Industrial Alliance Insurance and Financial Services Inc.

2022 Management's Discussion and Analysis

for the year ended December 31, 2022

February 14, 2023

iA Financial Group

2022 Management's Discussion and Analysis

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Notice

Legal Constitution and General Information

Industrial Alliance Insurance and Financial Services Inc. ("iA Insurance" or the "Company") is a stock insurance company listed on the Toronto Stock Exchange. It is governed by the *Insurers Act* (Quebec), the *Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the "1999 Private Bill"), as amended by the *Act to amend the Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the "2018 Private Bill," collectively with the 1999 Private Bill, the "Private Bill") and by the *Business Corporations Act* (Quebec). iA Insurance and its subsidiaries are authorized by the appropriate regulatory authorities to operate in all provinces and territories of Canada, and most of the United States. iA Insurance is also an issuer subject to the various securities laws in effect in the provinces of Canada.

On January 1, 2019, iA Insurance became a subsidiary all of whose common shares are held by iA Financial Corporation Inc. ("iA Financial Corporation"), a holding company that comprises all the group's activities. Under the terms of a plan of arrangement (the "arrangement"), all the common shares of iA Insurance outstanding at January 1, 2019 have been exchanged for newly issued common shares of iA Financial Corporation, the new holding company, on a one-for-one basis. Issued and outstanding series of preferred shares and debentures remain issued by iA Insurance and have been guaranteed by iA Financial Corporation in accordance with the terms of the arrangement. iA Financial Corporation is a "successor issuer" of iA Insurance as defined in securities regulations with respect to the common shares previously issued by iA Insurance. Following the arrangement, iA Insurance remains a "reporting issuer" as defined in securities regulations.

In February 2000, iA Insurance became a public company governed under the 1999 Private Bill. The 1999 Private Bill was enacted by the Quebec National Assembly on November 26, 1999, and its amendment, the 2018 Private Bill, was enacted on June 15, 2018. The Private Bill prohibits any person and his/her affiliates from acquiring, either directly or indirectly, voting shares of iA Financial Corporation if the acquisition results in the person and his/her affiliates holding 10% or more of the voting rights related to the shares. The Private Bill further provides that in the event that an acquisition is made in contravention of the foregoing, an individual on behalf of whom the shares are acquired cannot exercise the voting rights attached to the aggregate of his/her shares for as long as they are in contravention of this provision. In addition, under this Private Bill, iA Financial Corporation must directly or indirectly hold 100% of the common shares of iA Insurance.

Unless otherwise indicated, all information presented in this Management's Discussion and Analysis is established as at December 31, 2022, or for the year ended on that date.

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

iA Financial Group is a business name and trademark of **iA Financial Corporation Inc.** and **Industrial Alliance Insurance and Financial Services Inc.**

This Management's Discussion and Analysis is dated February 14, 2023.

Non-IFRS and Additional Financial Measures

iA Financial Corporation and iA Insurance report their financial results and statements in accordance with International Financial Reporting Standards ("IFRS"). They also publish certain financial measures or ratios that are not based on IFRS ("non-IFRS"). A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with the generally accepted accounting principles ("GAAP") used for the Company's audited financial statements. The Company uses non-IFRS measures when evaluating its results and measuring its performance. The Company believes that non-IFRS measures provide additional information to better understand its financial results and assess its growth and earnings potential, and that they facilitate comparison of the quarterly and full year results of the Company's ongoing operations. Since non-IFRS measures do not have standardized definitions and meaning, they may differ from the non-IFRS financial measures used by other institutions and should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not to rely on any single financial measure. These non-IFRS measures are often accompanied by and reconciled with IFRS financial measures. For certain non-IFRS measures, there are no directly comparable amounts under IFRS.

Regulation 52-112 respecting Non-GAAP and Other Financial Measures Disclosure from the Canadian Securities Administrators ("Regulation 52-112") establishes disclosure requirements that apply, respectively, to each of the following categories of non-IFRS measures used by iA Financial Group:

– *Non-IFRS financial measures*, which depict the historical or expected future financial performance, financial position or cash flow, and with respect to their composition, exclude an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the Company's financial statements.
– *Non-IFRS ratios*, which are in the form of a ratio, fraction, percentage, or similar representation, have a non-IFRS financial measure as one or more of their components and are not disclosed in the Company's financial statements.
– *Supplementary financial measures*, which are disclosed on a periodic basis to depict historical or expected future financial performance, financial position, or cash flow and are not disclosed in the Company's financial statements.
– *Capital management measures*, which are financial measures intended to enable the reader to evaluate the Company's objectives, policies, and processes for managing its capital.
– *Segment measures*, which combine financial measures for two or more reportable segments of the Company and are not disclosed in the Company's financial statements.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Below is a description of the non-IFRS financial measures, non-IFRS ratios and supplementary financial measures used by the Company. Additional information is provided, along with a description of the reconciliation to the closest IFRS measure, where applicable.

Non-IFRS measures published by iA Financial Group are:

- Return on common shareholders' equity (ROE):
  - *Category under Regulation 52-112*: Supplementary financial measure.
  - *Definition*: A ratio, expressed as a percentage, obtained by dividing the consolidated net income available to common shareholders by the average common shareholders' equity for the period.
  - *Purpose*: Provides a general measure of the Company's efficiency in using equity.
- Car loan measure – Loan originations:
  - *Category under Regulation 52-112*: Supplementary financial measures.
  - *Definition*: New car loans disbursed during a period.
  - *Purpose*: Used to assess the Company's ability to generate new business in the car loan business unit.
  - *Reconciliation*: It is a component of the "Operating activities affecting cash: Purchases of investments" IFRS measure disclosed in the Company's financial statements.
- Car loan measure – Finance receivables:
  - *Category under Regulation 52-112*: Non-IFRS financial measures that constitute historical information.
  - *Definition*: Includes car loans, accrued interest, and fees.
  - *Purpose*: Used to assess the Company's total receivable amounts in the car loan business unit.
  - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.
- Car loan measure – Average credit loss rate on car loans:
  - *Category under Regulation 52-112*: Non-IFRS ratio.
  - *Definition*: Represents the total credit losses divided by the average finance receivables over the same period.
  - *Purpose*: Used to assess the Company's average credit performance in the car loan business unit.
  - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.
- Dividend payout ratio:
  - *Category under Regulation 52-112*: Supplementary financial measure.
  - *Definition*: The percentage of net income attributed to common shareholders, on a reported basis, that is distributed to common shareholders in the form of dividends during the period.
  - *Purpose*: Indicates the percentage of the Company's reported revenues shareholders received in the form of dividends.
  - *Reconciliation*: The dividend payout ratio is the ratio of the dividend per common share paid during the period (an IFRS measure) divided by the reported earnings per common share for the period.
- Core dividend payout ratio:
  - *Category under Regulation 52-112*: Non-IFRS ratio.
  - *Definition*: The percentage of net income attributed to common shareholders, on a core earnings basis, that is distributed to common shareholders in the form of dividends during the period.
  - *Purpose*: Indicates the percentage of the Company's core revenues shareholders received in the form of dividends.
  - *Reconciliation*: The core dividend payout ratio is the ratio of the dividend per common share paid during the period (an IFRS measure) divided by the core earnings per common share for the period.
- Organic capital generation:
  - *Category under Regulation 52-112*: Supplementary financial measure.
  - *Definition*: Excess capital generated in the normal course of business, excluding the impact of the macroeconomic environment, where excess capital is the amount of capital over and above the target ratio, calculated under the CARLI guideline.
  - *Purpose*: Provides a measure of the Company's capacity to generate excess capital in the normal course of business.
- Potential capital deployment:
  - *Category under Regulation 52-112*: Supplementary financial measure.
  - *Definition*: Amount of capital the Company can deploy for a transaction, taking into account all limits and constraints of the regulatory capital guideline and the Company's targets, assuming the transaction parameters to be the worst-case scenario.
  - *Purpose*: Provides a measure of the Company's capacity to deploy capital for transactions.
- Total payout ratio (trailing 12 months):
  - *Category under Regulation 52-112*: Supplementary financial measure.
  - *Definition*: The sum of common dividends paid and common shares repurchased (buybacks) over the last twelve months divided by the net income available to common shareholders over the last twelve months.
  - *Purpose*: Indicates the percentage of the Company's reported revenues shareholders received in the form of dividends over a twelve-month period.
- Sensitivity measures:
  - *Category under Regulation 52-112*: Supplementary financial measures.
  - *Definition*: The impact of macroeconomic variations, such as interest rate and equity market variations, on other Company metrics, such as net income or the solvency ratio.
  - *Purpose*: Used to assess the Company's risk exposure to macroeconomic variations.
- Financial leverage measure – Debentures/Capital:
  - *Category under Regulation 52-112*: Supplementary financial measures.
  - *Definition*: Calculated by dividing total debentures by the sum of total debentures plus shareholders' equity.
  - *Purpose*: Provides a measure of the Company's financial leverage.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

- Financial leverage measure – Debentures + Preferred Shares issued by a subsidiary/Capital:
    - *Category under Regulation 52-112*: Supplementary financial measures.
    - *Definition*: Calculated by dividing the total debentures plus preferred shares issued by a subsidiary by the sum of total debentures plus shareholders' equity.
    - *Purpose*: Provides a measure of the Company's financial leverage.
- Financial leverage measure – Coverage ratio:
    - *Category under Regulation 52-112*: Non-IFRS ratio.
    - *Definition*: Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, preferred shares issued by a subsidiary, and dividends and redemption premiums on preferred shares issued by a subsidiary (if applicable).
    - *Purpose*: Provides a measure of the Company's ability to meet liquidity requirements for obligations when they come due.
    - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.
- Capitalization:
    - *Category under Regulation 52-112*: Supplementary financial measures.
    - *Definition*: The sum of the Company's equity, participating policyholders' accounts and debentures.
    - *Purpose*: Provides an additional indicator for evaluating the Company's financial performance.
    - *Reconciliation*: This measure is the sum of several IFRS measures.
- Solvency ratio:
    - *Category under Regulation 52-112*: In accordance with the Capital Adequacy Requirements Guideline – Insurance of Persons (CARLI) revised in January 2021 by the Autorité des marchés financiers ("AMF"), this financial measure is exempt from certain requirements of Regulation 52-112.
    - *Definition*: Calculated by dividing the sum of the available capital, the surplus allowance and the eligible deposits by the base solvency buffer.
    - *Purpose*: Provides a measure of the Company's solvency and allows the regulatory authorities to determine if an insurance company is sufficiently capitalized in relation to the minimum set by the Company's regulator.
- Assets under administration (AUA):
    - *Category under Regulation 52-112*: Supplementary financial measures.
    - *Definition:* All assets with respect to which the Company acts only as an intermediary between a client and an external fund manager.
    - *Purpose:* Used to assess the Company's ability to generate fees, particularly for investment funds and funds under administration.
    - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.
- Assets under management (AUM):
    - *Category under Regulation 52-112*: Non-IFRS financial measures that constitute historical information.
    - *Definition*: All assets with respect to which the Company establishes a contract with a client and makes investment decisions for amounts deposited in this contract.
    - *Purpose:* Used to assess the Company's ability to generate fees, particularly for investment funds and funds under administration.
    - *Reconciliation*: "General fund assets" and "Segregated funds net assets" disclosed in the Company's financial statements are IFRS measures and components of the AUM calculation. A reconciliation with this measure is presented in this document.
- Individual Wealth Management mutual funds deposits, Group Savings and Retirement deposits, US Operations Dealer Services premium equivalents and Group Insurance Employee Plans ASO, investment contracts and premium equivalents and deposits:
    - *Category under Regulation 52-112*: Supplementary financial measures.
    - *Definitions*:
        a. Deposits refer to amounts received from clients under an investment contract. Deposits are not reflected in the Company's income statements.
        b. Premium equivalents refer to amounts related to service contracts or services where the Company is primarily an administrator but could become an insurer if a specific event were to happen. These amounts are not accounted for in "Net premiums".
    - *Purpose*: Premiums, premium equivalents and deposits are one of many measures used to assess the Company's ability to generate income from in-force and new business.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

