

# SUSTAINABLE GROWTH



# Notice

## Legal Constitution and General Information

iA Financial Corporation Inc. (“iA Financial Corporation” or the “Company”) is a stock company constituted on February 20, 2018 under the *Business Corporations Act* (Quebec). At the time of its constitution, it was a wholly-owned subsidiary of Industrial Alliance Insurance and Financial Services Inc. (“iA Insurance”) and had no business operations. On January 1, 2019, the plan of arrangement previously approved by the shareholders of iA Insurance and endorsed by the court was completed and put into place. Consequently, on January 1, 2019, a certificate of arrangement was issued by the Quebec Enterprise Registrar, and iA Financial Corporation became the parent company of the iA group holding all common shares of iA Insurance. Until December 31, 2018, iA Insurance was the parent company of the iA group. Upon completion of the arrangement, iA Insurance’s issued and outstanding preferred shares and debentures remained issued by iA Insurance and were 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. The comparative figures for 2018 presented in this Management’s Discussion and Analysis are therefore the same as those of iA Insurance.

iA Financial Corporation is not regulated under the *Insurers Act* (Quebec). However, iA Financial Corporation will maintain the ability to supply capital, if it considers it necessary, to iA Insurance so that the latter meets the capital adequacy requirements of the *Insurers Act* (Quebec). Pursuant to an undertaking, iA Financial Corporation will disclose its capital position on a quarterly basis. A copy of the undertaking (to which the Autorité des marchés financiers is an intervening party) was filed under the SEDAR profiles of iA Financial Corporation and iA Insurance at sedar.com.

iA Financial Corporation is governed by 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”). 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, 2019, 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 13, 2020.

## Non-IFRS Financial Measures

iA Financial Corporation reports its financial results and statements in accordance with International Financial Reporting Standards (IFRS). It also publishes certain financial measures 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 used for the Company’s audited financial statements. These non-IFRS financial measures are often accompanied by and reconciled with IFRS financial measures. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. The Company believes that these non-IFRS financial measures provide additional information to better understand the Company’s 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 financial 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.

Non-IFRS financial measures published by iA Financial Corporation include, but are not limited to: return on common shareholders’ equity (ROE), core earnings per common share (core EPS), core return on common shareholders’ equity (core ROE), sales, net sales, assets under management (AUM), assets under administration (AUA), premium equivalents, deposits, sources of earnings measures (expected profit on in-force, experience gains and losses, strain on sales, changes in assumptions, management actions and income on capital), capital, solvency ratio, interest rate and equity market sensitivities, loan originations, finance receivables and average credit loss rate on car loans.

The analysis of profitability according to the sources of earnings presents sources of income in compliance with the guideline issued by the Office of the Superintendent of Financial Institutions and developed in co-operation with the Canadian Institute of Actuaries. This analysis is intended to be a supplement to the disclosure required by IFRS and to facilitate the understanding of the Company's financial position by both existing and prospective stakeholders to better form a view as to the quality, potential volatility and sustainability of earnings. It provides an analysis of the difference between actual income and the income that would have been reported had all assumptions at the start of the reporting period materialized during the reporting period. It sets out the following measures: expected profit on in-force business (representing the portion of the consolidated net income on business in force at the start of the reporting period that was expected to be realized based on the achievement of best-estimate assumptions); experience gains and losses (representing gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period); new business strain (representing the point-of-sale impact on net income of writing new business during the period); changes in assumptions, management actions and income on capital (representing the net income earned on the Company's surplus funds).

Sales is a non-IFRS measure used to assess the Company's ability to generate new business. They are defined as fund entries on new business written during the period. Net premiums, which are part of the revenues presented in the financial statements, include fund entries from both in-force contracts and new business written during the period. Assets under management and administration is a non-IFRS measure used to assess the Company's ability to generate fees, particularly for investment funds and funds under administration. An analysis of revenues by sector is presented in the "Profitability" section of this report.

Core earnings per common share is a non-IFRS measure used to better understand capacity of the Company to generate sustainable earnings.

Management's estimate of core earnings per common share excludes: 1) specific items, including but not limited to year-end assumption changes and unusual income tax gains and losses; 2) market gains and losses related to universal life policies, investment funds (MERS) and the dynamic hedging program for segregated fund guarantees; 3) gains and losses in excess of \$0.04 per share, on a quarterly basis, for strain on Individual Insurance sales, for policyholder experience by business segment (Individual Insurance, Individual Wealth Management, Group Insurance, Group Savings and Retirement, US Operations and iA Auto and Home Insurance), for usual income tax gains and losses and for investment income on capital.

## Forward-Looking Statements

This Management's Discussion and Analysis may contain statements relating to strategies used by iA Financial Corporation or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may," "could," "should," "would," "suspect," "expect," "anticipate," "intend," "plan," "believe," "estimate," and "continue" (or the negative thereof), as well as words such as "objective" or "goal" or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. In this Management's Discussion and Analysis, 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.

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

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of this Management's Discussion and Analysis, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2019, and elsewhere in iA Financial Corporation's filings with Canadian Securities Administrators, which are available for review at [sedar.com](http://sedar.com).

The forward-looking statements in this Management's Discussion and Analysis reflect the Company's expectations as of the date of this document. iA Financial Corporation 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 iA Financial Corporation's financial results are available on the iA Financial Group website at [ia.ca](http://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](http://sedar.com), as well as in the annual information forms for iA Financial Corporation and for iA Insurance, which can be found on the iA Financial Group website or the SEDAR website.

# 2019 Management's Discussion and Analysis

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# Highlights

The Company had another strong year in 2019. Net income to common shareholders was up 12% and earnings per share (EPS) of \$6.40 was significantly above guidance for the year.

Business growth continued to be solid. Premiums and deposits were up 10% from 2018, and assets under management and administration grew 12% over the year.

In December 2019, the Company entered into an agreement to acquire the American company IAS Parent Holdings, Inc. and its subsidiaries, one of the largest independent providers of solutions in the U.S. vehicle warranty market. This acquisition is in keeping with the Company's growth strategy and will allow it to become a North American leader in the vehicle warranty market.

In addition, the Company's solvency ratio ended the year well above the target range, its investment portfolio continued to be of excellent quality and book value per share increased 10%.

Lastly, organic generation of capital was strong in 2019, allowing the Company to increase the dividend paid to common shareholders by 11% and redeem nearly three million common shares under its Normal Course Issuer Bid.

## Profitability

Net income attributed to common shareholders amounted to \$687.4 million in 2019 compared to \$612.7 million the year before. Diluted EPS was \$6.40, exceeding guidance of \$5.75 to \$6.15 per share. Refer to the "Profitability" section of this Management's Discussion and Analysis for more information on the Company's profitability in 2019.

## Business Growth

Premiums and deposits of nearly \$11.4 billion were up 10% compared to 2018. Assets under management and administration grew 12% to \$189.5 billion at December 31, 2019. Sales growth was notably strong in segregated funds, the Dealer Services and Special Markets Solutions divisions, Group Savings and Retirement, both US Operations divisions and at iA Auto and Home. Refer to the sections that follow for more information on business growth by line of business.

## Profitability

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Net income attributed to common shareholders	687.4	612.7	12%
Earnings per common share (EPS) (diluted)	6.40	5.59	14%

## Assets Under Management and Administration

As at December 31			
(In millions of dollars unless otherwise indicated)	2019	2018	Variation
Assets under management	100,241.8	89,094.0	13%
Assets under administration	89,245.8	79,677.5	12%
<b>Total</b>	<b>189,487.6</b>	<b>168,771.5</b>	<b>12%</b>

## Premiums and Deposits<sup>1</sup>

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Individual Insurance	1,586.5	1,554.4	2%
Individual Wealth Management	4,975.0	4,526.4	10%
Group Insurance	1,788.2	1,789.1	—
Group Savings and Retirement	2,046.5	1,642.0	25%
US Operations (\$US) <sup>2</sup>	651.1	533.7	22%
General Insurance	314.2	294.5	7%
<b>Total</b>	<b>11,361.5</b>	<b>10,340.1</b>	<b>10%</b>

## Sales by Line of Business<sup>3</sup>

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Individual Insurance			
Minimum premiums	176.4	173.7	2%
Excess premiums	11.1	17.1	(35%)
Total	187.5	190.8	(2%)
Individual Wealth Management			
General fund	545.8	400.6	36%
Segregated funds	2,365.5	1,987.9	19%
Mutual funds	2,063.7	2,137.9	(3%)
Total	4,975.0	4,526.4	10%
Group Insurance			
Employee Plans	49.1	92.5	(47%)
Dealer Services <sup>4</sup>	1,020.3	962.9	6%
Special Markets Solutions	273.9	255.6	7%
Total	1,343.3	1,311.0	2%
Group Savings and Retirement	2,073.6	1,666.9	24%
US Operations <sup>2</sup>			
Individual Insurance (\$US)	99.2	81.3	22%
Dealer Services (\$US)	449.2	375.1	20%
iA Auto and Home	351.0	322.8	9%

<sup>1</sup> 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.

<sup>2</sup> As of first quarter 2018, the Company began presenting its US Operations as a separate line of business.

<sup>3</sup> Refer to the sections on the Company's different business lines for a definition of sales.

<sup>4</sup> Includes creditor insurance, P&C products and car loan originations.

## Financial Strength

At December 31, 2019, the Company had capital of nearly \$7.2 billion and a solvency ratio<sup>5</sup> of 133% compared to 126% a year earlier. The Company's solvency ratio remained well above the 110% to 116% target range throughout 2019. Organic capital generation was strong in 2019, contributing to the increase in the solvency ratio as well as the redemption of nearly four million common shares under the Normal Course Issuer Bid. We expect strong organic generation to continue in 2020. Lastly, the solvency ratio will decrease in the first half of 2020 due to the acquisitions announced in December 2019 and January 2020. Nevertheless, the Company intends to maintain a solvency ratio within or above the target range of 110% to 116%.

The coverage ratio,<sup>5</sup> which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, improved in 2019 and ended the year relatively high at 16.6x. The debt ratio including debentures and preferred shares remained relatively stable, amounting to 21.9% at December 31, 2019. During the year, the Company also redeemed nearly four million outstanding common shares under its Normal Course Issuer Bid, which was renewed in November 2019.

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

## Dividends

In May 2019, the Company increased its quarterly dividend per common share from \$0.4150 to \$0.4500. As a result, the dividend for 2019 totalled \$1.7650 per common share, compared to \$1.5900 per common share in 2018, an increase of 11%. The dividend payout ratio was 27% for the year, which is within the 25% to 35% target range given as guidance at the beginning of 2019. Lastly, with the release of its fourth quarter results, the Company announced another 8% increase in its quarterly dividend, raising it to \$0.4850 per common share, to be paid in the first quarter of 2020.

## Quality of Investments

The Company's investment portfolio continued to be of excellent quality in 2019. At December 31, 2019, as presented in the table to the right, the proportion of net impaired investments continued to decrease in 2019 and remains relatively low at 0.03% of total investments. In addition, bonds rated BB and lower accounted for just 0.87% of the bond portfolio, the delinquency rate on mortgages decreased slightly to 0.08% and the occupancy rate of the real estate portfolio remained relatively stable at 94.0%. For detailed comments on investments, refer to the "Investments" section of this Management's Discussion and Analysis.

## Sensitivity Analysis<sup>6</sup>

The analysis of the Company's sensitivity to macroeconomic changes was updated at the end of 2019. The main results of the analysis are shown in the table to the right and explained under "Market Risk" in the "Risk Management" section of this Management's Discussion and Analysis.

## Financial Strength

(As at December 31)	2019	2018
Solvency ratio	133%	126%
Debt ratio	21.9%	21.5%
Coverage ratio	16.6x	14.6x

## Dividend

(To common shareholders)	2019	2018
Dividend	\$1.7650	\$1.5900

## Investment Quality Indices

(As at December 31)	2019	2018
Net impaired investments (\$M)	\$10.9	\$15.9
Net impaired investments as a % of total investments	0.03%	0.05%
Bonds - Proportion rated BB and lower	0.87%	0.78%
Mortgages - Delinquency rate	0.08%	0.09%
Investment properties - Occupancy rate	94.0%	95.0%

## Sensitivity Analysis<sup>6</sup>

(In millions of dollars, unless otherwise indicated)	As at December 31	
	2019	2018
Drop in the S&P/TSX index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities <sup>7</sup>	(24%)	(20%)
Drop in the S&P/TSX <sup>7</sup> index that would decrease the solvency ratio to 110%	(91%)	(65%)
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(31)	(30)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	2	(10)
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(61)	(66)

## Acquisitions, Dispositions and Structure of Businesses

On December 4, 2019, the Company entered into an agreement to acquire the American company IAS Parent Holdings, Inc. and its subsidiaries (collectively "IAS"). The agreed purchase price is US \$720 million. IAS operates in the U.S. vehicle warranty market where it provides a comprehensive portfolio of vehicle warranties and related software and services sold through one of the industry's broadest and most diverse distribution networks. Subject to usual regulatory approvals, the transaction is expected to close in the first half of 2020. This acquisition agreement has not been reflected in the financial statements and may not be executed.

On January 1, 2020, iA Insurance merged with its Excellence Life Insurance Company subsidiary. The merger was recorded at book value and had no impact on the consolidated financial statements.

<sup>5</sup> The solvency and coverage ratios are not IFRS measures. For more details, refer to the "Financial Position" section of the Management's Discussion and Analysis.

<sup>6</sup> The sensitivity analysis includes measures that have no IFRS equivalents.

<sup>7</sup> Decrease compared to the actual index values at December 31 of the indicated years.

