

# WITH YOU

## Industrial Alliance Insurance and Financial Services Inc.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021



## Consolidated Financial Statements

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## Responsibility for Financial Reporting

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

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

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

The functions of the Audit Committee are to:

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

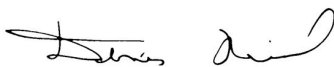
The Audit Committee meets regularly with Management, the internal auditor and the independent auditor. The latter may, as it sees fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

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

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

The Autorité des marchés financiers (AMF) has the power to perform checks to ensure, when applicable, the respect of the Insurers Act, the preservation of the interests of the policyholders and the pursuit of sound capitalization and good solvency.

On behalf of Management,



Denis Ricard  
President and Chief Executive Officer  
Quebec City, February 14, 2023



Jacques Potvin  
Executive Vice-President, CFO and Chief Actuary  
Quebec City, February 14, 2023

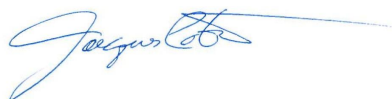
## Appointed Actuary's Report

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To the policyholders and shareholders of  
**Industrial Alliance Insurance and Financial Services Inc.**

I have valued the policy liabilities and reinsurance recoverable of **Industrial Alliance Insurance and Financial Services Inc.** for its Consolidated Statements of Financial Position as at December 31, 2022 and 2021 and their changes in the Consolidated Income Statements for the years then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverable makes appropriate provision for all policy obligations and the Consolidated Financial Statements fairly present the results of the valuation.



Jacques Potvin  
 Fellow of the Canadian Institute of Actuaries  
 Quebec City, February 14, 2023

## Independent Auditor's Report

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To the Policyholders and Shareholders of  
**Industrial Alliance Insurance and Financial Services Inc.**

### Opinion

We have audited the consolidated financial statements of **Industrial Alliance Insurance and Financial Services Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated income statements, consolidated comprehensive income statements, consolidated equity statements and consolidated cash flows statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Insurance Contract Liabilities – Refer to Notes 2 and 14 to the Financial Statements**

#### *Key Audit Matter Description*

The Company has significant insurance contract liabilities representing the majority of its total liabilities. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the Canadian Institute of Actuaries. Insurance risk is the risk of loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing.

While there are many assumptions which management makes, the assumptions with the greatest uncertainty are those related to lapse behaviour and mortality. Management has applied a heightened level of judgment to determine the impact, if any, of the COVID-19 pandemic on these assumptions. Lapse and mortality assumptions required significant auditor attention in certain circumstances, including where (i) there is limited Company and industry experience data, (ii) the historical experience may not be a good indicator of the future, and (iii) policyholder behaviour may be irrational. Auditing of certain actuarial models and lapse and mortality assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

*How the Key Audit Matter Was Addressed in the Audit*

Our audit procedures related to actuarial models and lapse behaviour and mortality assumptions included the following, among others:

- With the assistance of actuarial specialists, we tested the reasonableness of lapse behaviour and mortality assumptions, by:
  - Evaluating whether management's methods and assumptions used were determined in accordance with actuarial principles and practices under the Canadian actuarial standards of practice.
  - Testing experience studies and other inputs used in the determination of the lapse and mortality assumptions.
  - Analyzing management's interpretation of its experience study results, evaluating triggers and drivers for revisions of assumptions, assessing reasonably possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable.
- With the assistance of actuarial specialists, we tested the appropriateness of actuarial models used in the estimation process by:
  - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to the Company's results.
  - Testing the accuracy of changes in key assumptions for a sample of actuarial models.

**Future Changes in Accounting Policies — IFRS 17 Insurance Contracts ("IFRS 17") – Refer to Note 3 to the Financial Statements***Key Audit Matter Description*

For the period beginning on January 1, 2023, the Company will be adopting IFRS 17 which will impact how the Company recognizes, measures, presents and discloses insurance contracts. In accordance with IAS 8, Accounting Policies, Changes in Accounting Errors and Estimates ("IAS 8"), the Company disclosed the estimated impact of transition to the new standard. The disclosures in 2022 are intended to provide users with an understanding of the estimated impact of the new standard and, as a result, are more limited than the disclosures to be included in the first year of adoption, being 2023.

Management was required to make judgments to determine the accounting treatment at transition and the estimated transitional impacts, which include the expected impact on equity. This resulted in an increased extent of audit effort, including the involvement of various specialists.

*How the Key Audit Matter was Addressed in the Audit*

With the assistance of various specialists, our audit procedures related to management's determination of the accounting treatment at transition and the estimate of the expected impact on equity included the following, among others:

- Evaluated management's key judgements to determine the accounting treatment at transition by analyzing the disclosures against IFRS 17 accounting guidance;
- Assessed the appropriateness and reasonableness of key models and valuation methodologies, significant assumptions and other relevant inputs used in determining the expected impact on equity;
- Evaluated the disclosures against relevant accounting guidance.

When additional IFRS 17 disclosures are required in 2023 consolidated financial statements, further procedures will be performed on the impacts of transition.

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sophie Fortin.

*Deloitte LLP*<sup>1</sup>

Quebec City, Quebec  
February 14, 2023

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<sup>1</sup> CPA auditor, public accountancy permit No. A124208

## Consolidated Income Statements

Years ended December 31 (in millions of Canadian dollars, unless otherwise indicated)	2022	2021
<b>Revenues</b>		
<b>Premiums</b>		
Gross premiums	\$ 13,947	\$ 13,908
Premiums ceded	(1,095)	(956)
Net premiums (Note 23)	12,852	12,952
<b>Investment income (Note 5)</b>		
Interest and other investment income	2,106	1,609
Change in fair value of investments	(8,730)	(1,421)
	(6,624)	188
Other revenues	1,956	2,010
	8,184	15,150
<b>Policy benefits and expenses</b>		
Gross benefits and claims on contracts	7,713	7,679
Ceded benefits and claims on contracts	(791)	(734)
Net transfer to segregated funds	2,369	3,278
Increase (decrease) in insurance contract liabilities (Note 14)	(6,219)	(45)
Increase (decrease) in investment contract liabilities (Note 14)	(44)	(1)
Decrease (increase) in reinsurance assets (Note 14)	(123)	(76)
	2,905	10,101
Commissions	2,249	2,134
General expenses (Note 20)	1,805	1,616
Premium and other taxes	154	141
Financing charges (Note 21)	59	53
	7,172	14,045
<b>Income before income taxes</b>	1,012	1,105
Income taxes (Note 22)	167	255
<b>Net income</b>	\$ 845	\$ 850
Net income attributed to participating policyholders	(42)	7
<b>Net income attributed to shareholders</b>	\$ 887	\$ 843
Dividends on preferred shares (Note 17)	18	22
<b>Net income attributed to common shareholder</b>	\$ 869	\$ 821
<b>Basic earnings per common share (in dollars) (Note 24)</b>	\$ 7.80	\$ 7.56

The accompanying notes are an integral part of these Consolidated Financial Statements.

## Consolidated Comprehensive Income Statements

Years ended December 31 (in millions of Canadian dollars)	2022	2021
<b>Net income</b>	<b>\$ 845</b>	<b>\$ 850</b>
<b>Other comprehensive income, net of income taxes</b>		
<b>Items that may be reclassified subsequently to net income:</b>		
Available for sale financial assets		
Unrealized gains (losses) on available for sale financial assets	(370)	(49)
Reclassification of losses (gains) on available for sale financial assets included in net income	(32)	(28)
	<b>(402)</b>	<b>(77)</b>
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	139	(11)
Hedges of net investment in foreign operations	(113)	13
	<b>26</b>	<b>2</b>
Cash flow hedge		
Unrealized gains (losses) on cash flow hedges	2	—
<b>Items that will not be reclassified subsequently to net income:</b>		
Revaluation surplus related to transfers to investment properties	22	—
Remeasurement of post-employment benefits	(7)	196
Total other comprehensive income	<b>(359)</b>	<b>121</b>
<b>Comprehensive income</b>	<b>\$ 486</b>	<b>\$ 971</b>
Comprehensive income attributed to participating policyholders	(42)	7
<b>Comprehensive income attributed to shareholders</b>	<b>\$ 528</b>	<b>\$ 964</b>

## Income Taxes Included in Other Comprehensive Income

Years ended December 31 (in millions of Canadian dollars)	2022	2021
<b>Income tax recovery (expense) related to:</b>		
<b>Items that may be reclassified subsequently to net income:</b>		
Unrealized losses (gains) on available for sale financial assets	\$ 134	\$ 17
Reclassification of gains (losses) on available for sale financial assets included in net income	13	9
Hedges of net investment in foreign operations	19	(2)
	<b>166</b>	<b>24</b>
<b>Items that will not be reclassified subsequently to net income:</b>		
Revaluation surplus related to transfers to investment properties	(4)	—
Remeasurement of post-employment benefits	2	(70)
<b>Total income tax recovery (expense) included in other comprehensive income</b>	<b>\$ 164</b>	<b>\$ (46)</b>

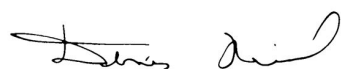
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## Consolidated Statements of Financial Position

As at December 31 (in millions of Canadian dollars)	2022	2021
<b>Assets</b>		
<b>Investments (Note 5)</b>		
Cash and short-term investments	\$ 1,221	\$ 1,467
Bonds	26,527	32,254
Stocks	3,912	3,769
Mortgages and other loans	2,831	2,922
Derivative financial instruments (Note 8)	988	917
Policy loans	1,119	1,040
Other invested assets	509	477
Investment properties	1,804	1,870
	38,911	44,716
Other assets (Note 9)	3,532	3,319
Reinsurance assets (Note 14)	2,320	1,984
Fixed assets (Note 10)	321	353
Deferred income tax assets (Note 22)	93	7
Intangible assets (Note 11)	793	778
Goodwill (Note 11)	553	550
General fund assets	46,523	51,707
Segregated funds net assets (Note 12)	37,334	39,577
<b>Total assets</b>	<b>\$ 83,857</b>	<b>\$ 91,284</b>
<b>Liabilities</b>		
Insurance contract liabilities (Note 14)	\$ 30,423	\$ 36,540
Investment contract liabilities (Note 14)	547	577
Derivative financial instruments (Note 8)	1,469	521
Other liabilities (Note 15)	7,496	7,169
Deferred income tax liabilities (Note 22)	234	316
Debentures (Note 16)	404	653
General fund liabilities	40,573	45,776
Liabilities related to segregated funds net assets (Note 12)	37,334	39,577
<b>Total liabilities</b>	<b>\$ 77,907</b>	<b>\$ 85,353</b>
<b>Equity</b>		
Share capital	\$ 2,030	\$ 2,180
Retained earnings and accumulated other comprehensive income	3,914	3,703
Participating policyholders' accounts	6	48
	5,950	5,931
<b>Total liabilities and equity</b>	<b>\$ 83,857</b>	<b>\$ 91,284</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.



Denis Ricard  
President and Chief Executive Officer



Danielle G. Morin  
Chair of Audit Committee

## Consolidated Equity Statements

Years ended December 31 (in millions of Canadian dollars)

	Participating policyholders' accounts	Common shares (Note 17)	Preferred shares (Note 17)	Retained earnings	Accumulated other comprehensive income (Note 18)	Total
Balance as at December 31, 2020	\$ 41	\$ 1,655	\$ 525	\$ 2,864	\$ 150	\$ 5,235
Net income attributed to shareholders	—	—	—	843	—	843
Net income attributed to participating policyholders' accounts	7	—	—	—	—	7
Other comprehensive income	—	—	—	—	121	121
<b>Comprehensive income for the year</b>	<b>7</b>	<b>—</b>	<b>—</b>	<b>843</b>	<b>121</b>	<b>971</b>
<b>Equity transactions</b>						
Transfer of post-employment benefits (Note 26)	—	—	—	196	(196)	—
Dividends on common shares	—	—	—	(250)	—	(250)
Dividends on preferred shares	—	—	—	(22)	—	(22)
Other	—	—	—	(3)	—	(3)
	—	—	—	(79)	(196)	(275)
<b>Balance as at December 31, 2021</b>	<b>48</b>	<b>1,655</b>	<b>525</b>	<b>3,628</b>	<b>75</b>	<b>5,931</b>
Net income attributed to shareholders	—	—	—	887	—	887
Net income attributed to participating policyholders' accounts	(42)	—	—	—	—	(42)
Other comprehensive income	—	—	—	—	(359)	(359)
<b>Comprehensive income for the year</b>	<b>(42)</b>	<b>—</b>	<b>—</b>	<b>887</b>	<b>(359)</b>	<b>486</b>
<b>Equity transactions</b>						
Transfer of post-employment benefits (Note 26)	—	—	—	(7)	7	—
Common shares issued	—	100	—	—	—	100
Redemption of preferred shares	—	—	(250)	—	—	(250)
Dividends on common shares	—	—	—	(300)	—	(300)
Dividends on preferred shares	—	—	—	(18)	—	(18)
Other	—	—	—	1	—	1
	—	100	(250)	(324)	7	(467)
<b>Balance as at December 31, 2022</b>	<b>\$ 6</b>	<b>\$ 1,755</b>	<b>\$ 275</b>	<b>\$ 4,191</b>	<b>\$ (277)</b>	<b>\$ 5,950</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

## Consolidated Cash Flows Statements

Years ended December 31 (in millions of Canadian dollars)	2022	2021
<b>Cash flows from operating activities</b>		
Income before income taxes	\$ 1,012	\$ 1,105
Financing charges	59	53
Income taxes paid, net of refunds	(259)	(209)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	(6,221)	19
Increase (decrease) in investment contract liabilities	(30)	2
Decrease (increase) in reinsurance assets	(231)	(187)
Unrealized losses (gains) on investments	8,736	1,421
Provisions for losses	37	28
Amortization of premiums and discounts	9	23
Other depreciation	289	257
Gain on disposal of businesses (Note 4)	—	(12)
Other items not affecting cash	(149)	47
Operating activities affecting cash:		
Sales, maturities and repayments on investments	34,280	25,799
Purchases of investments	(36,555)	(28,051)
Realized losses (gains) on investments	(48)	(34)
Other items affecting cash	(307)	5
Net cash from (used in) operating activities	622	266
<b>Cash flows from investing activities</b>		
Disposal of businesses, net of cash	—	15
Sales (purchases) of fixed and intangible assets	(120)	(91)
Net cash from (used in) investing activities	(120)	(76)
<b>Cash flows from financing activities</b>		
Issuance of common shares (Note 17)	100	—
Redemption of preferred shares (Note 17)	(250)	—
Redemption of debentures (Note 16)	(250)	—
Reimbursement of lease liabilities <sup>1</sup>	(18)	(20)
Dividends paid on common shares	(300)	(250)
Dividends paid on preferred shares	(18)	(22)
Interest paid on debentures	(17)	(20)
Interest paid on lease liabilities	(4)	(4)
Net cash from (used in) financing activities	(757)	(316)
Foreign currency gains (losses) on cash	9	—
<b>Increase (decrease) in cash and short-term investments</b>	<b>(246)</b>	<b>(126)</b>
<b>Cash and short-term investments at beginning</b>	<b>1,467</b>	<b>1,593</b>
<b>Cash and short-term investments at end</b>	<b>\$ 1,221</b>	<b>\$ 1,467</b>
<b>Supplementary information:</b>		
Cash	\$ 876	\$ 1,272
Short-term investments	345	195
Total cash and short-term investments	\$ 1,221	\$ 1,467

<sup>1</sup> For the year ended December 31, 2022, lease liabilities, presented in *Other liabilities* in the Consolidated Statements of Financial Position, include an amount of \$4 (\$5 for the year ended December 31, 2021) of items not affecting cash, mostly attributable to new liabilities.

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Years ended December 31, 2022 and 2021 (in millions of Canadian dollars, unless otherwise indicated)

## 1 › General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company incorporated under the *Business Corporations Act* (Quebec), governed by the *Insurers Act* and regulated by the AMF. Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries (iA Insurance or the "Company"), a wholly owned subsidiary of iA Financial Corporation Inc. (iA Financial Corporation), offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, mortgages, auto and home insurance, creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services and other financial products and services. The Company's products and services are offered on both an individual and group basis and extend throughout Canada and the United States.

Publication of these Consolidated Financial Statements (the "Financial Statements") was authorized for issue by the Company's Board of Directors on February 14, 2023.

## 2 › Significant Accounting Policies

### a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards (IFRS) on December 31, 2022. The IFRS are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the IFRS Interpretations Committee (IFRS IC).

As permitted by IFRS 4 *Insurance Contracts*, insurance contract liabilities are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

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

### b) Important Estimates, Assumptions and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net income and complementary information. Management has exercised its judgment, made estimates and established the assumptions described in the notes referred to below:

Determination of control for purposes of consolidation	Note 2, section c) "Basis of Consolidation and Method" Note 7 "Management of Risks Associated with Financial Instruments", section b) iii) "Other Information on Credit Risk - Interests in Non-Consolidated Structured Entities"
Fair value and impairment of financial instruments and fair value of investment properties	Note 2, section d) "Invested Assets and Investment Income" Note 5 "Invested Assets and Investment Income" Note 6 "Fair Value of Financial Instruments and Investment Properties" Note 7 "Management of Risks Associated with Financial Instruments"
Classification of contracts, measurement of insurance contract liabilities and investment contract liabilities and measurement of reinsurance assets	Note 2, section j) "Reinsurance Assets" Note 2, section k) "Insurance Contract Liabilities and Investment Contract Liabilities" Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities"
Goodwill and intangible assets	Note 2, section g) "Intangible Assets" Note 2, section h) "Goodwill" Note 11 "Intangible Assets and Goodwill"
Income taxes	Note 2, section m) "Income Taxes" Note 22 "Income Taxes"
Post-employment benefits	Note 2, section s) "Post-Employment Benefits" Note 26 "Post-Employment Benefits"
Determination of reporting segments and allocation methodologies in the presentation of segmented information	Note 23 "Segmented Information"

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

### Impacts of COVID-19 Pandemic

Since March 2020, the COVID-19 pandemic has had major and unprecedented implications for both society and the economy. The risk management program established by the Company has made it possible, since the beginning of the pandemic, to mitigate the negative effects of this crisis on its results. The significant estimates, assumptions and judgments made by management in the preparation of these Financial Statements take into account these uncertainties. For the year ended December 31, 2021, the assumptions used in the calculation of provisions for future policy benefits reflected the trends in additional mortality claims and the improvements of lapse assumptions for policies targeted by a specific COVID-19 provision in 2020. For the year ended December 31, 2022, the direct and indirect impacts of the COVID-19 pandemic are now included in the basic provisions for future policy benefits as part of the annual assumption review. See Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities".

### c) Basis of Consolidation and Method

Entities over which the Company exercises control are consolidated. Control is defined as being the exposure or the right to receive variable returns from the involvement with an entity and the ability to affect those returns through the power held over it. The Company holds the power when it has existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. Management makes judgments in determining whether control exists, particularly in determining the extent to which the Company has the ability to exercise its power to generate variable returns. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. The Company uses uniform accounting policies in the Financial Statements for similar transactions and events. Intercompany balances, and revenues and expenses for intercompany transactions, are eliminated on consolidation.

The Company uses the equity method to record joint ventures and entities over which it has significant influence. Significant influence is the power to participate in decisions regarding the financial and operating policies of an entity but is not control over those policies. Significant influence is presumed to exist by holding 20% or more of the voting rights. A joint venture exists when the Company has joint control of a joint arrangement and has rights to the net assets of the arrangement. Joint control is the sharing of control under a contractual agreement and exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company records its share of the entity's net assets and financial results using uniform accounting policies for similar transactions and events.

### d) Invested Assets and Investment Income

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

Financial assets are classified into one of the following categories:

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

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

Bonds and stocks that are not matched with insurance contract liabilities and investment contract liabilities are classified as available for sale. Mortgages and other loans, as well as bonds not quoted in an active market are classified as loans and receivables. Bonds quoted in an active market that are related to securitization liabilities are classified as assets held to maturity.

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

Invested assets are accounted for using the methods described below.

#### i) Cash and Short-Term Investments

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

#### ii) Bonds

##### *Designated at Fair Value Through Profit or Loss*

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

*Available for Sale*

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

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

*Held to maturity*

Bonds classified as held to maturity are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

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

*Loans and Receivables*

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

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

**iii) Stocks***Designated at Fair Value Through Profit or Loss*

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

*Available for Sale*

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

At each reporting date, stocks classified as available for sale are tested for impairment. The Company records an impairment loss if objective evidence of impairment exists, such as observable data about the issuer's significant financial difficulty or changes in the economic, legal or technological environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. For stocks with similar characteristics and behaviour to debt instruments, the Company records an impairment loss if evidence of impairment exists and considers that the amount invested will not be recovered.

