some derivative financial instruments are settled through clearing houses.

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

- Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying, the quantity and price of which are determined in the contract, which includes a predetermined maturity date. A forward contract involves customized terms and conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

- A swap is a transaction whereby two parties agree to exchange cash flows on predetermined conditions that include a notional amount and a term to maturiry.

- An option is a contract that is negotiated by mutual agreement or traded on an organized market and that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.

- A warrant is a contract that enables the purchase of an underlying at a price established by the contract and according to the maturity stated therein.

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments.

Derivative financial instruments that are traded on exchanges or negotiated with banks and securities dealers are used to manage the interest rate and market risks of the overall investment portfolio.

a) Summary of derivative financial instruments

	2013				2012
	(in millions of dollars)				
		Fair value			
	Notional amount	Assets	Liabilities	Net amount	Net amount
Foreign exchange risk management[1]					
Foreign currency swaps					
Purchases	333	- -	14	(14)	(12)
Forward contracts					
Purchases	2,881	11	9	2	(10)
Sales	21,890	36	572	(536)	(193)
	25,104	47	595	(548)	(215)
Interest rate and market risk management					
Interest rate and foreign currency swaps	45,416	1,226	834	392	93
Interest rate swaps settled through a clearing house	17,041	- -	- -	- -	- -
Credit default swaps	32,063	27	2	25	256
Equity and convertible securities swaps	16,670	467	46	421	294
Futures contracts	11,026	1	- -	1	1
Forward contracts	7,174	11	69	(58)	(7)
Over-the-counter options					
Purchases	11,558	185	- -	185	63
Sales	9,461	- -	154	(154)	(69)
Exchange-traded options					
Purchases	1,395	25	- -	25	12
Sales	2,003	- -	11	(11)	(3)
Warrants	84	12	- -	12	13
	153,891	1,954	1,116	838	653
Total derivative financial instrument contracts	178,995	2,001	1,711	290	438

[1] When foreign exchange risk management transactions involve the simultaneous use of the U.S. dollar and other currencies, the notional amount presented above represents only the final value denominated in Canadian dollars.

b) Summary of derivative financial instrument maturities

	2013				2012
	(in millions of dollars)				
	Notional amount – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Notional amount
Foreign exchange risk management					
Foreign currency swaps					
Purchases	186	147	- -	333	1,169
Forward contracts					
Purchases	2,881	- -	- -	2,881	1,988
Sales	21,409	481	- -	21,890	24,736
	24,476	628	- -	25,104	27,893
Interest rate and market risk management					
Interest rate and foreign currency swaps	9,916	21,384	14,116	45,416	52,307
Interest rate swaps settled through a clearing house	- -	8,346	8,695	17,041	- -
Credit default swaps	395	31,668	- -	32,063	32,829
Equity and convertible securities swaps	14,099	2,571	- -	16,670	21,399
Commodity swaps	- -	- -	- -	- -	21
Futures contracts	11,026	- -	- -	11,026	6,737
Forward contracts	7,118	56	- -	7,174	3,146
Over-the-counter options					
Purchases	8,108	3,450	- -	11,558	3,035
Sales	6,512	2,949	- -	9,461	3,005
Exchange-traded options					
Purchases	1,395	- -	- -	1,395	1,434
Sales	2,003	- -	- -	2,003	1,682
Warrants	51	30	3	84	82
	60,623	70,454	22,814	153,891	125,677
Total derivative financial instrument contracts	85,099	71,082	22,814	178,995	153,570

	2013				2012
	(in millions of dollars)				
	Fair value – Maturity				
	Less than 1 year	1 year to 5 years	More than 5 years	Total	Fair value
Derivative financial instruments					
Assets	660	417	924	2,001	2,593
Liabilities	925	434	352	1,711	2,155
Net amount	(265)	(17)	572	290	438

11. Commitments and contingencies

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, guarantees and loan guarantees consist in providing guarantees to financial institutions and corporations regarding future income deriving from the sale of investments and transactions on derivative financial instruments as well as repayment of borrowings by investee companies. Guarantees related to the repayment of loans have no specific maturity date, except in some cases where the terms range from one to nine years.

	2013	2012
	(in millions of dollars)	
Commitments to buy investments	14,622	8,142
Guarantees and loan guarantees	649	906
ABTNs (funding facility)[1]	6,167	6,167
	21,438	15,215

[1] For a description of the commitments related to ABTNs, see note 3e.

12. Collaterals

In the normal course of business, the Caisse pledges financial assets as collateral for securities borrowed, securities sold under repurchase agreements and transactions involving derivative financial instruments. The counterparty is authorized to sell or pledge as collateral certain securities in the absence of default by the Caisse. On certain conditions, the Caisse may have to pledge additional collateral if collateral already pledged loses value.

The following table presents the fair value of the collateral pledged by the Caisse as at December 31:

	2013	2012
	(in millions of dollars)	
Collateral pledged for		
Securities borrowed	4,902	6,781
Securities sold under repurchase agreements	11,697	4,648
Over-the-counter derivative financial instruments	522	306
Exchange-traded derivative financial instruments	109	159
	17,230	11,894

The Caisse receives financial assets as collateral for securities lent, securities acquired under reverse repurchase agreements and transactions involving derivative financial instruments. The Caisse is authorized to sell or pledge certain securities in the absence of default by the counterparty. The Caisse is obliged to return such securities to the counterparties. If the value of the collateral received decreases, the Caisse may in certain cases request additional collateral.