On January 10, 2020, the Company announced that it was acquiring three companies specializing in vehicle warranties in Canada: WGI Service Plan Division Inc., WGI Manufacturing Inc. and Lubrico Warranty Inc., for a total purchase price of \$107 million. WGI manufactures and administers chemical protection products for the automobile industry, distributed through a network of independent dealers across Canada. Lubrico Warranty sells car warranties through a network of used vehicle dealerships across Canada (except in the province of Quebec).

No material dispositions took place during the year.

### Carbon neutrality

For many years, iA Financial Group has been committed to supporting the fight against climate change by proactively reducing its carbon footprint. While continuing its projects and initiatives aimed at reducing greenhouse gas (GHG) emissions at the source, the Company announced in December its commitment to offsetting its GHG emissions through the purchase of carbon credits, thereby becoming carbon neutral as of 2020.

### Litigation

iA Insurance is involved in litigation with a third party, Ituna Investment LP ("Ituna"), which was seeking to use insurance contracts for purposes not originally intended. The application was heard by the Court of Queen's Bench for Saskatchewan, which issued a decision in favour of iA Insurance on March 15, 2019. Ituna appealed this decision, and the appeal was heard by the Saskatchewan Court of Appeal in mid-January 2020. iA Insurance has always maintained that the position taken by Ituna was legally unfounded and has responded to the appeal with the same conviction. Note that the governments of Saskatchewan and New Brunswick have both published new regulations limiting the amount of premiums an insurer may receive or accept for deposit in life insurance policy side accounts, and that these regulations are consistent with the position taken by iA Insurance.

### Changes to Accounting Policies in 2019 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, 2019. None of these amendments or standards had an impact on the Company's financial statements, with the exception of IFRS 16 *Leases*, which led to a recognition of right-of-use assets of \$140 million and lease liabilities of \$142 million, and the derecognition of a liability of \$2 million. For more information on these amendments and new standards, refer to Note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies." Also, on November 14, 2018, the IASB decided to propose extending the deferral approach, which provides an optional temporary exemption from applying IFRS 9 *Financial Instruments* until January 1, 2022 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 *Insurance Contracts*. This decision is subject to public consultation currently underway. Lastly, the Company is continuing its efforts related to the application of IFRS 17 *Insurance Contracts* on January 1, 2022. The Company is currently evaluating the impact of this standard on its financial statements.

### Outlook for 2020

The Company's main guidance targets for the coming year are presented in the table below.

Increased return on common shareholders' equity (ROE) is an important objective for the Company. The increase in the ROE target range for 2020 is therefore positive and reflects the success of recent initiatives to improve profitability.

In addition, at the last Investor Day held in June 2018, the Company reconfirmed its goal of growing earnings per share (EPS) by an average of a least 10% annually through the effective date of IFRS 17. Consistent with this goal, the midpoint of the EPS guidance range was increased 10% for 2019 and 11% for 2020.

EPS growth in 2020 is expected to come mainly from organic growth, that is, normal growth in expected profit on in-force; profitability improvement initiatives in all business lines; and initiatives to fully benefit from the Company's Canada-wide insurance and wealth management distribution networks. The Company's acquisitions in recent years will also contribute to EPS growth.

The decrease in the target for new business strain confirms a sustained improvement in this metric over the past few years.

Note that guidance for the effective tax rate in 2020 is unchanged, as are the target ranges for the solvency ratio and the dividend payout ratio.

The balance sheet continues to be solid and the Company has the protection and resources it needs to adjust to macroeconomic changes. In short, the Company has the financial flexibility and the means to achieve its goals, which include continuing to grow organically and make new acquisitions.

### Market Guidance<sup>a</sup>

	2020	2019
Earnings per common share <sup>a</sup>	\$6.30 to \$6.90	\$5.75 to \$6.15
Return on common shareholders' equity <sup>a</sup>	11.5% to 13.0%	11.0% to 12.5%
Effective tax rate	20% to 22%	20% to 22%
Solvency ratio	110% to 116%	110% to 116%
New business strain	3% (quarterly range of -5% to 10%)	6% (quarterly range of 0% to 15%)
Dividend payout ratio	25% to 35% (midpoint)	25% to 35% (midpoint)

<sup>a</sup> Guidance for EPS and ROE excludes integration expenses for recent acquisitions, estimated at \$0.15 EPS in 2020 and \$0.10 EPS in 2021, and any potential impact of the year-end assumption review.

# ANALYSIS BY BUSINESS SEGMENT





# Individual Insurance

The Individual Insurance sector offers a wide range of insurance products through an extensive distribution network.

The Company is continually enhancing its product lineup to remain highly competitive in meeting clients' changing needs. In 2019, the Company improved its positioning with lower premiums on term products and maintained its position as a leader in simplified issue insurance with an update of its Access Life product. It also extended instant point-of-sale purchase for coverage of up to one million dollars for all life insurance products with regular underwriting.

To ensure a superior advisor and client experience, the sector also worked on enhancing its online sales tools for representatives in 2019. For example, its life insurance illustration tool was revamped to offer clients and representatives a simpler, more efficient experience.

In the fall of 2019, the Company announced the merger of The Excellence Life Insurance Company with iA Insurance. Effective January 1, 2020, this merger will provide increased operational efficiency and will be transparent for existing clients.

## Business Growth

(In millions of dollars unless otherwise indicated)	2019	2018	Variation
Sales <sup>9</sup>			
Minimum premiums <sup>10</sup>	176.4	173.7	2%
Excess premiums <sup>10</sup>	11.1	17.1	(35%)
<b>Total</b>	<b>187.5</b>	<b>190.8</b>	<b>(2%)</b>
Net premiums	1,586.5	1,554.4	2%

Net premiums totalled \$1,586.5 million in 2019, up 2% from 2018. Premium income is the key long-term profitability driver for the sector.

Total sales amounted to \$187.5 million in 2019. The slight decline versus 2018 is explained by a decrease in excess premiums. Minimum premiums were up in 2019 compared to the previous year.

On an industry basis, according to the Canadian data published by LIMRA for the first nine months of the year, iA Financial Group ranked:

- First for the number of individual insurance policies sold (life, critical illness and disability combined) and fourth for sales, with a market share of 9%.
- Second for critical illness insurance sales, with a market share of 25%.
- Second for disability product sales, with a market share of 14%.

The sales mix varied only slightly in 2019.

Lastly, through its PPI Management Inc. subsidiary, the Company is a leader in insurance brokerage in Canada. In addition, the Company's Career Network performed very well in 2019.

### Business Focus

- Capitalizing on the strength and diversity of our distribution networks
- Building and optimizing the advisor and client digital experience

### Products and Services

- Life insurance (universal, permanent and term)
- Critical illness insurance
- Short and long-term disability insurance
- Mortgage insurance
- Accidental death and dismemberment (AD&D) insurance
- Creditor insurance (life and disability)
- Travel insurance

### Manufacturers and Subsidiaries

- iA Insurance
- PPI Management Inc.
- Invisor Insurance Services
- Michel Rhéaume et associés

### Distribution Affiliates and Networks

- Career Network (iA) (1,925 advisors)
- Managing General Agents Network (13,700 representatives)
- National Accounts Network (590 representatives)
- PPI Management Inc. (5,000 representatives)
- Michel Rhéaume et associés

<sup>9</sup> Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Insurance sector, 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, less premiums ceded to reinsurers.

<sup>10</sup> Minimum premiums are the portion of the premium used to cover the insurance risks under an individual insurance contract and are an important way to measure the sector's performance. Excess premiums are the portion of the premium allocated to additional savings. The option to pay an excess premium is only available with universal life insurance products.

# Individual Wealth Management

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products. iA Financial Group is a Canadian leader in the development and distribution of segregated funds. iA Clarington Investments, a Company subsidiary, offers a full line of mutual funds and is one of the largest investment management firms in the country.

Clients can invest in the sector's products through registered retirement savings plans (RRSPs), registered education savings plans (RESPs), tax-free savings accounts (TFSA), registered retirement income funds (RRIFs) and non-registered plans.

The sector also has three distribution affiliates working in mutual fund and securities brokerage: FundEX Investments, Industrial Alliance Securities and Investia Financial Services.

## Business Focus

- Developing innovative solutions for the retirement market
- Continuing to advance by offering more digital tools to advisors and clients

## Products and Services

- Segregated funds
- Mutual funds
- Securities
- Life and fixed-term annuities
- Registered savings and disbursement plans (RRSPs, RESPs, TFSA and RRIFs)
- Investment advice
- Private wealth management

## Manufacturers and Subsidiaries

- iA Insurance
- iA Clarington
- FundEX Investments
- Industrial Alliance Securities
- Investia Financial Services
- iA Trust
- iA Investment Management
- iA Investment Counsel
- Invisor Investment Management
- Forstrong Global Asset Management

## Distribution Affiliates and Networks

- Career Network (iA) (1,925 advisors)
- Managing General Agents Network (13,700 representatives)
- National Accounts Network (590 representatives)
- PPI Management Inc. (5,000 representatives)
- Distribution affiliates (FundEX, iAS and Investia) (3,135 advisors)

## Business Growth

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Gross sales <sup>11</sup>			
General fund	545.8	400.6	36%
Segregated funds	2,365.5	1,987.9	19%
Mutual funds	2,063.7	2,137.9	(3%)
<b>Total</b>	<b>4,975.0</b>	<b>4,526.4</b>	<b>10%</b>
Net sales			
Segregated funds	662.8	422.3	57%
Mutual funds	(407.6)	(157.6)	NM*
<b>Total</b>	<b>255.2</b>	<b>264.7</b>	<b>(4%)</b>

\* Not meaningful

Gross sales of nearly \$5.0 billion were up 10% from 2018. By product category, sales were up 36% for guaranteed return products (found in iA Insurance's general fund), reflecting the Company's competitive position and the popularity of the high interest savings account launched in June 2019. This product offers clients the simplicity of having all their investments (segregated funds, guaranteed interest funds and high interest savings account) combined under one contract.

Gross segregated fund sales reached a record high, up 19% from 2018. This is explained in part by the success of the Company's distribution strategy. The Company continued to rank first in Canada for net segregated fund sales and third in terms of assets.<sup>12</sup>

Mutual fund sales were down slightly from 2018, with the sector posting net outflows.

Total assets amounted to over \$122.4 billion at December 31, 2019, up 12% from the end of the previous year, mainly due to market growth. Growth in assets under management, which is reliant on gross sales, in-force business persistency and the return on assets, is the key long-term profitability driver for the sector.

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Funds under management			
General fund	1,807.5	1,531.9	18%
Segregated funds	16,391.9	13,993.5	17%
Mutual funds	11,594.2	10,832.8	7%
Other <sup>13</sup>	4,509.0	4,173.6	8%
Subtotal	34,302.6	30,531.8	12%
Funds under administration <sup>14</sup>	88,142.1	78,414.1	12%
<b>Total</b>	<b>122,444.7</b>	<b>108,945.9</b>	<b>12%</b>

<sup>11</sup> Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Wealth Management sector, total sales (or gross sales) for general fund and segregated fund products correspond to the net premiums presented in the consolidated financial statements. Sales for mutual funds are defined as deposits.

<sup>12</sup> Source: Investor Economics

<sup>13</sup> The *Other* category of funds under management includes assets from the Company's private wealth management activities.

<sup>14</sup> Includes assets related to affiliated dealers.

# Group Insurance

## Employee Plans

The Employee Plans division offers a broad range of group benefits products for companies and organizations. The division has over 530 employees, has signed agreements with some 950 groups, and serves over 525,000 plan members.

To help manage plans more effectively and promote the health and wellness of insureds, the division offers a number of services and technology tools for plan administrators, members and benefits advisors. These include a disability management program, a drug management program (PharmAssist) and a health and wellness program (Well-Balanced). Offered through My Client Space and the iA Mobile app, our services and tools provide clients with a continually evolving, omnichannel experience.

The sector's efforts to improve competitiveness in 2019 included the launch of xConnect, an automated data exchange solution connecting clients' human resources systems with those of iA Financial Group; a new self-serve online enrolment process for flexible plans; and the addition of new features in the iA Mobile app.

### Business Focus

- Accelerating sales growth
- Standardizing the level of service offered to plan sponsors across Canada
- Supporting growth with efficient administrative processes
- Strengthening digital tools for global benefits management

### Products and Services

- Life and health, accidental death and dismemberment (AD&D), dental care, short and long-term disability, critical illness and home care insurance
- Voluntary benefits (life, AD&D and critical illness)
- Out-of-Canada medical insurance

## Business Growth

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Sales <sup>15</sup>	49.1	92.5	(47%)
Premiums	985.7	981.6	—
Premium equivalents <sup>16</sup>	70.9	66.6	6%
Investment contracts <sup>17</sup>	78.8	110.9	(29%)
<b>Total</b>	<b>1,135.4</b>	<b>1,159.1</b>	<b>(2%)</b>

Total premiums, premium equivalents and investment contract deposits reached \$1,135.4 million in 2019, down 2% from 2018 due to a decrease in new sales. Nevertheless, premium income remained relatively stable compared to 2018.

Looking at sales by region, the majority of sales came from Quebec in 2019, whereas Ontario had the majority of sales in 2018.

For the first nine months of the year, industry sales for groups with 100 to 4,999 employees, the market closest to the division's target market, were up 7.8%.<sup>18</sup> iA Financial Group ranked eighth in this market with 3.4% of sales.

### Manufacturers and Subsidiaries

- iA Insurance

### Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

<sup>15</sup> Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Employee Plans division, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only). The net premiums presented in the consolidated financial statements are net of reinsurance and include fund entries on both in-force contracts and new business written during the period. Net premiums for the Employee Plans division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Dealer Services and Special Markets Solutions.

<sup>16</sup> Premium equivalents are income from administrative services only (ASO) contracts.