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

#### iv) Mortgages and Other Loans

##### *Loans and Receivables*

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

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

When an impairment loss is recognized on a loan, the future interest is recognized based on the interest rate used to discount the future cash flows in order to value the fair value loss. When contractual payments are 90 days or more in arrears in the case of mortgages and 120 days or more in the case of other loans, contractual interest is no longer recognized. Contractual interest is resumed once the contractual payments are no longer considered in arrears and are considered current.

##### *Designated at Fair Value Through Profit or Loss*

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

##### *Securitization of Mortgages*

###### *Residential Mortgages*

The Company transferred the risks and rewards related to securitized loans. As part of the securitization of residential mortgages, the asset derecognition criteria are met and, consequently, the Company derecognized these loans. The liability related to the amounts initially securitized remains recorded in *Other liabilities*. Interest expenses on liabilities are recorded in *Financing charges* in the Income Statement.

###### *Multi-residential and Non-residential Mortgages*

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

#### v) Derivative Financial Instruments

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

##### *Hedge Accounting*

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

##### *Fair Value Hedging*

Changes in fair value of hedging instruments and changes in fair value of assets arising from the hedged risk are recorded in *Change in fair value of investments* in the Income Statement. At the same time, the gain or loss on the ineffective portion of the hedge is recorded in *Net income*.

##### *Cash Flow Hedging*

The effective portion of changes in fair value of hedging instruments is recognized in *Other comprehensive income*. Gains or losses on the ineffective portion are immediately recorded in the Income Statement in *Change in fair value of investments*. When accumulated gains and losses in *Other comprehensive income* in respect of the hedged item have an impact on results during the period, they are reclassified to the Income Statement, whereas when they affect the Statement of Financial Position, they are reclassified to the Statement of Financial Position.

*Net Investment Hedge*

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

**vi) Embedded Derivative Financial Instruments**

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

**vii) Policy Loans**

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

**viii) Other Invested Assets**

Other invested assets include the investment in associates and joint ventures and notes receivable. Notes receivable are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. Investments in associates and joint ventures are accounted for according to the equity method as described in section c) "Basis of Consolidation and Method", in the present note.

**ix) Investment Properties**

Investment properties are properties owned by the Company that are not owner-occupied and that are held to earn rental income or capital appreciation. Investment properties are recognized at the transaction price plus transaction costs upon acquisition. These properties are subsequently valued at fair value, except in the case of properties under construction, when the fair value cannot be reliably assessed. These are recorded at unamortized cost until the fair value can be reliably assessed. The fair value excludes the fair value of the linearization of rents, which is recorded in *Other assets*. Changes in fair value are recognized in *Change in fair value of investments* in the Income Statement. Rental income is recognized in the Income Statement linearly according to the term of the lease, and operating expenses of properties are recorded in *General expenses*.

When an own-use property is reclassified to investment properties, the property is revalued at fair value at the transfer date. The change in fair value is recorded in *Other comprehensive income*.

**x) Derecognition**

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

**e) Other Assets**

The nature of other assets is detailed in Note 9 "Other Assets".

Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost. Real estate held for resale (foreclosed properties) is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Funds deposited in trust represent amounts received from clients held in trust.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. These reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

The Company is involved in a public-private type service agreement, which must be accounted for in accordance with IFRIC 12 *Service Concession Arrangements*. The concession service to be received increases based on the fair value of operational and maintenance services, recovery costs, administrative costs and financing costs, and decreases through payments received. The concession account receivable, included in *Accounts receivable*, is classified as a loan and receivable and is carried at amortized cost using the effective interest rate.

**f) Fixed Assets**

Fixed assets are recorded at cost less accumulated depreciation and mainly include own-use properties, right-of-use assets and other items classified under fixed assets. Right-of-use assets consist of rental space and other assets arising from leases, recognized at the commencement date of the contract, which is when the leased asset is made available to the Company.

The Company calculates depreciation using the straight-line method. The depreciation period is based on the estimated useful life using the following periods:

Own-use property components	10 to 60 years
Right-of-use assets	2 to 30 years
Other	3 to 15 years

At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.



**g) Intangible Assets**

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

Intangible assets with finite useful life primarily include capitalized software applications, distribution networks and customer relationships. These assets are depreciated linearly over their estimated useful life varying between 4 and 25 years. Useful life is reassessed each year and any depreciation expense is adjusted prospectively, if applicable. Finite life intangible assets are subject to impairment testing if there is evidence of impairment and losses in value are calculated and recorded on an individual basis for each asset.

Intangible assets with indefinite useful life primarily include fund management contracts and distribution networks. These assets are not subject to depreciation and are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recognized in the Income Statement under *General expenses* when the carrying value exceeds the recoverable value. Intangible assets are considered to have indefinite useful lives when, on the basis for analysis of all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash inflows for the Company.

**h) Goodwill**

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

The Company allocates goodwill to a CGU or to a group of CGUs (hereinafter referred to collectively as CGU), which is the smallest group of identifiable assets that generate cash flows that are largely independent of cash flows from other assets or groups of assets. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. To determine whether there is impairment, the Company compares for each CGU the net carrying value and the recoverable amount. The recoverable amount is the higher of the fair value less costs of sale and the value in use. The value in use of a CGU is the discounted value of expected future cash flows resulting from a CGU. When the assets and liabilities of the CGU have not changed significantly, the recoverable amount substantially exceeds the carrying value of the CGU and impairment is unlikely under current circumstances, the most recent detailed calculation of the recoverable amount of the CGU carried out during a prior period is used in the impairment test for the period considered. Goodwill impairments are recorded as *General expenses* in the Income Statement and cannot be reversed subsequently.

**i) Segregated Funds**

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

*Segregated Funds Net Assets*

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

*Liabilities Related to Segregated Funds Net Assets*

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

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

**j) Reinsurance Assets**

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

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

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

## k) Insurance Contract Liabilities and Investment Contract Liabilities

### i) Classification of Contracts

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

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

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

Management makes judgments to evaluate the classification of contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.

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

Insurance contracts are accounted for in accordance with IFRS 4 *Insurance Contracts*, whereas investment contracts are accounted for according to IAS 39 *Financial Instruments: Recognition and Measurement*, and service contracts according to IFRS 15 *Revenue from Contracts with Customers*.

### ii) Insurance Contract Liabilities

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

### iii) Investment Contract Liabilities

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

## l) Other Liabilities

The nature of other liabilities is detailed in Note 15 "Other Liabilities".

Financial liabilities included in *Other liabilities* are classified as financial liabilities at amortized cost, except for short-selling securities, which are classified as held for trading. The commitments related to short-selling securities reflect the Company's obligation to deliver securities that it sold without owning them at the time of sale. Short-selling securities are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in *Change in fair value of investments* in the Income Statement. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

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

Lease liabilities are recognized, from the commencement date of the contract, at the discounted value of the lease payments that have not yet been paid, discounted at the interest rate implicit in the lease, or if this rate is not available, at the incremental borrowing rate. After their initial recognition, lease liabilities are recorded at amortized cost using the effective interest method and the related interest expense is recognized in *Financing charges* in the Income Statement. Lease liabilities exclude amounts relating to variable lease payments or payments for which the Company is reasonably certain not to exercise. The Company has elected to recognize lease payments for short-term and low-value contracts on a straight-line basis over the lease term in *General expenses*.

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

**m) Income Taxes**

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

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

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

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

The Company is subject to income tax laws in Canada and the United States. Tax laws are complex and may be subject to different interpretations by the Company and by the tax authority. The provision for income taxes and deferred income taxes represents the Company's interpretation of the tax laws and estimates of current and future tax consequences of the transactions and events during the period. In addition, future events, such as changes in tax laws, tax regulations or the interpretations of such laws or regulations could have a material effect on the amounts of the tax expense, the deferred income tax and the effective tax rate during the year in which they occur.

**n) Debentures**

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

**o) Foreign Exchange Conversion**

Transactions in foreign currencies are converted into the functional currency at the rate in effect when each transaction takes place. Monetary items in the Statement of Financial Position are converted at the end-of-period exchange rate. Non-monetary items in the Statement of Financial Position that are measured at fair value are converted at the end-of-period exchange rate, while non-monetary items that are measured at historical cost are converted at the exchange rate in effect when each transaction takes place. Gains and losses on foreign currency conversions are recognized in the Income Statement.

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

**p) Premiums and Expenses**

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

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

Benefits and claims on contracts mainly consist of amounts paid on death, annuities, redemptions and health.

Benefits and claims as well as expenses are recognized when incurred.

**q) Other Revenues**

Other revenues mainly come from contracts that meet the definition of service contracts and especially include fees earned from the management of the Company's segregated fund and mutual fund assets, commissions from intermediary activities, administration income and administrative services only (ASO) income. Other revenues are recognized based on the considerations specified in the contract with the customer and exclude any amounts received on behalf of third parties. The nature of the activities included in other revenues represents a single performance obligation (service) which consists of a series of similar services provided to the same customer. The Company recognizes other revenues in the Income Statement on an accrual basis when services are rendered and when it is unlikely that they will be reversed.

**r) Net Transfer to Segregated Funds**

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

**s) Post-Employment Benefits**

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

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

In accordance with IFRIC 14 *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*, the Company must determine whether the assets of a capitalized plan provide an economic benefit to the Company through refunds from the plan or as a reduction in future contributions to the plan. If not, the net liabilities (assets) resulting from the obligation in respect of defined benefits must reflect the ceiling on the capitalized plan assets.

**t) Stock-Based Compensation****i) Stock Option Plan**

The cost of stock options granted by iA Financial Corporation is recorded, using the fair value method, as a remuneration expense included in *General expenses* in the Income Statement. The corresponding amount is recorded in *Other Liabilities* in the Statement of Financial Position. Fair value of options is estimated at the grant dates taking into account a forfeiture rate and using the graded vesting method. For options that are cancelled before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, the liability is paid to iA Financial Corporation. Stock-based compensation is recognized at the grant date for grants to management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to management personnel who will become eligible to retire during the vesting period.

**ii) Share Purchase Plan for Employees**

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

**iii) Deferred Share Units Plan**

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

**iv) Mid-Term Incentive Plan and Time-Based and Performance-Based Restricted Share Unit Plan**

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

**v) Restricted Share Units Plan**

The restricted share units plan is accounted for as a share-based payment transaction that is settled in cash. Its valuation is based on the fair value of the common shares of a subsidiary of iA Financial Corporation, which, for the purposes of the plan, is deemed to wholly own, among others, some subsidiaries of the group which are under the control of the Company. Fair value is determined using equity valuation models. Based on the estimated number of restricted share units expected to be vested, the Company recognizes the remuneration expense in *General expenses* in the Income Statement and the corresponding liability in the Statement of Financial Position for the vesting period. At the end of each reporting period and on the settlement date, the liability is remeasured based on the fair value of the common shares of a subsidiary of iA Financial Corporation and the change is recorded in *General expenses* in the Income Statement.

### 3 › Changes in Accounting Policies

#### New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2022.

Standards or amendments	Description of the standards or amendments and impacts on financial statements of the Company
IFRS 4 <i>Insurance Contracts</i>	<p><i>Description:</i> On September 12, 2016, the IASB published an amendment to IFRS 4 <i>Insurance Contracts</i>. This amendment, <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>, provides two options to entities applying IFRS 4:</p> <ul style="list-style-type: none"> <li>the deferral approach is an optional temporary exemption from applying IFRS 9 until January 1, 2021 for entities whose predominant activity is issuing contracts within the scope of IFRS 4;</li> <li>the overlay approach permits entities to adopt IFRS 9 but adjust some of the impacts arising from designated financial assets, those being assets related to the insurance contract liabilities.</li> </ul> <p>On June 25, 2020, the IASB published an amendment to IFRS 4 <i>Insurance Contracts</i> to extend the deferral approach until January 1, 2023.</p> <p><i>Status:</i> The Company met all criteria and chose the deferral approach, as described below in the section "Information on the Deferral of the Application of IFRS 9 <i>Financial Instruments</i>". The Company will apply IFRS 9 only to financial statements beginning on or after January 1, 2023.</p>
IAS 16 <i>Property, Plant and Equipment</i>	<p><i>Description:</i> On May 14, 2020, the IASB published an amendment to IAS 16 <i>Property, Plant and Equipment</i>. The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The provisions of this amendment apply retrospectively.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<p><i>Description:</i> On May 14, 2020, the IASB published an amendment to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. The amendment clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling the contract. The provisions of this amendment apply on a modified retrospective basis.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
IFRS 3 <i>Business Combinations</i>	<p><i>Description:</i> On May 14, 2020, the IASB published an amendment to IFRS 3 <i>Business Combinations</i>. The amendment updates the reference to the <i>Conceptual Framework</i> and adds an exception to its requirement for an entity to refer to the <i>Conceptual Framework</i> to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. The provisions of this amendment apply prospectively.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>
Annual Improvements to IFRSs 2018-2020 Cycle	<p><i>Description:</i> On May 14, 2020, the IASB published the Annual Improvements to IFRSs 2018-2020 Cycle. The Annual Improvements clarify specific situations:</p> <ul style="list-style-type: none"> <li>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> related to the fact that a subsidiary that becomes a first-time adopter later than its parent is allowed to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs;</li> <li>IAS 41 <i>Agriculture</i> related to the fact that an entity no longer excludes taxation cash flows when measuring the fair value of a biological asset using a present value technique to ensure consistency with the requirements in IFRS 13 <i>Fair Value Measurement</i>.</li> </ul> <p>The provisions of IFRS 1 and IAS 41 apply prospectively.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>

## Future Changes in Accounting Policies

Standards or amendments are presented on the basis of their publication date unless a more relevant approach allows for better information.

### Standards IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*

Standards	Description of the standards
IFRS 17 <i>Insurance Contracts</i>	<p><i>Description:</i> On May 18, 2017, the IASB published the standard IFRS 17 <i>Insurance Contracts</i> which replaces the provisions of the standard IFRS 4 <i>Insurance Contracts</i>. Amendments to IFRS 17 <i>Insurance Contracts</i> were also published in June 2020 and December 2021 with the objective to help companies in implementing the standard, thus allowing the application date to be postponed to January 1, 2023 and the usefulness of the comparative information to be improved at the initial, concurrent application of IFRS 9 <i>Financial Instruments</i>.</p> <p>The standard IFRS 17:</p> <ul style="list-style-type: none"> <li>• has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flows statement;</li> <li>• establishes the principles for recognition, measurement, presentation and disclosure;</li> <li>• defines a general model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities;</li> <li>• defines a specific model for contracts of one year or less.</li> </ul> <p>The provisions of the new standard IFRS 17 will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements beginning on or after January 1, 2023.</p> <p>The adoption of IFRS 17 will impact how the Company accounts for its insurance contracts, the timing of revenues recognition and the presentation of its financial performance in the Income Statement. Premiums and policy benefits and claims on contracts will no longer be presented in the Income Statement. New items will be presented such as <i>Insurance revenue</i>, <i>Insurance services expenses</i> and <i>Finance income (expenses) from insurance contracts</i>. The insurance revenue will reflect the services rendered during the period. The current presentation of the Statement of Financial Position, under which <i>Outstanding premiums</i>, <i>Due from reinsurers</i> and <i>Deferred sales commissions</i> are included in <i>Other assets</i>, and <i>Unearned premiums</i>, <i>Due to reinsurers</i> and <i>Other insurance contract liabilities</i> are presented in <i>Other liabilities</i>, will be modified. These items will henceforth be included, for each portfolio, as <i>Insurance contract assets</i>, <i>Insurance contract liabilities</i>, <i>Reinsurance contract assets</i> or <i>Reinsurance contract liabilities</i>.</p> <p>IFRS 17 introduces three approaches that measure insurance contracts: the premium allocation approach, the variable fee approach and the general model approach.</p> <p>The general model approach, which will be mostly used by the Company, measures insurance contracts based on the Company's estimates of:</p> <ul style="list-style-type: none"> <li>• fulfilment cash flows which comprise estimates of expected future cash flows, an adjustment to reflect the time value of money and the associated financial risks (discount rate), plus a risk adjustment for non-financial risk;</li> <li>• the contractual service margin (CSM) which represents the unearned profit the Company will recognize as it provides services in the future.</li> </ul> <p>The discount rate used to adjust the fulfilment cash flows must be consistent with the readily available quoted price in active markets and reflect the characteristics of the cash flows and liquidity of the insurance contracts. This valuation method is different from the Canadian Asset Liability Method (CALM) used under IFRS 4 <i>Insurance Contracts</i>, which relied on the invested assets held by the Company and on its investment strategy.</p> <p>The CSM is measured at the initial recognition of the insurance contracts and is then released in the Income Statement as the services are rendered by the Company. If a group of contracts is or becomes onerous, an entity will recognize the loss immediately. IFRS 17 also requires the Company to separately disclose amounts resulting from groups of contracts that are expected to be onerous from those that are expected to be non-onerous, based on their respective portfolios. The fulfilment cash flows will be measured at each reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.</p> <p><i>Status:</i> The Company is finalizing its analysis of the impact on the measurement, presentation and disclosure of insurance contracts that this standard will have on its financial statements beginning on January 1, 2023. At the transition date, January 1, 2022, the Company will apply two of the three transition approaches available under IFRS 17: the full retrospective approach and the fair value approach. For a majority of groups of contracts, the fair value approach will be applied considering the fact that the full retrospective approach is impracticable, since reasonable and supportable information to apply this approach is not available without undue cost or effort. The impact of the adoption of this new standard is described in the section "Impact of IFRS 17 and IFRS 9 Adoption" below.</p>

IFRS 9 <i>Financial Instruments</i>	<p>The Company adopted the amendment to IFRS 4 <i>Insurance Contracts</i> described in the section “New Accounting Policies Applied”. Consequently, even if the provisions of IFRS 9 applied to financial statements beginning on or after January 1, 2018, the Company will apply these provisions simultaneously to the application of the standard IFRS 17.</p> <p><i>Description:</i> On July 24, 2014, the IASB published the standard IFRS 9 <i>Financial Instruments</i> which replaces the provisions of the standard IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. Amendments to IFRS 9 <i>Financial Instruments</i> were also published in October 2017 and August 2020 along with an annual improvement to IFRSs in May 2020 to provide clarifications on specific topics.</p> <p>The standard IFRS 9:</p> <ul style="list-style-type: none"> <li>• requires financial assets to be measured at amortized cost or at fair value on the basis of the entity’s business model for managing assets;</li> <li>• changes the accounting for financial liabilities measured using the fair value option;</li> <li>• proposes a new accounting model related to the recognition of expected credit losses, requiring the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date;</li> <li>• modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities.</li> </ul> <p>The provisions of the new standard IFRS 9 will apply retrospectively. However, in accordance with the amendment to IFRS 17 published in December 2021, entities applying IFRS 17 and IFRS 9 simultaneously for the first time will be able to apply the classification overlay to designated financial assets by presenting comparative information as if the classification and measurement requirements of IFRS 9 had been applied. Entities are not required to apply the impairment requirements of IFRS 9 for the comparative period.</p> <p><i>Status:</i> The Company is finalizing its assessment of the impact of this standard on its financial statements. At the transition date, January 1, 2022, the Company will apply the classification overlay to all its financial instruments, including derecognized assets. In addition, the Company will apply the impairment requirements of IFRS 9. The change in classification as at January 1, 2022 will be applied using the classification projected as at January 1, 2023. The impact of the adoption of this new standard is described in the section “Impact of IFRS 17 and IFRS 9 Adoption” below.</p>
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### Impact of IFRS 17 and IFRS 9 Adoption

#### Reconciliation of the Consolidated Statement of Financial Position as at January 1, 2022

The following table presents the estimated impact of the new IFRS 17 and IFRS 9 standards on the Consolidated Statement of Financial Position at the transition date:

(in millions of dollars)	As at December 31, 2021	IFRS 17 adjustments	IFRS 9 adjustments	As at January 1, 2022
Investments	\$ 44,716	\$ (182)	\$ 297	\$ 44,831
Insurance and reinsurance contract assets	1,984	(171)	(3)	1,810
Segregated funds net assets	39,577	—	—	39,577
Other	5,007	(604)	1	4,404
<b>Total assets</b>	<b>\$ 91,284</b>	<b>\$ (957)</b>	<b>\$ 295</b>	<b>\$ 90,622</b>
Insurance, reinsurance and investment contract liabilities	37,117	1,706	—	38,823
Liabilities related to segregated funds net assets	39,577	—	—	39,577
Other	8,659	(2,390)	59	6,328
<b>Total liabilities</b>	<b>\$ 85,353</b>	<b>\$ (684)</b>	<b>\$ 59</b>	<b>\$ 84,728</b>
Participating policyholders’ accounts	48	(48)	—	—
Total shareholders’ equity	5,883	(225)	236	5,894
<b>Total equity</b>	<b>\$ 5,931</b>	<b>\$ (273)</b>	<b>\$ 236</b>	<b>\$ 5,894</b>

The Company expects that the initial application of IFRS 17 in conjunction with the application of IFRS 9 will have a limited effect on its equity at transition on January 1, 2022, i.e. an increase of \$11 in the shareholders’ equity. This impact takes into account the new accounting policies that the Company will adopt from the transition date. In particular, the Company will recognize the finance income and the finance expenses from insurance contracts and from reinsurance contracts entirely in the Income Statement without any allocation to other comprehensive income. In addition, most of the Company’s financial assets will be classified at fair value through profit or loss.