The following table presents the fair value of the collateral received by the Caisse as at December 31:

	2013	2012
	(in millions of dollars)	
Collateral received for		
Securities lent	2,079	2,159
Securities acquired under reverse repurchase agreements	13,920	11,408
Over-the-counter derivative financial instruments	1,180	1,386
	17,179	14,953

13. Comparative figures

Certain figures from the 2012 financial statements have been reclassified to conform to the presentation adopted in 2013.

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS

(in millions of dollars)	SHORT TERM INVESTMENTS (740)		BONDS (760)		LONG TERM BONDS (764)		REAL ESTATE DEBT (750)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
ASSETS								
Investments								
Real estate holdings	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Equities and convertible securities	**- -**	- -	**- -**	- -	**- -**	- -	**287.5**	123.1
Bonds	**- -**	- -	**64,297.2**	53,246.2	**1,873.2**	3,940.4	**- -**	- -
Mortgages	**- -**	- -	**- -**	- -	**- -**	- -	**8,651.7**	7,445.4
Mortgage securities	**- -**	- -	**- -**	- -	**- -**	- -	**12.5**	121.9
Short-term investments	**- -**	- -	**2,002.6**	1,420.0	**- -**	- -	**0.1**	- -
Notes receivable from entities under common control	**- -**	- -	**- -**	- -	**300.0**	721.0	**- -**	- -
Securities acquired under reverse repurchase agreements	**6,167.8**	8,916.3	**9,600.0**	8,487.2	**- -**	- -	**- -**	- -
ABTNs	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
	6,167.8	8,916.3	**75,899.8**	63,153.4	**2,173.2**	4,661.4	**8,951.8**	7,690.4
Demand deposits in the General Fund	**0.2**	- -	**- -**	- -	**4.0**	2.9	**1.7**	2.7
Other assets	**- -**	0.3	**3,912.0**	884.6	**18.4**	39.5	**104.3**	222.2
	6,168.0	8,916.6	**79,811.8**	64,038.0	**2,195.6**	4,703.8	**9,057.8**	7,915.3
LIABILITIES								
Liabilities related to investments								
Securities sold under repurchase agreements	**- -**	- -	**17,941.9**	13,605.2	**299.6**	720.8	**- -**	- -
Notes payable to entities under common control	**- -**	- -	**300.0**	721.0	**- -**	- -	**- -**	- -
Loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Loans payable to entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	84.0
Mortgage loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Short selling of securities	**- -**	- -	**4,216.5**	4,344.4	**- -**	- -	**- -**	- -
Derivative financial instruments	**- -**	- -	**901.4**	1,215.0	**- -**	- -	**47.8**	46.3
	- -	- -	**23,359.8**	19,885.6	**299.6**	720.8	**47.8**	130.3
Advances from the General Fund	**- -**	0.4	**46.4**	124.1	**- -**	- -	**- -**	- -
Other liabilities	**2,659.5**	8.4	**1,554.4**	375.5	**6.5**	314.4	**170.6**	176.4
	2,659.5	8.8	**24,960.6**	20,385.2	**306.1**	1,035.2	**218.4**	306.7
CONSOLIDATED NET ASSETS	**3,508.5**	8,907.8	**54,851.2**	43,652.8	**1,889.5**	3,668.6	**8,839.4**	7,608.6
Less:								
Non-controlling interests	**- -**	- -	**- -**	- -	**- -**	- -	**47.5**	35.8
NET HOLDINGS OF FUNDS	**3,508.5**	8,907.8	**54,851.2**	43,652.8	**1,889.5**	3,668.6	**8,791.9**	7,572.8
CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN NET ASSETS FOR YEARS ENDED DECEMBRE 31								
INCOME								
Investment income	**62.5**	92.8	**1,712.2**	1,449.5	**81.2**	127.3	**159.6**	356.2
Other income	**- -**	- -	**3.0**	2.3	**- -**	- -	**- -**	- -
	62.5	92.8	**1,715.2**	1,451.8	**81.2**	127.3	**159.6**	356.2
Operating expenses	**1.0**	1.2	**51.8**	48.0	**1.4**	2.6	**4.1**	4.6
INCOME BEFORE THE FOLLOWING ITEMS	**61.5**	91.6	**1,663.4**	1,403.8	**79.8**	124.7	**155.5**	351.6
Interest on notes payable to entities under common control	**- -**	- -	**0.3**	5.3	**- -**	- -	**- -**	- -
Interest on loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