<sup>17</sup> Premiums from Hold Harmless Agreements

<sup>18</sup> Source: LIMRA

# Group Insurance

## Dealer Services

Dealer Services distributes creditor insurance products (life, disability and critical illness), car loan financing, and property and casualty (P&C) products. P&C products include extended warranties, replacement insurance, guaranteed asset protection and a full range of ancillary products.

The division has close to 600 employees, insures over 750,000 individuals and 650,000 vehicles, and has more than 34,500 car loans outstanding. Its products are offered through a Canada-wide direct distribution network of more than 5,000 automobile and other motor vehicle dealers. Distributors demand one-stop shopping for their after-market needs and iA Financial Group is one of the few companies that can provide it.

### Business Focus

- Signing new dealer groups
- Partnering with original equipment manufacturers
- Improving dealer experience through new digital initiatives
- Supporting growth through strategic acquisitions

### Products and services

- Creditor insurance
- P&C products
- Car loans

### Manufacturers and Subsidiaries

- iA Insurance
- SAL Marketing Inc.
- National Warranties MRWV Limited
- Industrial Alliance Pacific General Insurance Corporation
- iA Auto Finance
- iA Advantages Insurance Firm

### Distribution Affiliates and Networks

- Direct distribution through automobile and other motor vehicle dealers (5,350 dealers)
- Original equipment manufacturers (OEM)
- Preferred partnerships

## Business Growth

Dealer Services sales totalled \$1,020.3 million in 2019, representing 6% growth compared to the prior year. The car loan business is growing at a good pace, and the division continues to expand its presence across Canada by signing deals with large dealership groups and car manufacturers.

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Sales <sup>19</sup>			
Creditor <sup>20</sup>	328.7	374.2	(12%)
P&C	253.4	242.2	5%
Car loans	438.2	346.5	26%
<b>Total</b>	<b>1,020.3</b>	<b>962.9</b>	<b>6%</b>

## Creditor Insurance

Creditor insurance sales decreased from 2018, totalling \$328.7 million. This variation was partly caused by declining Canadian light vehicle sales, which were down 3.6%<sup>21</sup> compared to 2018, as well as new consumer preferences for P&C products.

## P&C Products

P&C sales were up 5% from 2018 to reach \$253.4 million despite declining Canadian light vehicle sales. New products and consumers' affinity for P&C products were the major drivers of sales growth.

## Car Loans

Non-prime car loan originations recorded strong growth in 2019, up 26% from 2018 to reach \$438.2 million. This is explained by the division's solid footing in the expanding non-prime loan market. A subsidy program launched with a major automobile manufacturer in 2019 also contributed to this growth.

## Acquisition

On January 10, 2020, the Company announced that it was acquiring three companies specializing in vehicle warranties in Canada: WGI Service Plan Division Inc., WGI Manufacturing Inc. and Lubrico Warranty Inc. WGI manufactures and administers chemical protection products for the automobile industry and Lubrico Warranty sells car warranties through a network of used vehicle dealerships.

<sup>19</sup> Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. Creditor insurance sales are defined as premiums before reinsurance and cancellations. P&C sales are defined as direct written premiums (before reinsurance). Net premiums for the Dealer Services division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Employee Plans and Special Markets Solutions. Car loan sales are defined as loan originations from the car loans business.

<sup>20</sup> Includes all creditor insurance business sold by the Company.

<sup>21</sup> Source: DesRosiers Automotive Consultants Inc., December 2019 year-to-date information.

# Group Insurance

## Special Markets Solutions

Special Markets Solutions specializes in niche insurance markets that are underserved by traditional group insurance carriers. The division primarily offers accidental death & dismemberment (AD&D) insurance, critical illness insurance, disability insurance and other specialized insurance products to employers and associations, as well as travel medical and health insurance through distribution partners and term life insurance to alumni associations and other affinity groups.

Special Markets Solutions has signed agreements with close to 4,000 groups and associations.

### Business Focus

- Accelerating sales growth
- Standardizing the level of service offered to plan sponsors across Canada
- Supporting growth with efficient administrative processes
- Strengthening digital tools for global benefits management

### Products and Services

- Accidental death & dismemberment (AD&D) insurance, critical illness insurance, disability insurance and other specialized products
- Travel medical and health insurance
- Term life insurance

### Manufacturers and Subsidiaries

- iA Insurance

### Distribution Affiliates and Networks

- Distribution partners
- Specialized insurance brokers

## Business Growth

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Sales (gross premiums) <sup>22</sup>	273.9	255.6	7%
Net sales <sup>23</sup>	256.2	239.5	7%

Special Markets Solutions sales grew 7% in 2019 to \$273.9 million. The division had very good sales growth in life, critical illness and health insurance, as well as in student plans.

Net sales, defined as gross premiums net of reinsurance, also experienced 7% growth in 2019.

Efforts to maintain a competitive edge in the special risks market continued throughout 2019. The division pursued its development of product enhancements and advances in online interactions with clients while creating more opportunities for synergy with the Employee Plans division.

<sup>22</sup> Sales are not an IFRS measure. Sales (gross premiums) are before reinsurance.

<sup>23</sup> Net sales in Special Markets Solutions are equivalent to net premiums (IFRS measure). Net premiums for this division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Employee Plans and Dealer Services.

# Group Savings and Retirement

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

Products are marketed Canada-wide through specialized brokers and actuarial consulting firms.

The Group Savings and Retirement sector has approximately 200 employees, has signed agreements with nearly 10,000 groups and serves close to 400,000 plan members. It has regional offices in Halifax, Quebec City, Montreal, Toronto, Calgary and Vancouver.

The sector's efforts to improve competitiveness in 2019 included the launch of xConnect, an automated data exchange solution connecting clients' human resources systems with those of iA Financial Group, and the addition of new features for group savings and retirement plan members in the iA Mobile app.

## Business Focus

- Accelerating sales growth
- Standardizing the level of service offered to plan sponsors across Canada
- Supporting growth with efficient administrative processes
- Strengthening digital tools for global benefits management

## Products and Services

- Capital accumulation products
- Disbursement products

## Manufacturers and Subsidiaries

- iA Insurance

## Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

## Business Growth

Group Savings and Retirement ended the year with premiums up 24% over 2018.

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
<b>Premiums (sales)<sup>24</sup></b>			
Accumulation Products			
Recurring premiums	1,057.3	951.0	11%
Transfers	342.7	450.4	(24%)
Premium equivalents	46.0	47.1	(2%)
Subtotal	1,446.0	1,448.5	—
Insured Annuities	627.6	218.4	187%
<b>Total</b>	<b>2,073.6</b>	<b>1,666.9</b>	<b>24%</b>
<b>New Plan Sales<sup>25</sup></b>	<b>642.0</b>	<b>475.7</b>	<b>35%</b>

## Accumulation Products

Recurring premiums for accumulation products represent sustainable business development and are a key part of the sector's strategy. They correspond to regular member contributions collected from in-force group clients. Recurring premiums were up 11% in 2019. New plan sales, which accelerate contribution growth, were up 35% in 2019.

## Accumulation Products – Net Fund Entries<sup>26</sup>

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Entries	1,050.1	1,020.0	3%
Disbursements	755.8	515.3	47%
<b>Net entries</b>	<b>294.3</b>	<b>504.7</b>	<b>(42%)</b>

Although down from 2018, net fund entries remained positive in 2019.

## Insured Annuities

In the insured annuities segment, the year ended with \$627.6 million in sales, up 187% compared to 2018.

## Funds Under Management

	As at December 31		
(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Accumulation Products	12,573.5	10,868.6	16%
Insured Annuities	3,929.2	3,246.1	21%
<b>Total</b>	<b>16,502.7</b>	<b>14,114.7</b>	<b>17%</b>

Funds under management totalled more than \$16.5 billion at year-end. Growth was driven by new sales of accumulation products and insured annuities, as well as positive markets. Growth in assets under management is the key long-term profitability driver for the sector.

<sup>24</sup> Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Group Savings and Retirement sector, sales include gross premiums (before reinsurance) and premium equivalents, or deposits. The net premiums presented in the consolidated financial statements are after reinsurance and exclude premium equivalents.

<sup>25</sup> New plan sales are measured by first-year annualized premiums, which correspond to the total of the initial asset transfer and recurring first-year annualized premiums.

<sup>26</sup> Net fund entries are not an IFRS measure. In the Group Savings and Retirement sector, net fund entries are a useful measure because they provide a more detailed understanding of the source of growth in assets under management. The change in assets under management is important because it determines the management fees recorded in the consolidated financial statements under *Other revenues*.

# US Operations

## Individual Insurance

iA American Life Insurance Company and four other downline subsidiaries are located in Waco, Texas, and represent the base for iA Financial Group's U.S. life insurance operations.

The iA American group of companies markets their life insurance products through independent marketing organizations, or IMOs, and collectively these organizations have over 15,000 independent agents under contract with the group.

These companies operate primarily in the simplified issue marketplace with final expense life insurance and mortgage protection / family protection term life representing almost 85% of new business sales. They also offer universal life and other specialty life products in the family and government markets. They have the ability to customize products for larger marketing organizations and this flexibility has played a key role in their success.

Digital enhancements to improve and simplify the sales process from both the agent and client perspectives have been an important component in the companies' ability to compete. A point-of-sale underwriting decision engine for final expense products was introduced in early 2019. This platform simplifies and greatly accelerates the sales process and a substantial portion of final expense products were sold this way in 2019.

### Business Focus

- Increasing distribution
- Enhancing agent and client experience through digital
- Continuing to automate the underwriting process

### Products and Services

- Life (universal, permanent and term)
- Critical illness
- Short-term disability
- Accidental death
- Annuities
- Group life

## Business Growth

(In millions of US dollars, unless otherwise indicated)	2019	2018	Variation
Sales <sup>27</sup>	99.2	81.3	22%
Premiums	305.3	268.5	14%

U.S. life insurance sales ended the year at US\$99.2 million, a 22% increase over the previous year. The increase in sales resulted from several top IMOs having high growth rates in conjunction with significant contributions from newly contracted sales organizations. Sales in 2019 were very positively influenced by the final expense underwriting decision engine.

The number of policies issued in 2019 increased 19% over the previous year and that resulted in a significant contribution to total premiums collected. Total premiums grew to US\$305.3 million in 2019, representing a 14% increase over 2018.

The U.S. sales mix by product is relatively consistent and varied only slightly in 2019. The percentage of whole life insurance sales increased from 73% in 2018 to 75% in 2019, due primarily to the increase in final expense business.

The sales mix by market has also been relatively consistent from year to year. Final expense sales as a percentage of total sales increased from 59% in 2018 to 61% in 2019 due to the aforementioned change in the final expense underwriting process.

### Manufacturers and Subsidiaries

- iA American Life Insurance Company
- American-Amicable Life Insurance Company of Texas
- Occidental Life Insurance Company of North Carolina
- Pioneer American Insurance Company
- Pioneer Security Life Insurance Company

### Distribution Affiliates and Networks

- Independent marketing organizations (15,065 agents)

<sup>27</sup> Sales are not an IFRS measure. In the Individual Insurance division of the US Operations sector, sales are defined as first-year annualized premiums. The premiums presented in the consolidated financial statements include premium entries on both in-force contracts and new business written during the period.

# US Operations

## Dealer Services

In January 2018, iA Financial Group concluded the acquisition of Dealers Assurance Company and Southwest Reinsure Inc., expanding the Company's presence in the U.S. In 2019, the official name of iA's dealer services activities in the United States changed from IA American Casualty Holdings to IA American Warranty Group.

IA American Warranty Group and its downstream subsidiaries distribute casualty products that include extended warranties and a full range of ancillary products. The company benefits from vertical integration of insurance, administration, and reinsurance services and is one of only a handful of full service providers in the United States. Products are sold through a network of general agents, automobile dealers, finance companies, and third party administrators with an emphasis on reinsurance participation by the producer of the business.

Aftermarket contracts are a combination of many different products, providing coverage for a wide range of risks, including non-automotive products.

The division employs 150 people and administers products for more than 5,000 dealerships throughout the U.S. Products are often customized for larger producers and this flexibility has played a key role in the success of IA American Warranty Group.

### Business Focus

- Increasing distribution
- Enhancing the client experience

### Products and Services

- Extended guarantees
- Guaranteed asset protection
- Other ancillary products

## Business Growth

Sales production was strong and totalled US\$449.2 million in 2019, which represents a 20% increase over 2018 sales.

(In millions of US dollars, unless otherwise indicated)	2019	2018	Variation
Sales <sup>28</sup>	449.2	375.1	20%

U.S. Dealer Services operations market delineation was fairly evenly split during 2019 between affiliate and non-affiliate sales. Both distribution channels saw their sales increase in 2019.

Sales by Market	%
Affiliate producers	48
Non-affiliate producers	52
Total	100

## Acquisition

On December 4, 2019, iA Financial Corporation announced that it had signed an agreement to acquire the American company IAS Parent Holdings Inc. and its subsidiaries. This acquisition is complementary to the Company's existing Dealer Services operations in the U.S. with respect to product suite, distribution networks, and geographic scope. The acquisition will be funded by iA Financial Group's excess capital and is expected to close in the first half of 2020.

### Manufacturers and Subsidiaries

- Dealers Assurance Company
- Dealers Alliance Company
- Ecoblock
- First Automotive Service Corp.
- Southwest Reinsurance

### Distribution Affiliates and Networks

- General agents
- Direct sales (auto dealers and finance companies)
- Third party administrators

<sup>28</sup> Sales are not an IFRS measure. In the Dealer Services division of the US Operations sector, sales are defined as direct written premiums (before reinsurance) and premium equivalents.



# Auto and Home Insurance

iA Auto and Home Insurance (iAAH) is a Company subsidiary that markets auto and home insurance products in the province of Quebec.