#### Impact of the adoption of IFRS 17

The application of the standard IFRS 17 will result in a decrease of the shareholders’ equity as at January 1, 2022 for an estimated amount of \$225 related to the new principles of recognition and measurement of insurance contract liabilities, that is, \$307 before the adjustment of \$82 on deferred income tax net assets. In addition, the standard IFRS 17 will lead to some reclassifications between insurance and reinsurance contract assets, insurance, reinsurance and investment contract liabilities, other assets, other liabilities and participating policyholders’ accounts which will have no impact on shareholders’ equity. The amount of \$48 of participating policyholders’ accounts will now be included in insurance contract liabilities.

#### Impact of the adoption of IFRS 9

The application of the standard IFRS 9 will increase the shareholders’ equity at transition as at January 1, 2022 for an estimated amount of \$236. This increase mainly arises from the changes in the classification of certain assets which were accounted for at amortized cost and which will henceforth be accounted for at fair value through profit or loss. Deferred income tax net liabilities will be recognized upon transition for an amount of \$84. Some reclassifications between Consolidated Statement of Financial Position items will result from the transition.

### Information on the Deferral of the Application of IFRS 9 *Financial Instruments*

The Company has applied IFRS 4 *Insurance Contracts* in its operations until December 31, 2022. This standard was amended in 2016 to allow entities that apply IFRS 4 to defer the application of IFRS 9 *Financial Instruments* if total liabilities for insurance activities represent more than 90% of the entity's total liabilities. This calculation has been made as of the closing date preceding April 1, 2016, the calculation date identified in the standard. For this calculation, the Company primarily considered insurance contract liabilities, investment contract liabilities, liabilities related to segregated funds net assets and debentures as at December 31, 2015. Liabilities related to its insurance activities were at that time greater than 90% of total liabilities.

The Company has chosen to defer the application of IFRS 9 until IFRS 17 *Insurance Contracts* is adopted. If the Company had applied IFRS 9, this would not have had a significant impact on the classification of financial assets designated at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* given the very close relationship between invested assets and insurance contract liabilities. For financial assets classified as loans and receivables, held to maturity or available for sale as at December 31, 2022, an amount of \$513 (\$746 as at December 31, 2021) would not have met the solely payments of principal and interest test in accordance with IFRS 9. In addition, for mortgages, the Company could not have used the low credit risk exemption in the calculation of expected credit losses.

### Other Changes

Amendments	Description of the amendments
IAS 1 <i>Presentation of Financial Statements</i>	<p><i>Description:</i> On February 12, 2021, the IASB published an amendment to IAS 1 <i>Presentation of Financial Statements</i>. The amendment <i>Disclosure of Accounting Policies</i> requires entities to disclose their material accounting policy information rather than their significant accounting policies. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2023. Early adoption is permitted.</p> <p><i>Status:</i> The Company has completed the analysis of this amendment and does not expect any significant impact on its financial statements.</p> <p><i>Description:</i> On January 23, 2020, the IASB published an amendment to IAS 1 <i>Presentation of Financial Statements</i>. The amendment <i>Classification of Liabilities as Current or Non-current</i> only affects the presentation of liabilities in the statement of financial position, and not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. The provisions of this amendment were initially to be applied retrospectively to financial statements beginning on or after January 1, 2022, but on July 15, 2020, the IASB decided to postpone the effective date to financial statements beginning on or after January 1, 2023. On October 31, 2022, the IASB published a new amendment, <i>Non-current Liabilities with Covenants</i>, which specifies conditions affecting the classification of a liability when an entity must comply with covenants within 12 months after the reporting period and clarifies the disclosure requirements in the Notes. In addition, the latest amendment further postpones the effective date of the previous amendments to financial statements beginning on or after January 1, 2024, with retrospective application. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of these amendments on its financial statements.</p>
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p><i>Description:</i> On February 12, 2021, the IASB published an amendment to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendment <i>Definition of Accounting Estimates</i> introduces the definition of accounting estimates and clarifies the distinction between a change in accounting estimate and a change in accounting policy. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2023. Early adoption is permitted.</p> <p><i>Status:</i> The Company has completed the analysis of this amendment and does not expect any significant impact on its financial statements.</p>
IAS 12 <i>Income Taxes</i>	<p><i>Description:</i> On May 7, 2021, the IASB published an amendment to IAS 12 <i>Income Taxes</i>. The amendment <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> clarifies the accounting for deferred tax on transactions that give rise to equal taxable and deductible temporary differences on initial recognition, such as with leases and decommissioning obligations. The provisions of this amendment will apply on a modified retrospective basis to financial statements beginning on or after January 1, 2023. Early adoption is permitted.</p> <p><i>Status:</i> The Company has completed the analysis of this amendment and does not expect any significant impact on its financial statements.</p>
IFRS 16 <i>Leases</i>	<p><i>Description:</i> On September 22, 2022, the IASB published an amendment to IFRS 16 <i>Leases</i>. The amendment <i>Lease Liability in a Sale and Leaseback</i> adds requirements for the subsequent measurement of a lease liability by a seller-lessee in a sale and leaseback transaction accounted for as a sale, with the aim to prevent the recognition of a gain or loss relating to the right of use retained. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2024. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p>



#### 4 › Disposal of Businesses

On October 1, 2021, PPI Management Inc., a subsidiary of the Company, sold its wholly owned subsidiary PPI Benefits Inc. to AGA Benefits Solutions. A gain of \$12 before tax (\$10 after tax) was recognized in the Income Statement in *Other revenues*. The sale reflects the decision of PPI Management Inc. to focus on its core business of individual insurance and support to independent advisors.

#### 5 › Invested Assets and Investment Income

##### a) Carrying Value and Fair Value

	2022						
(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total	Fair value
<b>Cash and short-term investments</b>	\$ 229	\$ —	\$ —	\$ 992	\$ —	\$ 1,221	\$ 1,221
<b>Bonds</b>							
Governments	6,298	1,763	105	104	—	8,270	
Municipalities	487	140	—	—	—	627	
Corporate and other	12,648	1,792	—	3,190	—	17,630	
	19,433	3,695	105	3,294	—	26,527	26,074
<b>Stocks</b>							
Common	2,405	56	—	—	—	2,461	
Preferred	172	197	—	—	—	369	
Stock indexes	184	105	—	—	—	289	
Investment fund units	787	6	—	—	—	793	
	3,548	364	—	—	—	3,912	3,912
<b>Mortgages and other loans</b>							
Insured mortgages							
Multi-residential	—	—	—	1,134	—	1,134	
Non-residential	—	—	—	3	—	3	
	—	—	—	1,137	—	1,137	
Conventional mortgages							
Multi-residential	53	—	—	174	—	227	
Non-residential	25	—	—	223	—	248	
	78	—	—	397	—	475	
Other loans	—	—	—	1,219	—	1,219	
	78	—	—	2,753	—	2,831	2,780
<b>Derivative financial instruments</b>	988	—	—	—	—	988	988
<b>Policy loans</b>	—	—	—	1,119	—	1,119	1,119
<b>Other invested assets</b>	—	—	—	20	489	509	509
<b>Investment properties</b>	—	—	—	—	1,804	1,804	1,837
<b>Total investments</b>	\$ 24,276	\$ 4,059	\$ 105	\$ 8,178	\$ 2,293	\$ 38,911	\$ 38,440

2021

(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total	Fair value
<b>Cash and short-term investments</b>	\$ 199	\$ —	\$ —	\$ 1,268	\$ —	\$ 1,467	\$ 1,467
<b>Bonds</b>							
Governments	10,763	1,953	255	106	—	13,077	
Municipalities	1,129	182	—	39	—	1,350	
Corporate and other	13,037	2,021	—	2,769	—	17,827	
	24,929	4,156	255	2,914	—	32,254	32,518
<b>Stocks</b>							
Common	2,118	54	—	—	—	2,172	
Preferred	236	342	—	—	—	578	
Stock indexes	169	10	—	—	—	179	
Investment fund units	834	6	—	—	—	840	
	3,357	412	—	—	—	3,769	3,769
<b>Mortgages and other loans</b>							
Insured mortgages							
Multi-residential	—	—	—	1,326	—	1,326	
Non-residential	—	—	—	3	—	3	
	—	—	—	1,329	—	1,329	
Conventional mortgages							
Multi-residential	51	—	—	184	—	235	
Non-residential	38	—	—	264	—	302	
	89	—	—	448	—	537	
Other loans	—	—	—	1,056	—	1,056	
	89	—	—	2,833	—	2,922	2,991
<b>Derivative financial instruments</b>	917	—	—	—	—	917	917
<b>Policy loans</b>	—	—	—	1,040	—	1,040	1,040
<b>Other invested assets</b>	—	—	—	18	459	477	477
<b>Investment properties</b>	—	—	—	—	1,870	1,870	1,901
<b>Total investments</b>	\$ 29,491	\$ 4,568	\$ 255	\$ 8,073	\$ 2,329	\$ 44,716	\$ 45,080

The *At fair value through profit or loss* category includes securities held for trading, mainly derivative financial instruments and short-term investments as well as securities designated at fair value through profit or loss.

Other invested assets are made up of notes receivable and investments in associates and joint ventures. Notes receivable are classified as loans and receivables. Investments in associates and joint ventures, accounted for using the equity method, are presented in the *Other* column. Investment fees are presented in Note 20 "General Expenses".

Fair value of investment properties is \$1,837 (\$1,901 in 2021) and is composed of investment properties of \$1,804 (\$1,870 in 2021) and of linearization of rents of \$33 (\$31 in 2021). The linearization of rents is the total rental income under the lease, distributed evenly over the lease term, using an average rate, which considers free rents and other advantages granted to tenants. Amounts related to the linearization of rents are presented in Note 9 "Other Assets". Rental income is presented in the investment income table in section c) of this note and operating expenses for investment properties are shown in Note 20 "General Expenses".

#### b) Investments in Associates and Joint Ventures

The Company holds interests ranging from 25% to 50% as at December 31, 2022 and 2021. The carrying value of these investments as at December 31, 2022 is \$489 (\$459 as at December 31, 2021). The share of net income and comprehensive income for the year ended December 31, 2022 amounts to \$96 (\$34 for the year ended December 31, 2021).

**c) Investment Income**

	2022					
(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total
<b>Cash and short-term investments</b>						
Interest	\$ —	\$ —	\$ —	\$ 51	\$ —	\$ 51
Change in fair value	6	—	—	—	—	6
<b>Bonds</b>						
Interest	712	105	6	206	—	1,029
Change in fair value	(6,405)	—	—	—	—	(6,405)
Gains (losses) realized	—	45	—	2	—	47
Variation in provisions for losses	—	—	—	1	—	1
<b>Stocks</b>						
Dividends	320	21	—	—	—	341
Change in fair value	(344)	—	—	—	—	(344)
<b>Mortgages and other loans</b>						
Interest	3	—	—	189	—	192
Gains (losses) realized	—	—	—	1	—	1
Variation in provisions for losses	—	—	—	(38)	—	(38)
<b>Derivative financial instruments</b>						
Interest	18	—	—	—	—	18
Change in fair value	(1,782)	—	—	—	—	(1,782)
<b>Policy loans</b>						
Interest	—	—	—	52	—	52
<b>Other invested assets</b>						
	(65)	—	—	9	217	161
<b>Investment properties</b>						
Rental income	—	—	—	—	185	185
Change in fair value	—	—	—	—	(139)	(139)
<b>Total investment income</b>	<b>\$ (7,537)</b>	<b>\$ 171</b>	<b>\$ 6</b>	<b>\$ 473</b>	<b>\$ 263</b>	<b>\$ (6,624)</b>
Interest	715	105	6	498	—	1,324
Dividends	320	21	—	—	—	341
Derivative financial instruments	18	—	—	—	—	18
Rental income	—	—	—	—	185	185
Gains (losses) realized	—	45	—	3	—	48
Variation in provisions for losses	—	—	—	(37)	—	(37)
Other	1	—	—	9	217	227
Interest and other investment income	1,054	171	6	473	402	2,106
Cash and short-term investments	6	—	—	—	—	6
Bonds	(6,405)	—	—	—	—	(6,405)
Stocks	(344)	—	—	—	—	(344)
Derivative financial instruments	(1,782)	—	—	—	—	(1,782)
Investment properties	—	—	—	—	(139)	(139)
Other	(66)	—	—	—	—	(66)
Change in fair value of investments	(8,591)	—	—	—	(139)	(8,730)
<b>Total investment income</b>	<b>\$ (7,537)</b>	<b>\$ 171</b>	<b>\$ 6</b>	<b>\$ 473</b>	<b>\$ 263</b>	<b>\$ (6,624)</b>

2021

(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total
<b>Cash and short-term investments</b>						
Interest	\$ —	\$ —	\$ —	\$ 18	\$ —	\$ 18
<b>Bonds</b>						
Interest	622	85	9	111	—	827
Change in fair value	(1,423)	—	—	—	—	(1,423)
Gains (losses) realized	—	36	(1)	(4)	—	31
Variation in provisions for losses	—	—	—	(3)	—	(3)
<b>Stocks</b>						
Dividends	272	27	—	—	—	299
Change in fair value	312	—	—	—	—	312
Gains (losses) realized	—	1	—	—	—	1
<b>Mortgages and other loans</b>						
Interest	3	—	—	185	—	188
Change in fair value	(2)	—	—	—	—	(2)
Gains (losses) realized	—	—	—	2	—	2
Variation in provisions for losses	—	—	—	(25)	—	(25)
<b>Derivative financial instruments</b>						
Interest	11	—	—	—	—	11
Change in fair value	(282)	—	—	—	—	(282)
<b>Policy loans</b>						
Interest	—	—	—	40	—	40
<b>Other invested assets</b>						
	(3)	—	—	7	28	32
<b>Investment properties</b>						
Rental income	—	—	—	—	186	186
Change in fair value	—	—	—	—	(24)	(24)
<b>Total investment income</b>	<b>\$ (490)</b>	<b>\$ 149</b>	<b>\$ 8</b>	<b>\$ 331</b>	<b>\$ 190</b>	<b>\$ 188</b>
Interest	625	85	9	354	—	1,073
Dividends	272	27	—	—	—	299
Derivative financial instruments	11	—	—	—	—	11
Rental income	—	—	—	—	186	186
Gains (losses) realized	—	37	(1)	(2)	—	34
Variation in provisions for losses	—	—	—	(28)	—	(28)
Other	(1)	—	—	7	28	34
Interest and other investment income	907	149	8	331	214	1,609
Bonds	(1,423)	—	—	—	—	(1,423)
Stocks	312	—	—	—	—	312
Mortgages and other loans	(2)	—	—	—	—	(2)
Derivative financial instruments	(282)	—	—	—	—	(282)
Investment properties	—	—	—	—	(24)	(24)
Other	(2)	—	—	—	—	(2)
Change in fair value of investments	(1,397)	—	—	—	(24)	(1,421)
<b>Total investment income</b>	<b>\$ (490)</b>	<b>\$ 149</b>	<b>\$ 8</b>	<b>\$ 331</b>	<b>\$ 190</b>	<b>\$ 188</b>

## 6 › Fair Value of Financial Instruments and Investment Properties

### a) Methods and Assumptions Used to Estimate Fair Values

Fair value is the consideration that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management exercises its judgment to determine the data that will be used to measure the fair value of financial assets and liabilities, particularly for financial instruments classified as Level 3. Fair value of various categories of financial instruments and investment properties is determined as described below.

#### Financial Assets

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

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

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

*Mortgages and Other Loans* – The fair value of mortgages and other loans is estimated by discounting the cash flows with the interest rates currently prevailing on the market for loans with substantially the same credit risk and terms.

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

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

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

*Other Invested Assets* – The fair value of other invested assets is approximately the same as the carrying value due to the nature of these elements.

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

#### Investment Properties

The fair value of investment properties is determined using various recognized methods and standards of assessment in the real estate sector. Among these methods, the income approach is the most commonly used, as it is based on an investor's behaviour in relation to income expected to be generated by an investment property. Under this approach, discounting of the cash flows generated by an investment property is preferred as it measures the relationship between the market value and the reasonably discounted incomes over an investment horizon. Expected cash flows include contractual and projected income as well as the investment property's operating expenses. These cash flows reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected for future leases, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, current type and quality of the building, and market data and projections as of the date of the valuation. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. Highest and best use is one of the possible valuation methods. Highest and best use of a site is an integral part of the process to establish the fair value of an investment property. This use is the one that, at the time of the appraisal, provides the highest fair value for the investment property. As a result, this use is determined by considering possible physical use that is legally admissible, financially feasible and achievable in the short term based on demand, and must be tied to the likelihood of being achieved rather than to the simple possibility. Assessments are carried out by external independent appraisers on an annual basis or by qualified Company personnel quarterly. During the year, 100% of the investment properties portfolio was assessed by independent appraisers (100% in 2021).

#### Financial Liabilities

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

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

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

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

As at December 31, 2022, the fair value of the mortgage debt is \$3 (\$71 as at December 31, 2021). As at December 31, 2021, a mortgage debt with a fair value of \$71 was secured by an investment property with a carrying value of \$169 and bore interest of 3.143%. This mortgage debt, which matured on May 1, 2022, was repaid in full on that date. As at December 31, 2022, the mortgage debt with a fair value of \$3 is secured by an investment property with a carrying value of \$42, bears interest of 2.370% and will mature on September 27, 2028. The interest expense on the mortgage debt is less than \$1 (\$2 for the year ended December 31, 2021). The carrying value of the mortgage debt is included in Note 15 “Other Liabilities”.

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

#### **b) Hierarchy of the Fair Value**

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

- Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market, among other things, are classified in Level 1.
- Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.
- Level 3 – Valuation model based on valuation techniques that use largely unobservable market parameters and that reflect management’s best estimates. Most private placements are classified in Level 3.

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

**Assets**

(in millions of dollars)	2022			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Cash and short-term investments</b>				
Held for trading	\$ —	\$ 229	\$ —	\$ 229
<b>Bonds</b>				
Designated at fair value through profit or loss				
Governments	1,195	5,103	—	6,298
Municipalities	—	487	—	487
Corporate and other	—	12,517	131	12,648
	1,195	18,107	131	19,433
Available for sale				
Governments	157	1,606	—	1,763
Municipalities	—	140	—	140
Corporate and other	—	1,791	1	1,792
	157	3,537	1	3,695
	1,352	21,644	132	23,128
<b>Stocks</b>				
Designated at fair value through profit or loss	1,322	98	2,128	3,548
Available for sale	128	197	39	364
	1,450	295	2,167	3,912
<b>Mortgages and other loans</b>				
Designated at fair value through profit or loss	—	78	—	78
<b>Derivative financial instruments</b>				
Held for trading	37	950	1	988
<b>Investment properties</b>				
	—	—	1,804	1,804
<b>General fund investments recognized at fair value</b>				
	2,839	23,196	4,104	30,139
<b>Segregated funds financial instruments and investment properties</b>				
	28,923	7,351	802	37,076
<b>Total financial assets at fair value</b>	<b>\$ 31,762</b>	<b>\$ 30,547</b>	<b>\$ 4,906</b>	<b>\$ 67,215</b>

(in millions of dollars)	2021			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Cash and short-term investments</b>				
Held for trading	\$ —	\$ 199	\$ —	\$ 199
<b>Bonds</b>				
Designated at fair value through profit or loss				
Governments	348	10,415	—	10,763
Municipalities	—	1,129	—	1,129
Corporate and other	—	12,879	158	13,037
	348	24,423	158	24,929
Available for sale				
Governments	165	1,788	—	1,953
Municipalities	—	182	—	182
Corporate and other	—	2,021	—	2,021
	165	3,991	—	4,156
	513	28,414	158	29,085
<b>Stocks</b>				
Designated at fair value through profit or loss	1,499	70	1,788	3,357
Available for sale	28	342	42	412
	1,527	412	1,830	3,769
<b>Mortgages and other loans</b>				
Designated at fair value through profit or loss	—	89	—	89
<b>Derivative financial instruments</b>				
Held for trading	196	718	3	917
<b>Investment properties</b>				
	—	—	1,870	1,870
<b>General fund investments recognized at fair value</b>				
	2,236	29,832	3,861	35,929
<b>Segregated funds financial instruments and investment properties</b>				
	30,710	8,054	508	39,272
<b>Total financial assets at fair value</b>				
	\$ 32,946	\$ 37,886	\$ 4,369	\$ 75,201

There were no transfers from Level 1 to Level 2 during the year ended December 31, 2022 (none for the year ended December 31, 2021).

There were no transfers from Level 2 to Level 1 during the year ended December 31, 2022 (none for the year ended December 31, 2021).