NET INVESTMENT INCOME (LOSS)	**61.5**	91.6	**1,663.1**	1,398.5	**79.8**	124.7	**155.5**	351.6
Gains (losses) on sale of investments	**- -**	- -	**320.4**	1,015.7	**33.4**	172.4	**7.4**	(6.2)
Unrealized increase (decrease) in value of investments and liabilities related to investments	**(0.4)**	0.8	**(1,950.1)**	(669.1)	**(256.1)**	(185.6)	**(150.6)**	0.8
NET INVESTMENT RESULTS	**61.1**	92.4	**33.4**	1,745.1	**(142.9)**	111.5	**12.3**	346.2
Participation units issued (cancelled)	**(5,398.9)**	2,151.3	**12,828.1**	1,783.9	**(1,556.4)**	(65.2)	**1,361.3**	969.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(61.5)**	(91.6)	**(1,663.1)**	(1,398.5)	**(79.8)**	(124.7)	**(150.1)**	(346.1)
Other changes in non-controlling interests	**- -**	- -	**- -**	- -	**- -**	- -	**7.3**	(1.0)
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**(5,399.3)**	2,152.1	**11,198.4**	2 130.5	**(1,779.1)**	(78.4)	**1,230.8**	968.1
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**8,907.8**	6,755.7	**43,652.8**	41,522.3	**3,668.6**	3,747.0	**7,608.6**	6,640.5
CONSOLIDATED NET ASSETS, END OF YEAR	**3,508.5**	8,907.8	**54,851.2**	43,652.8	**1,889.5**	3,668.6	**8,839.4**	7,608.6
ATTRIBUTABLE TO PARTICIPATION UNIT HOLDERS								
Net investment results	**61.1**	92.4	**33.4**	1,745.1	**(142.9)**	111.5	**12.3**	346.2
Less:								
Net investment results attributable to non-controlling interests	**- -**	- -	**- -**	- -	**- -**	- -	**4.4**	3.8
Net investment results attributable to participation unit holders	**61.1**	92.4	**33.4**	1,745.1	**(142.9)**	111.5	**7.9**	342.4
Participation units issued (cancelled)	**(5,398.9)**	2,151.3	**12,828.1**	1,783.9	**(1,556.4)**	(65.2)	**1,361.3**	969.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(61.5)**	(91.6)	**(1,663.1)**	(1,398.5)	**(79.8)**	(124.7)	**(150.1)**	(346.1)
INCREASE (DECREASE) IN NET HOLDINGS OF FUNDS	**(5,399.3)**	2,152.1	**11,198.4**	2,130.5	**(1,779.1)**	(78.4)	**1,219.1**	965.3
NET HOLDINGS OF FUNDS, BEGINNING OF YEAR	**8,907.8**	6,755.7	**43,652.8**	41,522.3	**3,668.6**	3,747.0	**7,572.8**	6,607.5
NET HOLDINGS OF FUNDS, END OF YEAR	**3,508.5**	8,907.8	**54,851.2**	43,652.8	**1,889.5**	3,668.6	**8,791.9**	7,572.8
INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT COST AS AT DECEMBER 31								
Investments								
Real estate holdings	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Equities and convertible securities	**- -**	- -	**- -**	- -	**- -**	- -	**209.1**	106.3
Bonds	**- -**	- -	**63,554.4**	50,050.2	**1,944.8**	3,755.9	**- -**	- -
Mortgages	**- -**	- -	**- -**	- -	**- -**	- -	**8,618.8**	7,207.3
Mortgage securities	**- -**	- -	**- -**	- -	**- -**	- -	**121.4**	225.3
Short-term investments	**- -**	- -	**1,937.7**	1,432.5	**- -**	- -	**0.1**	- -
Notes receivable from entities under common control	**- -**	- -	**- -**	- -	**300.0**	721.0	**- -**	- -
Securities acquired under reverse repurchase agreements	**6,168.0**	8,916.3	**9,593.1**	8,474.2	**- -**	- -	**- -**	- -
ABTNs	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
	6,168.0	8,916.3	**75,085.2**	59,956.9	**2,244.8**	4,476.9	**8,949.4**	7,538.9
Liabilities related to investments								
Securities sold under repurchase agreements	**- -**	- -	**17,935.8**	13,603.3	**299.7**	720.9	**- -**	- -
Notes payable to entities under common control	**- -**	- -	**300.0**	721.0	**- -**	- -	**- -**	- -
Loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Loans payable to entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	84.0
Mortgage loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Short selling of securities	**- -**	- -	**4,100.9**	4,187.8	**- -**	- -	**- -**	- -
Derivative financial instruments	**- -**	- -	**118.9**	37.4	**- -**	- -	**- -**	- -
	- -	- -	**22,455.6**	18,549.5	**299.7**	720.9	**- -**	84.0