- Individual Insurance minimum and excess premium sales, Individual Wealth Management gross and net mutual fund sales, Group Insurance Employee Plans sales, US Operations Individual Insurance sales, Group Insurance Special Markets sales, Group Insurance Dealer Services P&C sales, Group Savings and Retirement sales of accumulation contracts and insured annuities, US Operations Dealer Services sales and General Insurance sales:
  - *Category under Regulation 52-112*: Supplementary financial measures.
  - *Definitions*:
    a. Individual Insurance minimum and excess premium sales are defined as first-year annualized premiums. The net premiums presented in the Consolidated Financial Statements include fund entries on both in-force contracts and new business written during the period and are reduced by premiums ceded to reinsurers.
    b. Individual Wealth Management gross mutual fund sales are defined as deposits and include primary market sales of ETFs.
    c. Individual Wealth Management net mutual fund sales correspond to net fund entries and are defined as Individual Wealth Management gross mutual fund sales less withdrawals and transfers.
    d. Group Insurance Employee Plans sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only).
    e. US Operations Individual Insurance sales are defined as first-year annualized premiums.
    f. Group Insurance Special Markets sales are defined as fund entries on both in-force contracts and new business written during the period.
    g. Group Insurance Dealer Services P&C sales are defined as direct written premiums (before reinsurance).
    h. Group Savings and Retirement sales of accumulation contracts and insured annuities include gross premiums (before reinsurance) and premium equivalents, or deposits.
    i. US Operations Dealer Services sales are defined as direct written premiums (before reinsurance) and premium equivalents.
    j. General Insurance sales are defined as direct written premiums.
  - *Purpose*: Used to assess the Company's ability to generate new business and serve as additional tools to help investors better assess the Company's growth potential.
  - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.
- Group Insurance Dealer Services creditor insurance sales:
  - *Category under Regulation 52-112*: Non-IFRS financial measures that constitute historical information.
  - *Definition*: Premiums before reinsurance and cancellations.
  - *Purpose*: Used to assess the Company's ability to generate new business and serve as an additional tool to help investors better assess the Company's growth potential in the Dealer Services division of the Group Insurance sector.
  - *Reconciliation*: There is no directly comparable IFRS financial measure disclosed in the financial statements of the Company to which the measure relates.

Forward-Looking Statements

- This document may contain statements relating to strategies used by iA Financial Group or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may", "will", "could", "should", "would", "suspect", "expect", "anticipate", "intend", "plan", "believe", "estimate", and "continue" (or the negative thereof), as well as words such as "objective", "goal", "guidance", "outlook" and "forecast", or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. In this document, forward-looking statements include, but are not limited to, information concerning possible or assumed future operating results. These statements are not historical facts; they represent only expectations, estimates and projections regarding future events and are subject to change.
- Although iA Financial Group believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. In addition, certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements.
  - Material factors and risks that could cause actual results to differ materially from expectations include, but are not limited to: insurance, market, credit, liquidity, strategic and operational risks, such as: general business and economic conditions; level of inflation; level of competition and consolidation; changes in laws and regulations, including tax laws and changes made to capital and liquidity guidelines; actions by regulatory authorities that may affect the business or operations of iA Financial Group or its business partners; risks associated with the regional and global political and social environment; risks related to climate change including the transition to a low-carbon economy and iA Financial Groups's ability to satisfy stakeholder expectations on environmental, social and governance issues; data and cyber risks; risks related to human resources; hedging strategy risks; liquidity of iA Financial Group, including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; the occurrence of natural or man-made disasters, international conflicts, pandemic diseases (such as the current COVID-19 pandemic) and acts of terrorism.
  - Material factors and assumptions used in the preparation of financial outlooks include, but are not limited to: accuracy of accounting policies and best estimate actuarial and economic assumptions used by the Company such as mortality, morbidity, longevity and policyholder behaviour; different business growth rates per business unit; no unexpected material changes in the economic, competitive, insurance, legal or regulatory environment or actions by regulatory authorities that could have a material impact on the business or operations of iA Financial Group or its business partners; risks and conditions; and the Company's recent performance and results, as discussed elsewhere in this document.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

– Potential impacts of the COVID-19 pandemic – Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. The overall impact of the COVID-19 pandemic is still uncertain and depends on many factors, such as the progression of the virus, the emergence of new variants, the duration of the pandemic, potential treatments and therapies, the availability of vaccines, the effectiveness of government measures to slow the virus's spread and the impact of those measures on the economy. As a result, we cannot accurately predict the total bearing the pandemic will have, but the impact on iA Financial Group's business and financial results could be material. However, despite the short-term negative impacts of the pandemic on its results, iA Financial Group remains financially solid. In addition, iA Financial Group's business continuity protocol has continued, ensuring that the quality of service clients receive is similar to or better than before the pandemic and enabling employees and advisors to continue to work safely and securely.
– Potential impact of geopolitical conflicts – Since February 2022, Russia's military invasion of Ukraine and the related sanctions and economic fallout have had several impacts on global financial markets, exacerbating the volatility already present since the beginning of 2022. The outlook for financial markets over the short and medium term remains highly uncertain and vulnerable, in part due to continued geopolitical tensions. The Company continues to monitor potential impacts of the conflict. These impacts could negatively affect the Company's financial outlook, results and operations.
– Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of this Management's Discussion and Analysis for 2022, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2022, and elsewhere in iA Financial Group's filings with the Canadian Securities Administrators, which are available for review at sedar.com.
– The forward-looking statements in this document reflect iA Financial Group's expectations as of the date of this document. iA Financial Group does not undertake to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.

Documents Related to the Financial Results

All documents related to the Company's financial results are available on the iA Financial Group website at ia.ca, under *About iA*, in the *Investor Relations/Financial Reports* section. More information about the Company can be found on the SEDAR website at sedar.com, as well as in the Company's Annual Information Form, which can be found on the iA Financial Group website or the SEDAR website.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Highlights

The soundness and strength of the Company's business model have once again been demonstrated by the good results recorded in 2022. Net income attributed to the common shareholder amounted to $869 million in 2022, which is 6% higher than the $821 million recorded in 2021.

Business growth continued to be sound and strong in most business units, bringing the Company closer to its growth ambition: to be a North American financial institution operating in sectors deemed strategically important where it is a leader in its target markets, such as the mass/mid markets for individual insurance. The Company's diversified business mix yielded synergies and complementarities which have contributed to successful sales results in several sectors. This sound performance was also due in part to the scope and diversity of the Company's distribution networks, the range and relevance of its products, and the effectiveness of the digital tools available to representatives, clients and employees.

At the end of 2022, the adequacy of the Company's actuarial provisions was confirmed as the adjustment of actuarial assumptions had a near-neutral net impact on its net income.

iA Insurance's capital position† remained solid and the solvency ratio† was above its target throughout the year. The investment portfolio remained of the highest quality and credit ratings were reaffirmed by Standard & Poor's, DBRS Morningstar and A.M. Best.

Profitability

Net income attributed to the common shareholder amounted to $869 million in 2022, a 6% increase over 2021. Refer to the "Profitability" section of this Management's Discussion and Analysis for more information on the Company's profitability in 2022.

Profitability

(In millions of dollars, unless otherwise indicated)	**2022**	**2021**	**Variation**
Net income attributed to common shareholder	869	821	6%

Business Growth

Assets under management and administration† ended the year at $196.9 billion, compared to $217.8 billion at the previous year end. Premiums and deposits† totalled $15.2 billion compared to $16.6 billion in 2021. Sales results were strong in most business units. Refer to the "Business Growth" section of this Management's Discussion and Analysis for more information on the Company's business growth in 2022.

Financial Strength

At December 31, 2022, the Company had over $6.4 billion in total capital†, with a solvency ratio† of 118% compared to 127% a year earlier.

This decrease is mainly due to the impact of unfavourable macroeconomic variations; the redemption of $250 million of subordinated debentures in February; the redemption of $250 million of preferred shares in June; dividends paid to iA Financial Corporation, iA Insurance's sole common shareholder; and management actions and portfolio adjustments in view of the transition to the new accounting standards IFRS 9 and 17. These factors more than offset the strong contribution of organic capital generation† net of digital initiatives and the impacts of a reinsurance agreement signed in 2022. Note that most of the negative impacts of the portfolio adjustments in preparation for the transition to the new accounting regime will be reversed under IFRS 9 and 17. iA Insurance's solvency ratio remained above its target range throughout the year. For detailed comments on financial strength, including dividends and debt instruments, refer to the "Financial Position" section of this Management's Discussion and Analysis.

Quality of Investments

The Company's investment portfolio continued to be of excellent quality in 2022. As presented in the table below, the proportion of net impaired investments increased slightly in 2022 but remained relatively low at 0.06% of total investments. In addition, bonds rated BB and lower accounted for just 0.98% of the bond portfolio. For detailed comments on investments, refer to the "Investments" section of this Management's Discussion and Analysis.

Investment Quality Indices

	As at December 31	
	2022	**2021**
Net impaired investments ($M)	22	17
Net impaired investments as a % of total investments	0.06%	0.04%
Bonds – Proportion rated BB and lower	0.98%	0.91%

Acquisitions and Dispositions

No notable acquisitions or dispositions occurred in 2022.

For more information on the disposition completed in 2021, refer to Note 4 of the Company's 2022 consolidated financial statements entitled *Disposal of Businesses*.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Changes to Accounting Policies in 2022 and Future Changes in Accounting

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2022, which had no impact on the Company's financial statements as at December 31, 2022. For more information on these amendments and new standards, refer to Note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies."

The Company is finalizing its analysis of the impact of the application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments,* which took effect on January 1, 2023. The Company expects that the initial application of IFRS 17 in conjunction with the application of IFRS 9 will have a limited impact on its equity at transition on January 1, 2022. More specifically, it expects an increase of $11 in the shareholders' equity.

Outlook

iA Financial Group held a virtual Investor Event in March 2021, where management discussed the Company's strategy and outlook for the coming years. Remaining focused on the execution of this strategy and outlook, the Company recorded solid results in 2021 and 2022, once again demonstrating the soundness and strength of its business model. The balance sheet remains robust and the Company has the resources it needs to adjust to macroeconomic fluctuations. The Company is therefore well positioned to grow its earnings and maintain its financial strength.

Profit growth in 2023 is expected to come, among other things, from:
- Organic growth, which refers to normal growth in expected profit on in-force
- Profitability improvement initiatives
- Acquisitions and technology improvements made in past years
- Initiatives to fully leverage the Company's strong and diversified distribution networks

The Company's outlook for 2023 constitutes forward-looking information within the meaning of securities laws. Although the Company believes that its outlook for 2023 is reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: insurance, market, credit, liquidity, strategic and operational risks. In addition, certain material factors or assumptions are applied in preparing the outlook for 2023, including but not limited to: accuracy of accounting policies and best estimate actuarial and economic assumptions used by the Company; continued business growth; no unexpected material changes in the economic, competitive, insurance, legal or regulatory environment; risks and conditions; and the Company's recent performance and results, as discussed elsewhere in this document. The Company's outlook for 2023 serves to provide all stakeholders with a basis for adjusting their expectations with regards to the Company's performance throughout the year and may not be appropriate for other purposes. Additional information about risk factors and assumptions applied may be found in the "Forward-looking Statements" section of this document.

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Business Growth

Assets Under Management and Administration†

Assets under management and administration amounted to $196.9 billion at December 31, 2022 compared to $217.8 billion at the previous year end. This result can be explained by challenging financial market conditions and rising interest rates.

Premiums and Deposits†

Total premiums and deposits totalled nearly $15.2 billion compared to $16.6 billion a year earlier. The unfavourable variation is attributable to the Individual Wealth Management sector, where the industry as a whole was facing challenges amid a difficult macroeconomic environment.

Sales†

Individual Insurance sales† totalled $387 million in 2022, up 35% from a year earlier. Excess premiums† rose 52%, while minimum premiums† grew 34%.