Transfers from Level 2 to Level 3 during the year ended December 31, 2022 amount to \$23 (\$28 for the year ended December 31, 2021). The transfers for the year ended December 31, 2022 amount to \$15 from segregated funds financial instruments (none for the year ended December 31, 2021) and \$8 from bonds designated at fair value through profit or loss (\$28 for the year ended December 31, 2021). The fair value of segregated funds financial instruments and bonds is measured at the quoted market price obtained through brokers. However, their price has remained unchanged for more than 30 days which, according to the Company's internal policy, results in a transfer. For some bonds as at December 31, 2021, the fair value was measured using unobservable inputs.

Transfers from Level 3 to Level 2 during the year ended December 31, 2022 amount to \$8 (\$2 for the year ended December 31, 2021). These transfers are from bonds designated at fair value through profit or loss. The fair value of these bonds is measured at the quoted market price obtained through brokers who estimate the fair value of these financial instruments. As at December 31, 2022 and 2021, the value of these bonds is based on a price obtained less than 30 days prior.

Transfers from Level 1 to Level 3 during the year ended December 31, 2022 amount to \$2 (none for the year ended December 31, 2021). These transfers are from segregated funds financial instruments. The fair value of these instruments is measured at the quoted market price obtained through brokers. However, the price of these financial instruments has remained unchanged for more than 30 days which, according to the Company's internal policy, results in a transfer.

There were no transfers from Level 3 to Level 1 during the year ended December 31, 2022 (none for the year ended December 31, 2021).

During the year ended December 31, 2022, the Company made Level 3 transfers from owner-occupied properties to investment properties in relation to a change in use of the properties (none for the year ended December 31, 2021). The fair value of the properties at the transfer dates was assessed at \$53. The revaluation adjustments of \$26 before tax (\$22 after tax) have been recorded in the Comprehensive Income Statement in *Revaluation surplus related to transfers to investment properties*.

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



The Company uses unobservable inputs in the valuation of bonds and stocks classified into Level 3. Regarding bonds, unobservable inputs mainly correspond to credit and liquidity risk premiums ranging from 1.31% to 3.09% as at December 31, 2022 (1.06% to 2.72% as at December 31, 2021). Stocks classified into Level 3 are mainly valued from information available in the financial statements of companies using models based on discounting expected cash flows as well as the use of multiples.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2022 are the discount rate, which is between 5.00% and 8.25% (5.25% and 8.00% in 2021) and the terminal capitalization rate, which is between 4.25% and 7.25% (4.25% and 7.00% in 2021). The discount rate is based on market activity by type of building and by location and reflects the expected rate of return to be realized on investments over the next 10 years. The terminal capitalization rate is based on market activity by type of building and by location and reflects the expected rate of return to be realized on investments over the remaining life after the 10-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

Considering the unobservable nature of the main data used to measure bonds, stocks and investment properties classified in Level 3, the Company does not assess whether the application of other assumptions would have an impact on fair value because the investment properties as well as the bonds and stocks classified as designated at fair value through profit or loss support the insurance contract liabilities. Consequently, changes in the fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the CALM. Even if the Company were to use possible alternative assumptions affecting fair value, this would not have a significant impact on the Financial Statements.

The following table presents assets recognized at fair value evaluated according to Level 3 parameters:

2022									
(in millions of dollars)	Balance as at December 31, 2021	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3 and reclassifications	Balance as at December 31, 2022	Total unrealized gains (losses) included in net income on investments still held	
<b>Bonds</b>									
Designated at fair value through profit or loss	\$ 158	\$ (23)	\$ —	\$ —	\$ (4)	\$ —	\$ 131	\$ (24)	
Available for sale	—	—	—	1	—	—	1	—	
<b>Stocks</b>									
Designated at fair value through profit or loss	1,788	166	—	276	(102)	—	2,128	168	
Available for sale	42	—	—	—	(3)	—	39	—	
<b>Derivative financial instruments</b>									
Held for trading	3	(2)	—	—	—	—	1	(2)	
<b>Investment properties</b>	<b>1,870</b>	<b>(139)</b>	<b>—</b>	<b>23</b>	<b>(3)</b>	<b>53</b>	<b>1,804</b>	<b>(139)</b>	
<b>General fund investments recognized at fair value</b>	<b>3,861</b>	<b>2</b>	<b>—</b>	<b>300</b>	<b>(112)</b>	<b>53</b>	<b>4,104</b>	<b>3</b>	
<b>Segregated funds financial instruments and investment properties</b>	<b>508</b>	<b>46</b>	<b>—</b>	<b>258</b>	<b>(27)</b>	<b>17</b>	<b>802</b>	<b>39</b>	
<b>Total</b>	<b>\$ 4,369</b>	<b>\$ 48</b>	<b>\$ —</b>	<b>\$ 558</b>	<b>\$ (139)</b>	<b>\$ 70</b>	<b>\$ 4,906</b>	<b>\$ 42</b>	

2021

(in millions of dollars)	Balance as at December 31, 2020	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3 and reclassifications	Balance as at December 31, 2021	Total unrealized gains (losses) included in net income on investments still held
<b>Bonds</b>								
Designated at fair value through profit or loss	\$ 140	\$ (8)	\$ —	\$ 3	\$ (3)	\$ 26	\$ 158	\$ (9)
<b>Stocks</b>								
Designated at fair value through profit or loss	1,444	204	—	365	(225)	—	1,788	189
Available for sale	43	—	(1)	5	(5)	—	42	—
<b>Derivative financial instruments</b>								
Held for trading	3	1	—	—	(1)	—	3	2
<b>Investment properties</b>								
	1,916	(24)	—	22	(44)	—	1,870	(24)
<b>General fund investments recognized at fair value</b>								
	3,546	173	(1)	395	(278)	26	3,861	158
<b>Segregated funds financial instruments and investment properties</b>								
	264	32	—	228	(16)	—	508	31
<b>Total</b>	<b>\$ 3,810</b>	<b>\$ 205</b>	<b>\$ (1)</b>	<b>\$ 623</b>	<b>\$ (294)</b>	<b>\$ 26</b>	<b>\$ 4,369</b>	<b>\$ 189</b>

For the year ended December 31, 2022, an amount of \$23 (\$22 for the year ended December 31, 2021) presented in *Purchases* for investment properties corresponds to capitalizations to *Investment properties* and an amount of \$53 (none for the year ended December 31, 2021) corresponds to reclassifications of fixed assets to *Investment properties*. Also, *Sales and settlements* for investment properties do not include any transfers to fixed assets (none for the year ended December 31, 2021).

*Realized and unrealized gains (losses) included in net income* and *Total unrealized gains (losses) included in net income on investments still held* are presented in the *Investment income* in the Income Statement, except the value of segregated funds assets, which is not presented in the Income Statement, but is included in the change in segregated funds net assets in Note 12 "Segregated Funds Net Assets". *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 18 "Accumulated Other Comprehensive Income" in *Unrealized gains (losses)*.

#### Fair Value Disclosed in the Notes

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

(in millions of dollars)	2022			
	Level 1	Level 2	Level 3	Total
<b>Classified as held to maturity</b>				
<b>Bonds</b>				
Governments	\$ —	\$ 102	\$ —	\$ 102
<b>Total of assets classified as held to maturity</b>	<b>—</b>	<b>102</b>	<b>—</b>	<b>102</b>
<b>Classified as loans and receivables</b>				
<b>Bonds</b>				
Governments	—	5	101	106
Corporate and other	—	165	2,573	2,738
	—	170	2,674	2,844
<b>Mortgages and other loans</b>	<b>—</b>	<b>2,702</b>	<b>—</b>	<b>2,702</b>
<b>Total of assets classified as loans and receivables</b>	<b>—</b>	<b>2,872</b>	<b>2,674</b>	<b>5,546</b>
<b>Total of assets whose fair value is disclosed in the notes</b>	<b>\$ —</b>	<b>\$ 2,974</b>	<b>\$ 2,674</b>	<b>\$ 5,648</b>

(in millions of dollars)	2021			Total
	Level 1	Level 2	Level 3	
<b>Classified as held to maturity</b>				
<b>Bonds</b>				
Governments	\$ —	\$ 255	\$ —	\$ 255
<b>Total of assets classified as held to maturity</b>	—	255	—	255
<b>Classified as loans and receivables</b>				
<b>Bonds</b>				
Governments	—	7	130	137
Municipalities	—	50	—	50
Corporate and other	—	198	2,793	2,991
	—	255	2,923	3,178
<b>Mortgages and other loans</b>	—	2,902	—	2,902
<b>Total of assets classified as loans and receivables</b>	—	3,157	2,923	6,080
<b>Total of assets whose fair value is disclosed in the notes</b>	\$ —	\$ 3,412	\$ 2,923	\$ 6,335

**Financial Liabilities**

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

(in millions of dollars)	2022			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Other liabilities</b>				
Held for trading	\$ 734	\$ 222	\$ —	\$ 956
<b>Derivative financial instruments</b>				
Held for trading	6	1,459	4	1,469
<b>Total of liabilities classified as held for trading</b>	<b>740</b>	<b>1,681</b>	<b>4</b>	<b>2,425</b>
<b>Classified at amortized cost</b>				
<b>Other liabilities</b>				
Securitization liabilities	—	443	—	443
Mortgage debt	—	3	—	3
<b>Debentures</b>	—	397	—	397
<b>Total of liabilities classified at amortized cost</b>	<b>\$ —</b>	<b>\$ 843</b>	<b>\$ —</b>	<b>\$ 843</b>

(in millions of dollars)	2021			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Other liabilities</b>				
Held for trading	\$ 94	\$ 168	\$ —	\$ 262
<b>Derivative financial instruments</b>				
Held for trading	79	415	27	521
<b>Total of liabilities classified as held for trading</b>	<b>173</b>	<b>583</b>	<b>27</b>	<b>783</b>
<b>Classified at amortized cost</b>				
<b>Other liabilities</b>				
Securitization liabilities	—	780	—	780
Mortgage debt	—	71	—	71
<b>Debentures</b>	—	666	—	666
<b>Total of liabilities classified at amortized cost</b>	<b>\$ —</b>	<b>\$ 1,517</b>	<b>\$ —</b>	<b>\$ 1,517</b>

The following table presents liabilities recognized at fair value evaluated according to Level 3 parameters:

2022								
(in millions of dollars)	Balance as at December 31, 2021	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3	Balance as at December 31, 2022	Total unrealized gains (losses) included in net income on financial liabilities
<b>Derivative financial instruments</b>	\$ 27	\$ (3)	\$ —	\$ (1)	\$ (19)	\$ —	\$ 4	\$ —
2021								
(in millions of dollars)	Balance as at December 31, 2020	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3	Balance as at December 31, 2021	Total unrealized gains (losses) included in net income on financial liabilities
<b>Derivative financial instruments</b>	\$ 39	\$ —	\$ —	\$ 2	\$ (14)	\$ —	\$ 27	\$ —

## 7 Management of Risks Associated with Financial Instruments

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding the principles, responsibilities and key measures and management practices of the Company's risk management is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on pages 27 to 37. The shaded information in these pages is considered an integral part of these Financial Statements. Market risk, credit risk and liquidity risk are the most significant risks that the Company must manage for financial instruments.

### a) Market Risk

Market risk represents the risk of fluctuation in the fair value of a financial instrument, which could lead to a loss due to changes in market factors, such as interest rates, stock prices and exchange rates.

#### Interest Rate Risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits, whose maturity date may be a long-time in the future, such as death benefits and annuity payments. To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its insurance contract liabilities and long-term debts, matches its liabilities until they expire and uses derivative financial instruments as complementary management tools. Consequently, assets are chosen based on amount, cash flow and return in order to correspond to the characteristics of the matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization. This strategy consists in using fixed income securities to immunize a liability against interest rate variations. In the measurement of its insurance contract liabilities, as described in Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities", the Company takes into account the level of matching achieved between assets and liabilities.

#### Risk of a Market Downturn

The risk of a market downturn represents the risk of losses caused by stock market fluctuations or caused by private equity value fluctuations. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) the income on capital generated by the assets backing the Company's capital; and 4) benefits from guarantees on segregated funds.

In its risk management strategy, the Company has implemented a dynamic hedging program for all minimum withdrawal guarantees and almost all maturity guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents \$6,169 as at December 31, 2022 (\$7,366 in 2021). More detailed information on the hedging program is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on page 34.

#### Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for losses due to exchange rates related to foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposure to currency risk whereby liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. To protect itself against foreign currency risk, the Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in a foreign operation that has a different functional currency from the Company's functional currency. Disclosure of hedge accounting is presented in Note 8 "Derivative Financial Instruments".

### Impairment of Financial Assets Classified as Available for Sale

For the years ended December 31, 2022 and 2021, the Company did not reclassify any unrealized losses of stocks classified as available for sale from *Other comprehensive income* to *Investment income* in the Income Statement.

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

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

(in millions of dollars)	2022			2021		
	Fair value	Unrealized losses	Unrealized gains	Fair value	Unrealized losses	Unrealized gains
<b>Bonds</b>						
Governments	\$ 1,763	\$ (187)	\$ —	\$ 1,953	\$ (17)	\$ 55
Municipalities	140	(14)	—	182	(1)	3
Corporate and other	1,792	(201)	—	2,021	(12)	31
	3,695	(402)	—	4,156	(30)	89
<b>Stocks</b>	364	(74)	7	412	(2)	25
<b>Total</b>	<b>\$ 4,059</b>	<b>\$ (476)</b>	<b>\$ 7</b>	<b>\$ 4,568</b>	<b>\$ (32)</b>	<b>\$ 114</b>

### b) Credit Risk

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

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

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

### b) i) Credit Quality Indicators

#### Bonds by Investment Grade

(in millions of dollars)	2022	2021
AAA	\$ 2,234	\$ 1,617
AA	7,731	13,417
A	9,931	10,808
BBB	6,370	6,119
BB and lower	261	293
<b>Total</b>	<b>\$ 26,527</b>	<b>\$ 32,254</b>

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of \$2,039 as at December 31, 2022 (\$2,123 as at December 31, 2021).

**Mortgages and Other Loans**

(in millions of dollars)	2022	2021
Insured mortgages	\$ 1,137	\$ 1,329
Conventional mortgages	475	537
Other loans	1,219	1,056
<b>Total</b>	<b>\$ 2,831</b>	<b>\$ 2,922</b>

The credit quality of mortgages and other loans is assessed internally, on a regular basis, when the review of the portfolio is made.

**Derivative Financial Instruments**

The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2022, all counterparties to derivative financial instrument contracts have a credit rating of AA- or higher (AA- or higher as at December 31, 2021).

**Reinsurance Assets**

The Company assesses the financial soundness of reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. It can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts. Reinsurance agreements without security held from reinsurers are with several well-established, highly rated reinsurers. The Company's reinsurance assets are with reinsurers who have a minimum credit rating of A- in a proportion of 99% (99% in 2021).

**b) ii) Past Due or Impaired Financial Assets**

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

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

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

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

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

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more in the case of mortgages and 120 days or more in the case of other loans and which is not subject to a measure deployed by the Company to support its clients or in foreclosure is assumed to be impaired. Any loan in default which is not insured and fully guaranteed is generally impaired. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities matching these liabilities, in compliance with actuarial standards.

**Past Due Bonds, Mortgages and Other Loans**

Bonds, mortgages and other loans are considered in arrears when the counterparty has not made a payment at a contractual date.

2022					
(in millions of dollars)	Bonds classified as held to maturity	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
<b>Gross values</b>					
Not past due and not impaired	\$ 105	\$ 3,272	\$ 1,534	\$ 1,187	\$ 6,098
Past due and not impaired					
30 – 89 days in arrears	—	—	—	52	52
90 – 119 days in arrears	—	—	—	7	7
120 days or more in arrears	—	—	—	3	3
Impaired	—	27	—	—	27
<b>Total of gross values</b>	<b>\$ 105</b>	<b>\$ 3,299</b>	<b>\$ 1,534</b>	<b>\$ 1,249</b>	<b>\$ 6,187</b>
Specific provisions for losses	—	5	—	—	5
	105	3,294	1,534	1,249	6,182
Collective provisions for losses	—	—	—	30	30
<b>Total of net values</b>	<b>\$ 105</b>	<b>\$ 3,294</b>	<b>\$ 1,534</b>	<b>\$ 1,219</b>	<b>\$ 6,152</b>

2021					
(in millions of dollars)	Bonds classified as held to maturity	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
<b>Gross values</b>					
Not past due and not impaired	\$ 255	\$ 2,897	\$ 1,777	\$ 1,040	\$ 5,969
Past due and not impaired					
30 – 89 days in arrears	—	—	—	37	37
90 – 119 days in arrears	—	—	—	5	5
120 days or more in arrears	—	—	—	2	2
Impaired	—	23	—	—	23
<b>Total of gross values</b>	<b>\$ 255</b>	<b>\$ 2,920</b>	<b>\$ 1,777</b>	<b>\$ 1,084</b>	<b>\$ 6,036</b>
Specific provisions for losses	—	6	—	—	6
	255	2,914	1,777	1,084	6,030
Collective provisions for losses	—	—	—	28	28
<b>Total of net values</b>	<b>\$ 255</b>	<b>\$ 2,914</b>	<b>\$ 1,777</b>	<b>\$ 1,056</b>	<b>\$ 6,002</b>

#### Foreclosed Properties

During the year ended December 31, 2022, the Company did not take possession of any properties it held as collateral on mortgages (none for the year ended December 31, 2021). Foreclosed properties that the Company still held at year-end are presented as real estate held for resale in Note 9 "Other Assets".

#### Specific Provisions for Losses

(in millions of dollars)	2022 Bonds classified as loans and receivables	2021 Bonds classified as loans and receivables
Balance at beginning	\$ 6	\$ 14
Variation in specific provisions for losses	(1)	(8)
<b>Balance at end</b>	<b>\$ 5</b>	<b>\$ 6</b>

During the years ended December 31, 2022 and 2021, the specific provisions for losses did not vary for bonds classified as held to maturity, mortgages classified as loans and receivables and other loans.

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

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

(in millions of dollars)	2022	2021
Due in 1 year or less	\$ 86	\$ 83
Due after 1 year to 5 years	274	281
Due after 5 years	360	389
<b>Total</b>	<b>\$ 720</b>	<b>\$ 753</b>

These payments are received under operating leases and are therefore not recorded in the Statement of Financial Position.

**Securitization of Mortgages**
*Securitization of Residential Mortgages*

As part of a transaction with an unrelated counterparty, carried out in 2020, the Company derecognized its securitized residential mortgages and recognized government bonds as part of its assets. The securitization liability related to these mortgages, presented in *Other liabilities*, was not derecognized because the Company is party to a total return swap agreement and remains responsible for the related liabilities. As at December 31, 2022, the carrying value of the government bonds is \$105 (\$255 in 2021) and their fair value is \$102 (\$255 in 2021).

*Securitization of Multi-residential and Non-residential Mortgages*

As part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured multi-residential and non-residential mortgages to an unrelated counterparty. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. For these multi-residential and non-residential mortgages, the Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. Consequently, the Company continues to recognize the full carrying value of these multi-residential and non-residential mortgages. As at December 31, 2022, the carrying value of the ceded mortgages is \$380 (\$485 in 2021) and their fair value is \$365 (\$491 in 2021).

The carrying value of the liability related to the securitization of residential, multi-residential and non-residential mortgages is \$453 (\$770 in 2021). Its fair value is \$443 (\$780 in 2021).

**Securities Lending**

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents between 102% and 105% (between 102% and 105% in 2021) of the fair value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2022, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately \$863 (\$254 in 2021).

**Right of Offset, Collateral Held and Transferred**

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

(in millions of dollars)	2022			
	Financial instruments presented in the Statements of Financial Position	Related amount not offset in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
<b>Financial assets</b>				
Derivative financial instruments (Note 8)	\$ 988	\$ 928	\$ 12	\$ 48
<b>Financial liabilities</b>				
Derivative financial instruments (Note 8)	\$ 1,469	\$ 928	\$ 518	\$ 23



2021

(in millions of dollars)	Financial instruments presented in the Statements of Financial Position	Related amount not offset in the Statements of Financial Position		Net amount
		Financial instruments	Financial collateral received/pledged	
<b>Financial assets</b>				
Derivative financial instruments (Note 8)	\$ 917	\$ 428	\$ 279	\$ 210
<b>Financial liabilities</b>				
Derivative financial instruments (Note 8)	\$ 521	\$ 428	\$ 69	\$ 24

Since the Company does not offset the financial instruments presented in the Statement of Financial Position, the net amount of the financial instruments is identical to the gross amount of the financial position.

*Financial collateral received/pledged* shown in the table above excludes initial margin on over-the-counter derivatives and forward currency contracts traded on the stock exchange, amounts related to segregated fund assets, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was \$388 as at December 31, 2022 on the assets of derivative financial instruments (\$327 as at December 31, 2021). As at December 31, 2022, the Company's pledge was \$880 on derivative financial instrument liabilities (\$141 as at December 31, 2021).