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (CONT.)

(in millions of dollars)	REAL RETURN BONDS (762)		INFRASTRUCTURE (782)		REAL ESTATE (710) [1]		CANADIAN EQUITY (720)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
ASSETS								
Investments								
Real estate holdings	**- -**	- -	**- -**	- -	**29,607.3**	25,835.8	**- -**	- -
Equities and convertible securities	**- -**	- -	**6,191.9**	5,436.4	**4,378.9**	3,449.5	**16,323.8**	15,097.6
Bonds	**1,085.3**	1,233.4	**2,873.4**	1,210.7	**- -**	- -	**- -**	- -
Mortgages	**- -**	- -	**- -**	- -	**2,120.7**	1,867.4	**- -**	- -
Mortgage securities	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Short-term investments	**- -**	- -	**8.2**	- -	**33.4**	52.7	**- -**	- -
Notes receivable from entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**12,854.2**	13,412.2
Securities acquired under reverse repurchase agreements	**- -**	- -	**479.8**	495.6	**- -**	- -	**- -**	- -
ABTNs	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
	1,085.3	1,233.4	**9,553.3**	7,142.7	**36,140.3**	31,205.4	**29,178.0**	28,509.8
Demand deposits in the General Fund	**62.9**	125.7	**201.5**	451.3	**- -**	8.8	**- -**	51.4
Other assets	**107.4**	2.5	**37.8**	24.2	**493.2**	522.4	**25.6**	45.8
	1,255.6	1,361.6	**9,792.6**	7,618.2	**36,633.5**	31,736.6	**29,203.6**	28,607.0
LIABILITIES								
Liabilities related to investments								
Securities sold under repurchase agreements	**66.3**	133.8	**475.4**	- -	**- -**	- -	**- -**	- -
Notes payable to entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Loans payable	**- -**	- -	**- -**	- -	**451.8**	330.0	**- -**	- -
Loans payable to entities under common control	**- -**	- -	**- -**	- -	**9,205.3**	9,316.0	**- -**	- -
Mortgage loans payable	**- -**	- -	**- -**	- -	**2,275.5**	2,427.5	**- -**	- -
Short selling of securities	**- -**	- -	**478.1**	494.9	**- -**	- -	**5,897.6**	6,549.1
Derivative financial instruments	**- -**	- -	**243.4**	162.6	**388.1**	316.7	**1.3**	3.5
	66.3	133.8	**1,196.9**	657.5	**12,320.7**	12,390.2	**5,898.9**	6,552.6
Advances from the General Fund	**- -**	- -	**- -**	- -	**19.6**	- -	**227.3**	- -
Other liabilities	**- -**	2.6	**56.7**	50.6	**850.4**	1,799.3	**78.4**	108.9
	66.3	136.4	**1,253.6**	708.1	**13,190.7**	14,189.5	**6,204.6**	6,661.5
CONSOLIDATED NET ASSETS	**1,189.3**	1,225.2	**8,539.0**	6,910.1	**23,442.8**	17,547.1	**22,999.0**	21,945.5
Less:								
Non-controlling interests	**- -**	- -	**543.0**	644.6	**1,610.1**	1,325.4	**- -**	- -
NET HOLDINGS OF FUNDS	**1,189.3**	1,225.2	**7,996.0**	6,265.5	**21,832.7**	16,221.7	**22,999.0**	21,945.5

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN NET ASSETS FOR YEARS ENDED DECEMBRE 31								
INCOME								
Investment income	**18.7**	25.5	**1,008.8**	862.3	**726.5**	605.4	**709.3**	671.2
Other income	**- -**	- -	**1.9**	3.2	**- -**	- -	**- -**	3.8
	18.7	25.5	**1,010.7**	865.5	**726.5**	605.4	**709.3**	675.0
Operating expenses	**0.8**	2.1	**28.2**	22.1	**8.5**	9.6	**42.6**	47.8
INCOME BEFORE THE FOLLOWING ITEMS	**17.9**	23.4	**982.5**	843.4	**718.0**	595.8	**666.7**	627.2
Interest on notes payable to entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Interest on loans payable	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
NET INVESTMENT INCOME (LOSS)	**17.9**	23.4	**982.5**	843.4	**718.0**	595.8	**666.7**	627.2
Gains (losses) on sale of investments	**(30.6)**	51.2	**(297.1)**	466.7	**116.8**	515.4	**1,152.5**	824.7
Unrealized increase (decrease) in value of investments and liabilities related to investments	**(157.4)**	(40.5)	**45.3**	(837.0)	**2,234.7**	345.4	**1,549.0**	(173.0)
NET INVESTMENT RESULTS	**(170.1)**	34.1	**730.7**	473.1	**3,069.5**	1,456.6	**3,368.2**	1,278.9
Participation units issued (cancelled)	**152.1**	(71.2)	**1,880.1**	621.1	**3,164.5**	(1,595.8)	**(1,648.0)**	2,802.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(17.9)**	(23.4)	**(790.8)**	(591.9)	**(384.6)**	(1,512.6)	**(666.7)**	(627.2)
Other changes in non-controlling interests	**- -**	- -	**(191.1)**	(478.5)	**46.3**	(102.8)	**- -**	- -
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**(35.9)**	(60.5)	**1,628.9**	23.8	**5,895.7**	(1,754.6)	**1,053.5**	3,454.1
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**1,225.2**	1,285.7	**6,910.1**	6,886.3	**17,547.1**	19,301.7	**21,945.5**	18,491.4
CONSOLIDATED NET ASSETS, END OF YEAR	**1,189.3**	1,225.2	**8,539.0**	6,910.1	**23,442.8**	17,547.1	**22,999.0**	21,945.5