In Individual Wealth Management, both segregated fund and mutual fund sales† were impacted by market volatility with respective sales of $3.9 billion and $1.7 billion in 2022. For general funds, sales were up 35% to reach $1.2 billion in 2022. Total sales amounted to $6.8 billion compared to $8.8 billion a year earlier.

In Group Insurance, 2022 sales† totalled $46 million in the Employee Plans division, compared to $135 million a year earlier. In the Dealer Services division, sales† were up 13% from a year earlier and amounted to nearly $1.2 billion in 2022. In the Special Markets division, sales were up 50%, totalling $322 million in 2022.

Group Savings and Retirement posted slightly higher sales† than last year, amounting to $2.8 billion in 2022.

In US Operations, sales† in the Individual Insurance division totalled US$143 million, up 6% from 2021. The Dealer Services division posted sales† of US$792 million in 2022 compared to $806 million a year earlier, a decrease mainly related to persisting car inventory constraints.

At iA Auto and Home, sales totalled $457 million in 2022, up 6% from a year earlier.

Assets Under Management and Administration†

	As at December 31		
(In millions of dollars, unless otherwise indicated)	**2022**	**2021**	**Variation**
Assets under management	99,138	108,101	(8%)
Assets under administration	97,717	109,687	(11%)
Total	**196,855**	**217,788**	**(10%)**

Premiums and Deposits†,1

(In millions of dollars, unless otherwise indicated)	**2022**	**2021**	**Variation**
Individual Insurance	1,882	1,758	7%
Individual Wealth Management	6,833	8,775	(22%)
Group Insurance	2,137	1,883	13%
Group Savings and Retirement	2,800	2,773	1%
US Operations	1,082	983	10%
General Insurance	420	397	6%
Total	**15,154**	**16,569**	**(9%)**

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

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Sales by Line of Business[†]

(In millions of dollars, unless otherwise indicated)	2022	2021	Variation
Individual Insurance			
Minimum premiums	352	263	34%
Excess premiums	35	23	52%
Total	387	286	35%
Individual Wealth Management			
General fund	1,203	891	35%
Segregated funds	3,908	4,818	(19%)
Mutual funds	1,722	3,066	(44%)
Total	6,833	8,775	(22%)
Group Insurance			
Employee Plans	46	135	(66%)
Dealer Services[2]	1,157	1,026	13%
Special Markets	322	215	50%
Total	1,525	1,376	11%
Group Savings and Retirement	2,827	2,798	1%
US Operations			
Individual Insurance ($US)	143	135	6%
Dealer Services ($US)	792	806	(2%)
iA Auto and Home	457	432	6%

[2] Includes creditor insurance, P&C products and car loan originations.

[†] This item is a non-IFRS measure; see the “Non-IFRS and Additional Financial Measures” section in this document for relevant information about such measures.

Profitability

Highlights

The Company ended the year with net income attributed to the common shareholder of $869 million in 2022, compared to $821 million a year earlier.

Industrial Alliance Insurance and Financial Services Inc. became a subsidiary of iA Financial Corporation Inc. on January 1, 2019 pursuant to a plan of arrangement. Under this plan of arrangement, iA Financial Corporation is the successor issuer of iA Insurance. See the “Notice” at the beginning of this Management’s Discussion and Analysis for more information about the legal constitution of the Company.

Assumption Changes, Risk Management Initiatives and Management Actions

At the end of each quarter, the Company ensures the adequacy of its provisions given the existing economic environment. It also updates its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience and that of the industry in terms of mortality, morbidity, lapse rates, unit costs and other factors.

In 2022, management actions and changes in the actuarial assumptions used to calculate net insurance contract liabilities (for non-participating business) had a slightly negative net impact on operating profit of $2 million before tax at year-end, and can be broken down as follows:

- For mortality, morbidity and policyholder behaviour, the reserves were strengthened, primarily due to the annual update of experience studies, the application of a new mortality table from the Canadian Institute of Actuaries (CIA), and a downward adjustment in the level of excess premiums projected in UL policies.
- For economic assumptions, reserves were released, primarily due to the annual update of return assumptions, the release of the impact of interest rate increases on financial guarantee provisions, and the release of some macroeconomic protections in the context of the IFRS 9 and 17 transition.
- For expenses and other items, the reserves were strengthened, mainly due to the annual update of expense studies.

In addition, in the context of its ongoing risk management initiatives, the Company signed a reinsurance treaty in its US Operations’ Individual Insurance division. This agreement took effect on July 1, 2022 and generated a gain of $53 million before tax during the third quarter.

For more details, refer to Note 14 to the financial statements, entitled “Insurance Contract Liabilities and Investment Contract Liabilities.”

† This item is a non-IFRS measure; see the “Non-IFRS and Additional Financial Measures” section in this document for relevant information about such measures.

Annual Results

Following are the Company's financial results for the years ended December 31, 2022, 2021 and 2020.

Consolidated Income Statement

(In millions of dollars, unless otherwise indicated)	2022	2021	2020
Revenues			
Net premiums	12,852	12,952	11,053
Investment income	(6,624)	188	4,662
Other revenues	1,956	2,010	1,718
Total	**8,184**	**15,150**	**17,434**
Policy benefits and expenses			
Net policy benefits	6,922	6,945	5,250
Net transfers to segregated funds	2,369	3,278	2,872
Increase (decrease) in insurance contract liabilities	(6,219)	(45)	5,760
Increase (decrease) in investment contract liabilities	(44)	(1)	34
Decrease (increase) in reinsurance assets	(123)	(76)	(737)
Commissions	2,249	2,134	1,757
General expenses	1,805	1,616	1,521
Premium and other taxes	154	141	128
Financing charges	59	53	52
Total	**7,172**	**14,045**	**16,637**
Income before income taxes	1,012	1,105	797
Less: income taxes	167	255	138
Net income	845	850	662
Less: net income attributed to participating policyholders	(42)	7	(1)
Net income attributed to shareholders	887	843	660
Less: preferred share dividends	18	22	22
Net income attributed to common shareholder	**869**	**821**	**638**
Earnings per common share (EPS) – Basic	**$7.80**	**$7.56**	**$5.87**

Net Income Attributed to Common Shareholder

The 6% increase in net income attributed to the common shareholder between 2022 and 2021 is explained by the items mentioned below.

Revenues

Revenues, whose three components are presented in the above table, totalled nearly $8.2 billion in 2022, a decrease of 46% compared to 2021. This decrease is mainly due to a decrease in investment income of nearly $6.8 billion, which is mainly attributable to the change in the fair value of investments stemming from variations in interest rates, exchange rates and stock markets. Generally speaking, variations in the fair value of investments are largely neutralized by corresponding variations in insurance contract liabilities, making their impact on net income fairly minimal. Net premiums decreased by $100 million in 2022, or 1% compared to 2021. The decline relative to 2022 in the Individual Wealth Management sector stemmed mainly from individual savings products such as segregated funds, reflecting a challenging macroeconomic environment. The decrease in net premiums was mitigated by business growth in the Individual Insurance, Group Insurance and US Operations segments.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

The following table provides more details regarding the composition of revenues by sector.

Revenues by Sector

	Year ended December 31, 2022						
(In millions of dollars)	**Individual Insurance**	**Individual Wealth Management**	**Group Insurance**	**Group Savings and Retirement**	**US Operations**	**Other**	**Total**
Net premiums	1,882	5,111	1,953	2,800	686	420	12,852
Variation vs. 2021	*124*	*(598)*	*225*	*54*	*72*	*23*	*(100)*
Investment income	(6,007)	(52)	25	(401)	(366)	177	(6,624)
Variation vs. 2021	*(6,063)*	*97*	*(89)*	*(430)*	*(349)*	*22*	*(6,812)*
Other revenues	121	1,746	61	116	170	(258)	1,956
Variation vs. 2021	*(21)*	*(34)*	*12*	*(2)*	*24*	*(33)*	*(54)*
Total	(4,004)	6,805	2,039	2,515	490	339	8,184
Variation vs. 2021	*(5,960)*	*(535)*	*148*	*(378)*	*(253)*	*12*	*(6,966)*

Policy Benefits and Expenses

Policy benefits and expenses were down nearly $6.9 billion in 2022 compared to 2021. The main items contributing to this decrease are:

- A change in net transfers to segregated funds compared to the previous year ($909 million).
- A $6.2 billion variation for insurance contract liabilities compared to 2021, essentially due to the increase in interest rates in 2022 compared to a decrease the previous year. The variation in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the variation in net policy premiums and benefits, net transfers to segregated funds and variations in the provisions for future policy benefits due to assumption changes.

The decrease in policy benefits and expenses was partly offset by the following:

- An increase in commissions compared to the previous year ($115 million), which primarily stems from growth of the in-force block of business. Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.
- An increase in general expenses, mainly due to business growth and digital initiatives ($189 million).

Income Taxes

The consolidated financial statements indicate an income tax expense of $167 million in 2022, compared to $255 million in 2021. These amounts represent the Company's tax expense net of all adjustments for prior years. The decrease in 2022 is mainly due to lower income before income taxes and adjustments for prior years.

Quarterly Results

Below is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters. The analysis in this section focuses primarily on the Company's results for the fourth quarter of 2022. Generally speaking, the terminology used in this section is the same terminology used in the financial statements.

Net Premiums

Net premiums amounted to nearly $3.4 billion in the fourth quarter, a year-over-year increase of 4%. This variation is mainly explained by significant net premium growth in the Group Savings and Retirement segment, partly offset by a decrease in the Individual Wealth Management segment.

Stock market variations, the level of premiums invested in segregated funds and the signing of new agreements with large groups in both group lines of business are some of the factors that contribute to the fluctuation of premiums from one quarter to another.

Net premiums include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds.

Investment Income

In the fourth quarter of 2022, investment income was down by $1,717 million compared to the same quarter in 2021. This was primarily due to variations in the fair value of bond investments and derivative financial instruments supporting the insurance contract liabilities, mainly caused by movements in interest rates.

Investment income fluctuates in large part based on the fair value of investments, which is influenced by changes in interest rates, stock markets and issuer spreads, particularly for bonds, equities and derivatives. Investment income also varies based on interest income, dividends, rental income from real estate, and realized profits and losses on the disposition of available-for-sale assets.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

From an accounting standpoint, the majority of stocks and bonds are classified as *Designated at fair value through profit or loss* and are used as underlying assets for the provisions for future policy benefits. The variation in the fair value of these assets is therefore reflected in the increase (decrease) in insurance contract liabilities.

Other Revenues

Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and assets managed for third parties. Other revenues for the fourth quarter of 2022 were down $62 million, or 11%, year over year. This variation came mainly from the Individual Wealth Management segment.

Quarterly Results

	2022				2021			
(In millions of dollars, unless otherwise indicated)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenues								
Net premiums	3,418	2,808	3,070	3,556	3,275	3,293	3,061	3,323
Investment income	346	455	(3,423)	(4,002)	2,063	(47)	1,727	(3,555)
Other revenues	480	479	490	507	542	515	486	467
Total	**4,244**	**3,742**	**137**	**61**	**5,880**	**3,761**	**5,274**	**235**
Income before income taxes	265	303	247	197	281	292	303	229
Income taxes	45	59	26	37	64	67	67	57
Net income	220	244	221	160	217	225	236	172
Less: net income attributed to participating policyholders	(29)	(4)	(9)	—	10	3	(1)	(5)
Net income attributed to shareholders	249	248	230	160	207	222	237	177
Less: preferred share dividends	4	3	5	6	5	6	5	6
Net income attributed to common shareholder	**245**	**245**	**225**	**154**	**202**	**216**	**232**	**171**
Earnings per common share (basic)	$2.16	$2.15	$2.04	$1.42	$1.86	$1.99	$2.14	$1.57
Net transfers to segregated funds	392	191	547	1,239	1,004	1,018	845	411
Increase (decrease) in insurance contract liabilities	897	497	(3,344)	(4,269)	1,890	96	1,789	(3,820)
Increase (decrease) in investment contract liabilities	4	3	(24)	(27)	5	1	7	(14)
Total general fund assets	46,523	46,352	45,370	48,407	51,707	51,000	49,920	49,071
Segregated funds net assets	37,334	35,469	35,625	38,873	39,577	36,886	35,837	33,449

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Financial Position

Capitalization and Solvency

Capitalization

iA Insurance's capital structure can be divided into three categories: equity, debentures, and participating policyholders' accounts. At December 31, 2022, the Company's capital† reached nearly $6.4 billion, compared to nearly $6.6 billion a year earlier, with equity and participating policyholders' accounts representing 94% of total capital.