#### Interests in Non-Consolidated Structured Entities

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

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

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

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

(in millions of dollars)	2022		2021	
	Carrying amount	Maximum risk	Carrying amount	Maximum risk
<b>Government bonds</b>				
Mortgage-backed securities	\$ 147	\$ 147	\$ 295	\$ 295
<b>Corporate and other bonds</b>				
Unsecured mortgage-backed securities	14	14	14	14
Asset-backed securities	4	4	3	3
	165	165	312	312
<b>Stocks</b>				
Investment fund units managed internally	423	423	430	430
Investment fund units managed externally	371	371	410	410
Private stocks	2,164	2,164	1,830	1,830
	2,958	2,958	2,670	2,670
<b>Total</b>	<b>\$ 3,123</b>	<b>\$ 3,123</b>	<b>\$ 2,982</b>	<b>\$ 2,982</b>

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

The Company develops and sponsors mutual funds to implement investment strategies on behalf of investors, and earns management fees for providing these services. The Company does not control these mutual funds. The Company's interest in mutual funds is limited to the capital invested, if any, and fees earned. The Company's mutual fund assets under management as at December 31, 2022 were \$11,611 (\$13,955 as at December 31, 2021).

#### b) iv) Concentration Risk

Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity. The following tables provide information about the Company's investment concentration risk.

**Bonds by sector of activity**

		2022			
(in millions of dollars)	At fair value through profit or loss	Available for sale	Loans and receivables	Total	
<b>Bonds (corporate and other)</b>					
Financial services	\$ 2,216	\$ 1,011	\$ 717	\$ 3,944	
Utilities	4,587	237	876	5,700	
Consumer cyclical and non-cyclical	1,923	136	434	2,493	
Energy	877	85	534	1,496	
Industry	1,137	78	174	1,389	
Communications	1,285	193	1	1,479	
Other	623	52	454	1,129	
<b>Total</b>	<b>\$ 12,648</b>	<b>\$ 1,792</b>	<b>\$ 3,190</b>	<b>\$ 17,630</b>	
		2021			
(in millions of dollars)	At fair value through profit or loss	Available for sale	Loans and receivables	Total	
<b>Bonds (corporate and other)</b>					
Financial services	\$ 2,187	\$ 1,176	\$ 568	\$ 3,931	
Utilities	4,660	209	779	5,648	
Consumer cyclical and non-cyclical	2,439	127	385	2,951	
Energy	1,108	135	515	1,758	
Industry	979	101	183	1,263	
Communications	1,110	203	1	1,314	
Other	554	70	338	962	
<b>Total</b>	<b>\$ 13,037</b>	<b>\$ 2,021</b>	<b>\$ 2,769</b>	<b>\$ 17,827</b>	

**Mortgages and other loans by region and type**

		2022					
(in millions of dollars)	Atlantic provinces	Quebec	Ontario	Western provinces	Outside Canada	Total	
<b>Insured mortgages</b>							
Multi-residential	\$ 18	\$ 730	\$ 116	\$ 270	\$ —	\$ 1,134	
Non-residential	—	—	—	3	—	3	
	18	730	116	273	—	1,137	
<b>Conventional mortgages</b>							
Multi-residential	—	39	48	20	120	227	
Non-residential	19	24	67	71	67	248	
	19	63	115	91	187	475	
<b>Other loans</b>	<b>153</b>	<b>321</b>	<b>381</b>	<b>364</b>	<b>—</b>	<b>1,219</b>	
<b>Total</b>	<b>\$ 190</b>	<b>\$ 1,114</b>	<b>\$ 612</b>	<b>\$ 728</b>	<b>\$ 187</b>	<b>\$ 2,831</b>	

	2021					
(in millions of dollars)	Atlantic provinces	Quebec	Ontario	Western provinces	Outside Canada	Total
<b>Insured mortgages</b>						
Multi-residential	\$ 19	\$ 837	\$ 139	\$ 331	\$ —	\$ 1,326
Non-residential	—	—	—	3	—	3
	19	837	139	334	—	1,329
<b>Conventional mortgages</b>						
Multi-residential	—	39	49	22	125	235
Non-residential	20	38	79	83	82	302
	20	77	128	105	207	537
<b>Other loans</b>	133	285	319	319	—	1,056
<b>Total</b>	\$ 172	\$ 1,199	\$ 586	\$ 758	\$ 207	\$ 2,922

#### Investment properties by type

(in millions of dollars)	2022	2021
Office	\$ 1,552	\$ 1,622
Retail	101	110
Industrial	66	52
Land	85	86
<b>Total</b>	<b>\$ 1,804</b>	<b>\$ 1,870</b>

#### c) Interest Rate Risk

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

(in millions of dollars)	2022		2021	
	Bonds	Mortgages and other loans	Bonds	Mortgages and other loans
Due in 1 year or less	\$ 783	\$ 303	\$ 631	\$ 212
Due after 1 year to 5 years	2,732	1,424	3,079	1,639
Due after 5 years to 10 years	4,218	927	2,925	840
Due after 10 years	18,794	177	25,619	231
<b>Total</b>	<b>\$ 26,527</b>	<b>\$ 2,831</b>	<b>\$ 32,254</b>	<b>\$ 2,922</b>

The effective yield is between 0.00% and 12.78% (0.00% and 12.00% in 2021) for bonds, between 0.49% and 34.99% (0.49% and 34.99% in 2021) for mortgages and other loans and between 0.00% and 12.00% (0.00% and 12.00% in 2021) for policy loans.

#### d) Liquidity Risk

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

The following tables present the maturities of financial liabilities and lease liabilities:

(in millions of dollars)	2022				Total
	Due in 1 year or less	Due in over 1 year to 3 years	Due in over 3 years to 5 years	Due in over 5 years	
Benefits payable	\$ 284	\$ —	\$ —	\$ —	\$ 284
Other policy liabilities	81	12	2	—	95
Amounts on deposit related to products other than insurance contracts	1,550	—	—	—	1,550
Investment contract liabilities	197	90	61	199	547
Derivative financial instruments	439	361	106	563	1,469
Other financial liabilities	1,611	110	20	6	1,747
Short-selling securities	956	—	—	—	956
Securitization liabilities	190	257	—	6	453
Mortgage debt	—	—	—	3	3
Lease liabilities	17	29	16	36	98
Debentures	—	—	—	404	404
<b>Total</b>	<b>\$ 5,325</b>	<b>\$ 859</b>	<b>\$ 205</b>	<b>\$ 1,217</b>	<b>\$ 7,606</b>

(in millions of dollars)	2021				Total
	Due in 1 year or less	Due in over 1 year to 3 years	Due in over 3 years to 5 years	Due in over 5 years	
Benefits payable	\$ 271	\$ —	\$ —	\$ —	\$ 271
Other policy liabilities	53	10	3	—	66
Amounts on deposit related to products other than insurance contracts	1,783	—	—	—	1,783
Investment contract liabilities	195	81	55	246	577
Derivative financial instruments	167	41	43	270	521
Other financial liabilities	1,646	92	17	5	1,760
Short-selling securities	262	—	—	—	262
Securitization liabilities	312	370	81	7	770
Mortgage debt	73	—	—	—	73
Lease liabilities	19	37	15	41	112
Debentures	250	—	—	403	653
<b>Total</b>	<b>\$ 5,031</b>	<b>\$ 631</b>	<b>\$ 214</b>	<b>\$ 972</b>	<b>\$ 6,848</b>

Annual interest payments are as follows:

(in millions of dollars)	2023	2024	2025	2026	2027
Securitization liabilities	\$ 11	\$ 5	\$ 2	\$ —	\$ —
Lease liabilities	3	3	2	2	2
Debentures	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13

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

#### e) Interest Rate Benchmark Reform

On May 16, 2022, the AMF approved the decision by the administrator of the Canadian Dollar Offered Rate (CDOR), Refinitiv Benchmark Services Limited (RBSL), to end the publication of the rate as of June 28, 2024. The Canadian Alternative Reference Rate Working Group (CARR), which brings together representatives from companies in the financial sector and from public institutions, proposed to replace the CDOR with the Canadian Overnight Repo Rate Average (CORRA), also administered by RBSL. At this time, no decision has been published for an alternative benchmark rate to be used in place of the CDOR.

The Company is assessing the effects of abandoning the CDOR on the risks that it is exposed to and the valuation of the financial instruments impacted by the reform. As at December 31, 2022, derivative financial instruments with a notional amount of \$12,218 and financial liabilities with a carrying value of \$400 are affected by the CDOR reform and will be transitioned to an alternative reference rate.

## 8 › Derivative Financial Instruments

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

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are transactions in which two counterparties exchange cash flows of the same nature and denominated in two different currencies. Total return swaps are contracts that transfer the variations in value of a reference asset, including any returns such as interest earned on these assets, in exchange for a reference return specified in the contract.

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

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

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments that have a positive value should the counterparty default. The maximum credit risk of derivative financial instruments as at December 31, 2022 is \$972 (\$914 in 2021). The Company's exposure at the end of each reporting period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

2022						
(in millions of dollars)	Notional amount			Total	Fair value	
	Less than 1 year	1 to 5 years	Over 5 years		Positive	Negative
<b>Equity contracts</b>						
Swap contracts	\$ 945	\$ —	\$ 80	\$ 1,025	\$ 16	\$ (23)
Futures contracts	455	—	—	455	15	—
Options	1,499	—	—	1,499	28	(7)
<b>Currency contracts</b>						
Swap contracts	142	197	5,342	5,681	235	(138)
Forward contracts	5,163	456	—	5,619	38	(27)
Options	254	38	—	292	6	(6)
<b>Interest rate contracts</b>						
Swap contracts	434	4,407	8,901	13,742	603	(750)
Futures contracts	2	—	—	2	—	—
Forward contracts	8,618	698	—	9,316	46	(514)
<b>Other derivative contracts</b>	<b>1</b>	<b>3</b>	<b>67</b>	<b>71</b>	<b>1</b>	<b>(4)</b>
<b>Total</b>	<b>\$ 17,513</b>	<b>\$ 5,799</b>	<b>\$ 14,390</b>	<b>\$ 37,702</b>	<b>\$ 988</b>	<b>\$ (1,469)</b>

2021						
(in millions of dollars)	Notional amount			Total	Fair value	
	Less than 1 year	1 to 5 years	Over 5 years		Positive	Negative
<b>Equity contracts</b>						
Swap contracts	\$ 914	\$ 243	\$ 95	\$ 1,252	\$ 21	\$ (3)
Futures contracts	474	—	—	474	—	(8)
Options	4,756	—	—	4,756	231	(99)
<b>Currency contracts</b>						
Swap contracts	64	358	4,531	4,953	106	(209)
Forward contracts	3,036	1,199	—	4,235	35	(35)
Options	38	—	—	38	—	—
<b>Interest rate contracts</b>						
Swap contracts	1,430	4,079	5,044	10,553	309	(107)
Forward contracts	2,449	1,407	—	3,856	212	(33)
<b>Other derivative contracts</b>	<b>3</b>	<b>5</b>	<b>233</b>	<b>241</b>	<b>3</b>	<b>(27)</b>
<b>Total</b>	<b>\$ 13,164</b>	<b>\$ 7,291</b>	<b>\$ 9,903</b>	<b>\$ 30,358</b>	<b>\$ 917</b>	<b>\$ (521)</b>

(in millions of dollars)	2022		
	Notional amount	Fair value	
		Positive	Negative
Derivative financial instruments not designated as hedge accounting	\$ 35,176	\$ 974	\$ (1,456)
Net investment hedge	2,103	11	—
Fair value hedges			
Interest risk	288	2	(9)
Currency risk	24	—	(1)
Cash flow hedges			
Currency risk	111	1	(3)
<b>Total of derivative financial instruments</b>	<b>\$ 37,702</b>	<b>\$ 988</b>	<b>\$ (1,469)</b>

(in millions of dollars)	2021		
	Notional amount	Fair value	
		Positive	Negative
Derivative financial instruments not designated as hedge accounting	\$ 27,789	\$ 903	\$ (504)
Net investment hedge	1,715	5	(15)
Fair value hedges			
Interest risk	712	5	(1)
Currency risk	27	1	(1)
Cash flow hedges			
Currency risk	115	3	—
<b>Total of derivative financial instruments</b>	<b>\$ 30,358</b>	<b>\$ 917</b>	<b>\$ (521)</b>

#### Embedded Derivative Financial Instruments

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

#### Net Investment Hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than 1 year as at December 31, 2022 (less than 1 year to 3 years as at December 31, 2021). The effective portion of changes in fair value is recorded in *Other comprehensive income*, as is the foreign currency translation of the net investment in a foreign operation. For the years ended December 31, 2022 and 2021, the Company did not recognize any ineffectiveness.

#### Fair Value Hedges

##### *Interest rate risk hedging*

During the year, the Company terminated a hedging relationship which aimed to reduce its exposure to interest rate risk related to financial assets classified as available for sale. The Company used interest rate swap contracts that had maturities of less than 1 year to 13 years as at December 31, 2021.

The Company entered into a hedging relationship in order to reduce its exposure to interest rate risk on financial liabilities classified as financial liabilities at amortized cost. The Company entered into interest rate swap contracts with maturities of less than 1 year to 6 years as at December 31, 2022 (less than 1 year to 7 years as at December 31, 2021).

For the year ended December 31, 2022, the Company has recognized a loss of \$27 on the hedging instruments (gain of \$17 for the year ended December 31, 2021) and a gain of \$26 on the hedged items (loss of \$21 for the year ended December 31, 2021). For the year ended December 31, 2022, the Company has recognized an ineffectiveness of \$1 (\$4 for the year ended December 31, 2021).

##### *Currency rate risk hedging*

The Company entered into a fair value hedge to manage its exposure to changes in currency rate risk related to financial assets classified as available for sale. The Company entered into forward contracts with maturities of less than 1 year as at December 31, 2022 (less than 1 year as at December 31, 2021). For the years ended December 31, 2022 and 2021, the Company did not recognize any ineffectiveness.

#### Cash Flow Hedges

The Company entered into a cash flow hedging relationship in order to manage its exposure to changes in currency rate risk on financial assets denominated in foreign currency. The Company entered into swap contracts that have maturities from 1 year to 7 years as at December 31, 2022 (from less than 1 year to 8 years as at December 31, 2021). For the years ended December 31, 2022 and 2021, the Company did not recognize any ineffectiveness.

## 9 › Other Assets

(in millions of dollars)	2022	2021
Investment income due and accrued	\$ 314	\$ 251
Outstanding premiums	114	112
Due from reinsurers	177	183
Post-employment benefits	—	82
Due from agents	191	155
Accounts receivable	1,262	1,102
Deferred sales commissions	316	252
Prepaid expenses	65	66
Linearization of rents	33	31
Income taxes receivable	229	162
Funds deposited in trust	830	920
Miscellaneous	1	3
<b>Total</b>	<b>\$ 3,532</b>	<b>\$ 3,319</b>

The amount of *Other assets* that the Company expects to receive within the next 12 months is \$2,287 (\$1,965 as at December 31, 2021).

## 10 › Fixed Assets

(in millions of dollars)	Own-use Property		Right-of-use Assets			Total
	Land	Real estate	Rental space	Other	Other fixed assets	
<b>Cost</b>						
Balance as at December 31, 2020	\$ 48	\$ 199	\$ 142	\$ 12	\$ 225	\$ 626
Acquisitions	—	5	5	1	35	46
Disposals/write-offs	—	—	(8)	—	(30)	(38)
Transfer to investment properties	—	(5)	—	—	—	(5)
<b>Balance as at December 31, 2021</b>	<b>48</b>	<b>199</b>	<b>139</b>	<b>13</b>	<b>230</b>	<b>629</b>
Acquisitions	—	20	6	1	38	65
Disposals/write-offs	—	(1)	(11)	(1)	(23)	(36)
Transfer to investment properties	(9)	(37)	—	—	—	(46)
Effect of changes in exchange rates	—	1	—	—	1	2
<b>Balance as at December 31, 2022</b>	<b>39</b>	<b>182</b>	<b>134</b>	<b>13</b>	<b>246</b>	<b>614</b>
<b>Accumulated depreciation</b>						
Balance as at December 31, 2020	—	66	30	5	154	255
Depreciation for the year	—	9	16	3	24	52
Depreciation on disposals/write-offs	—	—	(4)	—	(26)	(30)
Depreciation transferred to investment properties	—	(1)	—	—	—	(1)
<b>Balance as at December 31, 2021</b>	<b>—</b>	<b>74</b>	<b>42</b>	<b>8</b>	<b>152</b>	<b>276</b>
Depreciation for the year	—	9	14	3	29	55
Depreciation on disposals/write-offs	—	—	(6)	—	(15)	(21)
Depreciation transferred to investment properties	—	(19)	—	—	—	(19)
Effect of changes in exchange rates	—	1	—	—	1	2
<b>Balance as at December 31, 2022</b>	<b>—</b>	<b>65</b>	<b>50</b>	<b>11</b>	<b>167</b>	<b>293</b>
<b>Net carrying value as at December 31, 2022</b>	<b>\$ 39</b>	<b>\$ 117</b>	<b>\$ 84</b>	<b>\$ 2</b>	<b>\$ 79</b>	<b>\$ 321</b>
Net carrying value as at December 31, 2021	\$ 48	\$ 125	\$ 97	\$ 5	\$ 78	\$ 353

During the years ended December 31, 2022 and 2021, no own-use property was transferred to properties held for resale under *Other assets*.

**11 > Intangible Assets and Goodwill**

Intangible assets (in millions of dollars)	Finite useful life		Indefinite useful life	Total
	Software applications	Other		
<b>Cost</b>				
Balance as at December 31, 2020	\$ 86	\$ 549	\$ 348	\$ 983
Acquisitions	19	50	—	69
Transfer <sup>1</sup>	—	26	(26)	—
Disposals/write-offs	(5)	—	—	(5)
Disposal of businesses	—	(5)	(2)	(7)
Effect of changes in exchange rates	—	(1)	—	(1)
<b>Balance as at December 31, 2021</b>	<b>100</b>	<b>619</b>	<b>320</b>	<b>1,039</b>
Acquisitions	23	47	—	70
Disposals/write-offs	(2)	(4)	—	(6)
Effect of changes in exchange rates	—	6	—	6
<b>Balance as at December 31, 2022</b>	<b>121</b>	<b>668</b>	<b>320</b>	<b>1,109</b>
<b>Accumulated depreciation</b>				
Balance as at December 31, 2020	40	170	—	210
Depreciation for the year	14	39	—	53
Depreciation on disposals/write-offs	(2)	—	—	(2)
<b>Balance as at December 31, 2021</b>	<b>52</b>	<b>209</b>	<b>—</b>	<b>261</b>
Depreciation for the year	12	44	—	56
Depreciation on disposals/write-offs	(2)	(1)	—	(3)
Effect of changes in exchange rates	—	2	—	2
<b>Balance as at December 31, 2022</b>	<b>62</b>	<b>254</b>	<b>—</b>	<b>316</b>
<b>Net carrying value as at December 31, 2022</b>	<b>\$ 59</b>	<b>\$ 414</b>	<b>\$ 320</b>	<b>\$ 793</b>
Net carrying value as at December 31, 2021	\$ 48	\$ 410	\$ 320	\$ 778

<sup>1</sup> During the year ended December 31, 2021, the Company changed its assessment of the useful life of a \$26 intangible asset from indefinite to finite due to the situation described below under "Combination of cash-generating units".

<b>Goodwill</b> (in millions of dollars)				
Balance as at December 31, 2020				\$ 556
Disposal of businesses				(6)
<b>Balance as at December 31, 2021</b>				<b>550</b>
Effect of changes in exchange rates				3
<b>Balance as at December 31, 2022</b>				<b>\$ 553</b>

(in millions of dollars)	2022		2021	
	Indefinite useful life intangible assets	Goodwill	Indefinite useful life intangible assets	Goodwill
<b>Cash generating unit</b>				
Individual Wealth Management	\$ 308	\$ 280	\$ 308	\$ 280
Individual Insurance	6	143	6	143
Group Insurance	1	81	1	81
General Insurance	2	11	2	11
US Operations	3	38	3	35
<b>Total</b>	<b>\$ 320</b>	<b>\$ 553</b>	<b>\$ 320</b>	<b>\$ 550</b>



Goodwill and intangible assets with indefinite useful life are tested for impairment annually, or more frequently if events or changes in circumstances occur that may cause the recoverable amount of a CGU or CGU group to decrease to below its carrying value. The recoverable amount is the higher of the fair value less costs of sale and the value in use. Fair value less costs of sale is assessed by using a valuation multiples methodology. Under this methodology, fair value is assessed with reference to multiples or ratios of comparable businesses or previous business acquisition transactions. The value in use is based on the best estimates of future earnings and the level and cost of capital estimated on contract duration. The value attributed to new business is based on the business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU or CGU group, the Company makes judgments and various assumptions and estimates that could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the discount rate, growth rates, the value of new sales and any significant change in projected cash flows could result in significant changes in the recoverable amounts. As at December 31, 2022, management has determined that no reasonably possible change in the assumptions used would lead to a recoverable amount of a CGU or CGU group less than its carrying amount.