One advantage that sets iAAH apart is the referral of clients by the Company's distribution networks, providing a business development opportunity that is unique in the industry. A significant portion of its clients are referred by Career Network advisors and the Dealer Services division. iAAH also operates through a subsidiary, Prysm General Insurance, that creates strategic partnerships allowing preferred distributors to offer the subsidiary's products.

## Business Focus

- Reshaping client experience through digital
- Developing new partnerships
- Maximizing synergies with the Dealer Services division and other Company sectors

## Products and Services

- Auto and home insurance

## Manufacturers and Subsidiaries

- iA Auto and Home Insurance
- Prysm General Insurance

## Distribution Affiliates and Networks

- Referrals from iA networks
- Preferred-partner distribution
- Direct sales from advertising

## Business Growth

(In millions of dollars, unless otherwise indicated)	2019	2018	Variation
Direct written premiums <sup>29</sup>	351.0	322.8	9%

Direct written premiums totalled \$351.0 million in 2019, up 9% from the previous year. Premium growth was strong in 2019, mainly due to improved client retention. This improvement is the result of better competitive positioning and reflects a high level of customer satisfaction. The five-year compound annual growth rate for iAAH's business volume is 9%.

## Combined Ratio

(%)	2019	2018	2017	2016	2015
Combined ratio	93.1	95.8	103.9	105.5	102.3

The combined ratio, which represents the sum of the expense ratio and the claims ratio, improved from 2018 due to a number of actions taken with regard to pricing and underwriting, as well as favourable auto claims. The combined ratio was below 100% for the second time since 2015.

<sup>29</sup> Direct written premiums are not an IFRS measure.

# Profitability

## Highlights

The Company ended the year with net income attributed to common shareholders of \$687.4 million, up 12% from 2018. Diluted earnings per common share (EPS) was \$6.40 in 2019, compared to \$5.59 in 2018, and return on common shareholders' equity (ROE) grew to 12.9%. Both of these results were above guidance given at the beginning of 2019.

The annual review of provisions for future policy benefits had almost no impact on 2019 results, generating a gain of \$2.9 million before tax.

## Profitability

(In millions of dollars, unless otherwise indicated)	2019	2018	2017	2016	2015
Income attributed to shareholders	709.5	633.7	531.4	553.7	386.4
Less: preferred share dividends	22.1	21.0	15.9	16.5	18.0
Less: redemption premium on preferred shares	—	—	—	—	4.0
<b>Net income attributed to common shareholders</b>	<b>687.4</b>	<b>612.7</b>	<b>515.5</b>	<b>537.2</b>	<b>364.4</b>
Earnings per common share (EPS)					
Basic	\$6.43	\$5.62	\$4.84	\$5.22	\$3.59
Diluted	\$6.40	\$5.59	\$4.81	\$5.19	\$3.57
Return on common shareholders' equity (ROE) <sup>30</sup>	12.9%	12.5%	11.4%	13.2%	10.2%

## Analysis According to Sources of Earnings

The profitability analysis according to sources of earnings below discusses the main items that had an impact on the financial results for the year in comparison with management's expectations. The measures presented in this analysis are not IFRS measures. They supplement the other information presented in the "Analysis According to the Financial Statements" section below and provide additional indicators for evaluating financial performance.

**Expected profit on in-force** – Expected profit on in-force amounted to \$768.6 million in 2019, a year-over-year increase of \$79.1 million before tax, or more than 11%. Expected profit on in-force reflects the best estimates determined by management when the 2019 budget was prepared at the end of 2018. However, expected profit for the savings sectors is updated quarterly to reflect changes in the stock markets and net fund entries. The increase in 2019 stems from growth in all five business lines, with particularly strong growth expected in Group Insurance and US Operations.

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

The Company ended the year with experience gains of \$25.5 million before tax, a similar result to 2018 (\$24.9 million). This year's favourable result was generated by gains in four out of five business lines and by the positive contribution of equity markets. The paragraphs that follow provide details on the 2019 results for each line of business.

- **Individual Insurance** – An experience gain of \$19.3 million before tax was recorded in 2019, compared to a loss of \$10.7 million in 2018. The gain in 2019 was mainly generated by the positive impact of equity markets on universal life policies. Policyholder experience also generated a gain in 2019, mainly due to favourable lapse experience. These positive items offset an increase in the litigation provision.
- **Individual Wealth Management** – A positive variance of \$6.5 million before tax was recorded in 2019, compared to a positive variance of \$7.7 million in 2018. The gain in 2019 was mainly generated by the positive impact of equity markets with respect to investment fund income (management expense ratios) and the dynamic hedging program. This program is mainly designed to reduce the sensitivity of net income to financial market volatility for the capital guarantees offered on certain segregated funds.
- **Group Insurance** – An experience loss of \$16.7 million before tax was recorded in 2019, compared to a gain of \$21.8 million in 2018. Experience in the Employee Plans and Special Markets Solutions divisions was close to expectations, while unfavourable experience in the Dealer Services division played the biggest role in the 2019 loss.
- **Group Savings and Retirement** – A favourable variance of \$10.1 million before tax was recorded in 2019, compared to an unfavourable variance of \$0.5 million in 2018. The positive result in 2019 is mostly due to favourable longevity experience.

<sup>30</sup> ROE is not an IFRS measure.

- **US Operations** – An experience gain of \$6.3 million before tax was recorded in 2019, compared to a gain of \$6.6 million the year before. This positive result was due to better than expected experience in the Dealer Services division and, to a lesser extent, favourable experience in the Individual Insurance division.

**Gain (strain) on sales** – In the Individual Insurance sector and the Individual Insurance division of the US Operations sector, new business strain was \$8.5 million before tax in 2019, compared to \$26.7 million the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 3% in 2019 versus 9% a year earlier. Strain in 2019 was therefore lower than in 2018 and below the 6% target given as guidance, mainly due to a favourable sales mix.

Strain is a charge incurred by an insurance company mainly resulting from the expense of issuing new policies. Certain products have features that make them more strain-intensive than others, such as products with long-term guarantees. If experience remains in line with expectations in the years following the issue of a policy, profits realized will cover the strain incurred at the time of issue.

**Assumption changes 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 all 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.

At December 31, 2019, changes in actuarial assumptions (for non-participating business) used to calculate net insurance contract liabilities had a positive net impact on operating profit of \$2.9 million before tax.

A reserve release was triggered by adjustments in economic assumptions due to improved portfolio yield and matching. This release was almost entirely offset by reserve increases following a change in projected contract administration expenses and revised assumptions for the rate guarantees on universal life policies. Only a slight reserve increase was generated by the revision of policyholder assumptions, including mortality, morbidity and lapse. For more details, refer to Note 14 to the financial statements, entitled "Insurance Contract Liabilities and Investment Contract Liabilities."

Lastly, a charge was recorded in the third quarter due to the PPI Management purchase price and goodwill adjustments.

**Income on capital** – Income on capital represents the income derived from investments in which the Company's capital is invested, minus any expenses incurred to generate this income. The Company also includes financing expenses from debentures, amortization of intangible assets related to acquisitions and the results of the iA Auto and Home (IAAH) subsidiary in this item.

Income on capital amounted to \$122.1 million before tax in 2019, compared to \$126.0 million the previous year, when investment income was boosted by a sizable gain on the sale of a property. Note that iAAH's contribution was more significant in 2019.

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

Income taxes amounted to \$191.7 million in 2019. The effective tax rate was therefore 21.3%, which is near the middle of the 20% to 22% target range given as guidance at the beginning of the year.

### Reconciliation of Certain Non-IFRS Measures with IFRS Measures

The following table reconciles the operating profit and income taxes indicated in the above table with IFRS.

#### Reconciliation of Sources of Earnings with IFRS

(In millions of dollars)	2019	2018
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	779.1	687.6
Income on capital (according to sources of earnings)	122.1	126.0
Income attributable to participating contracts and other items	(14.2)	5.4
<b>Earnings before taxes according to the financial statements</b>	<b>887.0</b>	<b>819.0</b>
Income taxes:		
On operating profit and on income on capital	(191.7)	(179.9)
Amount for participating contracts and other items	4.1	(1.1)
Income taxes according to financial statements	(187.6)	(181.0)
<b>Net income according to financial statements</b>	<b>699.4</b>	<b>638.0</b>

## Analysis According to the Financial Statements

### Annual Results

The following table presents the Company's financial results according to the financial statements for the years ended December 31, 2019, 2018 and 2017.

#### Consolidated Income Statement

(In millions of dollars)	2019	2018	2017
<b>Revenues</b>			
Net premiums	8,944.0	7,849.3	7,253.8
Investment income	4,641.6	310.8	2,580.9
Other revenues	1,679.5	1,752.3	1,441.4
<b>Total</b>	<b>15,265.1</b>	<b>9,912.4</b>	<b>11,276.1</b>
<b>Policy benefits and expenses</b>			
Net policy benefits	5,392.2	4,870.0	4,500.5
Net transfers to segregated funds	916.5	821.1	1,020.7
Increase (decrease) in insurance contract liabilities	4,773.1	216.0	1,726.0
Increase (decrease) in investment contract liabilities	27.1	9.2	14.0
Decrease (increase) in reinsurance assets	(44.2)	76.2	579.8
Commissions	1,653.8	1,582.2	1,448.7
General expenses	1,471.9	1,328.8	1,121.4
Premium and other taxes	128.2	126.9	118.1
Financing charges	59.5	63.0	64.0
<b>Total</b>	<b>14,378.1</b>	<b>9,093.4</b>	<b>10,593.2</b>
Income before income taxes	887.0	819.0	682.9
Less: income taxes	187.6	181.0	149.5
Net income	699.4	638.0	533.4
Less: net income attributed to participating policyholders	(10.1)	4.3	2.0
Net income attributed to shareholders	709.5	633.7	531.4
Less: preferred share dividends	22.1	21.0	15.9
Less: redemption premium on preferred shares	—	—	—
<b>Net income attributed to common shareholders</b>	<b>687.4</b>	<b>612.7</b>	<b>515.5</b>

#### Net Income Attributed to Common Shareholders

The 12% growth in net income attributed to common shareholders between 2019 and 2018 is explained by the items mentioned below.

#### Revenues

Revenues, whose three components are presented in the above table, totalled nearly \$15.3 billion in 2019, an increase of 54% compared to 2018. This increase is mainly due to an increase in investment income of \$4.3 billion, which is mainly attributable to the change in the fair value of investments stemming from variations in interest rates, stock markets and issuer spreads. Net premiums also contributed, with growth of \$1.1 billion, or 14%, compared to the previous year. Growth was observed in all sectors, mainly coming from individual and group savings products such as segregated funds, guaranteed investment certificates, insured annuity contracts and accumulation contracts. Note that *Other revenues* included a non-recurring gain on the sale of a property in 2018.

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

#### Revenues by Sector

(In millions of dollars)	Year ended December 31, 2019						Total
	Ind. Ins.	Ind. Wealth Mgmt	Grp Ins.	Grp Sav. and Rtmt	US Oper.	Other	
Net premiums	1,586.5	2,911.3	1,638.5	2,000.5	493.0	314.2	8,944.0
Var. vs. 2018	32.1	522.8	26.9	405.6	87.6	19.7	1,094.7
Invest. income	3,767.5	56.7	172.1	331.6	161.5	152.2	4,641.6
Var. vs. 2018	3,856.5	(61.7)	69.6	237.0	182.5	46.9	4,330.8
Other revenues	120.5	1,462.8	54.5	97.5	103.4	(159.2)	1,679.5
Var. vs. 2018	9.0	(8.7)	(3.0)	8.0	36.6	(114.7)	(72.8)
<b>Total</b>	<b>5,474.5</b>	<b>4,430.8</b>	<b>1,865.1</b>	<b>2,429.6</b>	<b>757.9</b>	<b>307.2</b>	<b>15,265.1</b>
Var. vs. 2018	3,897.6	452.4	93.5	650.6	306.7	(48.1)	5,352.7

#### Policy Benefits and Expenses

Policy benefits and expenses were up nearly \$5.3 billion from the previous year. This increase is consistent with the increase in investment income mentioned above, as insurance contract liabilities are matched to underlying assets, which increased in value. The main items contributing to the increase in policy benefits and expenses are as follows:

- An increase in insurance contract liabilities compared to 2018 (\$4.6 billion). 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.
- An increase in net policy benefits, reflecting the normal course of business (\$522.2 million). Net policy benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

The following items also contributed to the variation in policy benefits and expenses, but to a lesser extent:

- An increase in net transfers to segregated funds compared to 2018, as premium growth exceeded benefit growth (\$95.4 million).
- An increase in commissions compared to the previous year, which primarily reflects the growth of the in-force block of business (\$71.6 million). 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 (\$143.1 million).
- An expense related to reinsurance assets in 2018 versus a credit in 2019 (\$120.4 million). This item is generally influenced by the same factors that influence the variation in insurance contract liabilities.

## Income Taxes

The consolidated financial statements indicate an income tax expense of \$187.6 million in 2019, compared to \$181.0 million in 2018. These amounts represent the Company's tax expense net of all adjustments for prior years, and the variation is consistent with the increase in income before income taxes.

## 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 2019. Generally speaking, the terminology used in this section is the same terminology used in the financial statements.

## Net premiums

Net premiums amounted to \$2.4 billion in the fourth quarter, a year-over-year increase of 22%. This variation is mainly explained by significant net premium growth in the Individual Wealth Management and Group Savings and Retirement sectors.

Stock market variations, the level of premiums invested in segregated funds and the signing of new agreements with large groups in the group business lines, among other things, 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 2019, investment income was down \$471.8 million from the same quarter in 2018. This was primarily due to a decrease in the fair value of bond investments resulting from the variation in interest rates. The decrease was partially offset by an increase in the fair value of the equity portfolio due to stock market variations.

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.