The decrease in 2022 is mainly due to the decrease in accumulated other comprehensive income (AOCI) resulting from rising interest rates.

Capital Structure†

	As at December 31				
(In millions of dollars)	**2022**	**2021**	**2020**	**2019**	**2018**
Equity					
Common shares	1,755	1,655	1,655	1,655	1,656
Preferred shares	275	525	525	525	525
Retained earnings[1,2]	4,191	3,628	2,864	3,460	3,440
Contributed surplus	—	—	—	—	23
AOCI[3]	(277)	75	150	76	23
Subtotal	5,944	5,883	5,194	5,717	5,667
Debentures[4]	404	653	653	652	901
Participating policyholders' accounts[5]	6	48	41	42	52
Total	**6,354**	**6,584**	**5,888**	**6,411**	**6,620**

Solvency

The Company's solvency ratio† under the Capital Adequacy Requirements for Life and Health Insurance (CARLI) Guideline issued by the Autorité des marchés financiers (AMF) was 118% at December 31, 2022, compared to 127% at December 31, 2021. This decrease is mainly due to the impact of unfavourable macroeconomic variations; the redemption of $250 million of subordinated debentures in February; the redemption of $250 million of preferred shares in June; dividends paid to iA Financial Corporation, iA Insurance's sole common shareholder; and management actions and portfolio adjustments in view of the transition to the new accounting standards IFRS 9 and 17. These factors more than offset the strong contribution of organic capital generation† net of digital initiatives and the impacts of a reinsurance agreement signed in the third quarter of 2022. Note that most of the negative impacts of the portfolio adjustments in preparation for the transition to the new accounting regime will be reversed under IFRS 9 and 17. The Company intends to continue to maintain its solvency ratio within or above its target range.[5]

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2022**	**2021**
Available capital and surplus allowance	8,864	9,732
Base solvency buffer	7,514	7,636
Solvency ratio†	**118%**	**127%**

1 In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings as at January 1, 2017 by $58 million.
2 In the fourth quarter of 2019, an adjustment retroactive to January 1, 2018 was made transferring $7 million from retained earnings to participating policyholders' accounts.
3 AOCI: Accumulated other comprehensive income.
4 Items considered as long-term debt and included in the debt ratio calculation.
5 Please refer to the "Forward-Looking Statements" section of this document.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Equity and Financing

Redemption and Issue of Financial Instruments

In February 2022, iA Insurance redeemed its subordinated debentures issued in February 2015 with a principal amount of $250 million and bearing interest of 2.64%.

In June 2022, iA Insurance redeemed its Non-Cumulative 5-Year Rate Reset Class A Preferred Shares, Series G issued in June 2012 for a total redemption price of $250 million.

Debentures

The Company had one series of debentures on its balance sheet at December 31, 2022, with a total book value of $399 million. These debentures, which are detailed in the table later in this section, were classified as financial liabilities at amortized cost. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors. In 2022, the financing expense, made up of interest and the amortization of issuance costs, amounted to $15 million, compared to $20 million in 2021 due to the debenture redemption.

Common Shares

The Company has only one class of common shares, which are 100% owned by iA Financial Corporation. The Company's common shares must be 100% owned by iA Financial Corporation, directly or indirectly, at all times.

Preferred Shares

In 2022, the Company paid $18 million in dividends to preferred shareholders with Class A Shares, Series B, G and I. The Company's capital currently includes two series of Class A Preferred Shares, Series B and I, as shown in the full-page table later in this section.

Declaration of Fourth Quarter Dividends

In the fourth quarter of 2022, iA Insurance paid a dividend of $150 million to its sole common shareholder, iA Financial Corporation. For the first quarter of 2023, the Board of Directors of iA Insurance determined that there will be no dividend to its sole common shareholder, iA Financial Corporation. As a result, no dividend should be paid by iA Insurance to iA Financial Corporation during the first quarter of 2023.

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

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.2875 per non-cumulative Class A Preferred Share – Series B. The dividend is payable in cash on March 31, 2023, to the preferred shareholders of record as at February 24, 2023.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.3000 per non-cumulative Class A Preferred Share – Series I. The dividend is payable in cash on March 31, 2023, to the preferred shareholders of record as at February 24, 2023.

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

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Preferred Shares, Debentures and Other Equity Instruments – Industrial Alliance Insurance and Financial Services Inc.

Class A Preferred Shares – Series B	
Number:	5,000,000
Principal amount:	$125 million
Book value:	Shares recognized at their acquisition value
Dividend:	Fixed non-cumulative quarterly dividend of $0.2875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the Autorité des marchés financiers (AMF), on or after March 31, 2011.

Class A Preferred Shares – Series I	
Number:	6,000,000
Principal amount:	$150 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of $1.20 in cash per preferred share until March 31, 2023. On March 31, 2023 and on March 31 every 5 years thereafter, the dividend rate will be adjusted to equal the sum of the then current 5-year Government of Canada bond yield plus 2.75%.
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Shares – Series J on March 31, 2023 and on March 31 every 5 years thereafter.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on March 31, 2023 and on March 31 every 5 years thereafter.

Subordinated debentures issued on September 16, 2016 and maturing on September 15, 2028	
Principal amount:	$400 million
Book value:	$399 million
Interest:	3.30% until September 15, 2023. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 2.14%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 15, 2023, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.0 million.

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

Controls and Procedures

Disclosure Controls and Procedures

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

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2022, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

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

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of Disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2022, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the *Internal Control – Integrated Framework* report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the year, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Significant Accounting and Actuarial Policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For more information on significant accounting policies, refer to Note 2 of the Company's consolidated financial statements.

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

Other Items

Related Party Transactions

Related party transactions are described in Note 27 of the Company's consolidated financial statements.

Guarantees, Commitments and Contingencies

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

As at December 31, 2022, the Company's contractual obligations and commitments were as follows:

Contractual Obligations – Payments Due by Period

	As at December 31, 2022			
(In millions of dollars)	**Total**	**Less than 1 year**	**1 year to 5 years**	**More than 5 years**
Debentures	404	—	—	404
Lease liabilities	98	17	45	36
Purchasing commitments	316	96	220	—
Other long-term commitments	4,314	2,518	1,019	777
Total of contractual obligations	**5,132**	**2,631**	**1,284**	**1,217**

For more information on commitments to third parties, investment commitments and the Company's lines of credit, refer to Note 28 of the consolidated financial statements.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Credit Ratings

iA Financial Corporation and its subsidiaries receive credit ratings from three independent rating agencies: Standard & Poor's, DBRS Morningstar and A.M. Best. These ratings, presented in the table below, confirm the financial strength of the Company and its ability to meet its commitments to policyholders and creditors.

In 2022, the credit ratings assigned by Standard & Poor's, DBRS Morningstar and A.M. Best remained unchanged, with a stable outlook.

Credit Ratings

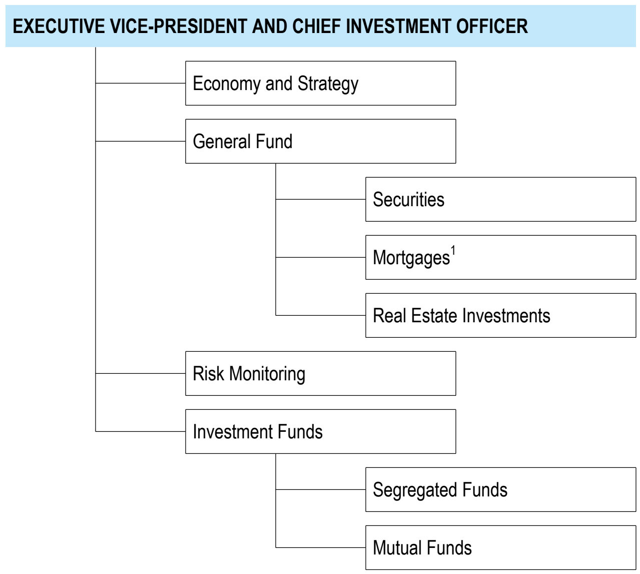
Agency	Type of evaluation	Rating
iA Financial Corporation Inc.		
Standard & Poor's	Issuer Credit Rating	A
	Subordinated Debentures	A-
	Limited Recourse Capital Notes	BBB+
DBRS Morningstar	Issuer Rating	A
	Subordinated Debentures	A (low)
	Limited Recourse Capital Notes	BBB (high)
Industrial Alliance Insurance and Financial Services Inc.		
Standard & Poor's	Issuer Credit Rating	AA-
	Financial Strength Rating	AA-
	Subordinated Debentures	A+
	Preferred Shares – Canadian scale	P-1 (Low)
	Preferred Shares – Global scale	A
DBRS Morningstar	Financial Strength	AA (low)
	Issuer Rating	AA (low)
	Subordinated Debentures	A (high)
	Preferred Shares	Pfd-1 (low)
A.M. Best	Financial Strength	A+ (Superior)
	Issuer Credit Rating	aa- (Superior)
	Subordinated Debentures	a (Excellent)
	Preferred Shares	a- (Excellent)
IA American Life Group Entities (IA American Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer Security Life Insurance Company, Pioneer American Insurance Company, Occidental Life Insurance Company of North Carolina)		
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a (Excellent)
Industrial Alliance Pacific General Insurance Corporation		
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a+ (Excellent)
Dealers Assurance Company		
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a (Excellent)

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Investments

Description of Sector

The Investments sector has two main functions: managing the assets in the Company's general fund and managing the investment funds offered to its clients. All of iA Financial Group's investment activities, including those associated with its U.S. operations, are combined under a single authority and share a common philosophy. The Investment management structure is illustrated below.



Most of iA Financial Group's investment professionals look after asset allocation and securities selection for the general fund and for a number of segregated and mutual funds, in addition to overseeing all external managers.

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

The risk monitoring team is responsible for developing a global vision for the control and monitoring of the various investment risks (interest rate, stock market, foreign currency, credit, liquidity, etc.). It is also responsible for analyzing and monitoring active risk and risks related to investment funds. In addition to quantifying the risks, the team helps develop strategies for managing these risks effectively.

Sustainable Investment Approach

The *Responsible Investment Policy*, *Sustainable Development Policy* and *Proxy Voting Policy* provide guidance on how our investment teams incorporate ESG considerations into investment management and stewardship activities in a consistent and comprehensive manner.

When assets are managed internally, Industrial Alliance Investment Management Inc. (iAIM) portfolio managers and analysts are expected to adhere to the guiding principles of the Responsible Investment Policy, in particular the incorporation of ESG considerations into the investment process. iAIM regularly assesses the application of this Policy across its investment portfolios. When assets are managed by an external manager, we review their Responsible Investment policy and practices as part of the selection process, as well as on a regular, ongoing basis.

[1] The Company withdrew from the residential mortgage market in 2020. The mortgage portfolio is now made up of multi-unit residential and non-residential loans.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Assets Under Management and Administration†

At December 31, 2022, the Company had $196.9 billion in assets under management and administration, compared to $217.8 billion at the previous year end. Growth in asset levels throughout 2022 was tempered by challenging financial market conditions and rising interest rates.

Assets Under Management and Administration

	As at December 31				
(In millions of dollars)	**2022**	**2021**	**2020**	**2019**	**2018**
Assets under management†					
General fund	46,523	51,707	50,653	44,503	39,760
Segregated funds	37,334	39,577	32,816	27,868	23,781
Mutual funds	11,611	13,955	11,393	11,594	10,833
Other	3,670	2,862	3,797	15,500	14,721
Subtotal	99,138	108,101	98,659	99,465	89,094
Assets under administration†	97,717	109,687	95,830	89,246	79,678
Total	**196,855**	**217,788**	**194,489**	**188,711**	**168,772**

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as *Other*), amounted to $99.1 billion at December 31, 2022, compared to $108.1 billion at the previous year end.