ATTRIBUTABLE TO PARTICIPATION UNIT HOLDERS								
Net investment results	**(170.1)**	34.1	**730.7**	473.1	**3,069.5**	1,456.6	**3,368.2**	1,278.9
Less:								
Net investment results attributable to non-controlling interests	**- -**	- -	**89.5**	(37.7)	**238.4**	124.5	**- -**	- -
Net investment results attributable to participation unit holders	**(170.1)**	34.1	**641.2**	510.8	**2,831.1**	1,332.1	**3,368.2**	1,278.9
Participation units issued (cancelled)	**152.1**	(71.2)	**1,880.1**	621.1	**3,164.5**	(1,595.8)	**(1,648.0)**	2,802.4
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(17.9)**	(23.4)	**(790.8)**	(591.9)	**(384.6)**	(1,512.6)	**(666.7)**	(627.2)
INCREASE (DECREASE) IN NET HOLDINGS OF FUNDS	**(35.9)**	(60.5)	**1,730.5**	540.0	**5,611.0**	(1,776.3)	**1,053.5**	3,454.1
NET HOLDINGS OF FUNDS, BEGINNING OF YEAR	**1,225.2**	1,285.7	**6,265.5**	5,725.5	**16,221.7**	17,998.0	**21,945.5**	18,491.4
NET HOLDINGS OF FUNDS, END OF YEAR	**1,189.3**	1,225.2	**7,996.0**	6,265.5	**21,832.7**	16,221.7	**22,999.0**	21,945.5

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT COST AS AT DECEMBER 31								
Investments								
Real estate holdings	**- -**	- -	**- -**	- -	**23,703.8**	22,010.9	**- -**	- -
Equities and convertible securities	**- -**	- -	**5,145.4**	4,508.4	**4,031.7**	3,473.1	**12,464.9**	13,455.7
Bonds	**1,137.2**	1,127.8	**2,864.1**	1,203.5	**- -**	- -	**- -**	- -
Mortgages	**- -**	- -	**- -**	- -	**1,869.1**	1,844.1	**- -**	- -
Mortgage securities	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Short-term investments	**- -**	- -	**6.2**	- -	**33.9**	53.1	**- -**	- -
Notes receivable from entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**12,854.1**	13,412.2
Securities acquired under reverse repurchase agreements	**- -**	- -	**479.9**	492.1	**- -**	- -	**- -**	- -
ABTNs	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
	1,137.2	1,127.8	**8,495.6**	6,204.0	**29,638.5**	27,381.2	**25,319.0**	26,867.9
Liabilities related to investments								
Securities sold under repurchase agreements	**66.3**	133.8	**477.5**	- -	**- -**	- -	**- -**	- -
Notes payable to entities under common control	**- -**	- -	**- -**	- -	**- -**	- -	**- -**	- -
Loans payable	**- -**	- -	**- -**	- -	**454.0**	331.3	**- -**	- -
Loans payable to entities under common control	**- -**	- -	**- -**	- -	**8,492.8**	8,761.6	**- -**	- -
Mortgage loans payable	**- -**	- -	**- -**	- -	**2,053.8**	2,420.6	**- -**	- -
Short selling of securities	**- -**	- -	**484.3**	491.8	**- -**	- -	**4,458.4**	5,780.1
Derivative financial instruments	**- -**	- -	**37.5**	41.9	**20.8**	20.3	**- -**	- -
	66.3	133.8	**999.3**	533.7	**11,021.4**	11,533.8	**4,458.4**	5,780.1

[1] The financial statements of the specialized Real Estate portfolio have been prepared in accordance with IFRS, and a separate report has been produced for them by the independent auditors.

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (CONT.)

(in millions of dollars)	GLOBAL EQUITY (735)		GLOBAL QUALITY EQUITY (736) (Created January 1, 2013)	U.S. EQUITY (731)		EAFE EQUITY (730)		EMERGING MARKETS EQUITY (732)	
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2013**	2012		**2013**	2012	**2013**	2012	**2013**	2012
ASSETS									
Investments									
Real estate holdings	- -	- -	- -	- -	- -	- -	- -	- -	- -
Equities and convertible securities	**5,095.9**	19,148.7	**16,454.8**	**9,723.9**	10,159.9	**9,832.1**	9,825.9	**10,306.3**	8,723.6
Bonds	**0.3**	- -	- -	- -	- -	- -	- -	- -	- -
Mortgages	- -	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage securities	- -	- -	- -	- -	- -	- -	- -	- -	- -
Short-term investments	**0.4**	1.0	- -	- -	- -	- -	- -	- -	- -
Notes receivable from entities under common control	- -	- -	- -	- -	- -	- -	- -	- -	- -
Securities acquired under reverse repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -	- -
ABTNs	- -	- -	- -	- -	- -	- -	- -	- -	- -
	5,096.6	19,149.7	**16,454.8**	**9,723.9**	10,159.9	**9,832.1**	9,825.9	**10,306.3**	8,723.6
Demand deposits in the General Fund	- -	- -	**720.6**	- -	3.4	- -	- -	- -	- -
Other assets	**62.9**	213.7	**52.1**	**13.8**	12.3	**26.3**	22.1	**313.4**	9.9
	5,159.5	19,363.4	**17,227.5**	**9,737.7**	10,175.6	**9,858.4**	9,848.0	**10,619.7**	8,733.5
LIABILITIES									
Liabilities related to investments									
Securities sold under repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -	- -
Notes payable to entities under common control	- -	2,529.0	- -	- -	- -	- -	- -	- -	- -
Loans payable	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loans payable to entities under common control	- -	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage loans payable	- -	- -	- -	- -	- -	- -	- -	- -	- -
Short selling of securities	**1,462.0**	2,447.6	- -	- -	- -	**3.6**	- -	**64.0**	5.4
Derivative financial instruments	**37.4**	140.3	- -	- -	- -	**0.1**	- -	**15.8**	0.1
	1,499.4	5,116.9	- -	- -	- -	**3.7**	- -	**79.8**	5.5
Advances from the General Fund	**135.3**	396.9	- -	**7.2**	- -	**17.4**	19.4	**282.7**	7.9
Other liabilities	**41.9**	116.7	**30.2**	**16.2**	25.9	**13.2**	9.0	**8.3**	9.4
	1,676.6	5,630.5	**30.2**	**23.4**	25.9	**34.3**	28.4	**370.8**	22.8
CONSOLIDATED NET ASSETS	**3,482.9**	13,732.9	**17,197.3**	**9,714.3**	10,149.7	**9,824.1**	9,819.6	**10,248.9**	8,710.7
Less:									
Non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -	- -
NET HOLDINGS OF FUNDS	**3,482.9**	13,732.9	**17,197.3**	**9,714.3**	10,149.7	**9,824.1**	9,819.6	**10,248.9**	8,710.7

CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN NET ASSETS
FOR YEARS ENDED DECEMBRE 31

	GE 2013	GE 2012	GQE 2013	US 2013	US 2012	EAFE 2013	EAFE 2012	EM 2013	EM 2012
INCOME									
Investment income	**242.6**	354.1	**247.5**	**230.0**	216.0	**305.5**	336.2	**229.5**	205.1
Other income	- -	- -	- -	- -	- -	- -	- -	- -	- -
	242.6	354.1	**247.5**	**230.0**	216.0	**305.5**	336.2	**229.5**	205.1
Operating expenses	**34.9**	40.5	**18.1**	**5.9**	7.2	**7.9**	9.9	**17.4**	13.1
INCOME BEFORE THE FOLLOWING ITEMS	**207.7**	313.6	**229.4**	**224.1**	208.8	**297.6**	326.3	**212.1**	192.0
Interest on notes payable to entities under common control	**36.9**	17.6	- -	- -	- -	- -	- -	- -	- -
Interest on loans payable	- -	- -	- -	- -	- -	- -	- -	- -	- -
NET INVESTMENT INCOME (LOSS)	**170.8**	296.0	**229.4**	**224.1**	208.8	**297.6**	326.3	**212.1**	192.0
Gains (losses) on sale of investments	**2,173.6**	15.1	**62.5**	**1,088.8**	166.1	**406.9**	(380.2)	**(81.4)**	(89.6)
Unrealized increase (decrease) in value of investments and liabilities related to investments	**(320.6)**	1,264.2	**2,295.0**	**2,325.7**	699.9	**2,028.7**	1,300.0	**253.2**	921.2
NET INVESTMENT RESULTS	**2,023.8**	1,575.3	**2,586.9**	**3,638.6**	1,074.8	**2,733.2**	1,246.1	**383.9**	1,023.6
Participation units issued (cancelled)	**(12,103.0)**	1,611.4	**14,839.8**	**(3,849.9)**	1,177.8	**(2,431.1)**	(194.4)	**1,366.4**	1,998.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(170.8)**	(296.0)	**(229.4)**	**(224.1)**	(208.8)	**(297.6)**	(326.3)	**(212.1)**	(192.0)
Other changes in non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -	- -
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	**(10,250.0)**	2,890.7	**17,197.3**	**(435.4)**	2,043.8	**4.5**	725.4	**1,538.2**	2,829.6
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	**13,732.9**	10,842.2	- -	**10,149.7**	8,105.9	**9,819.6**	9,094.2	**8,710.7**	5,881.1
CONSOLIDATED NET ASSETS, END OF YEAR	**3,482.9**	13,732.9	**17,197.3**	**9,714.3**	10,149.7	**9,824.1**	9,819.6	**10,248.9**	8,710.7

	GE 2013	GE 2012	GQE 2013	US 2013	US 2012	EAFE 2013	EAFE 2012	EM 2013	EM 2012
ATTRIBUTABLE TO PARTICIPATION UNIT HOLDERS									
Net investment results	**2,023.8**	1,575.3	**2,586.9**	**3,638.6**	1,074.8	**2,733.2**	1,246.1	**383.9**	1,023.6
Less:									
Net investment results attributable to non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -	- -
Net investment results attributable to participation unit holders	**2,023.8**	1,575.3	**2,586.9**	**3,638.6**	1,074.8	**2,733.2**	1,246.1	**383.9**	1,023.6
Participation units issued (cancelled)	**(12,103.0)**	1,611.4	**14,839.8**	**(3,849.9)**	1,177.8	**(2,431.1)**	(194.4)	**1,366.4**	1,998.0
Net investment loss (net income) recovered from (allocated to) participation unit holders	**(170.8)**	(296.0)	**(229.4)**	**(224.1)**	(208.8)	**(297.6)**	(326.3)	**(212.1)**	(192.0)
INCREASE (DECREASE) IN NET HOLDINGS OF FUNDS	**(10,250.0)**	2,890.7	**17,197.3**	**(435.4)**	2,043.8	**4.5**	725.4	**1,538.2**	2,829.6
NET HOLDINGS OF FUNDS, BEGINNING OF YEAR	**13,732.9**	10,842.2	- -	**10,149.7**	8,105.9	**9,819.6**	9,094.2	**8,710.7**	5,881.1
NET HOLDINGS OF FUNDS, END OF YEAR	**3,482.9**	13,732.9	**17,197.3**	**9,714.3**	10,149.7	**9,824.1**	9,819.6	**10,248.9**	8,710.7

INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT COST
AS AT DECEMBER 31

	GE 2013	GE 2012	GQE 2013	US 2013	US 2012	EAFE 2013	EAFE 2012	EM 2013	EM 2012
Investments									
Real estate holdings	- -	- -	- -	- -	- -	- -	- -	- -	- -
Equities and convertible securities	**4,488.3**	18,261.3	**14,159.7**	**6,605.9**	9,367.5	**7,333.4**	9,356.4	**9,161.8**	7,841.2
Bonds	**0.2**	0.2	- -	- -	- -	- -	- -	- -	- -
Mortgages	- -	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage securities	- -	- -	- -	- -	- -	- -	- -	- -	- -
Short-term investments	- -	- -	- -	- -	- -	- -	- -	- -	- -
Notes receivable from entities under common control	- -	- -	- -	- -	- -	- -	- -	- -	- -
Securities acquired under reverse repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -	- -
ABTNs	- -	- -	- -	- -	- -	- -	- -	- -	- -
	4,488.5	18,261.5	**14,159.7**	**6,605.9**	9,367.5	**7,333.4**	9,356.4	**9,161.8**	7,841.2
Liabilities related to investments									
Securities sold under repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -	- -
Notes payable to entities under common control	- -	2,529.0	- -	- -	- -	- -	- -	- -	- -
Loans payable	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loans payable to entities under common control	- -	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage loans payable	- -	- -	- -	- -	- -	- -	- -	- -	- -
Short selling of securities	**1,308.6**	2,441.6	- -	- -	- -	**3.2**	- -	**70.7**	5.3
Derivative financial instruments	**7.0**	3.0	- -	- -	- -	- -	- -	- -	- -
	1,315.6	4,973.6	- -	- -	- -	**3.2**	- -	**70.7**	5.3

SUPPLEMENTARY INFORMATION
SUMMARY FINANCIAL STATEMENTS FOR THE SPECIALIZED PORTFOLIOS (CONT.)