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 were down \$11.9 million, or 3%, year over year. This variation stems from two non-recurring items recorded in the fourth quarter of 2018.

## Net Income Attributed to Common Shareholders<sup>31</sup>

(In millions of dollars)	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		US Operations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Sources of earnings:</b>												
Expected profit on in-force	350.9	317.2	227.7	219.3	108.1	84.4	26.1	23.4	55.8	45.2	768.6	689.5
Experience gains (losses)	19.3	(10.7)	6.5	7.7	(16.7)	21.8	10.1	(0.5)	6.3	6.6	25.5	24.9
Gain (strain) on sales	—	(16.7)	—	(0.1)	—	—	(0.9)	0.4	(8.5)	(10.0)	(9.4)	(26.4)
Changes in assumptions	(6.1)	(41.9)	(1.0)	(13.7)	(6.7)	4.3	5.9	49.7	2.3	1.2	(5.6)	(0.4)
Operating profit	364.1	247.9	233.2	213.2	84.7	110.5	41.2	73.0	55.9	43.0	779.1	687.6
Income on capital	92.6	90.1	2.8	12.8	5.9	5.7	3.1	0.5	17.7	16.9	122.1	126.0
Income taxes	(79.5)	(52.9)	(61.2)	(61.5)	(23.6)	(32.5)	(11.8)	(20.5)	(15.6)	(12.5)	(191.7)	(179.9)
Net income attributed to shareholders	377.2	285.1	174.8	164.5	67.0	83.7	32.5	53.0	58.0	47.4	709.5	633.7
Less: preferred share dividends	17.7	15.0	2.5	4.6	1.4	1.2	0.5	0.2	—	—	22.1	21.0
Less: redemption premium on preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
<b>Net income attributed to common shareholders</b>	<b>359.5</b>	<b>270.1</b>	<b>172.3</b>	<b>159.9</b>	<b>65.6</b>	<b>82.5</b>	<b>32.0</b>	<b>52.8</b>	<b>58.0</b>	<b>47.4</b>	<b>687.4</b>	<b>612.7</b>

## Quarterly Results

(In millions of dollars, unless otherwise indicated)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Revenues</b>								
Net premiums	2,417.0	2,189.5	1,982.7	2,354.8	1,976.8	1,836.0	1,850.0	2,186.5
Investment income	(301.5)	1,109.8	1,671.5	2,161.8	170.3	(295.0)	484.9	(49.4)
Other revenues	428.4	416.2	424.5	410.4	440.3	439.2	437.8	435.0
<b>Total</b>	<b>2,543.9</b>	<b>3,715.5</b>	<b>4,078.7</b>	<b>4,927.0</b>	<b>2,587.4</b>	<b>1,980.2</b>	<b>2,772.7</b>	<b>2,572.1</b>
Income before income taxes	197.1	241.0	240.9	208.0	195.5	220.0	225.2	178.3
Income taxes	31.3	51.9	53.9	50.5	37.7	49.1	59.4	34.8
Net income	165.8	189.1	187.0	157.5	157.8	170.9	165.8	143.5
Less: net income attributed to participating policyholders	(10.7)	—	(0.1)	0.7	2.8	0.4	0.6	0.5
Net income attributed to shareholders	176.5	189.1	187.1	156.8	155.0	170.5	165.2	143.0
Less: preferred share dividends	5.3	5.4	5.7	5.7	5.5	5.6	6.1	3.8
<b>Net income attributed to common shareholders</b>	<b>171.2</b>	<b>183.7</b>	<b>181.4</b>	<b>151.1</b>	<b>149.5</b>	<b>164.9</b>	<b>159.1</b>	<b>139.2</b>
<b>Earnings per common share</b>								
Basic	\$1.60	\$1.73	\$1.70	\$1.41	\$1.37	\$1.50	\$1.45	\$1.30
Diluted	\$1.59	\$1.72	\$1.69	\$1.40	\$1.36	\$1.50	\$1.44	\$1.29
Net transfers to segregated funds	234.6	261.9	195.5	224.5	221.5	113.9	170.6	315.1
Increase (decrease) in insurance contract liabilities	(283.0)	1,156.0	1,550.0	2,350.1	261.3	(346.2)	350.8	(49.9)
Increase (decrease) in investment contract liabilities	(1.0)	6.7	7.5	13.9	8.2	(2.5)	2.1	1.4
Total general fund assets	45,279.6	45,458.8	43,432.1	42,530.9	39,759.5	39,067.5	39,920.0	39,133.0
Segregated funds net assets	27,867.9	26,976.4	26,388.7	25,759.5	23,780.6	25,033.6	24,887.6	24,100.1

<sup>31</sup> The operating profit and income taxes presented in this table are not defined by IFRS. Operating profit is an important additional tool to help investors better understand the source of shareholder value creation. A reconciliation between non-IFRS and IFRS financial measures is presented below. Comments for each line of business are presented in other sections of this Management's Discussion and Analysis that describe each sector's activities in detail.

# Financial Position

## Capitalization and Solvency

### Capitalization

iA Financial Corporation's capital structure can be divided into three categories: equity, debentures, and participating policyholders' accounts. At December 31, 2019, the Company's capital reached nearly \$7.2 billion, a year-over-year increase of 8%, with equity and participating policyholders' accounts representing over 85% of total capital.

The increase in 2019 is mainly due to the contribution of retained earnings resulting from profits realized during the year, net of dividends paid to common shareholders, and, to a lesser extent, the debenture issue mentioned later in this section.

### Capital Structure

(In millions of dollars)	As at December 31				
	2019	2018	2017	2016	2015
Equity					
Common shares	1,666.5	1,655.5	1,520.9	1,498.8	1,310.5
Preferred shares <sup>32</sup>	525.0	525.0	375.0	375.0	375.0
Retained earnings <sup>33,34</sup>	3,823.5	3,440.0	3,072.8	2,793.2	2,374.0
Contributed surplus	17.5	22.8	19.5	18.5	21.4
AOCI <sup>35</sup>	55.6	22.5	48.9	40.1	58.1
Subtotal	6,088.1	5,665.8	5,037.1	4,725.6	4,139.0
Debentures <sup>32</sup>	1,049.7	901.4	996.3	995.3	846.1
Participating policyholders' accounts <sup>34</sup>	41.9	52.3	41.0	39.0	45.0
<b>Total</b>	<b>7,179.7</b>	<b>6,619.5</b>	<b>6,074.4</b>	<b>5,759.9</b>	<b>5,030.1</b>

### Financial Leverage and Coverage Ratio

The debt ratio measured as debentures over the capital structure was 14.6% at December 31, 2019. With the preferred shares added to the debentures, the ratio was 21.9%. The slight increase in these ratios is essentially due to the issuance of subordinated debentures in September 2019, partially offset by the subordinated debenture redemption in May 2019.

At December 31, 2019, the coverage ratio was 16.6x, compared to 14.6x at December 31, 2018. In 2019, the ratio, which was already relatively high, increased further mainly due to the increase in earnings during the year. The coverage ratio represents the Company's earnings for the last twelve months before interest and income tax expenses divided by its interest and dividend expenses.

### Debt Ratios and Coverage Ratio

	As at December 31				
	2019	2018	2017	2016	2015
Debt ratios					
Debentures/capital structure	14.6%	13.6%	16.4%	17.3%	16.8%
Debentures and preferred shares/capital structure	21.9%	21.5%	22.6%	23.8%	24.3%
Coverage ratio (number of times) <sup>36</sup>	16.6x	14.6x	13.3x	12.8x	8.2x

### Solvency

When iA Financial Corporation was created as a holding company, it committed to following the guideline on capital adequacy requirements for life insurers (CARLI) issued by the Autorité des marchés financiers (AMF). The Company had a solvency ratio of 133% at December 31, 2019, compared to 126% at December 31, 2018.

The seven percentage point increase during the year is explained by the contribution of retained earnings realized in 2019, financing activities and the implementation of investment strategies to reduce macroeconomic risks. The year-end ratio remained well above the 110% to 116% guidance range.

For 2020, the target range for iA Financial Corporation is unchanged at 110% to 116%, as mentioned in the "Highlights" section at the beginning of this document. The target range for the iA Insurance subsidiary is also 110% to 116%. The solvency ratio will decrease in the first half of 2020 due to the acquisitions announced in December 2019 and January 2020. Nevertheless, the Company intends to maintain a solvency ratio within or above the target range.

(In millions of dollars, unless otherwise indicated)	December 31, 2019	December 31, 2018
Available capital	4,809.1	4,468.9
Surplus allowance	4,461.8	4,045.6
Base solvency buffer	6,980.2	6,755.2
<b>Solvency ratio<sup>37</sup></b>	<b>133%</b>	<b>126%</b>

<sup>32</sup> Items considered as long-term debt and included in the debt ratio calculation.

<sup>33</sup> 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.

<sup>34</sup> 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.

<sup>35</sup> AOCI: Accumulated other comprehensive income.

<sup>36</sup> Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, preferred share dividends and preferred share redemption premiums (if applicable).

<sup>37</sup> This measure, which has no IFRS equivalent, is established in accordance with regulatory requirements.

## Equity and Financing

### Redemption and Issue of Financial Instruments

In the second quarter of 2019, the iA Insurance subsidiary redeemed its subordinated debentures issued in May 2014 with a nominal value of \$250 million and bearing interest of 2.80%. These debentures were redeemed largely because they were no longer fully recognized in the regulatory capital calculation. Following this redemption, in September 2019, iA Financial Corporation issued \$400 million in 3.072% fixed/floating subordinated debentures.

### Debentures

The Company had three series of debentures on its balance sheet at December 31, 2019, with a total book value of \$1,049.7 million. These three series, 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 2019, the financing expense, made up of interest only, amounted to \$26.5 million, versus \$31.3 million in 2018.

### Outstanding Common Shares

The Company has only one class of common shares and all common shares contain a single voting right. In addition, no shareholder may acquire, directly or indirectly, 10% or more of the voting shares of iA Financial Corporation, and iA Financial Corporation must directly or indirectly hold 100% of the common shares of iA Insurance. iA Financial Corporation's common shares are traded on the Toronto Stock Exchange under the ticker symbol IAG. (See the "Notice" at the beginning of this Management's Discussion and Analysis for more information about the legal constitution of iA Financial Group.)

The number of issued and outstanding common shares at December 31, 2019 was 106,966,199, a decrease of 1,609,023 compared to December 31, 2018. This decrease is mainly explained by the redemption of nearly 4 million shares under the Normal Course Issuer Bid, net of options exercised under the Stock Option Plan for executives.

### Common Shares

(In millions)	As at December 31				
	2019	2018	2017	2016	2015
Number of common shares outstanding	107.0	108.6	106.8	106.2	102.4

### Stock Price and Market Capitalization

Industrial Alliance became a stock company in February 2000. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of \$7.875, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005. The Company's stock closed the year at \$71.49 in 2019, with market capitalization exceeding \$7.6 billion.

### Stock Price and Market Capitalization

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2019	2018	2017	2016	2015
Stock price	\$71.33	\$43.57	\$59.82	\$53.39	\$44.13
Market capitalization	7,629.9	4,730.6	6,386.2	5,670.3	4,520.5

### Book Value per Common Share

The book value per common share was \$51.99 at the end of 2019, up nearly 10% during the year. This increase stems mainly from the contribution of retained earnings net of dividends paid in 2019.

### Book Value per Common Share

	As at December 31				
	2019	2018	2017	2016	2015
Book value per common share <sup>38</sup>	\$51.99	\$47.34	\$43.65	\$40.97	\$36.76

### Preferred Shares

In 2019, the iA Insurance subsidiary paid \$22.1 million in dividends to preferred shareholders with Class A Shares, Series B, G and I. The Company's capital currently includes these three series of Class A Preferred Shares, as shown in the full-page table later in this section.

### Dividends

In May 2019, the Company announced an 8% increase in its quarterly dividend per common share, from \$0.4150 to \$0.4500. As a result, the dividend for 2019 totalled \$1.77 per common share, compared to \$1.59 per common share in 2018, an increase of over 11%. In total, the Company paid out \$188.4 million in dividends to common shareholders in 2019 and the dividend payout ratio for the year was 27% of the net income attributed to common shareholders.

### Dividends

	2019	2018	2017	2016	2015
Dividends paid per common share	\$1.77	\$1.59	\$1.43	\$1.26	\$1.16
Dividend payout ratio	27%	28%	30%	24%	32%

### Declaration of Fourth Quarter Dividends

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 iA Financial Corporation Inc. has declared the payment of a quarterly dividend of \$0.4850 per common share. The dividend is payable in cash on March 16, 2020, to the common shareholders of record as at February 28, 2020.

<sup>38</sup> 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.



The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has approved the payment of two separate dividends totalling \$671.0 million to its sole common shareholder, iA Financial Corporation Inc.

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, 2020, to the preferred shareholders of record as at February 28, 2020.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of \$0.2360625 per non-cumulative Class A Preferred Share - Series G. The dividend is payable in cash on March 31, 2020, to the preferred shareholders of record as at February 28, 2020.

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, 2020, to the preferred shareholders of record as at February 28, 2020.

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

### **Stock Option Plan**

In accordance with the Stock Option Plan adopted by the Board of Directors in 2001, the Human Resources and Compensation Committee granted 348,000 new share purchase options in 2019. These new options, which will expire in 2029, were granted at a weighted average exercise price of \$49.85. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 1,965,483, or 1.8% of the number of issued and outstanding shares at December 31, 2019.

### **Dividend Reinvestment and Share Purchase Plan for Common Shareholders**

The Dividend Reinvestment and Share Purchase Plan for Common Shareholders allows participants to have their dividends automatically reinvested in iA Financial Corporation common shares and to make cash purchases of additional iA Financial Corporation common shares. Shares issued under the plan are acquired on the secondary market.