Assets under administration totalled $97.7 billion at December 31, 2022, compared to $109.7 billion the previous year. Assets under administration essentially include third-party assets that are administered through the mutual fund brokerage company (Investia Financial Services), the securities brokerage company (iA Private Wealth) and the trust company (iA Trust).

General Fund

General Fund Investments

The Company takes a prudent, disciplined approach to investing and aims to achieve an optimal balance between risk and return. In addition to ensuring that its investments are well diversified among issuers and operating sectors, as well as geographically, the Company closely monitors its asset/liability matching and maintains a sufficient level of liquidity at all times. For more information about liquidity risk and how it is managed and about the asset/liability matching process and the measures used by the Company to reduce the risks associated with this process, refer to the “Risk Management” section of this Management’s Discussion and Analysis.

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

Composition of General Fund Investments

At the end of 2022, 68% of the Company’s investments were invested in bonds and 7% in mortgages and other loans, for a total of 75% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 75% and 79% over the last five years, while stocks have varied between 7% and 10%.

General Fund Investments

	As at December 31				
(In millions of dollars)	**2022**	**2021**	**2020**	**2019**	**2018**
Bonds	26,527	32,254	31,762	27,189	23,592
Mortgages and other loans	2,831	2,922	2,802	3,870	3,661
Stocks	3,912	3,769	3,168	3,024	3,055
Real estate	1,804	1,870	1,916	2,077	1,721
Other invested assets	3,837	3,901	4,578	3,338	2,550
Total	**38,911**	**44,716**	**44,225**	**39,497**	**34,579**

† This item is a non-IFRS measure; see the “Non-IFRS and Additional Financial Measures” section in this document for relevant information about such measures.

Investments by Asset Category

	As at December 31	
	2022	**2021**
Portfolio	**$38.9B**	**$44.7B**
Bonds	68%	72%
Mortgages and other loans	7%	7%
Stocks	10%	9%
Real estate	5%	4%
Other	10%	8%

The figures do not always add up exactly due to rounding differences.

Overall Quality of Investments

At December 31, 2022, net impaired investments totalled $22 million, compared to $17 million a year earlier. On a $40.0 billion portfolio, this represents 0.06% of total investments (0.04% at December 31, 2021). This decrease is the net result of the early prepayment of the entire principal and interest accrued on one impaired bond and the addition of a new impaired bond following the degradation of the credit quality, which stems from shifting trends from the pandemic.

The overall quality of investments continued to be very good in 2022.

Net Impaired Investments (Excluding Insured Loans)

	As at December 31				
(In millions of dollars)	**2022**	**2021**	**2020**	**2019**	**2018**
Bonds	22	17	31	10	13
Mortgages and other loans	—	—	—	1	3
Total	**22**	**17**	**31**	**11**	**16**

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

Net Impaired Investments as a Percentage of Total Investments

	As at December 31				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Net impaired investments	0.06	0.04	0.07	0.03	0.05

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as *available for sale* amounted to $277 million at December 31, 2022 ($36 million at December 31, 2021).

Bond Portfolio

The quality of the Company's bond portfolio is very good, totalling $26.5 billion at December 31, 2022.

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

The proportion of bonds rated A or higher made up 75% of the bond portfolio at the end of 2022, compared to 80% at the end of 2021.
At December 31, 2022, bonds rated BB and lower (high-yield bonds) totalled $265 million (1.0% of the bond portfolio), compared to $293 million at December 31, 2021 (0.9% of the bond portfolio).

Bonds by Credit Rating

	As at December 31	
	2022	**2021**
Portfolio	**$26.5B**	**$32.3B**
AAA	8%	5%
AA	29%	42%
A	37%	34%
BBB	24%	19%
BB and lower	1%	1%

The figures do not always add up exactly due to rounding differences.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2022, private issue bonds totalled $5.8 billion, accounting for 21% of the bond portfolio ($5.8 billion or 18% of the portfolio at December 31, 2021).

Bond Portfolio

	As at December 31				
	2022	**2021**	**2020**	**2019**	**2018**
Book value of the portfolio ($M)	**26,527**	**32,254**	**31,762**	**27,189**	**23,592**
Distribution by category of issuer (%)					
Governments	31	41	48	49	51
Municipalities	2	4	5	5	5
Corporates – Public issues	45	37	31	29	26
Corporates – Private issues	22	18	17	18	18
Total	100	100	100	100	100

The figures do not always add up exactly due to rounding differences.

Mortgages and Other Loans Portfolio

The mortgages and other loans portfolio amounted to $2.8 billion at December 31, 2022 compared to $2.9 billion a year earlier. At the end of 2022, 14% of the portfolio ($380 million) was securitized through the Canada Mortgage and Housing Corporation (CMHC) Canada Mortgage Bond (CMB) program.

The mortgage portfolio alone, made up of multi-unit residential and non-residential mortgages, totalled nearly $1.6 billion and was of excellent quality at December 31, 2022, with a delinquency rate of nil. The delinquency rate data includes both insured and uninsured mortgages.

Delinquency Rate as a Percentage of Mortgages

	As at December 31				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Delinquency rate	—	---	---	0.08	0.09

As shown in the table below, insured mortgages have represented approximately three-quarters of the total mortgage portfolio in recent years (71% in 2022).

Mortgages and Other Loans Portfolio

	As at December 31				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Book value of the portfolio ($M)					
Mortgages	1,612	1,866	1,892	3,076	2,999
Other loans – Car loans	1,219	1,055	910	794	662
Total	**2,831**	**2,922**	**2,802**	**3,870**	**3,661**
Distribution of mortgages by type of loan (%)					
Insured loans	71	71	73	74	76
Conventional loans	29	29	27	26	24
Total	100	100	100	100	100
Mortgage delinquency rate (%)	—	---	---	0.08	0.09

At December 31, 2022, the proportion of mortgages secured by multi-unit residential properties was 84%. This number has been above 80% for several years.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Mortgages by Type of Property

	As at December 31	
	2022	**2021**
Portfolio	**$1.6B**	**$1.9B**
Residential	—	---
Multi-unit residential	84%	84%
Non-residential	16%	16%

In addition to mortgages and other loans, the Company also manages assets for third parties. In total, the Company's portfolio of mortgages and other loans plus assets managed for third parties amounted to $6.2 billion at December 31, 2022 ($5.3 billion at December 31, 2021).

Stock Portfolio

At December 31, 2022, investments in equity securities amounted to $3.9 billion, or 10% of the Company's total investments, compared to $3.8 billion or 9% a year earlier.

Investments in equity securities, as well as the Company's preferred shares, are used to match long-term insurance contract liabilities and to cover the commitments on certain Universal Life policies. The stock portfolio matched to very long-term commitments delivered a return of 8% in 2022, while the Company's preferred shares delivered a return of -15%. Private equities occupy an increasingly large part of the portfolio. This equity category offers opportunities in terms of diversification, returns and matching of very long-term commitments.

Stock Portfolio by Type of Matching

	As at December 31	
	2022	**2021**
Portfolio	**$3.9B**	**$3.8B**
Very long-term commitments	62%	56%
Universal Life policies	29%	31%
Capital (preferred shares)	9%	12%

The figures do not always add up exactly due to rounding differences.

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

Stock Portfolio

	As at December 31				
	2022	**2021**	**2020**	**2019**	**2018**
Book value of the portfolio ($M)	**3,912**	**3,769**	**3,168**	**3,024**	**3,055**
Distribution by category of stock (%)					
Common shares and investment fund units	27	31	28	27	36
Preferred shares	9	15	23	19	16
Market indices	7	5	2	10	10
Private equities	54	49	47	44	38
Total	100	100	100	100	100

Real Estate Portfolio

The Company recognizes investment properties at fair value. The book value of investment properties decreased by $66 million in the past year to $1.8 billion at December 31, 2022. Changes in the book value are normally due to the net amount of acquisitions and dispositions, the change in the fair value of investment properties that were reappraised during the year and any capital expenses on the properties. Real estate investments represented 4.5% of the total investment portfolio at December 31, 2022.

The occupancy rate of investment properties was 88% at December 31, 2022, compared to 91% at December 31, 2021. This decrease is mainly due to iA's "Work from Anywhere" program. In line with this program, iA vacated and consolidated some of its office space in Quebec City, Montreal and Toronto. Nevertheless, this occupancy rate continues to compare favourably with commercial rental properties in large Canadian cities. The weighted average lease term (WALT) of the real estate portfolio is 8.8 years, ensuring stable long-term revenues for the Company.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Office buildings account for nearly 86% of the Company's real estate investments.

Investment Properties

	As at December 31				
(In millions of dollars, unless otherwise indicated)	**2022**	**2021**	**2020**	**2019**	**2018**
Book value of the portfolio	**1,804**	**1,870**	**1,916**	**2,077**	**1,721**
Occupancy rate	88%	91%	95%	94%	95%

Investment Properties by Category of Property

	As at December 31	
	2022	**2021**
Portfolio	**$1.8B**	**$1.9B**
Office	86%	87%
Retail	5%	6%
Industrial	4%	2%
Multi-unit residential, land and other	5%	4

The figures do not always add up exactly due to rounding differences.

Derivative Financial Instruments

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

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

The Company also uses derivatives in the implementation of strategies to improve the matching of assets backing long-term life insurance liabilities and to hedge the risk associated with the Universal Life policy funds.

The Company uses derivative financial instruments to hedge its exposure to currency risk when investing in assets not denominated in the same currency as the liabilities backed by these assets.

The Company has an investment strategy that uses options to obtain synthetic stock market exposure while reducing its macroeconomic risk profile.

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

Derivative Financial Instruments – Fair Value and Exposure

	As at December 31	
(In millions of dollars)	**2022**	**2021**
Net fair value	(481)	396
Notional amount	36,592	30,358

Other Invested Assets

The *Other invested assets* category is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), derivatives, short-term investments and other investments. These investments totalled $4.0 billion at December 31, 2022 ($4.1 billion at December 31, 2021).

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Investment Fund Assets

Investment fund assets for iA Financial Group totalled $48.9 billion at December 31, 2022 ($37.3 billion in segregated funds and $11.6 billion in mutual funds), a decrease of $4.7 billion from the previous year. This decrease is mostly explained by unfavourable financial markets which also decreased sales.

Segregated Fund and Mutual Fund Assets

	As at December 31				
(In billions of dollars)	**2022**	**2021**	**2020**	**2019**	**2018**
Segregated funds	37.3	39.6	32.8	27.9	23.8
Mutual funds	11.6	14.0	11.4	11.6	10.8

Range of Funds

iA Financial Group offers a broad and diverse range of investment funds. As at December 31, 2022, the Company offered its clients more than 250 funds, with approximately half of the assets in these funds being managed by internal investment teams.

The Company continued to adjust its segregated fund offering in 2022 to increase its diversity and complementarity and to respond to client demand. In the individual segregated fund segment, the Company added five funds, including four sustainable investment funds, to further diversify its offering in this market segment. On the mutual fund front, IA Clarington Investments also added three funds during the year, including two sustainable investment funds, as well as a managed risk income portfolio designed to give clients additional downside protection. Lastly, in the Group Savings and Retirement sector, the Company made some minor enhancements to its lineup with three additions and two closures.

The Company's Investment Funds

	As at December 31, 2022	
	Assets ($billion)	**Distribution of assets**
Segregated funds	37.3	76%
Mutual funds	11.6	24%
Total	**48.9**	**100%**

Investment Fund Performance

2022 was a very eventful year. After 2020 (the year of the virus) and 2021 (the year of the vaccine and economic re-openings), 2022 was the year that saw inflation spike to multi-decade highs, leading central banks to significantly raise interest rates to curtail inflationary pressures. Energy prices also rose sharply, influenced by the war between Russia and Ukraine and the resulting sanctions. In this environment, performance was challenging for both equities and fixed income assets, thus offering little relief for investors.