#### **Individual Wealth Management, General Insurance and Other Activities**

The recoverable amount of CGUs in the Individual Wealth Management sector is determined according to calculations of the value in use or according to the fair value less costs of sale. The recoverable amount of CGUs in the General Insurance and Other activities sectors has been determined according to calculations of the value in use, which were higher than the fair value less costs of sale.

The calculations of the recoverable amount of CGUs call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates. The calculation of the fair value less costs of sale is based on price-to-assets-under-management or price-to-assets-under-administration measures. The fair value measurements are categorized in Level 3 of the fair value hierarchy.

The Company uses several key assumptions in determining the recoverable amount. The assumed discount rate for determining the value of the CGUs is between 15% and 16% before tax (between 13% and 15% before tax in 2021). The assumptions used in the calculation are set for the medium-term growth rate between 4% and 5% (between 4% and 6% in 2021) and the long-term growth rate between 1% and 4% (between 1% and 4% in 2021).

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

#### *Combination of cash-generating units*

During the year ended December 31, 2021, the Company combined the totality of the *Other activities* CGU with the *Individual Insurance* CGU to reflect the way in which management now manages these businesses.

#### **Individual Insurance, Group Insurance and US Operations**

The recoverable amount of CGUs in the Individual Insurance, Group Insurance and US Operations sectors was determined according to calculations of the value in use or according to the fair value less costs of sale. The calculation of the fair value less costs of sale is based on measures such as multiple based on results. The calculations of the recoverable amount rely on discounted cash flow projections and represent estimated actuarial amounts which take into account the present value of net shareholder assets, future profitability of in-force business and profitability of new business where insurance companies are concerned. Cash flow projections before tax based on financial budgets approved by management and which cover a 5-year period are used for other kinds of businesses. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in delivering the recoverable amount. The assumed discount rate for determining the value of CGUs is between 13% and 17% before tax (between 11% and 14% before tax in 2021).

The key assumptions of the valuation take into account the discount rate, expected business growth, expected return of the financial markets, fees and, when applicable, mortality as well as lapses.

## 12 › Segregated Funds Net Assets

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

(in millions of dollars)	2022	2021
<b>Assets</b>		
Cash and short-term investments	\$ 1,583	\$ 1,448
Bonds	6,416	6,794
Stocks and investment funds	29,465	31,235
Mortgages	56	42
Investment properties	13	15
Derivative financial instruments	11	12
Other assets	168	450
	<b>37,712</b>	<b>39,996</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	378	419
<b>Net assets</b>	<b>\$ 37,334</b>	<b>\$ 39,577</b>

The following table presents the change in segregated funds net assets:

(in millions of dollars)	2022	2021
Balance at beginning	\$ 39,577	\$ 32,815
Add:		
Amounts received from policyholders	6,736	8,004
Interest, dividends and other investment income	1,307	1,416
Change in fair value of investments	(5,186)	2,883
	<b>42,434</b>	<b>45,118</b>
Less:		
Amounts withdrawn by policyholders	4,393	4,875
Operating expenses	707	666
	<b>5,100</b>	<b>5,541</b>
<b>Balance at end</b>	<b>\$ 37,334</b>	<b>\$ 39,577</b>

	2022	2021
<b>Type of funds</b>		
Equity	48%	48%
Balanced	34%	34%
Fixed income	16%	17%
Money market	2%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed income securities and, for some funds, a small proportion in high-yield bonds. The balanced funds consist of fixed income securities and a larger equity investment component. The equity funds, which range from low volatility equity funds to aggressive equity funds, invest in a varying mix of Canadian, U.S. and global equities.

### 13 › Management of Insurance Risk

Insurance risk is the risk of financial loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing. It may arise at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when establishing provisions for future policy benefits.

When designing and pricing products, insurance risk may result from inappropriate pricing resulting in insufficient returns as compared to the Company's profitability objectives. This risk may be due to a poor estimate of the future experience regarding several factors, such as mortality, morbidity, lapse, expenses and taxes. Insurance risk may also arise when the selection of the risks to be insured or the settlement of claims is inconsistent with the design and pricing of the product. When calculating provisions for future policy benefits, a financial loss could arise in the event of inadequate use of experience results to establish assumptions.

The Company has controls and processes in place at each of these stages to ensure that these risks are adequately managed.

#### Product Design and Pricing

For certain types of contracts, insurance risk may be shared with or transferred to the policyholder through a dividends and experience refunds policy, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

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

At this stage in the life of a product, risk is primarily managed through a regular analysis of 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.

#### Calculation of Provisions for Future Policy Benefits

In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. Internal reviews of changes in technical results and external sources of information are monitored for the purpose of revising the assumptions, which may result in revisions of 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 CIA (or another relevant organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

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.

#### Reinsurance

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. The Company adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit associated with the amounts ceded to reinsurers in the event that the reinsurers are unable to meet their obligations.

**14 › Insurance Contract Liabilities and Investment Contract Liabilities**
**A) Insurance Contract Liabilities**

Insurance contract liabilities are determined according to the CALM described in Note 2 “Significant Accounting Policies”, section k) ii) “Insurance Contract Liabilities”. Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits.

**a) Composition**

(in millions of dollars)	2022	2021
Provisions for future policy benefits	\$ 29,557	\$ 35,679
Other insurance contract liabilities		
Benefits payable and provisions for unreported claims	466	414
Policyholders’ amounts on deposit	379	424
Provisions for dividends to policyholders and experience rating refunds	21	23
	866	861
<b>Total</b>	<b>\$ 30,423</b>	<b>\$ 36,540</b>

(in millions of dollars)	2022						Total
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Insurance contract liabilities (gross)</b>							
Canada	\$ 19,926	\$ 2,286	\$ 1,633	\$ 5,274	\$ —	\$ —	\$ 29,119
United States	—	—	—	—	1,327	(25)	1,302
Other countries	2	—	—	—	—	—	2
	19,928	2,286	1,633	5,274	1,327	(25)	30,423
<b>Reinsurance assets</b>							
Canada	462	—	110	63	—	—	635
United States	—	—	—	—	668	(10)	658
	462	—	110	63	668	(10)	1,293
<b>Net insurance contract liabilities</b>	<b>\$ 19,466</b>	<b>\$ 2,286</b>	<b>\$ 1,523</b>	<b>\$ 5,211</b>	<b>\$ 659</b>	<b>\$ (15)</b>	<b>\$ 29,130</b>

(in millions of dollars)	2021						Total
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Insurance contract liabilities (gross)</b>							
Canada	\$ 25,759	\$ 1,924	\$ 1,691	\$ 5,392	\$ —	\$ —	\$ 34,766
United States	—	—	—	—	1,878	(106)	1,772
Other countries	2	—	—	—	—	—	2
	25,761	1,924	1,691	5,392	1,878	(106)	36,540
<b>Reinsurance assets</b>							
Canada	144	—	122	116	—	—	382
United States	—	—	—	—	828	(91)	737
	144	—	122	116	828	(91)	1,119
<b>Net insurance contract liabilities</b>	<b>\$ 25,617</b>	<b>\$ 1,924</b>	<b>\$ 1,569</b>	<b>\$ 5,276</b>	<b>\$ 1,050</b>	<b>\$ (15)</b>	<b>\$ 35,421</b>

**b) Changes in Insurance Contract Liabilities and Reinsurance Assets**

(in millions of dollars)	2022			
	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
Balance at beginning	\$ 35,679	\$ 861	\$ 36,540	\$ 1,119
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	(7,356)	—	(7,356)	268
On new policies	1,087	—	1,087	(167)
Changes in methods and assumptions	50	—	50	22
	(6,219)	—	(6,219)	123
Changes in methods and assumptions	—	2	2	—
Effect of change in exchange rates	97	8	105	47
Other	—	(5)	(5)	4
	97	5	102	51
<b>Balance at end</b>	<b>\$ 29,557</b>	<b>\$ 866</b>	<b>\$ 30,423</b>	<b>\$ 1,293</b>
	2021			
(in millions of dollars)	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
Balance at beginning	\$ 35,729	\$ 798	\$ 36,527	\$ 1,059
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	(707)	—	(707)	232
On new policies	673	—	673	(148)
Changes in methods and assumptions	(11)	—	(11)	(7)
	(45)	—	(45)	77
Changes in methods and assumptions	—	(2)	(2)	(1)
Effect of change in exchange rates	(16)	(1)	(17)	(7)
Other	11	66	77	(9)
	(5)	63	58	(17)
<b>Balance at end</b>	<b>\$ 35,679</b>	<b>\$ 861</b>	<b>\$ 36,540</b>	<b>\$ 1,119</b>

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts.

**Gains and Losses on New Reinsurance Treaties**

During the year ended December 31, 2022, the Company concluded new reinsurance agreements (none during the year ended December 31, 2021) for which a gain of \$52 was recorded in the Income Statement.

**c) Risk Management and Assumptions for Valuation of Insurance Contract Liabilities**

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their selection takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The use of actuarial assumptions in the valuation of insurance contract liabilities requires significant judgment. The margins for adverse deviation assumptions and methods used to establish the most significant assumptions are described below.

**Mortality and Morbidity**

Mortality represents the occurrence of death in a given population. The mortality assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative. For Individual Insurance, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates. For Individual Wealth Management and Group Savings and Retirement, annuity mortality improvement has been projected to occur throughout the future. For the Group Insurance segment, the expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

Morbidity represents the occurrence of accident or illness among insured risks. The morbidity assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative.

To manage mortality and morbidity risk, the Company uses detailed and uniform underwriting procedures that assess the insurability of the candidate and control exposure to large claims. The Company conducts monthly monitoring of technical results relating to claims and fixes retention limits that vary across markets and regions. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

As at December 31, 2022, the Company estimates that a 5% permanent deterioration in mortality rates would result in a \$147 reduction in net income attributed to the common shareholder due to the strengthening of the insurance contract liabilities (reduction of \$180 as at December 31, 2021). The 5% deterioration is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products. An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

As at December 31, 2022, the Company estimates that a 5% deterioration in morbidity rates would result in a \$56 reduction in net income attributed to the common shareholder (reduction of \$59 as at December 31, 2021). The 5% deterioration is expressed assuming 95% of the termination rate of disability when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is not disabled. An improvement of the same percentage in morbidity rates would have a similar impact, but in the opposite direction.

### Investment Return and Interest Rate Risk

The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of the CALM is found in Note 2 "Significant Accounting Policies", section k) ii) "Insurance Contract Liabilities".

Interest rate risk is the risk of loss due to future changing interest rates. The investment returns are projected from the current investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages interest rate risk through an asset and liability matching policy that is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long-term commitments, the Company favours an investment strategy that tends to achieve a balance between optimizing after-tax return and capital protection since it is impossible to apply a complete immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

As at December 31, 2022, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to a decrease in the insurance contract liabilities of approximately \$42 after tax (decrease of \$25 after tax as at December 31, 2021). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about \$43 after tax (increase of \$68 after tax as at December 31, 2021). The Company estimates that a 0.1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets suddenly decreased by 10% as at December 31, 2022, net income attributed to the common shareholder would be about \$39 lower than expected for its regular operations (\$44 as at December 31, 2021). The Company estimates that a sudden 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact but in the opposite direction.

### Expenses

Administration expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. Policy administration expenses were calculated using the Company's internal expense allocation studies. These studies consider investments in improvement projects for which productivity gains are planned. These gains are only recognized up to the cost of the project that generates them. Unit expense factors projected for the coming years vary according to the investments planned in improvement projects, productivity that they will generate and the inflation assumption, which is established coherently with the interest rate assumption.

The risk related to expenses is the risk that the costs of future expenses are greater than the estimated costs in the measurement of liabilities or used in the design and pricing of products. A rigorous budget process is implemented annually. The budget is monitored on an ongoing basis throughout the year to assess the differences between budgeted costs and actual costs. To manage the risk, the Company prices its products to cover expected costs.

As at December 31, 2022, the Company estimates that a 5% increase in unit costs would result in a \$89 reduction in net income attributed to the common shareholder (\$86 as at December 31, 2021). A decrease of the same percentage would have a similar impact, but in the opposite direction.

### Lapse

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Long-term lapse rate assumptions take into account the usually lower contract cancellation rates with respect to lapse-supported products compared to other products. Expected lapse rate assumptions are generally based on the Company's recent lapse experience and are adjusted to take into account industry experience where the Company's experience is limited.

The Company reduces its exposure to lapse and surrender risk as much as possible through the way it develops its products. The contracts are built with modalities having a positive impact on the lapse rate. These modalities may result in charges for surrenders, limitations on the amounts surrendered or limitations regarding the moment when surrenders may be made. Finally, the Company has established a monthly method to follow up on lapses and surrenders.

As at December 31, 2022, the Company estimates that a 5% deterioration in lapse rates would result in a \$161 reduction in net income attributed to the common shareholder (\$205 as at December 31, 2021). The 5% deterioration is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products. An improvement of the same percentage would have a similar impact, but in the opposite direction.

#### **Premium Payment Patterns**

For Universal Life contracts, assumptions must be established with respect to premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

#### **Currency Risk**

Currency risk results from a difference between the currency of liabilities and the currency of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different currency.

#### **Guarantees on Segregated Funds**

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. The Company has set up a dynamic hedging program. In this program, a large part of the variations in the economic value of liabilities is offset by variations in assets held. The hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss in the Income Statement.

A liability related to the segregated fund guarantees granted by the Company is maintained in the general fund. The amount of the liability is at least as great as the amount determined using the methodology defined by the CIA.

#### **Margins for Adverse Deviations**

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the appointed actuary must adjust these assumptions to include margins for adverse deviations and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range of margins for adverse deviations is set out in standards issued by the CIA. The factors considered in the selection of appropriate ranges include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back as an increase in *Net income*.

#### **d) Impact of Changes in Methodologies and Assumptions on Net Insurance Contract Liabilities**

A review of the methods and assumptions is performed annually to reflect changing experience and to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in methodologies and assumptions as well as their explanation:

(in millions of dollars)	2022	2021	
Mortality and morbidity	\$ 25	\$ 39	Mainly explained by the annual update of mortality and morbidity studies 2022: Partly offset by the application of the new mortality table from the CIA 2021: Including an increase of \$13 to reflect the most recent trends in additional mortality for direct and indirect COVID-19 pandemic impacts
Policyholder behaviour	114	10	Mainly explained by the annual update of lapse rate studies 2022: Including lower excess premiums projected in universal life policies 2021: Including a decrease of \$49 to reflect the evolution of the portfolio of policies for which a specific provision related to the COVID-19 pandemic was set up in 2020
Investment returns	(288)	(47)	Mainly explained by the annual update of investment return assumptions 2022: Including the impact of interest rate increases on financial guarantee provisions and the release of some macroeconomic protections
Expenses, models and other	151	(4)	Mainly explained by the update of the expense assumptions and model refinements
<b>Impact on net non-participating insurance contract liabilities</b>	<b>2</b>	<b>(2)</b>	
<b>Impact on net participating insurance contract liabilities</b>	<b>28</b>	<b>(3)</b>	
<b>Impact on net insurance contract liabilities</b>	<b>\$ 30</b>	<b>\$ (5)</b>	

## B) Investment Contract Liabilities

### a) Composition

Non-participating deficit reimbursement agreement group insurance contracts are classified as investment contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The fair value of these investment contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

(in millions of dollars)	2022			2021		
	Insurance	Savings and Retirement	Total	Insurance	Savings and Retirement	Total
<b>Investment contract liabilities (gross)</b>						
Canada	\$ 536	\$ 11	\$ 547	\$ 577	\$ —	\$ 577
<b>Reinsurance assets</b>						
Canada	53	—	53	49	—	49
<b>Net investment contract liabilities</b>	<b>\$ 483</b>	<b>\$ 11</b>	<b>\$ 494</b>	<b>\$ 528</b>	<b>\$ —</b>	<b>\$ 528</b>

### b) Variations in Net Investment Contract Liabilities

(in millions of dollars)	2022		2021	
	Investment contract liabilities	Reinsurance assets	Investment contract liabilities	Reinsurance assets
Balance at beginning	\$ 577	\$ 49	\$ 575	\$ 83
Deposits	108	10	180	15
Withdrawals	(87)	(7)	(159)	(49)
Increase (decrease) in investment contract liabilities and reinsurance assets	(44)	—	(1)	1
Other	(7)	1	(18)	(1)
<b>Balance at end</b>	<b>\$ 547</b>	<b>\$ 53</b>	<b>\$ 577</b>	<b>\$ 49</b>



**C) Assets Backing Liabilities and Equity**

The carrying value of total assets backing insurance contract liabilities, investment contract liabilities, other liabilities and equity is as follows:

2022										
(in millions of dollars)	Individual		Group							
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Insurance contract liabilities total	Investment contract liabilities	Other liabilities and equity	Total
Cash and short-term investments	\$ (292)	\$ (41)	\$ 2	\$ 120	\$ —	\$ —	\$ (211)	\$ 2	\$ 1,430	\$ 1,221
Bonds	13,257	2,374	1,404	4,599	575	(15)	22,194	432	3,901	26,527
Mortgages and other loans	88	56	114	358	20	—	636	58	2,137	2,831
Stocks	3,404	2	3	93	—	—	3,502	1	409	3,912
Policy loans	984	71	—	—	64	—	1,119	—	—	1,119
Other invested assets	486	—	—	—	—	—	486	—	23	509
Derivative financial instruments <sup>1</sup>	(339)	(176)	—	41	—	—	(474)	1	(8)	(481)
Investment properties	1,797	—	—	—	—	—	1,797	—	7	1,804
Reinsurance assets	462	—	110	63	668	(10)	1,293	53	974	2,320
Other	81	—	—	—	—	—	81	—	5,211	5,292
<b>Total</b>	<b>\$ 19,928</b>	<b>\$ 2,286</b>	<b>\$ 1,633</b>	<b>\$ 5,274</b>	<b>\$ 1,327</b>	<b>\$ (25)</b>	<b>\$ 30,423</b>	<b>\$ 547</b>	<b>\$ 14,084</b>	<b>\$ 45,054</b>

2021										
(in millions of dollars)	Individual		Group							
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Insurance contract liabilities total	Investment contract liabilities	Other liabilities and equity	Total
Cash and short-term investments	\$ (103)	\$ (1)	\$ 7	\$ (22)	\$ —	\$ —	\$ (119)	\$ 11	\$ 1,575	\$ 1,467
Bonds	18,756	1,741	1,430	4,778	970	(16)	27,659	449	4,146	32,254
Mortgages and other loans	97	59	128	422	25	—	731	65	2,126	2,922
Stocks	3,201	2	4	70	—	—	3,277	2	490	3,769
Policy loans	897	88	—	—	55	—	1,040	—	—	1,040
Other invested assets	456	—	—	—	—	—	456	—	21	477
Derivative financial instruments <sup>1</sup>	358	35	—	29	—	—	422	—	(26)	396
Investment properties	1,863	—	—	—	—	—	1,863	—	7	1,870
Reinsurance assets	144	—	122	116	828	(91)	1,119	49	816	1,984
Other	92	—	—	(1)	—	1	92	1	4,914	5,007
<b>Total</b>	<b>\$ 25,761</b>	<b>\$ 1,924</b>	<b>\$ 1,691</b>	<b>\$ 5,392</b>	<b>\$ 1,878</b>	<b>\$ (106)</b>	<b>\$ 36,540</b>	<b>\$ 577</b>	<b>\$ 14,069</b>	<b>\$ 51,186</b>

<sup>1</sup> In its matching process, the Company considers the net value of derivative financial instruments, therefore, both assets and liabilities. Derivative financial instruments liabilities of an amount of \$1,231 (\$395 in 2021) for Individual Insurance, \$200 (\$44 in 2021) for Individual Wealth Management, none for Group Insurance (none in 2021) and \$10 (\$33 in 2021) for Group Savings and Retirement were considered in the matching process.

The fair value of assets backing net insurance contract liabilities as at December 31, 2022 was estimated at \$28,715 (\$35,737 as at December 31, 2021). Insurance contract liabilities are measured at fair value as per the CALM, except for liabilities backed by assets that are measured at amortized cost, such as mortgages, and bonds classified as loans and receivables.

The fair value of assets backing net investment contract liabilities as at December 31, 2022 represents approximately \$480 (\$536 as at December 31, 2021).

## 15 › Other Liabilities

(in millions of dollars)	2022	2021
Unearned premiums	\$ 2,174	\$ 1,886
Other insurance contract liabilities	158	108
Post-employment benefits	172	228
Income taxes payable	108	123
Amounts on deposit on products other than insurance contracts	1,550	1,783
Accounts payable	1,515	1,543
Due to reinsurers	281	256
Short-selling securities	956	262
Securitization liabilities	453	770
Mortgage debt	3	73
Lease liabilities	98	112
Fair value of purchased business in force	11	10
Miscellaneous	17	15
<b>Total</b>	<b>\$ 7,496</b>	<b>\$ 7,169</b>

## 16 › Debentures

Due to the organizational structure, the outstanding debentures issued by the Company are guaranteed by iA Financial Corporation.