### **Normal Course Issuer Bid**

On November 6, 2019, the Company announced the renewal of its Normal Course Issuer Bid, under which it may redeem, between November 12, 2019 and November 11, 2020, up to 5,335,397 common shares, representing approximately 5% of its 106,707,949 common shares issued and outstanding as at November 1, 2019. In 2019, the Company redeemed 2,815,373 common shares for a total cost of \$138.9 million.

## Preferred Shares and Debentures - iA Financial Corporation Inc.

### Subordinated debentures issued on September 24, 2019 and maturing on September 24, 2031

<b>Nominal value:</b>	\$400.0 million
<b>Book value:</b>	\$397.6 million
<b>Interest:</b>	3.072% until September 24, 2026. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 1.31%, payable quarterly.
<b>Redemption and repayment:</b>	Redeemable by the Company on or after September 24, 2026, 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 \$2.4 million.

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## Preferred Shares and Debentures - Industrial Alliance Insurance and Financial Services Inc.

### Class A Preferred Shares - Series B

<b>Number:</b>	5,000,000
<b>Nominal value:</b>	\$125.0 million
<b>Book value:</b>	Shares recognized at their acquisition value
<b>Dividend:</b>	Fixed non-cumulative quarterly dividend of \$0.2875 per preferred share
<b>Voting rights:</b>	No voting rights
<b>Conversion:</b>	Not convertible into common shares, convertible to Class A Preferred Shares.
<b>Redemption:</b>	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.

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### Class A Preferred Shares - Series G

<b>Number:</b>	10,000,000
<b>Nominal value:</b>	\$250.0 million
<b>Book value:</b>	Shares recognized at their acquisition value
<b>Dividend:</b>	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of \$1.0750 in cash per preferred share until June 30, 2017. The annual rate was modified on June 30, 2017 to \$0.94425 in cash per preferred share.
<b>Voting rights:</b>	No voting rights
<b>Conversion:</b>	Convertible at the option of the holder to Class A Preferred Shares - Series H on June 30, 2017 and on June 30 every 5 years thereafter.
<b>Redemption:</b>	Redeemable in whole or in part at the option of the company, subject to approval by the AMF, on June 30, 2017 and on June 30 every 5 years thereafter.

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### Class A Preferred Shares - Series I

<b>Number:</b>	6,000,000
<b>Nominal value:</b>	\$150.0 million
<b>Book value:</b>	Shares recognized at their acquisition value
<b>Dividend:</b>	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%.
<b>Voting rights:</b>	No voting rights
<b>Conversion:</b>	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.
<b>Redemption:</b>	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.

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### Subordinated debentures issued on February 23, 2015 and maturing on February 23, 2027

<b>Nominal value:</b>	\$250.0 million
<b>Book value:</b>	\$249.5 million
<b>Interest:</b>	2.64% until February 23, 2022. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 1.08%, payable quarterly.
<b>Redemption and repayment:</b>	Redeemable by the company on or after February 23, 2022, 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 \$0.5 million.

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### Subordinated debentures issued on September 16, 2016 and maturing on September 15, 2028

<b>Nominal value:</b>	\$400.0 million
<b>Book value:</b>	\$398.6 million
<b>Interest:</b>	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.
<b>Redemption and repayment:</b>	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 \$1.4 million.

More information about the features of the preferred shares and debentures can be found in the prospectus documents, which are available on the Company's website at [ia.ca](http://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 the *Canadian Securities Act*.

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, 2019, 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, 2019, 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.

### 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

### Credit Ratings

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

In 2019, the credit ratings assigned by DBRS and A.M. Best remained unchanged, with a stable outlook.

In July 2019, Standard & Poor's raised the issuer credit rating of iA Financial Corporation from A- to A, as well as the issuer credit and financial strength ratings of Industrial Alliance Insurance and Financial Services from A+ to AA-, citing operational performance, consistent profitability in various business lines and solid risk management. This agency also assigned a stable outlook.

### Credit Ratings

#### iA Financial Corporation Inc.

Agency	Type of evaluation	Rating
Standard & Poor's	Issuer Credit Rating	A
	Subordinated Debentures	A-
DBRS	Issuer Rating	A (low)
	Subordinated Debentures	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	Financial Strength	A (high)
	Issuer Rating	A (high)
	Subordinated Debentures	A
	Preferred Shares	Pfd-2 (high)
A.M. Best	Financial Strength	A+ (Superior)
	Issuer Credit Rating	aa-
	Subordinated Debentures	a
	Preferred Shares	a-

#### 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

#### Industrial Alliance Pacific General Insurance Corporation

A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a+

#### Dealers Assurance Company

A.M. Best	Financial Strength	A- (Excellent)
	Issuer Credit Rating	a-

## Related Party Transactions

The value of the related party transactions is presented in Note 28 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, 2019, the Company's contractual obligations and commitments were as follows:

### Contractual Obligations - Payments Due by Period

(In millions of dollars)	As at December 31, 2019			
	Total	Less than 1 year	1 year to 5 years	More than 5 years
Debentures <sup>39</sup>	1,049.7	—	—	1,049.7
Lease liabilities	136.7	19.1	49.6	68.0
Purchasing commitments	309.7	61.3	248.4	—
Other long-term commitments <sup>40</sup>	4,926.7	2,999.0	1,305.9	621.8
<b>Total of contractual obligations</b>	<b>6,422.8</b>	<b>3,079.4</b>	<b>1,603.9</b>	<b>1,739.5</b>

For more information on commitments to third parties, investment commitments and the Company's lines of credit, refer to Note 29 of the consolidated financial statements.

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<sup>39</sup> The debentures can be redeemed at the Company's option on various dates. Refer to Note 16 of the Company's consolidated financial statements for more information on debentures.

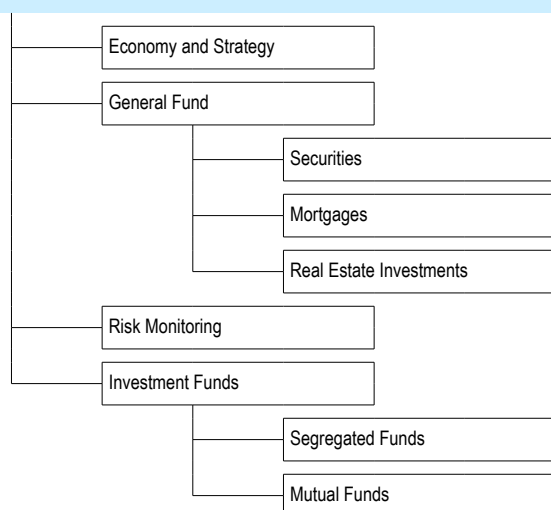
<sup>40</sup> Includes long-term financial liabilities only.

# 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 US Operations, are combined under a single authority and share a common philosophy. The investment management structure is illustrated below.

### EXECUTIVE VICE-PRESIDENT AND CHIEF INVESTMENT OFFICER



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.). In addition to quantifying the risks, the team helps develop strategies for managing these risks effectively.

Most of iA Financial Group's investment professionals work for iA Investment Management, where they 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.

## Assets Under Management and Administration

At December 31, 2019, iA Financial Group had \$189.5 billion in assets under management and administration, an increase of \$20.7 billion, or 12.3%, versus the previous year.

## Assets Under Management and Administration

(In millions of dollars)	As at December 31				
	2019	2018	2017	2016	2015
Assets under management					
General fund	45,279.6	39,759.5	37,789.4	35,223.8	33,161.4
Segregated funds	27,867.9	23,780.6	24,117.0	21,825.8	19,776.7
Mutual funds	11,594.2	10,832.8	11,723.2	10,937.5	10,428.3
Other	15,500.1	14,721.1	15,123.1	16,859.9	15,526.1
Subtotal	100,241.8	89,094.0	88,752.7	84,847.0	78,892.5
Assets under administration	89,245.8	79,677.5	80,787.1	41,387.2	36,920.8
<b>Total</b>	<b>189,487.6</b>	<b>168,771.5</b>	<b>169,539.8</b>	<b>126,234.2</b>	<b>115,813.3</b>

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*), increased 12.5% compared to the previous year, amounting to \$100.2 billion at December 31, 2019.

Assets under administration of \$89.2 billion at December 31, 2019 increased 12% compared to the previous year. Assets under administration essentially include third-party assets that are administered through the mutual fund brokerage companies (primarily Investia Financial Services and FundEX Investments), the securities brokerage company (iA Securities) 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 2019, 68.8% of the Company's investments were invested in bonds and 9.7% in mortgages and other loans, for a total of 78.5% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 76% and 79% over the last five years, while stocks have varied between 7% and 11%. The implementation in 2019 of an investment strategy to reduce macroeconomic sensitivities partly explains the variation in *Stocks* and *Other* during the period.

## General Fund Investments

(In millions of dollars)	As at December 31				
	2019	2018	2017	2016	2015
Bonds	27,508.5	23,592.3	22,944.1	21,086.8	19,278.1
Mortgages and other loans	3,870.2	3,661.3	3,288.1	3,292.3	3,169.3
Stocks	3,023.5	3,054.8	3,467.0	3,083.0	2,924.1
Real estate	2,076.6	1,720.5	1,340.8	1,237.8	1,215.9
Other invested assets <sup>41</sup>	3,440.4	2,550.0	2,781.9	2,391.0	2,362.2
<b>Total</b>	<b>39,919.2</b>	<b>34,578.9</b>	<b>33,821.9</b>	<b>31,090.9</b>	<b>28,949.6</b>

## Investments by Asset Category

Portfolio	As at December 31	
	2019	2018
<b>Portfolio</b>	<b>\$39.9B</b>	<b>\$34.6B</b>
Bonds	68.8%	68.3%
Mortgages and other loans	9.7%	10.6%
Stocks	7.6%	8.8%
Real estate	5.2%	5.0%
Other	8.7%	7.3%

## Overall Quality of Investments

At December 31, 2019, net impaired investments were down \$5.0 million. On a \$39.9 billion portfolio, this represents just 0.03% of total investments (0.05% at December 31, 2018).

The overall quality of investments continued to be very good in 2019.

## Net Impaired Investments (Excluding Insured Loans)

(In millions of dollars)	As at December 31				
	2019	2018	2017	2016	2015
Bonds	10.1	12.8	15.1	16.9	6.0
Mortgages and other loans	0.8	3.1	8.3	6.5	8.2
<b>Total</b>	<b>10.9</b>	<b>15.9</b>	<b>23.4</b>	<b>23.4</b>	<b>14.2</b>

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				
	2019	2018	2017	2016	2015
Net impaired investments	0.03	0.05	0.07	0.08	0.05

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as *Available for sale* amounted to \$1.7 million at December 31, 2019 (\$23.1 million at December 31, 2018).

## Bond Portfolio

The quality of the Company's bond portfolio is very good, totalling \$27.5 billion at December 31, 2019.

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

The proportion of bonds rated A or higher represented 83.3% of the portfolio at the end of 2019, compared to 82.5% at the end of 2018. At December 31, 2019, bonds rated BB and lower (high-yield bonds) represented \$238.0 million (0.9% of the portfolio), compared to \$184.3 million at December 31, 2018 (0.8% of the portfolio).

## Bonds by Credit Rating

Portfolio	As at December 31	
	2019	2018
<b>Portfolio</b>	<b>\$27.5B</b>	<b>\$23.6B</b>
AAA	6.8%	5.2%
AA	47.6%	35.4%
A	28.9%	41.9%
BBB	15.8%	16.7%
BB and lower	0.9%	0.8%

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, 2019, private issue bonds totalled \$4.7 billion, which represents 17.3% of the bond portfolio (\$4.2 billion or 17.9% of the portfolio at December 31, 2018).

<sup>41</sup> In 2017, one item under *Other invested assets* was reclassified under *Other assets* on the balance sheet. This change is reflected back through 2015.

## Bond Portfolio

	As at December 31				
	2019	2018	2017	2016	2015
<b>Book value of the portfolio (\$M)</b>	<b>27,508.5</b>	<b>23,592.3</b>	<b>22,944.1</b>	<b>21,086.8</b>	<b>19,278.1</b>
Distribution by category of issuer (%)					
Governments <sup>42</sup>	49.7	50.7	52.0	51.4	50.0
Municipalities	4.8	5.1	5.0	4.4	5.2
Corporates – Public issues	28.2	26.3	26.1	26.2	25.9
Corporates – Private issues	17.3	17.9	16.9	18.0	18.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Mortgages and Other Loans Portfolio

The mortgages and other loans portfolio amounted to \$3.9 billion at December 31, 2019, a \$208.9 million increase from December 31, 2018. Nearly a third of this portfolio (\$1.2 billion) was securitized at the end of 2019 through CMHC's Canada Mortgage Bond (CMB) program.

Mortgages as such totalled \$3.1 billion at the end of 2019, and they were of excellent quality. The delinquency rate remained stable and very low during the year, amounting to 0.08% at December 31, 2019. In total, delinquent mortgages represented just \$2.5 million at December 31, 2019 (\$2.6 million at December 31, 2018). The delinquency rate data includes both insured and uninsured mortgages.

### Delinquency Rate as a Percentage of Mortgages

(%)	As at December 31				
	2019	2018	2017	2016	2015
Delinquency rate	0.08	0.09	0.34	0.27	0.29

As shown in the table below, insured mortgages have represented approximately three-quarters of total mortgages in recent years (73.8% in 2019).