For equities, the S&P 500 representing the U.S. equity market fell 18.1% (in USD) for the year but a more modest -12.5% in Canadian dollar terms given the relative strength of the U.S. dollar. The tech-heavy Nasdaq 100 had an even more difficult year with a -28.1% reading for the year (in CAD). In Canada, the S&P/TSX held up better with a -5.8% result given its exposure to Energy, which strongly benefited from the rise in oil prices. Overseas, the MSCI EAFE and MSCI EM representing international equity and emerging markets, respectively, returned -8.2% and -13.9% for the year (in CAD). Globally, the MSCI World, which includes all developed countries, returned -12.2% (in CAD) in 2022. For fixed income, 2022 was also a difficult year given the strong rise in interest rates. In Canada, the FTSE Canada Universe Index, representing the investment grade fixed income market, returned -11.7% for the year.

In this context, the returns on the vast majority of our funds were difficult given public market results. These results were generally aligned with those of similar funds offered in the industry. The returns on all the Company's investment funds, as well as detailed financial information on these funds, are presented in the investment fund financial reports prepared by iA Financial Group.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Risk Management

The “Risk Management” section of the Management’s Discussion and Analysis contains certain information required under IFRS 7 *Financial Instruments: Disclosures* of the International Financial Reporting Standards (IFRS) regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2022, given that the standard permits cross-references between the Notes to the Financial Statements and the Management’s Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally aligned with what is found in the financial statements.

As an insurance company, Industrial Alliance Insurance and Financial Services must take and manage a variety of risks arising from its business activities in order to create long-term value and ensure its sustainability.

Risk Management Principles and Responsibilities

Industrial Alliance Insurance and Financial Services defines risk as the possibility of an event occurring that will have an adverse impact on its business, financial condition and achievement of objectives. Sound and effective risk management therefore involves identifying, assessing, measuring, understanding, managing, monitoring and communicating the risks to which the Company is exposed in the course of its operations, and the effectiveness of the controls in place to mitigate them.

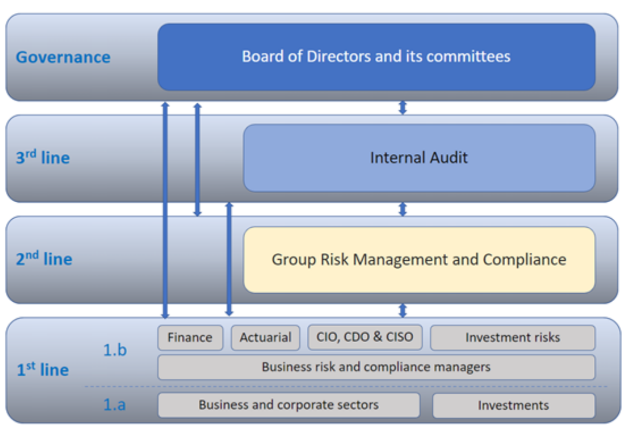
In accordance with this principle, Industrial Alliance Insurance and Financial Services has implemented an integrated risk management framework that is continually applied and taken into account in developing the Company’s business strategies and in all of its operations. The risk management framework enables the Company to conduct sound and prudent risk management by promoting an approach that balances the achievement of strategic objectives with risk taking. This approach is characterized by the consideration of risks in decision-making, aligning the strategic orientations, and respecting the Company’s risk appetite and tolerance. The framework defines the Company’s risk appetite and tolerance as the amount of risk the Company is willing to accept in relation to its strategic objective and to enhance its long-term value.

To maximize the benefits of an integrated risk management framework, Industrial Alliance Insurance and Financial Services considers the interrelationships and interdependencies between risks and controls, and ensures that strategies, tools and resources are aligned to provide holistic risk management across the Company. The risk management framework allows the Company to monitor its risk profile and increase its ability to act effectively and quickly when necessary. A better understanding of its risks helps Industrial Alliance Insurance and Financial Services reach its strategic and business objectives, prevent losses and allocate resources more effectively, while promoting the Company's resilience. By providing sufficient and relevant information on the effectiveness of risk management, the risk management framework also provides senior management and the Board of Directors with a reasonable level of confidence and comfort that all categories of risk are understood and managed in relation to the achievement of Industrial Alliance Insurance and Financial Services’ objectives. It helps ensure that the Company can meet its commitments to policyholders, creditors and regulatory bodies.

The Company’s risk management process is supported by a strong governance structure, a sound risk management culture and an effective framework that adapts to the evolution of the Company, its activities, its level of maturity and its environment. As part of this process, the Company continuously reviews and improves its risk management framework in light of its financial and non-financial situation, the nature, size and complexity of its activities, its risk profile, its long-term strategic plan and the internal and external environment in which it operates.

The framework is governed by a corporate policy designed to classify, define and manage the risks the Company is exposed to. The policy outlines the risk management governance and organizational structure, including the roles and responsibilities of the various people involved in the risk management process. It also describes the key steps in the process, particularly in terms of identifying, assessing, measuring, managing, monitoring and communicating the risks. Compliance with and application of the framework allow for a sound risk management culture to be maintained and promoted within the Company.

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



† This item is a non-IFRS measure; see the “Non-IFRS and Additional Financial Measures” section in this document for relevant information about such measures.

Supported by a strong risk culture, the Company's risk management approach is based on the three lines of defense governance model. This approach is premised on the implementation of coordinated risk management and control systems throughout the Company.

The first line of defense is composed of the risk owners. It includes the operating sectors, operational units, business lines and corporate sectors, with the exception of the Risk Management and Compliance function and the Internal Audit function, which belong to the second and third lines of defense, respectively. They are responsible for establishing and executing the business strategies in keeping with the Company's defined risk appetite and tolerance, and ensuring a long-term balance between risk and return. They are also responsible for applying the principles, frameworks, policies, guidelines, standards, tools and methodologies developed by the second line of defense and for identifying, communicating and managing risks that could prevent them from achieving the objectives identified in their respective areas of responsibility.

The second line of defense refers to the Risk Management and Compliance function, headed up by the Executive Vice-President and Chief Risk Officer and by the Vice-President and Chief Compliance Officer, as well as any other person connected to the Chief Risk Officer by a functional relationship, with responsibilities for all or part of a risk management and compliance matter. The second line of defense is responsible for objectively and impartially monitoring and critically analyzing the risks arising from the activities and controls implemented by the first line of defense. It is also responsible for developing and maintaining the principles, frameworks, guidelines, standards, tools and methodologies to identify, assess, measure, manage, monitor and communicate on current and emerging risks. To this end, it coordinates, guides and supports the first line of defense in the rigorous assessment of significant risks to which the Company is exposed.

These two lines of defense work together to ensure prudent and disciplined management in protecting the Company's reputation and long-term sustainability. They are also responsible for keeping senior management and the Board of Directors regularly informed about the Company's main risks and the steps taken to manage them.

The Chief Risk Officer and his team work closely with the first line of defense to promote a culture of sound risk management across the organization. Based on a holistic view of the risks and considering the interrelationships that may exist between them, the Chief Risk Officer communicates any pertinent information to senior management and the Board of Directors.

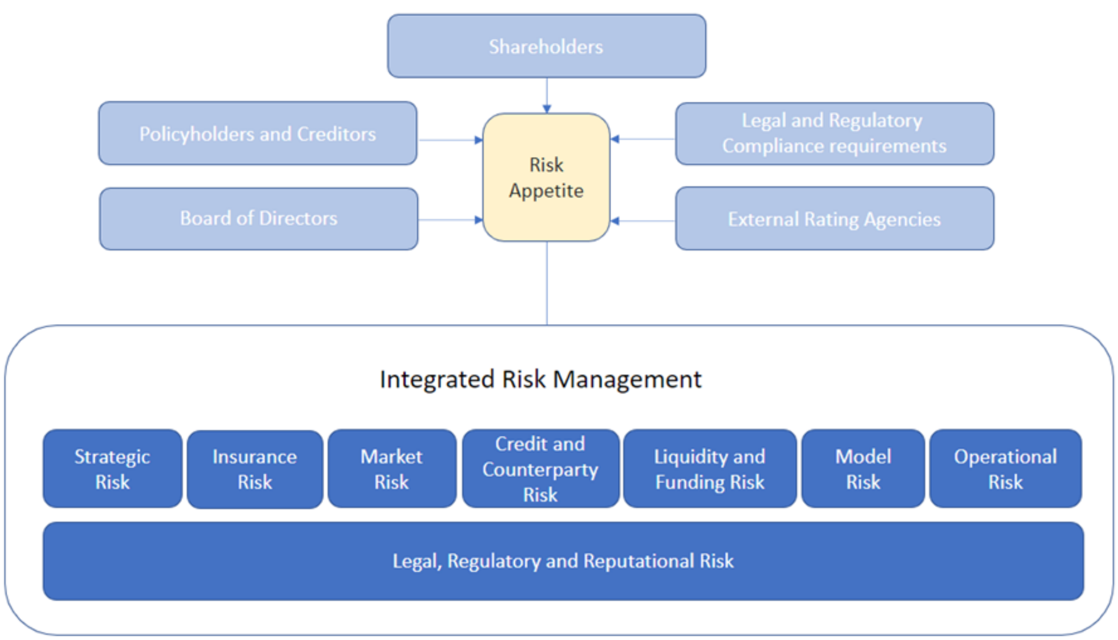
As the third line of defense, Internal Audit provides independent assurance to senior management and to the Board of Directors regarding the adequacy and effectiveness of governance, risk management and internal control processes. It recommends improvements and reports on the situation to the Board of Directors' Audit Committee.

The Board of Directors, supported by the Risk, Governance and Ethics Committee, approves the corporate policy governing the integrated risk management framework, as well as any changes that are made to it. It also approves the overall level of risk the Company is willing to accept as well as the associated tolerances and limits, in order to achieve its business objectives and enhance its long-term value.

The integrated risk management framework applies to the Company's subsidiaries. A collaborative relationship is established between the corporate risk management team and those responsible for risk management in the subsidiaries, while a functional reporting relationship takes place between the corporate compliance team and those responsible for compliance in the subsidiaries.

The Boards of Directors of the subsidiaries, which are made up of members renowned for their expertise in their respective fields as well as senior executives from the parent company, also play an important role in monitoring risks and approving relevant policies.

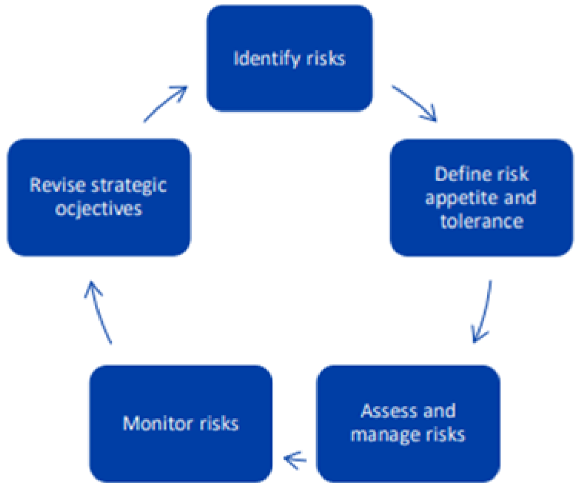
Integrated Risk Management Framework



† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

The diagram above illustrates the categories of risk the Company is exposed to while pursuing its strategic objectives. A summary of these risks and the processes for managing them is outlined in the following pages. Each of these risk categories can include current and emerging risks, and the way in which they are taken into account across the organization is adjusted accordingly.

Risk management is a process designed to ensure that risks are properly managed and that they are within Industrial Alliance Insurance and Financial Services' risk appetite and tolerance. The process is composed of five steps performed in an iterative and continuous manner. These steps are illustrated in the diagram below.



Although the steps in the process are common to all risk categories, each category requires a tailored strategy for risk identification, assessment and management that is adapted and relevant to its specificities. In addition, the management of these risks is supported by a strong risk management culture across the organization. This culture can be defined as the behaviours adopted by Company employees, who observe and apply the principles of the integrated risk management framework to their job and their day-to-day activities. These behaviours are also governed by respect for ethics and transparency in decision-making. This culture and these behaviours make up the solid common foundation for the Company's risk management activities.