(in millions of dollars)	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
Subordinated debentures bearing interest at 2.64%	\$ —	\$ —	\$ 250	\$ 251
Subordinated debentures bearing interest at 3.30%	400	393	399	411
Floating rate surplus notes based on LIBOR plus 4.25%	4	4	4	4
<b>Total</b>	<b>\$ 404</b>	<b>\$ 397</b>	<b>\$ 653</b>	<b>\$ 666</b>

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

### Subordinated Debentures Bearing Interest at 2.64%

On February 23, 2022, the Company redeemed all of its \$250 subordinated debentures maturing February 23, 2027, bearing interest of 2.64% payable semi-annually until February 23, 2022. The subordinated debentures were redeemed at nominal value plus accrued and unpaid interest, for a total disbursement of \$253.

### Subordinated Debentures Bearing Interest at 3.30%

Subordinated debentures maturing September 15, 2028, bearing interest of 3.30%, payable semi-annually from March 15, 2017 to September 15, 2023, and a variable interest rate equal to the 3-month CDOR plus 2.14%, payable quarterly commencing December 15, 2023 until September 15, 2028. These subordinated debentures are redeemable by the Company starting September 15, 2023, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes the amortized transaction costs and issue discount for a total of less than \$1.

### Floating Rate Surplus Notes Based on LIBOR plus 4.25%

Floating rate surplus notes, bearing interest equal to the LIBOR 3-month rate plus 4.25%, payable quarterly, maturing in May 2034.

## 17 › Share Capital

The Company's authorized share capital consists of the following:

### Common Shares

Unlimited number of common shares without par value, with one voting right.

### Preferred Shares

Unlimited number of Class A preferred shares, without par value, without voting rights, issuable in series, and 10,000,000 preferred shares with a par value of 25 dollars each, without voting rights, issuable in series.

3,000,000 Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the issuing value at the option of the Company under certain conditions, including approval by the AMF, convertible at the option of the holder into common shares at 95% of the market value of these common shares. This conversion option may itself lead to a conversion of the Series 1 preferred shares into Series 2 preferred shares at the option of the Company.

3,000,000 Series 2 preferred shares, issuable for the sole purpose of conversion of Series 1 preferred shares, with a non-cumulative preferential dividend of 1% until 2004 and redeemable at the option of the Company at the issuing value, multiplied by 1.0526 under certain conditions, including the necessity to proceed with the issue of Series 3 preferred shares.

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

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

An unlimited number of Class A – Series B preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders, subject to approval by the AMF, into new Class A preferred shares.

An unlimited number of Class A – Series C preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend and adjusted every 5 years with an initial annual rate in cash of 1.55 dollars per share, redeemable in whole or in part at the option of the Company commencing December 31, 2013 and thereafter on December 31 every 5 years, subject to approval by the AMF, for 25 dollars per share, and convertible at the option of the shareholders into Class A – Series D preferred shares commencing on December 31, 2013 and thereafter on December 31 every 5 years.

An unlimited number of Class A – Series D preferred shares, without par value, without voting rights, with a non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on December 31, 2018 and thereafter on December 31 every 5 years for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any date other than at Series D conversion dates after December 31, 2013, for an amount of 25.50 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series C preferred shares on December 31, 2018 and thereafter on December 31 every 5 years.

An unlimited number of Class A – Series E preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate of 1.50 dollars per share, redeemable in whole or in part at the option of the Company commencing on December 31, 2014, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of Class A – Series F preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate of 1.475 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2015, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year.

An unlimited number of Class A – Series G preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend in cash with an initial annual rate equal to 1.0750 dollars per share, redeemable in whole or in part at the option of the Company on June 30, 2017 and on June 30 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series H preferred shares on June 30, 2017 and thereafter on June 30 every 5 years. On June 30, 2017, the Company modified the non-cumulative quarterly dividend to an annual rate equal to 0.94425 dollars in cash per share.

An unlimited number of Class A – Series H preferred shares, without par value, without voting rights, with a non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on June 30, 2022, and on June 30 every 5 years thereafter for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any date other than at Series H conversion dates after June 30, 2017, for an amount of 25.50 dollars, subject to approval by the AMF and convertible at the option of the shareholders into Class A – Series G preferred shares on June 30, 2022 and thereafter on June 30 every 5 years.

An unlimited number of Class A – Series I preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate equal to 1.20 dollars per share for a period of 5 years beginning on March 7, 2018 and ending on March 31, 2023, excluding this date, redeemable in whole or in part at the option of the Company on March 31, 2023 and on March 31 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series J preferred shares on March 31, 2023 and thereafter on March 31 every 5 years.

An unlimited number of Class A – Series J preferred shares, without par value, without voting rights, with a non-cumulative variable rate quarterly dividend, redeemable in whole or in part at the option of the Company on March 31, 2028, and on March 31 every 5 years thereafter for a cash value of 25 dollars or redeemable in whole or in part at the option of the Company at any date other than at Series J conversion dates after March 31, 2028, for an amount of 25.50 dollars, subject to approval by the AMF and convertible at the option of the shareholders into Class A – Series I preferred shares on March 31, 2028 and thereafter on March 31 every 5 years.

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

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

The share capital issued by the Company is as follows:

(in millions of dollars, unless otherwise indicated)	2022		2021	
	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
<b>Common shares</b>				
Balance at beginning	108,575	\$ 1,655	108,575	\$ 1,655
Shares issued	5,000	100	—	—
Balance at end	113,575	1,755	108,575	1,655
<b>Preferred shares, Class A</b>				
Balance at beginning	21,000	525	21,000	525
Shares redeemed – Series G	(10,000)	(250)	—	—
Balance at end	11,000	275	21,000	525
<b>Total of share capital</b>		<b>\$ 2,030</b>		<b>\$ 2,180</b>

#### Common shares

##### Issuance

On June 7, 2022, the Company issued 5,000,000 common shares for a cash amount of \$100.

#### Preferred Shares, Class A

Due to the organizational structure, the outstanding preferred shares issued by the Company are guaranteed by iA Financial Corporation.

##### Redemption

On June 30, 2022, the Company redeemed all of the 10,000,000 Class A – Series G preferred shares at a price of 25 dollars per share for a cash amount of \$250.

#### Dividends

(in millions of dollars, unless otherwise indicated)	2022		2021	
	Total	Per share (in dollars)	Total	Per share (in dollars)
<b>Common shares</b>				
	\$ 300	\$ 2.64	\$ 250	\$ 2.30
<b>Preferred shares</b>				
Class A – Series B	6	1.15	6	1.15
Class A – Series G	4	0.47	9	0.94
Class A – Series I	8	1.20	7	1.20
	18		22	
<b>Total</b>	<b>\$ 318</b>		<b>\$ 272</b>	

## 18 › Accumulated Other Comprehensive Income

(in millions of dollars)	Bonds	Stocks	Investment properties	Currency translation	Hedging	Total
Balance as at December 31, 2020	\$ 134	\$ 5	\$ —	\$ 40	\$ (29)	\$ 150
Unrealized gains (losses)	(85)	19	—	—	—	(66)
Income taxes on unrealized gains (losses)	21	(4)	—	—	—	17
Other	—	—	—	(11)	15	4
Income taxes on other	—	—	—	—	(2)	(2)
	(64)	15	—	(11)	13	(47)
Realized losses (gains)	(36)	(1)	—	—	—	(37)
Income taxes on realized losses (gains)	9	—	—	—	—	9
	(27)	(1)	—	—	—	(28)
<b>Balance as at December 31, 2021</b>	<b>43</b>	<b>19</b>	<b>—</b>	<b>29</b>	<b>(16)</b>	<b>75</b>
Unrealized gains (losses)	(412)	(92)	—	—	—	(504)
Income taxes on unrealized gains (losses)	106	28	—	—	—	134
Revaluation surplus related to transfers to investment properties	—	—	26	—	—	26
Income taxes on revaluation surplus related to transfers to investment properties	—	—	(4)	—	—	(4)
Other	—	—	—	139	(130)	9
Income taxes on other	—	—	—	—	19	19
	(306)	(64)	22	139	(111)	(320)
Realized losses (gains)	(45)	—	—	—	—	(45)
Income taxes on realized losses (gains)	13	—	—	—	—	13
	(32)	—	—	—	—	(32)
<b>Balance as at December 31, 2022</b>	<b>\$ (295)</b>	<b>\$ (45)</b>	<b>\$ 22</b>	<b>\$ 168</b>	<b>\$ (127)</b>	<b>\$ (277)</b>

## 19 › Capital Management

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

To reach its objectives, the Company has an enterprise risk management framework that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This framework includes a capital management policy that describes the key processes related to capital management, including the process for determining the target operating level of the solvency ratio. The framework also comprises reporting on the Company's risk profile and a financial condition testing (FCT) report. These reports enable the identification of risks and contain proposals for possible risk management actions. FCT consists in quantifying the financial impact of adverse scenarios related among other things to stress on the stock market, interest rates and credit. These documents are revised annually and filed with the Board of Directors.

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

### Regulatory Requirements and Solvency Ratio

The Company manages its capital jointly with iA Financial Corporation.

The Company's capital adequacy requirements are regulated according to the guideline on capital adequacy requirements for life insurers (CARLI).

According to CARLI, many items are included in the solvency ratio:

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

Tier 1 capital contains more permanent equity items and is primarily composed of equity attributable to the common shareholder and to preferred shares. Goodwill and other intangible assets are deducted from this category.

Tier 2 capital is primarily composed of subordinated debentures.

The surplus allowance is the value of specific provisions for adverse deviations included in insurance contract liabilities.

The eligible deposits are amounts related to unregistered reinsurance agreements, which are deposited in guarantee instruments.

The base solvency buffer is determined according to five risk categories, namely credit risk, market risk, insurance risk, segregated funds guarantee risk and operational risk. These risk components are calculated using various methods and consider the risks associated to asset and liability elements that are on and off the Statement of Financial Position. The base solvency buffer represents the sum of risk components minus some credits (for example, between-risk diversification and adjustable products) multiplied by a scalar of 1.05.

The CARLI total ratio is calculated by dividing the sum of the available capital, the surplus allowance and the eligible deposits by the base solvency buffer.

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

As at December 31, 2022 and 2021, the Company maintains a ratio that satisfies the regulatory requirements.

(in millions of dollars, unless otherwise indicated)	2022	2021
Available capital, surplus allowance and eligible deposits	\$ 8,864	\$ 9,732
Base solvency buffer	\$ 7,514	\$ 7,636
<b>Total ratio</b>	<b>118%</b>	<b>127%</b>

## 20 › General Expenses

(in millions of dollars)	2022	2021
Salaries, benefits and stock-based compensation	\$ 826	\$ 802
Professional fees	306	253
Depreciation of fixed assets (Note 10)	55	52
Depreciation of intangible assets (Note 11)	56	53
Real estate operating expenses	101	94
Other administrative expenses	461	362
<b>Total</b>	<b>\$ 1,805</b>	<b>\$ 1,616</b>

General expenses include investment fees for an amount of \$90 (\$68 in 2021). These investment fees exclude real estate operating expenses.

## 21 › Financing Charges

(in millions of dollars)	2022	2021
Interest on debentures	\$ 16	\$ 21
Interest on securitization liabilities	16	21
Interest on lease liabilities	3	4
Other	24	7
<b>Total</b>	<b>\$ 59</b>	<b>\$ 53</b>

## 22 › Income Taxes

### a) Income Tax Expense (Recovery) for the Year

Income tax

(in millions of dollars)	2022	2021
<b>Current income tax</b>		
Current year	\$ 176	\$ 200
Adjustments of previous years	16	24
	192	224
<b>Deferred income tax</b>		
Creation and reversal of temporary differences	22	41
Adjustments of previous years	(48)	(11)
Variation in tax rates	1	1
	(25)	31
<b>Income tax expense (recovery)</b>	<b>\$ 167</b>	<b>\$ 255</b>

Income tax recognized directly in equity

(in millions of dollars)	2022	2021
<b>Recognized in other comprehensive income</b>		
Current income tax expense (recovery)	\$ (17)	\$ (8)
Deferred income tax expense (recovery)	(147)	54
<b>Total</b>	<b>\$ (164)</b>	<b>\$ 46</b>

(in millions of dollars)	2022	2021
<b>Recognized in retained earnings</b>		
Deferred income tax expense (recovery)	\$ —	\$ —

### b) Reconciliation of Income Tax Expense

The effective income tax rate differs from the Canadian statutory tax rate due to the following items:

(in millions of dollars, unless otherwise indicated)	2022		2021	
Income before income taxes	\$ 1,012		\$ 1,105	
Income tax expense at Canadian statutory tax rate	274	27%	292	26%
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	(17)	(2)%	(5)	—%
Tax-exempt investment income	(62)	(6)%	(48)	(4)%
Non-deductible (non-taxable) portion of the change in fair value of investment properties	4	1%	—	—%
Adjustments related to prior years	(32)	(3)%	13	1%
Variation in tax rates	1	—%	1	—%
Other	(1)	—%	2	—%
<b>Income tax expense (recovery) and effective income tax rate</b>	<b>\$ 167</b>	<b>17%</b>	<b>\$ 255</b>	<b>23%</b>

### c) Deferred Income Taxes

i) Recognized deferred income tax assets and liabilities

(in millions of dollars)	2022	2021
Deferred income tax assets	\$ 93	\$ 7
Deferred income tax liabilities	(234)	(316)
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ (141)</b>	<b>\$ (309)</b>

Deferred income tax assets and deferred income tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities for the same taxable entity and the same taxation authority and if the Company intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

2022						
(in millions of dollars)	Balance as at December 31, 2021	Recognized in net income	Recognized in other comprehensive income	Effect of changes in exchange rates	Other	Balance as at December 31, 2022
Bonds	\$ (47)	\$ 84	\$ 11	\$ 1	\$ —	\$ 49
Stocks	(63)	(5)	—	(2)	—	(70)
Real estate	(129)	17	(1)	—	—	(113)
Right-of-use assets	(27)	5	—	—	(1)	(23)
Intangible assets	(164)	(1)	—	—	—	(172)
Insurance contract liabilities	5	(94)	116	(8)	—	19
Post-employment benefits	20	32	2	—	—	54
Lease liabilities	29	(5)	—	—	1	25
Losses available for carry-forward	24	(6)	3	1	1	23
Other	43	(2)	16	3	—	67
<b>Total</b>	<b>\$ (309)</b>	<b>\$ 25</b>	<b>\$ 147</b>	<b>\$ (5)</b>	<b>\$ 1</b>	<b>\$ (141)</b>

2021						
(in millions of dollars)	Balance as at December 31, 2020	Recognized in net income	Recognized in other comprehensive income	Effect of changes in exchange rates	Other	Balance as at December 31, 2021
Bonds	\$ (85)	\$ 19	\$ 3	\$ 1	\$ 15	\$ (47)
Stocks	(36)	(11)	—	—	(16)	(63)
Real estate	(112)	(14)	—	—	(3)	(129)
Right-of-use assets	(31)	5	—	—	(1)	(27)
Intangible assets	(153)	(12)	—	—	1	(164)
Insurance contract liabilities	(7)	(3)	14	—	1	5
Post-employment benefits	102	(12)	(70)	—	—	20
Lease liabilities	33	(5)	—	—	1	29
Losses available for carry-forward	29	(7)	—	—	2	24
Other	35	9	(1)	(1)	1	43
<b>Total</b>	<b>\$ (225)</b>	<b>\$ (31)</b>	<b>\$ (54)</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ (309)</b>

Non-capital carryforward tax losses for which a deferred tax asset has not been recognized amount to \$1 (\$7 in 2021). These losses will expire between the years 2031 and 2042.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, associates and joint ventures unless the Company is able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2022, temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which a deferred tax liability has not been recognized amount to \$1,346 (\$1,049 in 2021).



## 23 › Segmented Information

The Company operates and manages its activities according to five main reportable operating segments, which reflect its company structure for decision making. Management makes judgments in the aggregation of business units into the Company's operating segments. Its products and services are offered to retail customers, businesses and groups. The Company primarily operates in Canada and the United States. The main products and services offered by each segment are the following:

*Individual Insurance* – Life, health, disability and mortgage insurance products.

*Individual Wealth Management* – Individual products and services for savings plans, retirement funds and segregated funds, in addition to securities brokerage, trust operations and mutual funds.

*Group Insurance* – Life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products for employee plans; creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services; and specialized products for special markets.

*Group Savings and Retirement* – Group products and services for savings plans, retirement funds and segregated funds.

*US Operations* – Miscellaneous insurance products sold in the United States such as life insurance products and extended warranties relating to dealer services.

*Other* – Auto and home insurance products, services supporting the activities that have no link with key segments such as asset management and financing, Company capital and some adjustments related to consolidation.

The Company makes judgments and uses assumptions and methodologies to allocate general expenses that are not directly attributable to a business segment. The allocation of other activities is mainly performed according to a formula based on equity and is uniformly applied to each operating segment.

The other assets and other liabilities, except mainly for derivative financial instruments, are classified in their entirety in the *Other* column since they are used for the operational support of the Company's activities.

### Segmented Income Statements

(in millions of dollars)	2022						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Revenues</b>							
Net premiums	\$ 1,882	\$ 5,111	\$ 1,953	\$ 2,800	\$ 686	\$ 420	\$ 12,852
Investment income	(6,007)	(52)	25	(401)	(366)	177	(6,624)
Other revenues	121	1,746	61	116	170	(258)	1,956
	(4,004)	6,805	2,039	2,515	490	339	8,184
<b>Operating expenses</b>							
Gross benefits and claims on contracts	1,004	2,698	1,349	1,893	649	120	7,713
Ceded benefits and claims on contracts	(347)	—	(64)	(27)	(469)	116	(791)
Net transfer to segregated funds	—	1,921	—	448	—	—	2,369
Increase (decrease) in insurance contract liabilities	(5,809)	355	(73)	(119)	(658)	85	(6,219)
Increase (decrease) in investment contract liabilities	—	—	(44)	—	—	—	(44)
Decrease (increase) in reinsurance assets	(314)	—	8	53	215	(85)	(123)
Commissions, general and other expenses	1,214	1,591	690	150	584	(21)	4,208
Financing charges	10	1	37	—	1	10	59
	(4,242)	6,566	1,903	2,398	322	225	7,172
Income before income taxes and allocation of other activities	238	239	136	117	168	114	1,012
Allocation of other activities	87	(2)	10	9	10	(114)	—
Income before income taxes	325	237	146	126	178	—	1,012
Income taxes	21	41	35	34	36	—	167
<b>Net income</b>	<b>304</b>	<b>196</b>	<b>111</b>	<b>92</b>	<b>142</b>	<b>—</b>	<b>845</b>
Net income attributed to participating policyholders	(42)	—	—	—	—	—	(42)
<b>Net income attributed to shareholders</b>	<b>\$ 346</b>	<b>\$ 196</b>	<b>\$ 111</b>	<b>\$ 92</b>	<b>\$ 142</b>	<b>\$ —</b>	<b>\$ 887</b>

(in millions of dollars)	2021						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Revenues</b>							
Net premiums	\$ 1,758	\$ 5,709	\$ 1,728	\$ 2,746	\$ 614	\$ 397	\$ 12,952
Investment income	56	(149)	114	29	(17)	155	188
Other revenues	142	1,780	49	118	146	(225)	2,010
	1,956	7,340	1,891	2,893	743	327	15,150
<b>Operating expenses</b>							
Gross benefits and claims on contracts	951	2,432	1,205	2,451	576	64	7,679
Ceded benefits and claims on contracts	(369)	—	(50)	(24)	(397)	106	(734)
Net transfer to segregated funds	—	3,312	—	(34)	—	—	3,278
Increase (decrease) in insurance contract liabilities	23	(319)	2	356	(113)	6	(45)
Increase (decrease) in investment contract liabilities	—	—	(1)	—	—	—	(1)
Decrease (increase) in reinsurance assets	(176)	—	3	14	89	(6)	(76)
Commissions, general and other expenses	1,040	1,618	605	140	514	(26)	3,891
Financing charges	9	2	33	—	1	8	53
	1,478	7,045	1,797	2,903	670	152	14,045
Income before income taxes and allocation of other activities	478	295	94	(10)	73	175	1,105
Allocation of other activities	116	26	12	11	10	(175)	—
Income before income taxes	594	321	106	1	83	—	1,105
Income taxes	121	86	30	—	18	—	255
<b>Net income</b>	473	235	76	1	65	—	850
Net income attributed to participating policyholders	7	—	—	—	—	—	7
<b>Net income attributed to shareholders</b>	\$ 466	\$ 235	\$ 76	\$ 1	\$ 65	\$ —	\$ 843