### Mortgages and Other Loans Portfolio

(%)	As at December 31				
	2019	2018	2017	2016	2015
<b>Book value of the portfolio (\$M)</b>					
Mortgages	3,076.2	2,999.4	2,718.5	2,776.5	2,877.2
Other loans – Car loans	794.0	661.9	569.6	515.8	292.1
<b>Total</b>	<b>3,870.2</b>	<b>3,661.3</b>	<b>3,288.1</b>	<b>3,292.3</b>	<b>3,169.3</b>
Distribution of mortgages by type of loan (%)					
Insured loans	73.8	76.4	78.1	77.1	76.0
Conventional loans	26.2	23.6	21.9	22.9	24.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Mortgage delinquency rate (%)	0.08	0.09	0.34	0.27	0.29

At December 31, 2019, the proportion of mortgages secured by single-family and multi-unit residential properties was 91.6% (91.4% at December 31, 2018). This number has been above 80% for several years.

## Mortgages by Type of Property

Portfolio	As at December 31	
	2019	2018
<b>Portfolio</b>	<b>\$3.1B</b>	<b>\$3.0B</b>
Residential	37.0%	36.0%
Multi-unit residential	54.6%	55.4%
Non-residential	8.4%	8.6%

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 \$12.9 billion at December 31, 2019 (\$13.0 billion at December 31, 2018).

Lastly, note that the Company decided in September 2019 to stop accepting new applications for residential mortgages in order to focus on multi-unit residential and commercial mortgages. A support team remains in place to honour the Company's commitments to existing residential mortgage clients.

## Stock Portfolio

At December 31, 2019, investments in equity securities amounted to \$3.0 billion, or 7.6% of the Company's total investments, compared to \$3.1 billion or 8.8% 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 long-term commitments delivered a return of 19.5% in 2019, while the Company's preferred shares delivered a return of 10.5%. Private equities occupy an increasingly large part of the portfolio. This equity category offers opportunities in terms of diversification, returns and matching of long-term commitments.

### Stock Portfolio by Type of Matching

Portfolio	As at December 31	
	2019	2018
<b>Portfolio</b>	<b>\$3.0B</b>	<b>\$3.1B</b>
Very long-term commitments	49.7%	55.9%
Universal Life policy	29.4%	26.2%
Capital (preferred shares)	20.9%	17.9%

<sup>42</sup> Government issuers and those with an equivalent direct or indirect guarantee, excluding municipal issuers.

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				
	2019	2018	2017	2016	2015
<b>Book value of the portfolio (\$M)</b>	<b>3,023.5</b>	<b>3,054.8</b>	<b>3,467.0</b>	<b>3,083.0</b>	<b>2,924.1</b>
Distribution by category of stock (%)					
Common shares and investment fund units	27.3	35.7	41.2	43.3	50.3
Preferred shares	18.5	16.3	18.3	19.7	19.1
Market indices	10.3	10.2	14.3	13.7	13.0
Private equities	43.9	37.8	26.2	23.3	17.6
Total	100.0	100.0	100.0	100.0	100.0

### Real Estate Portfolio

The Company recognizes investment properties at fair value. The book value of investment properties increased by \$356.1 million in the past year to reach \$2.1 billion at December 31, 2019. Changes in the book value are normally due to the net amount of acquisitions and dispositions, the increase in the fair value of investment properties that were reappraised during the year and any capital expenses on the properties. Real estate investments represented 5.2% of total investments at December 31, 2019.

The occupancy rate of investment properties decreased slightly during the year (94.50% at December 31, 2019, compared to 95.0% at December 31, 2018). It continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for over 80% of the Company's real estate investments.

### Investment Properties

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2019	2018	2017	2016	2015
<b>Book value of the portfolio</b>	<b>2,076.6</b>	<b>1,720.5</b>	<b>1,340.8</b>	<b>1,237.8</b>	<b>1,215.9</b>
Occupancy rate	94.0%	95.0%	93.0%	90.2%	90.1%

### Investment Properties by Category of Property

Portfolio	As at December 31	
	2019	2018
<b>Portfolio</b>	<b>\$2.1B</b>	<b>\$1.7B</b>
Office	85.0%	85.2%
Retail	4.4%	12.5%
Industrial	3.2%	2.0%
Multi-unit residential, land and other	0.4%	0.3%

### 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.

Lastly, the Company implemented 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

(In millions of dollars)	As at December 31	
	2019	2018
Net fair value <sup>43</sup>	548	(204.3)
Notional amount <sup>44</sup>	29,905	17,432

### 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 \$3.4 billion at December 31, 2019 (\$2.6 billion at December 31, 2018).

<sup>43</sup> Positive fair value of the derivative financial instruments presented under *Assets* in the Consolidated Statements of Financial Position, minus the negative fair value presented under *Liabilities*.

<sup>44</sup> Amount used to determine the contractual amount of the cash flows to be exchanged.



## Investment Funds (Segregated Funds and Mutual Funds)

### Investment Fund Assets

Investment fund assets for iA Financial Group totalled \$39.5 billion at December 31, 2019 (\$27.9 billion in segregated funds and \$11.6 billion in mutual funds), up from the previous year. This increase is mainly explained by favourable markets, as well as positive segregated fund sales.

### Segregated Fund and Mutual Fund Assets

(In billions of dollars)	As at December 31				
	2019	2018	2017	2016	2015
Segregated funds	27.9	23.8	24.1	21.8	19.8
Mutual funds	11.6	10.8	11.7	10.9	10.4

### Range of Funds

iA Financial Group offers a broad, diverse range of investment funds. At December 31, 2019, the Company offered close to 200 funds to its clients, and over half of the assets in these funds were managed in-house.

The Company continued to redesign its segregated fund offer in 2019 to include funds that are more diverse and complementary. The Company added new funds, mainly in the foreign equity segment, as well as two new high-return fixed income strategies. In addition, certain smaller or less popular funds were merged to keep the lineup to a reasonable number of funds.

On the mutual fund front, iA Clarington Investments also reviewed its fund lineup during the year. It made improvements to its managed solutions, including the addition of five renowned portfolio managers, as well as changes in management responsibilities for certain other funds. It also launched new funds, including several new active ETF (exchange-traded fund) series and new funds favouring foreign equity.

Lastly, in the Group Savings and Retirement sector, the Company enhanced its lineup with funds mainly in the alternative assets segment, which is in high demand among pension fund clientele.

### iA Financial Group's Active Investment Funds

	As at December 31, 2019	
	Assets (\$Billion)	Distribution of assets
Segregated funds	27.9	71%
Mutual funds	11.6	29%
<b>Total</b>	<b>39.5</b>	<b>100%</b>

### Investment Fund Performance

While the geopolitical context has rarely been as turbulent as in 2019, stock markets have held up remarkably well. Despite historical trends pointing to a rebound after the year-end dip in 2018, its magnitude came as a surprise. The growth of the MSCI All Country World Index, which measures the performance of all world stock markets, was at its strongest since 2013, reaching nearly 25% (local currencies). Measured by the S&P 500 Index, the U.S. stock market grew a remarkable 31.5% in 2019 (24.8% in Canadian dollars). The Canadian stock market also performed well with 22.9% growth. Even bond markets profited thanks to lower interest rates. For example, the FTSE Canada Universe Bond Index finished the year with a return of 6.9%.

While 2018 was characterized by the desynchronization of world economic growth, 2019 was marked by a weakness in the main economic indicators, which improved somewhat towards the end of the year. These signs of slowdown led to a synchronized monetary easing by central banks, including the U.S. Federal Reserve and the European Central Bank as well as those of many emerging countries, strongly bolstering stock and bond markets.

Against this backdrop of good growth in all financial markets, the vast majority of our investment funds produced excellent returns for our clients.

Compared to the competition, our funds posted slightly above-average returns for the year. 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.

# 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, 2019, 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 a financial group, iA Financial Corporation assumes a variety of risks inherent in the development and diversification of its operations. As a result, its risk management approach is attuned to its business expansion strategy. The goal of the Company's risk management program is to generate maximum sustainable value for its clients, shareholders and employees, and for the community it serves. More specifically, the Company is committed to carrying out sound and prudent risk management through an approach that balances risk and return. This approach is aligned with the Company's strategic directions, takes risk into account in all decision-making and respects the Company's risk appetite and tolerance. It also ensures that the Company can meet its commitments to policyholders, creditors and regulatory bodies.

The Company's risk management program is supported by a strong code of conduct, a sound risk management culture and an effective framework. The Company maintains an overall vision and continuously demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required by the regulatory authorities.

## Risk Management Principles and Responsibilities

The Company defines risk as the possibility of an event occurring that will have an impact on achieving its objectives. Sound, effective risk management rests on identifying, measuring, assessing, understanding, and communicating the risks the Company is exposed to in the course of its operations.

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

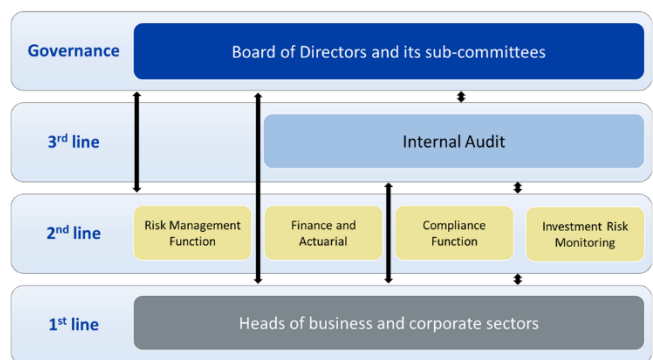
The goal of the framework is to identify, measure, assess, understand, manage and monitor the risks the Company is exposed to in the course of its operations. The framework also defines the Company's risk appetite and tolerance, in other words, the amount of risk the Company wants and is willing to take in order to execute its business strategy and achieve its goals. Lastly, compliance with the framework helps ensure that pertinent information regarding risks is communicated and shared

on a regular and timely basis with the various people involved in risk management.

The enterprise risk management framework therefore provides the Board of Directors with reasonable assurance that all required elements are in place within the Company to ensure effective risk management. Compliance with and application of the framework allow for a sound risk management culture to be maintained and promoted within the Company.

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

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



Supported by a strong risk culture, the Company's risk management approach includes a "three lines of defense" governance model. This approach breaks down the responsibilities according to those who take the risk, those who monitor it and those who provide an independent assessment of the overall process.

The first line of defense includes the President and Chief Executive Officer and the heads of the business and corporate sectors. They are responsible for selecting and executing the business strategies in keeping with the Company's defined risk appetite and tolerance and ensuring a good long-term balance between risk and return. They are also responsible for implementing policies and procedures 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 includes the risk management and compliance functions, respectively headed up by the Chief Risk Officer and the Chief Compliance Officer. Also included are the Finance and Actuarial and Investment Risk Monitoring sectors. The second line of defense is responsible for coordinating the application and enforcement of the enterprise risk management framework within the Company and ensuring that appropriate policies and procedures are defined and effectively implemented by the first line of defense. 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. It works together with the first line to ensure prudent and disciplined management in protecting the Company's reputation and long-term sustainability. The first two lines of defense are also responsible for keeping 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 other second-line functions and with the first line 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.

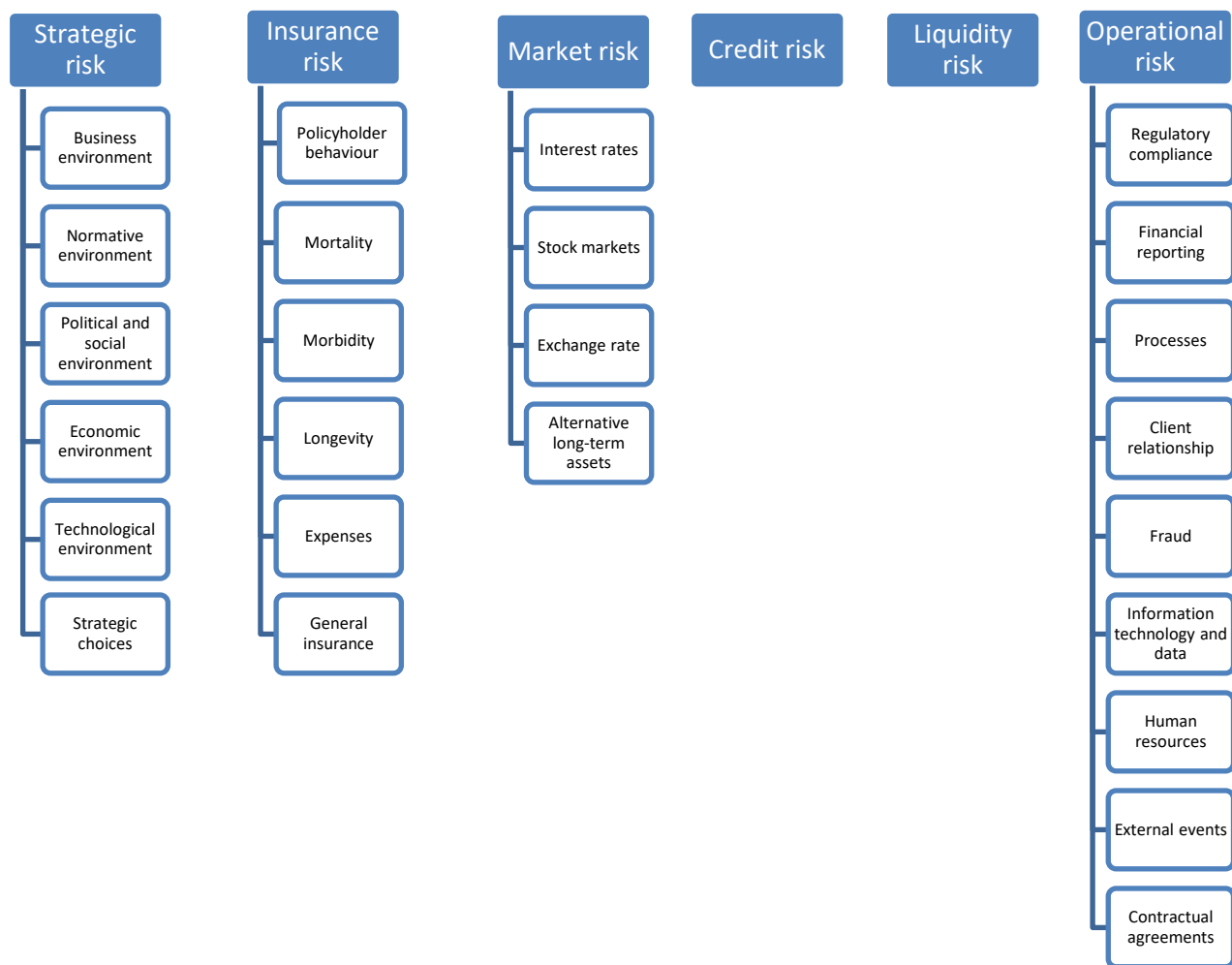
As the third line of defense, Internal Audit assesses the effectiveness of the enterprise risk management framework, recommends improvements to the people involved in the process and reports on the situation to the Board of Directors' Audit Committee.