Industrial Alliance Insurance and Financial Services has developed a risk taxonomy that includes the following risk categories.

Strategic Risk

Strategic risk is the risk that internal or external decisions or events prevent the Company from achieving its business plan and its strategic initiatives including merger, acquisition, and divestiture decisions, and thus hinder the achievement of its strategic objectives. Strategic risk can therefore arise from an inappropriate or poorly executed business plan, or from the Company's inability to adapt to changes in the competitive, economic, technological, legal, or regulatory environment, among others.

Risk Associated with the Business Environment – The insurance and wealth management sectors are highly competitive. There is a risk that competitive pressures or changes in client needs and spending habits could lead to increased pressure on the business model and have an adverse effect on the Company's results if it doesn't adapt accordingly.

Risk Associated with the Economic Environment – Changes in the economic environment, like increased credit risk, a fluctuation in interest rates or a deterioration in financial market conditions that leads to increased volatility, could increase pressure on the business model or adversely affect the Company's profitability, financial strength and access to capital.

Risk Associated with the Legal or Regulatory Environment – Financial institutions are subject to a vast number of laws and regulations. As a result, legislative and regulatory changes could increase the amount of time and resources needed to ensure ongoing compliance. The Company is also exposed to risk related to changes in accounting and actuarial standards.

Risk Associated with the Political and Social Environment – Political events or decisions could have an adverse impact on the relevance of the Company's products or its profitability.

Risk Associated with the Technological Environment – Not adapting well to changes in the technological environment could impact the integrity of our information systems and technology infrastructure or generally disrupt the Company's business plan.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Risk Related to Climate Change – Climate change could have adverse impacts on insurance, market, and credit risks by increasing the frequency and cost of claims or deteriorating the quality or value of the investment portfolio. The Company has incorporated climate change risk in its risk appetite and tolerance statement and uses the climate-related risks defined by the Task Force on Climate-Related Financial Disclosures (TCFD) as the foundation of its climate change risk assessments. The Company conducted an entity-wide Climate Change Materiality Assessment. The impact and likelihood criteria used were aligned with Industrial Alliance Insurance and Financial Services' integrated risk assessment methodology to ensure that climate-related risks are assessed consistently and proportionately relative to other risks. In continuity with its commitment to the United Nations-supported Principles for Responsible Investment (PRI), the Company, through its subsidiary iAIM which manages its assets, has released its Responsible Investment Policy, which includes a section on climate change and commitments to integrate climate change factors into investment decisions. More information on the climate-related risk management and governance framework is available in the Sustainability Report and the TCFD Report.

By its nature, strategic risk is impacted by both external factors related to the impact of unanticipated external events on the Company, and internal factors related to poor handling of external impacts or poor execution of the business plan. All sectors of the Company keep informed and monitor changes in the competitive, economic, technological, legal or regulatory environment in order to anticipate potential impacts on their activities and to consider potential responses should these changes occur. Strategic risk management also consists in identifying the risks of strategic activities upstream of their execution; assessing their potential impact on the risk limits defined in the Corporate Risk Appetite Policy, particularly on the internal target ratio and the target operating level of the solvency ratio; continuously monitoring strategic risks, as identified in the risk taxonomy, for activities of a strategic nature to measure their evolution; and disclosing this risk assessment to senior management and appropriate governance bodies on a periodic basis.

In addition to continuous monitoring, senior management reassesses current and emerging strategic risks annually or more frequently, at their discretion and according to the circumstances. During the corporate and sector strategic planning exercises carried out across the organization, these risks are analyzed to determine their impact on the Company's strategy and, conversely, to identify whether additional strategies are needed to manage or mitigate the risks.

During the 2022 review of strategic and emerging risks, the following identified risks were confirmed and the strategies in place for managing them were renewed.

Talent shortage – Attracting and retaining talent and labour is a concern. The talent shortage creates pressure on labour costs and impacts the ability to deliver transformation programs while running daily operations. In this regard, the Company has put measures in place for its employees and is developing prioritization processes to release pressure. However, the gap between human resource needs and capacity remains a significant challenge that seems likely to persist over time.

Data security and cyber risks – The risk of cyber-attacks and/or external fraud has always been a high priority, but with hackers sponsored by governments and even more malicious software available, the Company must continuously reinforce its policies and controls as well as conduct regular testing on its information and technology systems. The Company pays particular attention to the risk of data theft and other cyber risks by continuously strengthening its cybersecurity risk management framework (see the description of this mechanism in the "Operational Risk" section).

Economic and financial instability in a context of geopolitical tensions – Unfavourable economic conditions and financial instability are causing some concern. Central banks have hiked interest rates to combat last year's high inflation. The war in Ukraine and tension in China are also causing instability in global markets. These events could result in significant financial volatility and test the Company's ability to anticipate and mitigate headwinds in its markets.

Insurance Risk

Insurance risk is the risk of financial loss arising from higher claims than anticipated during product pricing and design. This category is associated with the following risk factors:

Policyholder Behaviour – Risk of unfavourable variability in the level, trend or volatility of lapse rates compared to assumptions.

Mortality – Risk of unfavourable variability in the level, trend or volatility of mortality rates.

Morbidity – Risk of unfavourable variability in the level, trend or volatility which represents an increase in occurrence rates or a decrease in termination rates for disability or illness insurance claims.

Longevity – Risk of overestimation of the mortality rate in product pricing and design assumptions.

Expenses – Risk of unfavourable variability in the cost of servicing and maintaining in-force policies and associated indirect expenses.

General Insurance – Risk of loss arising from higher claims than anticipated when designing and pricing general insurance products.

Insurance risk can occur at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when calculating the provisions for future policy benefits. The Company has put controls and processes in place at each of these stages to ensure appropriate management of these risks.

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

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

With regard to the underwriting and claims adjudication process, the Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds. They are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

With regard to calculating the provisions for future policy benefits, the Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the Canadian Institute of Actuaries (or any other relevant organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business. In addition, every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

The table below summarizes the impact on net income attributed to common shareholders of adverse deviations from assumptions for certain insurance risks.

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

(In millions of dollars)	2022	2021
Insurance risk: adverse deviation of 5%		
Mortality rate[1]	147	180
Lapse rate[2]	161	205
Unit costs[3]	89	86
Morbidity rate[4]	56	59

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

For more information on insurance risk management, refer to notes 13 and 14 of the Company's audited consolidated financial statements.

Market Risk

The Company is exposed to market risk, which is the risk that the fair value or future cash flows of an insurance contract or a financial instrument will fluctuate due to variations in market risk factors. This category includes risk factors related to interest rates, stock markets, foreign currency and return on return-seeking assets.

The Company has established investment policies that contain a variety of quantitative measures designed to limit the impact of these risk factors. The investment policies are reviewed periodically, and any modifications are submitted to the Board of Directors for approval. Investment management and policy compliance are monitored regularly, and the results are reported to the Board of Directors' Investment Committee at least quarterly.

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

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

Investment strategies are defined based on the characteristics of the financial liabilities associated with each product. For the purpose of these strategies, the liabilities are divided into three main categories, as presented below, based on the structure of the underlying financial commitments.

1 The adverse deviation is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products.
2 The adverse deviation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.
3 Adjusted to reflect the adjustability of certain products.
4 The adverse deviation is expressed assuming 95% of the expected termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active, adjusted to reflect the adjustability of certain products.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Net Liabilities According to Type of Matching

	As at December 31			
	2022		2021	
	$M	%	$M	%
Immunized liabilities				
On a cash flow basis	9,345	32%	9,263	26%
Universal Life policy accounts	1,789	6%	1,933	6%
Subtotal	11,134	38%	11,196	32%
Non-immunized liabilities	17,996	62%	24,225	68%
Total	**29,130**	**100%**	**35,421**	**100%**

1› Liabilities Immunized on a Cash Flow Basis

This category represents 32% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than 30 years.

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

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

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

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

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

2› Immunized Liabilities Linked to Universal Life Policy Accounts

This category represents 6% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities are determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, to strictly reproduce the returns credited to the underlying accounts.

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

3› Non-Immunized Liabilities

This category corresponds to 62% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets by using the various types of leverage available to limit its exposure to reinvestment risk.

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

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

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

The Company also uses various types of leverage, including an inter segment note program that allows cash flows to be exchanged among activity sectors and various derivative financial instruments to be used to reduce the reinvestment risk (IRR).

During the period ended December 31, 2022, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate fluctuations on these non-liability backing assets and its mortgage securitization activities, the Company used hedge accounting through derivative instruments with a nominal value of $288 million in 2022 ($712 million in 2021). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2022.

The following tables summarize the impact of matching and interest rate risk on net income attributed to the common shareholder and on accumulated other comprehensive income.

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

(In millions of dollars)	2022	2021
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)[5]	(104)	(61)
10 basis point decrease in the ultimate reinvestment rate (URR)	43	68

Decrease in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

(In millions of dollars)	2022	2021
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)[6]	2	(1)

Similar increases in the IRR, URR and interest rates would have the same impact as corresponding decreases, but in the opposite direction.

To test for market sensitivity, the Company uses an interest rate variance of 25 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2022.

The impact of this variance in interest rates does not take into account the protection for the IRR in the actuarial reserves.

Risk of a Market Downturn – Risk of a market downturn represents the risk of loss resulting from a downturn in the stock markets. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management;[†] 2) the discounted future revenues on Universal Life policy funds; 3) the income on assets held in the general fund; and 4) benefits from guarantees on segregated funds.

To measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2022, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

For these items, the Company estimates that a sudden 10% drop in the markets as at December 31, 2022 would have led to a $39 million decrease in net income and a $39 million decrease in other comprehensive income over a 12-month period. A 25% drop in the markets as at December 31, 2022 would have reduced net income by approximately $97 million, and other comprehensive income by $98 million over a 12-month period.

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

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

During the year ended December 31, 2022, derivative financial instruments were used as part of yield enhancement strategies. The use of market index options allows the Company to maintain exposure to stock markets for assets backing non-immunized liabilities while limiting potential losses. They were also used as part of the hedging program for segregated fund guarantees and to hedge the risk associated with Universal Life policy funds.

[5] These estimates do not take into account compensatory measures to alleviate the impact of an interest rate decrease. The Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

[6] Excluding any downward adjustment of the IRR or URR.

[†] This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

If the markets were to drop more than 1% from their levels at December 31, 2022, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

Segregated funds risk – Segregated funds expose the Company to significant interest rate risk, risk of a market downturn and, to a lesser extent, exchange risk.

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

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

Individual Wealth Management Segregated Fund Assets Under Management

(In millions of dollars)	2022	2021
Assets under management†	23,451	24,722
Guaranteed minimum value	20,695	18,916
Value of assets underlying significant guarantees[7]	6,169	7,366
Value of assets underlying minimum guarantees[8]	17,281	17,356

In order to mitigate some of the risk associated with this exposure, the Company has set up a dynamic hedging program. All contracts with significant guarantees are covered under the hedging program. For some of these contracts issued before the hedging program was in place, the Company assumes 10% of the risk for the guarantees at maturity. There is limited risk for guarantees at death and minimum guarantees, so the Company has decided not to include them in its dynamic hedging program.

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

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

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

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

The variations in the economic worth of the liabilities are largely offset by variations in assets held under the hedging program. In the last eight quarters, the quarterly effectiveness of our dynamic hedging program has fluctuated between 86% and 97% depending on the volatility of the financial markets. In addition, it has had an excellent effectiveness rate of 93% since it was implemented in October 2010.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exchange rates on foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2022, the Company was not exposed to any material foreign currency risk.

[7] Represents the value of assets underlying guarantees at maturity with a significant level of risk, or withdrawal guarantees.
[8] Represents the value of assets for which the risk of the guarantees is limited and which the Company has decided not to include in the dynamic hedging program.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

The Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in a foreign operation that has a different functional currency from the Company's functional currency. Residual foreign currency risk does not have a significant impact on the Company's consolidated financial statements. Disclosure of hedge accounting is presented in Note 8 "Derivative Financial Instruments" of the Company's consolidated financial statements.