(in millions of dollars)		PRIVATE EQUITY (780)		HEDGE FUNDS (770)		ASSET ALLOCATION (771)		ABTN (772)
CONSOLIDATED NET ASSETS AS AT DECEMBER 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
ASSETS								
Investments								
Real estate holdings	- -	- -	- -	- -	- -	- -	- -	- -
Equities and convertible securities	18,830.1	17,087.1	3,808.3	3,283.0	1,757.5	1,020.4	- -	- -
Bonds	1,006.1	999.4	- -	- -	0.9	97.3	- -	- -
Mortgages	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage securities	- -	- -	- -	- -	- -	- -	- -	- -
Short-term investments	- -	- -	- -	- -	570.9	269.5	- -	- -
Notes receivable from entities under common control	- -	- -	- -	- -	- -	- -	- -	- -
Securities acquired under reverse repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -
ABTNs	- -	- -	- -	- -	- -	- -	9,775.8	10,152.3
	19,836.2	18,086.5	3,808.3	3,283.0	2,329.3	1,387.2	9,775.8	10,152.3
Demand deposits in the General Fund	508.3	- -	- -	- -	451.0	197.9	- -	- -
Other assets	332.1	36.0	1.7	9.3	8.1	2.6	31.0	34.8
	20,676.6	18,122.5	3,810.0	3,292.3	2,788.4	1,587.7	9,806.8	10,187.1
LIABILITIES								
Liabilities related to investments								
Securities sold under repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -
Notes payable to entities under common control	- -	- -	- -	- -	1,013.2	- -	9,018.6	9,556.5
Loans payable	- -	- -	- -	- -	- -	- -	824.5	1,385.8
Loans payable to entities under common control	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage loans payable	- -	- -	- -	- -	- -	- -	- -	- -
Short selling of securities	256.8	49.6	- -	- -	64.5	41.2	- -	- -
Derivative financial instruments	227.3	96.3	11.2	5.1	452.5	442.9	17.1	25.0
	484.1	145.9	11.2	5.1	1,530.2	484.1	9,860.2	10,967.3
Advances from the General Fund	- -	179.7	124.5	94.4	- -	- -	12.5	8.0
Other liabilities	103.8	105.1	6.2	5.7	111.3	4.5	41.5	46.2
	587.9	430.7	141.9	105.2	1,641.5	488.6	9,914.2	11,021.5
CONSOLIDATED NET ASSETS	20,088.7	17,691.8	3,668.1	3,187.1	1,146.9	1,099.1	(107.4)	(834.4)
Less:								
Non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -
NET HOLDINGS OF FUNDS	20,088.7	17,691.8	3,668.1	3,187.1	1,146.9	1,099.1	(107.4)	(834.4)
CONSOLIDATED STATEMENT OF INCOME AND CHANGES IN NET ASSETS FOR YEARS ENDED DECEMBRE 31								
INCOME								
Investment income	827.3	458.4	(0.3)	0.4	27.6	24.5	140.4	146.6
Other income	5.6	19.0	- -	- -	- -	- -	- -	- -
	832.9	477.4	(0.3)	0.4	27.6	24.5	140.4	146.6
Operating expenses	42.5	39.3	11.2	13.0	15.9	15.1	4.3	5.5
INCOME BEFORE THE FOLLOWING ITEMS	790.4	438.1	(11.5)	(12.6)	11.7	9.4	136.1	141.1
Interest on notes payable to entities under common control	- -	- -	- -	- -	1.2	- -	116.2	119.9
Interest on loans payable	- -	- -	- -	- -	- -	- -	11.6	16.3
NET INVESTMENT INCOME (LOSS)	790.4	438.1	(11.5)	(12.6)	10.5	9.4	8.3	4.9
Gains (losses) on sale of investments	126.5	449.3	(81.3)	134.6	(166.8)	(417.4)	(7.4)	(134.3)
Unrealized increase (decrease) in value of investments and liabilities related to investments	2,509.0	1,245.8	177.7	8.0	239.9	(14.5)	726.7	1,815.5
NET INVESTMENT RESULTS	3,425.9	2,133.2	84.9	130.0	83.6	(422.5)	727.6	1,686.1
Participation units issued (cancelled)	(238.6)	272.2	384.6	(227.2)	(25.3)	309.3	7.7	4.2
Net investment loss (net income) recovered from (allocated to) participation unit holders	(790.4)	(438.1)	11.5	12.6	(10.5)	(9.4)	(8.3)	(4.9)
Other changes in non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -
INCREASE (DECREASE) IN CONSOLIDATED NET ASSETS	2,396.9	1,967.3	481.0	(84.6)	47.8	(122.6)	727.0	1,685.4
CONSOLIDATED NET ASSETS, BEGINNING OF YEAR	17,691.8	15,724.5	3,187.1	3,271.7	1,099.1	1,221.7	(834.4)	(2,519.8)
CONSOLIDATED NET ASSETS, END OF YEAR	20,088.7	17,691.8	3,668.1	3,187.1	1,146.9	1,099.1	(107.4)	(834.4)
ATTRIBUTABLE TO PARTICIPATION UNIT HOLDERS								
Net investment results	3,425.9	2,133.2	84.9	130.0	83.6	(422.5)	727.6	1,686.1
Less:								
Net investment results attributable to non-controlling interests	- -	- -	- -	- -	- -	- -	- -	- -
Net investment results attributable to participation unit holders	3,425.9	2,133.2	84.9	130.0	83.6	(422.5)	727.6	1,686.1
Participation units issued (cancelled)	(238.6)	272.2	384.6	(227.2)	(25.3)	309.3	7.7	4.2
Net investment loss (net income) recovered from (allocated to) participation unit holders	(790.4)	(438.1)	11.5	12.6	(10.5)	(9.4)	(8.3)	(4.9)
INCREASE (DECREASE) IN NET HOLDINGS OF FUNDS	2,396.9	1,967.3	481.0	(84.6)	47.8	(122.6)	727.0	1,685.4
NET HOLDINGS OF FUNDS, BEGINNING OF YEAR	17,691.8	15,724.5	3,187.1	3,271.7	1,099.1	1,221.7	(834.4)	(2,519.8)
NET HOLDINGS OF FUNDS, END OF YEAR	20,088.7	17,691.8	3,668.1	3,187.1	1,146.9	1,099.1	(107.4)	(834.4)
INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS AT COST AS AT DECEMBER 31								
Investments								
Real estate holdings	- -	- -	- -	- -	- -	- -	- -	- -
Equities and convertible securities	16,869.8	17,672.4	3,642.3	3,300.7	1,655.1	983.6	- -	- -
Bonds	1,156.5	1,171.0	- -	- -	- -	- -	- -	- -
Mortgages	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage securities	- -	- -	- -	- -	- -	- -	- -	- -
Short-term investments	- -	65.0	- -	- -	18.7	26.7	- -	- -
Notes receivable from entities under common control	- -	- -	- -	- -	- -	- -	- -	- -
Securities acquired under reverse repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -
ABTNs	- -	- -	- -	- -	- -	- -	11,233.3	12,342.8
	18,026.3	18,908.4	3,642.3	3,300.7	1,673.8	1,010.3	11,233.3	12,342.8
Liabilities related to investments								
Securities sold under repurchase agreements	- -	- -	- -	- -	- -	- -	- -	- -
Notes payable to entities under common control	- -	- -	- -	- -	1,011.3	- -	9,016.6	9,556.9
Loans payable	- -	- -	- -	- -	- -	- -	839.0	1,412.0
Loans payable to entities under common control	- -	- -	- -	- -	- -	- -	- -	- -
Mortgage loans payable	- -	- -	- -	- -	- -	- -	- -	- -
Short selling of securities	239.3	23.9	- -	- -	56.2	40.1	- -	- -
Derivative financial instruments	- -	- -	- -	- -	7.1	26.9	- -	- -
	239.3	23.9	- -	- -	1,074.6	67.0	9,855.6	10,968.9