The Board of Directors verifies and approves the global policy governing the enterprise 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 take as well as the tolerance thresholds it is willing to withstand in order to meet its business and growth objectives.

The enterprise risk management framework also applies to the Company's subsidiaries. A functional reporting relationship is established between the risk management and compliance functions and those responsible for risk management and 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 risk management.

## Risk Categories



The above diagram illustrates the categories of risk the Company is exposed to in the course of pursuing its strategic objectives. A summary of these risks and the processes for managing them is outlined in the following pages.

The Company is also exposed to reputation risk. This risk can arise from the occurrence of one or more risks that appear in the six categories outlined below. It may result from negligence or unauthorized actions by an employee or other individual affiliated with the Company, inappropriate behaviour by one of its representatives, or some other event 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.

Each of these risk categories can include known or emerging risks. The way in which they are managed across the organization is adjusted accordingly.

Specific management strategies are used for each of the six risk categories. That said, the management of these risks is based on a common underlying element that transcends the organization: the risk management culture. This culture can be defined as the behaviours adopted by Company employees, who observe and apply the principles of the enterprise 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.

## Strategic Risk

Strategic risk may arise from poor strategic decisions or not adapting well to changes in the business, normative, political, economic or technological environment.

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

**Risk Associated with the Normative 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. This also includes risks associated with climate change. In the first quarter of 2019, iA Financial Group signed the United Nations-supported Principles for Responsible Investment (PRI) through its iA Investment Management subsidiary. In keeping with these principles, analysis criteria have been developed for incorporating environmental, social and governance (ESG) factors into the Company's investment process.

**Risk Associated with the Economic Environment** – Changes in the economic environment like increased credit risk 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 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.

Annually or more frequently, at their discretion and according to the circumstances, senior management reassesses known and emerging strategic risks. 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.

Senior management lays out the strategies and oversees their execution. This work is supported by various key processes:

- Strategic planning in compliance with defined risk tolerance levels and capital adequacy requirements
- Review of the strategies and risks that apply to the Company's main activities

## Main Strategic and Emerging Risks

During the 2019 review of strategic and emerging risks, the identified risks were confirmed and the strategies in place for managing them were renewed.

**Changes in Technology and the Client Relationship** – The advent of new digital and software technologies coupled with shifts in demographics and client preferences has prompted the Company to make strategic choices in these areas. In this regard, the Company is pursuing its cutting-edge digital strategy, which focuses on the client and partner experience.

**Regulatory Changes** – Operating in the insurance and wealth management industry, the Company is subject to the requirements of several regulatory bodies. A number of new regulatory requirements are currently being introduced on a variety of topics, such as business practices and fair treatment of clients, privacy and data protection, and new accounting standards. Supported by its rigorous risk management and compliance framework, the Company carries out effective monitoring and quickly takes steps to proactively respond to these new requirements.

**Risk Related to Changes in Economic Conditions** – Operating in the financial sector, the Company relies in part on the economic and financial conditions of the markets in which it operates. In the complex, globalized environment that characterizes these markets, economic conditions can change suddenly and drastically. To protect itself from these unforeseen changes, the Company relies on a balanced business model and chooses strategies that allow it to shield itself while benefitting from the different economic conditions. This balanced strategy allows the Company to remain solvent and prosperous and to continue its long-term growth despite economic volatility.

## Data Security and Cyber Risk

In light of events observed in 2019, the Company also paid particular attention to the risk of data theft and other cyber risks by strengthening its cybersecurity risk management framework (see the description of this mechanism in the “Operational Risk” section).

## Insurance Risk

Insurance risk is the risk of loss arising from higher claims than anticipated during product pricing and design. This category includes risk factors associated with policyholder behaviour, mortality, morbidity, longevity, expenses and general insurance. Insurance risk can occur at various stages of a product’s life cycle, for example during product design and pricing, during underwriting or claims adjudication 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.

**Product Design and Pricing** – For certain types of contracts, the insurance risk may be shared with or transferred to the policyholder through dividend and experience refund policies, or through the Company’s ability to adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

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

At this stage of a product’s life cycle, the risk is primarily managed by regularly analyzing the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed or the various options offered by the reinsurance market are utilized.

**Underwriting and Claims Adjudication** – Given the geographic diversity of its clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company’s mortality risk is in Canada.

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

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. It has adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance. The Company also has reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured. One of these agreements applies to events that may produce losses in excess of \$200 million, up to a maximum of \$400 million, which is equivalent to a maximum claim of up to \$200 million.

**Calculating Provisions for Future Policy Benefits** – In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. In-house studies on evolving claims experience as well as external sources of information are used to revise the assumptions, which may lead to changes in 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 body), as well as the Company’s standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

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

**The Company’s Sensitivity to Certain Insurance Risks** – The table 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)	2019	2018
Insurance risk: adverse deviation of 5%		
Mortality rate <sup>45</sup>	205	194
Lapse rate <sup>46</sup>	167	146
Unit costs <sup>47</sup>	62	58
Morbidity rate <sup>48</sup>	59	52

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.

<sup>45</sup> The adverse deviation is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products.

<sup>46</sup> 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.

<sup>47</sup> Adjusted to reflect the adjustability of certain products.

<sup>48</sup> 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.

## Market Risk

The Company is exposed to market risk, which is the risk that the fair value/future cash flows of an insurance contract/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 alternative long-term assets.

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

**Interest Rate Risk** – One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. 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 matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

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

### Net Liabilities According to Type of Matching

	As at December 31			
	2019		2018	
	\$M	%	\$M	%
Immunized liabilities				
On a cash flow basis	7,500	25%	6,425	25%
Universal Life policy accounts	1,533	5%	1,437	6%
Subtotal	9,033	30%	7,862	31%
Non-immunized liabilities	21,294	70%	17,745	69%
<b>Total</b>	<b>30,327</b>	<b>100%</b>	<b>25,607</b>	<b>100%</b>

### 1) Liabilities Immunized on a Cash Flow Basis

This category represents 25% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than thirty years.

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

To measure the sensitivity to interest rate fluctuations, the Company uses metrics recognized by immunization experts, such as duration and dispersion. The investment 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 5% 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, so as to strictly reproduce the returns credited to the underlying accounts.

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

### 3) Non-Immunized Liabilities

This category corresponds to 70% 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.

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. 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.

During the period ended December 31, 2019, 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 \$1,002 million in 2019 (\$780 million in 2018). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2019.

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

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

(In millions of dollars)	2019	2018
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR) <sup>49</sup>	(6)	26
10 basis point decrease in the ultimate reinvestment rate (URR)	61	66

#### Increase in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

(In millions of dollars)	2019	2018
Interest rate risk		
25 basis point drop in interest rates <sup>50</sup>	(6)	(2)

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, 2019.

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

**Stock Market Risk** – Stock market risk 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) a strengthening of provisions for future policy benefits; and 4) the income on capital generated by the assets backing the Company's capital. For these items, the Company estimates that a sudden 10% drop in the markets as at December 31, 2019 would have led to a \$31 million decrease in net income and a \$48 million decrease in other comprehensive income over a twelve-month period. A 25% drop in the markets as at December 31, 2019 would have reduced net income by approximately \$116 million, and other comprehensive income by \$121 million over a twelve-month period.

If the markets were to drop more than 24% from their levels at December 31, 2019, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

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

<sup>49</sup> These estimates do not take into account any compensatory measures to alleviate the impact of an interest rate decrease. The Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

<sup>50</sup> Excluding any downward adjustment of the IRR or URR.

### Sensitivity of the Solvency Ratio to Variances in the S&P/TSX Index (CARLI)

	2019	2018
Solvency ratio as at December 31	133%	126%
S&P/TSX index as at December 31	17,063	14,323
Level of S&P/TSX index for the solvency ratio to be at 110%	1,500	5,000
Level of S&P/TSX index for the solvency ratio to be at 100%	N/A <sup>•</sup>	1,900

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2019, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

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

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

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

### Individual Wealth Management Segregated Fund Assets Under Management

(In millions of dollars)	2019	2018
Assets under management	16,392	13,994
Guaranteed minimum value	13,753	12,936
Value of assets underlying significant guarantees <sup>51</sup>	7,366	7,276
Value of assets underlying minimum guarantees <sup>52</sup>	9,026	6,718

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 signing 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 good portion of the sensitivity of net income to the performance of the bond and equity funds and to the interest rate fluctuations arising from the segregated fund guarantees. In order for the Company's strategy to adequately cover the risks related to the hedged guarantees, a dynamic rebalancing of the hedging instruments is carried out based on changes in financial market conditions.

Hence, 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 90% and 96% 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.

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.

<sup>51</sup> Represents the value of assets underlying guarantees at maturity with a significant level of risk, or withdrawal guarantees.

<sup>52</sup> 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.



In order to ensure sound management of the risk of a stock market downturn, 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 period ended December 31, 2019, 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.

**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, 2019, the Company was not exposed to any material foreign currency risk.

**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.

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. Real estate investments are used to back long-term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

## Credit Risk

Credit risk represents the risk of loss arising from a deterioration in credit quality (downgrading) or counterparty default. This risk originates mainly from credit granted in the form of loans, private placements 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, primarily swaps and futures contracts. These contracts are not used for speculation purposes but for matching assets and liabilities and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

The derivative products used under the hedging program for segregated fund guarantees expose the Company to credit risk due to the presence of counterparties involved in the program. As indicated earlier, the counterparty financial institutions for derivative products must meet certain well-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, 2019.

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

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.

## Liquidity Risk

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

This risk is managed through matching of assets with financial liabilities as well as strict cash flow management. Moreover, to maintain an appropriate level of liquidity, the Company makes sure it holds a good proportion of its assets in marketable securities.

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.

In addition to the requirements mentioned above, the Company needs to have additional liquidity available for possible surrenders, contract terminations and pandemic outbreaks. A number of scenarios are analyzed to ensure that the Company will be able to meet its commitments in various extreme situations.

To monitor liquidity risk, the Investment Department's managers prepare a monthly report indicating that the Company will be able to meet all of these commitments over a minimum twelve-month horizon based on various adverse scenarios affecting inflows and outflows of liabilities, asset liquidity, collateral needs and the capacity of the various liquidity channels. This report is sent to the Investment Committee on a quarterly basis.

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

## 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 regulatory compliance, 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, loss of competitive position or injury to reputation. 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.

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.

In addition, through its enterprise 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.

**Regulatory Non-Compliance 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.

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 lines.

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 non-compliance 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.

**Financial Reporting** – The Company also maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). 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. 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 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.

**Protection of Personal Information** – The use of emerging technology entails numerous challenges. 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 has put codes of conduct in place and 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.

**Information and Communications Technologies and Cybersecurity** – Reliable, secure and sophisticated information and communications technologies (ICTs) are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. It has a comprehensive plan in place for reducing and controlling the risk of ICT failure based on best practices and recognized IT standards. 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 cybersecurity risk 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.

The potential consequences range from service interruptions and unauthorized access to sensitive or personal information to asset or intellectual property theft. These can lead to reputation damage, lawsuits and other repercussions.

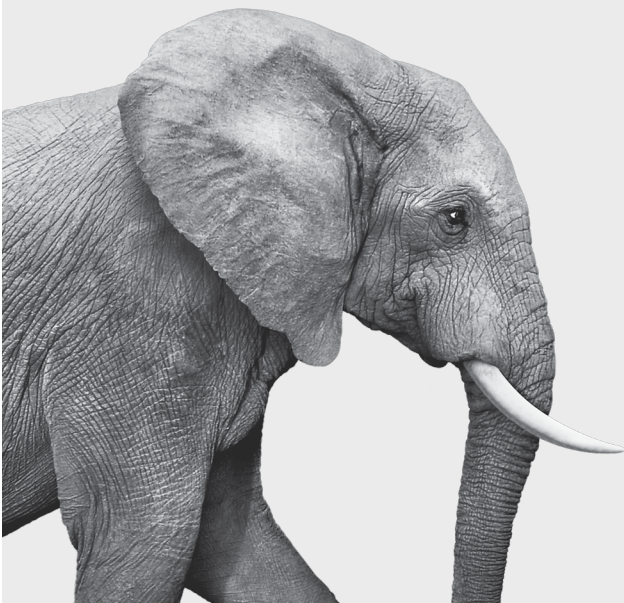
To mitigate cybersecurity risks, the Company has set up and regularly maintains a security risk log for tracking changes in cyberthreats, countermeasures and regulatory requirements. In addition, the Company has adopted a digital information security authority framework outlining roles and responsibilities with respect to cybersecurity. It has also approved a cybersecurity investment program that includes policies, procedures and technologies for preventing, detecting and eliminating threats against its assets and operations. These measures are complemented by information security awareness campaigns and training for all Company employees. The Company also holds a cyber risk insurance policy.

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

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

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