Risk Associated with the Return on Alternative Long-Term Assets – This is the risk of loss arising from fluctuations in the value of private equity, real estate, infrastructure, timberland and farmland. Real estate investments are used to back long-term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

To mitigate this risk, the Company's investment policies authorize prudent investments in the real estate market, private equity and infrastructure within certain clearly defined limits, both globally and by geographic region.

Credit and Counterparty Risk

Credit risk represents the risk of loss arising from a deterioration in credit quality or failure of a counterparty to meet its commitments when due. This risk originates mainly from credit granted in the form of loans and corporate bonds, but also from exposure to derivative financial instruments and to reinsurers that share our policyholder commitments.

The Company uses derivative products under its investment policies, including swaps, futures and options contracts. Some of these contracts are used to replicate assets and liabilities and to manage financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

The derivative products used expose the Company to credit risk due to the presence of counterparties involved. As indicated earlier, the counterparties for derivative products must meet certain well-defined criteria, and collateral exchange agreements to offset daily variation margins have been reached with these institutions in accordance with industry norms and standards, in order to minimize and control the credit risk.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. More information about concentration risk is presented in Note 7 of the consolidated financial statements as at December 31, 2022.

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

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

Lastly, although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations. To limit this risk, the Company applies the processes and criteria prescribed in its reinsurance risk management policy, such as conducting due diligence on the selected reinsurers, limiting the concentration of risks and carrying out sensitivity testing. The Company's reinsurance agreements are diversified such that the Company is not dependent on a single reinsurer and the Company's operations are not substantially dependent upon any single reinsurance contract.

Liquidity and Funding Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions to honour its financial commitments as they come due. The Company is exposed to this risk mainly through: 1) benefits payable according to the insurance contracts in force or its wealth management activities; 2) cash outflows needed for the acquisition or during the holding period of its investments; 3) the amounts of collateral to be paid to its counterparties in respect of its derivatives contracts; and 4) other corporate needs related to the Company's capital structure or its strategic and business objectives. The total or partial non-availability of liquidity sources is also a component of this risk.

The Company has established a liquidity risk management policy that contains multiple metrics, time horizons and concentration measures to ensure sound and prudent management of its liquidity risk, and to monitor its liquidity position under different market conditions. In order to maintain an appropriate level of liquidity, the Company ensures that it holds a good proportion of its assets in highly liquid securities. In addition, a number of scenarios are analyzed to ensure that the Company will be able to meet its commitments in various extreme situations. The policy is reviewed periodically, and any modifications are submitted to the Board of Directors for approval. Liquidity management and policy compliance are monitored regularly, and the results are reported to the Board of Directors' Investment Committee at least quarterly.

The risk associated with benefits payable under insurance contracts is managed through replicating assets with financial liabilities as well as strict cash flow management.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

The use of derivatives requires that securities be sent as collateral to clearing houses and derivative counterparties in order to mitigate the credit risk. Simulations are carried out to measure the liquidity needs that could arise due to interest rate and stock market turmoil in order to assess the liquidity that needs to be maintained to meet those requirements.

Given the quality of its investment portfolio, and despite financial market volatility, the Company believes its current liquidity level to be adequate.

Model Risk

The Company is exposed to model risk, which is the risk of decision errors being made on the basis of model results.

While the use of data and models generates value for the Company and offers significant opportunities for the future based on business and artificial intelligence, it also introduces the risk that a loss might occur or inappropriate decisions might be made due to modelling deficiencies or limitations, improper implementation or utilization, inaccurate or inappropriate data, or incorrect assumptions.

To reduce this risk, a model design guide is available to the different sectors of the Company. This guide is intended to help model owners identify model risk and to standardize the approach across the Company.

Operational Risk

Operational risk is the risk of loss arising from deficiencies or errors attributable to processes, people, systems or external events.

This risk is present in all the Company's activities. It can be related to financial reporting, human resources, fraud, data protection, information security and technology, process execution, business relationships with clients, external events or contractual agreements with suppliers. The impact of one of these risks occurring can take the form of financial losses from regulatory fines and penalties, legal costs, missed financial gains or additional expenses, for example, as well as commercial relationship or reputational damage, diversion of resources or additional regulatory scrutiny.

To manage operational risk, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are in place and by utilizing competent, well-trained employees at all levels. The Company also makes it a priority to revise its policies and develop stricter standards, when appropriate, to account for changes in its operations and environment.

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

In addition to mitigation measures carried out by Risk Management on all processes and procedures, a continuity plan involving a predefined crisis team reduces this residual risk.

Financial Reporting – This risk refers to the risk of not preparing internal and external financial reports that fully and accurately reflect financial results. The Company maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). Under this program, the managers of each business line evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A summary report is submitted annually to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

Human Resources – The competency of human resources is an essential factor in implementing business and operational risk management strategies. Human resources risk is therefore the risk of loss resulting from a lack of qualified human resources in the short or long term or from the non-optimal contribution of human resources. In this regard, the Company follows best practices and has a code of business conduct in addition to well-defined policies and procedures with respect to compensation, recruitment, training, employment equity, diversity and occupational health and safety. These policies are continually kept up to date in order to attract and retain the best candidates at every level of the Company. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Fraud – Fraud risk is defined as the pursuit of intentional unauthorized activities to obtain benefits from either the Company or assets under the Company's control, or by using or appropriating the Company's products. Benefits may take the form of cash, cash equivalents or physical assets, including the indirect benefit of extended employment or an additional bonus. To mitigate this risk, the Company has implemented a corporate policy promoting a culture of integrity. The Company also has a monitoring program as well as a segregation of duties process that aims to prevent and detect fraud situations within Industrial Alliance Insurance and Financial Services.

Protection of Personal Information – The use of emerging technology entails numerous challenges for the protection of personal information. While data analytics is useful in providing better client service, the increase in available data and the risks associated with it require vigilance by all Company stakeholders. An abundance of privacy risks, ranging from the unethical use of collected data to identity theft, can arise if personal information is hacked or inadvertently disclosed. All of these risks are mitigated by applying sound governance practices throughout the life cycle of all sensitive data. Ensuring the ongoing awareness of all employees and partners also helps to maintain a high level of commitment to privacy, supported by an increased focus on device security. The Company implements policies and directives that regulate data use and governance. It strives to comply with the highest ethical and moral standards while meeting all legal requirements in this regard. It continues to develop new tools and practices to provide optimal protection for all its partners and clients.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

Technology, Data and Information Security – Reliable information and communications technologies, protection of information and sophisticated data are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. It has a comprehensive plan in place for reducing and controlling the risk of technology, data or information security failure based on best practices and recognized IT standards, protection of information and data management. The management of these risks is reviewed at regular intervals in order to adapt to changing technologies, regulations and Company needs.

Changing business needs in the insurance and financial services industry are accelerating the use of online applications, mobile technologies and cloud computing. Along with this acceleration comes an increase in risks related to information security and cyber threats as it is difficult to develop and implement effective preventive measures to keep up with industry attacks. Cybercrime techniques are sophisticated and continually evolving, and they come from an increasing number of sources: viruses, malware, denial of service, phishing, ransomware, exfiltration, etc.

Potential consequences range from service interruptions, unauthorized access to sensitive data and unauthorized use of data, to theft of assets or intellectual property. These can lead to reputational damage, lawsuits and other repercussions.

To mitigate information security and cybersecurity risks, the Company has an information security authority framework in place outlining roles and responsibilities with respect to information security. The normative framework, a reference model aligned with industry best practices, and technology resources and services for identifying, preventing, detecting and eliminating threats against its assets and operations are overseen by the Chief Information Security Officer and the technology, data and information security risk management team. These measures are continuously complemented by information security awareness campaigns and training for all Company employees.

To mitigate technology risks, the Chief Information Officer aligns its priorities with those of information security and data governance teams in terms of risk management to ensure consistency.

Business Continuity – This risk refers to the inability to maintain critical activities through inaccessibility to the workplace, unavailability of systems, applications or connectivity, loss of critical third-party providers, or interruption of processes and services. The Company's business continuity management program covers all the potential risks the Company may be exposed to through a consequence-based approach and is adapted to the hybrid operating model that combines remote with onsite work. The Company has implemented business continuity plans throughout its business units to ensure continued service delivery at acceptable predefined levels following events that may disrupt their activities. Business continuity plans and the related procedures are reviewed and tested on a regular basis.

With respect to incidents and crisis management, a structure and processes are in place within the Company to ensure that events that could disrupt its activities are quickly identified and managed. Depending on the significance of these events, a multidisciplinary, management-level committee oversees the response and ensures consistency throughout the Company.

Legal, Regulatory and Reputational Risk

The Company is regulated by the provinces and territories of Canada and by the various states in the U.S. where it conducts business. It is also supervised by various regulatory bodies and must ensure compliance with laws and regulations in all jurisdictions in which it operates.

Regulatory non-compliance risk arises from the possibility of the Company failing to comply with applicable regulatory requirements in the jurisdictions where it operates.

The Company has adopted a Regulatory Risk Management Policy that is used as the basis for a regulatory risk management program. The Chief Compliance Officer is responsible for coordinating the program within the Company and ensuring that it is implemented and enforced in the various business units.

To ensure the sound management of regulatory non-compliance risk, the Company uses a methodology that focuses on identifying, assessing and quantifying risk and putting effective, efficient and appropriate controls in place in its day-to-day activities. The Company's assessment of regulatory risk includes the potential impacts on its operations and reputation, among other things.

The Company monitors new regulatory risks and communicates them to the appropriate business lines to ensure that any controls required to comply with new laws or guidelines are put in place in a timely manner. More generally, the Company emphasizes ongoing communication to remind employees of the importance of legal and regulatory compliance issues.

Reputational Risk – The Company is also exposed to reputational risk. This risk is defined as the overall exposure caused by the effectiveness or ineffectiveness of the Company's management of other non-financial risks. It can arise from the occurrence of one or more risks in any of the risk categories that may, rightly or wrongly, have a negative impact on the public's perception of the Company and potentially lead to fewer clients, lost revenues or considerable litigation costs.

The Company has adopted a detailed communication plan designed to protect its corporate image during a crisis and to reassure the public about its ability to manage this kind of situation. The plan outlines the communication strategies to use in a crisis in order to notify the public of its causes and consequences, the procedures in place to resolve it and the measures taken to reduce the risk of recurrence. In addition, the Company continually monitors social media for elements that could have a negative impact on the Company's reputation and produces a report on the subject once a year, while also keeping a log of complaints found on social media.

† This item is a non-IFRS measure; see the "Non-IFRS and Additional Financial Measures" section in this document for relevant information about such measures.

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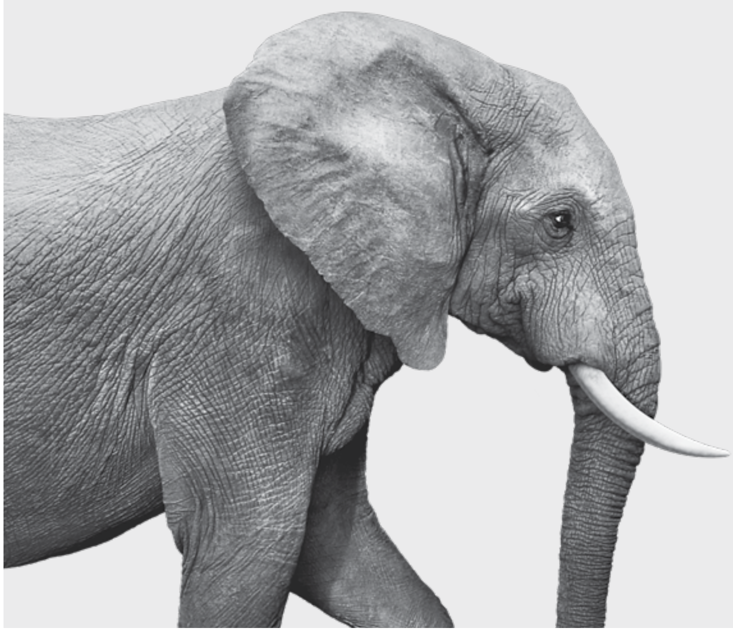

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