**Segmented Premiums**

(in millions of dollars)	2022						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Gross premiums</b>							
Invested in general fund	\$ 2,344	\$ 1,203	\$ 2,081	\$ 878	\$ 1,445	\$ 139	\$ 8,090
Invested in segregated funds	—	3,908	—	1,949	—	—	5,857
	2,344	5,111	2,081	2,827	1,445	139	13,947
<b>Premiums ceded</b>							
Invested in general fund	(462)	—	(128)	(27)	(759)	281	(1,095)
<b>Net premiums</b>	\$ 1,882	\$ 5,111	\$ 1,953	\$ 2,800	\$ 686	\$ 420	\$ 12,852

(in millions of dollars)	2021						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Gross premiums</b>							
Invested in general fund	\$ 2,199	\$ 891	\$ 1,842	\$ 697	\$ 1,227	\$ 160	\$ 7,016
Invested in segregated funds	—	4,818	—	2,074	—	—	6,892
	2,199	5,709	1,842	2,771	1,227	160	13,908
<b>Premiums ceded</b>							
Invested in general fund	(441)	—	(114)	(25)	(613)	237	(956)
<b>Net premiums</b>	\$ 1,758	\$ 5,709	\$ 1,728	\$ 2,746	\$ 614	\$ 397	\$ 12,952

**Segmented Assets and Liabilities**

(in millions of dollars)	2022						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Assets</b>							
Invested assets	\$ 20,249	\$ 2,644	\$ 1,997	\$ 5,478	\$ 950	\$ 7,593	\$ 38,911
Segregated funds net assets	—	23,451	—	13,883	—	—	37,334
Reinsurance assets	462	—	163	63	1,677	(45)	2,320
Other	86	1,109	—	—	27	4,070	5,292
<b>Total assets</b>	\$ 20,797	\$ 27,204	\$ 2,160	\$ 19,424	\$ 2,654	\$ 11,618	\$ 83,857
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	\$ 19,928	\$ 2,286	\$ 2,169	\$ 5,285	\$ 1,327	\$ (25)	\$ 30,970
Liabilities related to segregated funds net assets	—	23,451	—	13,883	—	—	37,334
Other	1,236	206	3	10	—	8,148	9,603
<b>Total liabilities</b>	\$ 21,164	\$ 25,943	\$ 2,172	\$ 19,178	\$ 1,327	\$ 8,123	\$ 77,907

(in millions of dollars)	2021						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Assets</b>							
Invested assets	\$ 25,761	\$ 1,859	\$ 2,082	\$ 5,214	\$ 1,251	\$ 8,549	\$ 44,716
Segregated funds net assets	—	24,722	—	14,855	—	—	39,577
Reinsurance assets	144	—	171	116	1,666	(113)	1,984
Other	100	1,201	—	—	28	3,678	5,007
<b>Total assets</b>	\$ 26,005	\$ 27,782	\$ 2,253	\$ 20,185	\$ 2,945	\$ 12,114	\$ 91,284
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	\$ 25,761	\$ 1,924	\$ 2,268	\$ 5,392	\$ 1,878	\$ (106)	\$ 37,117
Liabilities related to segregated funds net assets	—	24,722	—	14,855	—	—	39,577
Other	398	44	3	33	—	8,181	8,659
<b>Total liabilities</b>	\$ 26,159	\$ 26,690	\$ 2,271	\$ 20,280	\$ 1,878	\$ 8,075	\$ 85,353

## 24 › Basic Earnings Per Common Share

Basic earnings per share are calculated by dividing the net income attributed to the common shareholder by the weighted average number of outstanding common shares during the year.

(in millions of dollars, unless otherwise indicated)	2022	2021
Net income attributed to common shareholder	\$ 869	\$ 821
Weighted average number of outstanding shares (in millions of units)	111	109
Basic earnings per share (in dollars)	\$ 7.80	\$ 7.56

There was no transaction on common shares that could affect these calculations after the closing date and before the date of authorization for issue of these Financial Statements.

## 25 › Stock-Based Compensation

### Stock Option Plan

iA Financial Corporation grants a certain number of common stock options to management and to senior management and determines the exercise price of the options, the expiry date and the date on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of iA Financial Corporation.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first four anniversaries of the grant. In certain cases, the Human Resources and Compensation Committee can modify the number of options purchased following an event, moving up the expiration date of the option.

The Board of iA Financial Corporation can grant options for a total of 11,350,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of iA Financial Corporation per person eligible for the plan.

The following table presents the activities of the plan:

(in dollars, unless otherwise indicated)	2022		2021	
	Number of stock options (in thousands)	Weighted average exercise price	Number of stock options (in thousands)	Weighted average exercise price
Balance at beginning	1,669	\$ 54.39	1,965	\$ 51.15
Options granted	195	83.35	310	58.55
Options exercised	(325)	48.54	(606)	46.00
<b>Balance at end</b>	<b>1,539</b>	<b>59.30</b>	<b>1,669</b>	<b>54.39</b>
Exercisable at end	915	\$ 53.15	955	\$ 49.69

The stock options outstanding as at December 31, 2022 by exercise price are as follows:

Exercise price (in dollars, unless otherwise indicated)	Number of stock options (in thousands)	Weighted average exercise price	Average remaining contractual life (in years)
<b>32.09-43.51</b>	286	\$ 41.06	2.34
<b>43.52-55.85</b>	400	52.45	5.27
<b>55.86-58.43</b>	393	58.03	7.24
<b>58.44-83.87</b>	460	77.68	8.03
<b>Total</b>	<b>1,539</b>	<b>\$ 59.30</b>	<b>6.05</b>

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The weighted average fair value of the options granted in 2022 is 15.20 dollars (10.02 dollars in 2021). The pricing model assumes the following information:

	2022	2021
Risk-free interest rate	1.69%	0.58%
Expected volatility	26.71%	27.70%
Expected life (in years)	5.2	5.4
Expected dividends	3.10%	3.50%
Exercise price (in dollars)	83.33	58.55

The stock-based compensation expense during the year ended December 31, 2022 is \$3 (\$3 in 2021).

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. The expected volatility is based on historical volatility of the common shares as well as comparable market data analysis. Changes in assumptions can materially affect estimates of fair values.

#### Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding common shares of iA Financial Corporation and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of 2 years. The compensation expense recognized in respect of this plan is \$3 (\$3 in 2021).

#### Deferred Share Units Plan

This plan is offered to the Company's directors, management and senior management. The portion of the plan offered to the Company's directors is assumed equally by the Company and iA Financial Corporation while the Company fully assumes the portion offered to the Company's management and senior management.

Under the deferred share units plan, each member may choose to receive all or a percentage of their annual directors' remuneration, or management or senior management incentive bonus, in the form of deferred share units (DSUs). The election to participate must be made on an annual basis and rights issued are vested immediately. Each DSU is equivalent to one common share of iA Financial Corporation and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares of iA Financial Corporation. The value at the time of the settlement will be based on the fair value of the common shares of iA Financial Corporation. To manage the risk of cash flow variation of iA Financial Corporation's common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 206,316 (174,811 in 2021). The variation related to the fluctuation of iA Financial Corporation's common share quoted price, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income*, generated a charge of \$2 in 2022 (\$3 in 2021) recorded in *General expenses*. The liability for this plan is \$16 (\$13 in 2021).

#### Mid-Term Incentive Plan

This plan, replaced in its entirety since January 1, 2022 by the Time-Based and Performance-Based Restricted Share Unit Plan, was created for the Company's management and senior management. Under this plan, each member could receive, in the form of performance share units, a compensation based on the Company's performance over three years. Awards under this plan will continue to vest until 2024. Performance is measured based on iA Financial Corporation's total net income attributed to common shareholders. Each performance share unit is equivalent to one iA Financial Corporation common share and earns dividend equivalents in the form of additional performance share units at the same rate as the dividends on iA Financial Corporation common shares. The value at the time of settlement will be based on the average market price of iA Financial Corporation common shares for the last 20 working days of the period, increased by a vesting factor based on iA Financial Corporation's net income attributed to common shareholders return on equity over the three-year period. Settlement is made in cash.

#### Time-Based and Performance-Based Restricted Share Unit Plan

This plan, established on January 1, 2022, was created for the Company's management and senior management. Under this plan, each member may receive, in the form of time-based restricted share units and performance-based restricted share units, a compensation with a three-year vesting period. Performance-based restricted share units have a vesting factor that depends on the performance of iA Financial Corporation over a three-year period. Performance is measured based on iA Financial Corporation's total net income attributed to common shareholders and according to a comparator group. Each restricted share unit, whether time-based or performance-based, is equivalent to one iA Financial Corporation common share and earns dividend equivalents in the form of additional share units at the same rate as the dividends on iA Financial Corporation common shares. The value at the time of settlement will be based on the average market price of iA Financial Corporation common shares for the last 20 working days of the period. Settlement is made in cash.

Considering both the Time-Based and Performance-Based Restricted Share Unit Plan and the Mid-Term Incentive Plan, 212,888 (153,710 in 2021) restricted share units are outstanding as at December 31, 2022. The compensation expense recognized is \$8 (\$4 in 2021), and the liabilities are \$11 (\$7 in 2021).

#### Restricted Share Units Plan

This plan, established by iA Financial Corporation, was created for certain members of management of the Company. Under this plan, each member receives restricted share units (RSUs), which vest over a period of 5 years from the effective date of the plan, at a rate of 20% per year. RSUs whose rights are not ultimately vested, where applicable, may be reallocated. Each RSU is equivalent to one common share of a subsidiary of iA Financial Corporation which, for the purposes of the plan, is deemed to wholly own, among others, some subsidiaries which are under the control of the Company. These units give the right to dividend equivalents cumulated in favour of the participant until the plan settlement date. Settlement of RSUs and dividend equivalents will be made in cash at the end of the 5-year vesting period. As at December 31, 2022, 7,950,000 (8,950,000 in 2021) restricted share units are outstanding. The compensation expense recognized in respect of this plan is \$3 (\$3 in 2021) and the liability is \$6 (\$4 in 2021).

**Stock-Based Compensation Expense**

(in millions of dollars)	2022	2021
Expense arising from equity-settled stock-based payment transactions	\$ 3	\$ 3
Expense arising from cash-settled stock-based payment transactions	16	13
<b>Total of stock-based compensation expense</b>	<b>\$ 19</b>	<b>\$ 16</b>

These expenses are recorded in the Income Statement as *General expenses*.

**26 > Post-Employment Benefits**

The Company maintains a funded defined benefit plan and a number of unfunded plans that provide pension benefits and defined contribution plans.

**Defined Benefit Plans**

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end-of-career plans based on the average of the best 5 years of salary. No indexation clause is included in the plan. The funded defined benefit plan is administered separately from the Company by a retirement fund that is a legally distinct entity. The retirement committee of the funded retirement plan is made up of members from the Company, members of retirement plan and non-members of retirement plan. The laws and regulations that the retirement plan is subject to require that the retirement committee act in the interests of the retirement fund and stakeholders, such as active, inactive and retired members. The retirement committee is responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2021 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2021. The next required valuation will be performed as at December 31, 2022 and will be available later in 2023.

**Other Post-Retirement Benefits**

The Company provides other post-retirement benefits. These include additional health care benefits, life insurance and dental benefits. The Company also provides post-employment benefits such as salary continuation for short-term disabilities.

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the year is as follows:

(in millions of dollars)	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit plan obligation</b>				
Balance at beginning	\$ 1,603	\$ 54	\$ 1,719	\$ 56
Current service cost	62	2	68	3
Interest cost	54	2	47	2
Employee contributions	31	—	27	—
Actuarial losses (gains) following remeasurement				
Actuarial losses (gains) on demographic assumption changes	—	1	—	(2)
Actuarial losses (gains) on financial assumption changes	(455)	(16)	(199)	(7)
Actuarial losses (gains) arising from members' experience	21	—	(5)	4
Benefits paid	(51)	(2)	(54)	(2)
<b>Balance at end</b>	<b>\$ 1,265</b>	<b>\$ 41</b>	<b>\$ 1,603</b>	<b>\$ 54</b>

(in millions of dollars)	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
<b>Defined benefit plan assets</b>				
Fair value at beginning	\$ 1,511	\$ —	\$ 1,395	\$ —
Interest income	50	—	38	—
Actuarial gains (losses) following remeasurement				
Return on assets (excluding the amount included in the net interest)	(310)	—	57	—
Administrative expense	(2)	—	(1)	—
Employee contributions	31	—	27	—
Employer contributions	53	—	49	—
Benefits paid	(51)	—	(54)	—
<b>Fair value at end</b>	<b>\$ 1,282</b>	<b>\$ —</b>	<b>\$ 1,511</b>	<b>\$ —</b>

**Amounts Recognized in the Statement of Financial Position**

(in millions of dollars)	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
Obligation in respect of capitalized defined benefit plans <sup>1</sup>	\$ 1,134	\$ —	\$ 1,442	\$ —
Obligation in respect of non-capitalized defined benefit plans	131	41	161	54
Accrued benefit plan obligation	1,265	41	1,603	54
Fair value of plan assets <sup>1</sup>	1,282	—	1,511	—
Net liabilities (assets) before asset ceiling on a capitalized benefit plan	(17)	41	92	54
Asset ceiling on a capitalized benefit plan	148	—	—	—
<b>Net liabilities (assets) resulting from the obligation in respect of defined benefits</b>	<b>\$ 131</b>	<b>\$ 41</b>	<b>\$ 92</b>	<b>\$ 54</b>

<sup>1</sup> As at December 31, 2022, a pension plan surplus of \$148 (surplus of \$69 in 2021) has been reduced by the asset ceiling on a capitalized benefit plan.

As at December 31, 2022, no amount related to pension plans is presented in Note 9 "Other Assets" (\$82 as at December 31, 2021).

The amounts presented in Note 15 "Other Liabilities" are:

(in millions of dollars)	2022	2021
Pension plans	\$ 131	\$ 174
Other plans	41	54
Post-employment benefits	\$ 172	\$ 228

**Amounts Recognized in Net Income and Other Comprehensive Income**

(in millions of dollars)	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	\$ 62	\$ 2	\$ 68	\$ 3
Net interest	4	2	9	2
Administrative expense	2	—	1	—
Components of the cost of defined benefits recognized in the net income	68	4	78	5
Remeasurement of net liabilities (assets) as defined benefits				
Rate of return on assets (excluding amounts included in the net interest above)	310	—	(57)	—
Actuarial losses (gains) on demographic assumption changes	—	1	—	(2)
Actuarial losses (gains) on financial assumption changes	(455)	(16)	(199)	(7)
Actuarial losses (gains) arising from members' experience	21	—	(5)	4
Increase (decrease) of the asset ceiling on a capitalized benefit plan	148	—	—	—
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	24	(15)	(261)	(5)
<b>Total of defined benefit cost components</b>	<b>\$ 92</b>	<b>\$ (11)</b>	<b>\$ (183)</b>	<b>\$ —</b>

**Items that will not be reclassified subsequently to net income**

(in millions of dollars)	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
<b>Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income</b>				
Remeasurement of post-employment benefits	\$ 24	\$ (15)	\$ (261)	\$ (5)
Income taxes on remeasurement of post-employment benefits	(6)	4	69	1
<b>Total of other comprehensive income</b>	<b>\$ 18</b>	<b>\$ (11)</b>	<b>\$ (192)</b>	<b>\$ (4)</b>

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2021). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the year is 14.6 years (19.0 years in 2021) for pension plans and 10.1 years (10.4 years in 2021) for the other plans. The Company estimates that it will have to contribute an amount of \$55 to its defined benefit plans in 2023.

As at December 31, 2022 and 2021, the plan assets are 100% invested in diversified fund units.

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the plan, the laws and regulations that the plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The main objectives of the investment policy, which are dictated by the financing policy, are to maintain a stable and sustainable cost of the plan, as well as an appropriate level of funding to ensure the security of the plan's commitments. The plan is exposed to various investment risks, namely the risks that the investments suffer losses or do not produce the expected return. The investment policy contains several quantitative and qualitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as Level 1.

The effective return of plan assets is negative 17% (positive 7% in 2021). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of iA Financial Corporation in 2022 and 2021.

**Significant Assumptions**

Significant judgments and assumptions are made by management in determining the expense and benefits obligations for the Company's defined benefit pension plans and other post-employment benefits. The significant actuarial assumptions made are detailed as follows:

	2022		2021	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit plan obligation</b>				
Discount rate	5.3%	5.3%	3.3%	3.3%
Rate of compensation increase	From 3.3% to 4.0%	—	3.3%	—
Rate of mortality (table)	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ	CPM-2014Publ
<b>Benefit plan expenses</b>				
Discount rate	3.4%	3.4%	2.9%	2.9%
Rate of compensation increase	3.3%	—	3.3%	—

	2022		
	Other plans		
	Drug	Dental	Other
<b>Assumed health care cost trend rates</b>			
Initial health care cost trend rates	5.2%	5.0%	4.8%
Cost trend rate declines to	3.9%	3.0%	4.8%
Number of years required to stabilize the rate	7	6	—
	2021		
	Other plans		
	Drug	Dental	Other
<b>Assumed health care cost trend rates</b>			
Initial health care cost trend rates	5.4%	3.0%	4.8%
Cost trend rate declines to	3.9%	3.0%	4.8%
Number of years required to stabilize the rate	7	—	—



## Sensitivity Analysis

### Retirement Plan

The significant assumptions used to determine the accrued benefit plan obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

### Sensitivity of Key Assumptions of Benefit Plan Obligation

(in millions of dollars)	2022		2021	
	Pension plans		Pension plans	
	Increase	Decrease	Increase	Decrease
<b>Discount rate assumption</b>				
Impact of an absolute change of 1.0%	\$ (179)	\$ 235	\$ (255)	\$ 355
<b>Rate of compensation increase</b>				
Impact of an absolute change of 1.0%	\$ 81	\$ (70)	\$ 82	\$ (98)
<b>Rate of mortality</b>				
Impact of a relative change of 10.0%	\$ (22)	\$ 24	\$ (26)	\$ 29
			<b>2022</b>	<b>2021</b>
<b>Sample life expectancies based on mortality assumptions (in years)</b>				
Male				
Age 65 in fiscal year			23.4	23.4
Age 65 in fiscal year + 30 years			25.4	25.4
Female				
Age 65 in fiscal year			25.3	25.3
Age 65 in fiscal year + 30 years			27.2	27.2

### Other Post-Retirement Benefits

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

(in millions of dollars)	2022		2021	
	Increase	Decrease	Increase	Decrease
Accrued benefit obligation	\$ 5	\$ (4)	\$ 7	\$ (5)

The impact of the one percentage-point fluctuation in the assumed health care cost trend on the total of service and interest cost is less than \$1 for 2022 (less than \$1 in 2021).

The Company could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

### Defined Contribution Plan

A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is \$4 (\$4 in 2021). The liability related to this plan is presented in Note 15 "Other Liabilities" included in *Accounts payable* for an amount of \$1 (\$1 in 2021).

## 27 › Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various subsidiaries of the group on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company also concludes transactions with its parent company and certain of its subsidiaries, as well as with associates. These transactions are concluded in the normal course of business and are subject to normal market conditions.

### Key Management Personnel

The Company's key management personnel are members of senior management who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

(in millions of dollars)	2022	2021
Salaries and other short-term benefits	\$ 8	\$ 8
Post-retirement benefits	2	2
Stock-based compensation	5	4
<b>Total</b>	<b>\$ 15</b>	<b>\$ 14</b>

## 28 › Guarantees, Commitments and Contingencies

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

### Contractual Commitments

The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The minimum commitment amounts for the coming years represent \$96 in 2023, \$70 in 2024, \$58 in 2025, \$49 in 2026 and \$43 in 2027 and beyond.

### Lease Commitments

The Company is also involved in short term leases and leases for which the underlying asset is of low value, including equipment. The minimum commitment for the next 12 months represents less than \$1.

In the normal course of business, the Company is involved in lease agreements that will come into effect shortly. These leases are not reflected in the financial statements.

### Commitments

The Company is committed to a third party for one of its subsidiaries for an amount of \$7 (less than \$1 in 2021). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

### Investment Commitments

In the normal course of the Company's business, various outstanding contractual commitments related to offers for commercial loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. There were \$648 (\$599 as at December 31, 2021) of outstanding commitments as at December 31, 2022, of which the estimated disbursements will be \$22 (\$22 as at December 31, 2021) in 30 days, \$213 (\$166 as at December 31, 2021) in 31 to 365 days and \$413 (\$411 as at December 31, 2021) in more than one year.

### Letters of Credit

In the normal course of operations, banks issue letters of credit on behalf of the Company. As at December 31, 2022, the balance of these letters is \$2 (\$2 as at December 31, 2021).

### Indemnifications

In the normal course of business, the Company enters into several types of agreements that could include indemnities in favour of third parties. Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. These indemnifications could vary based upon the nature and terms of the agreements. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

### Lines of Credit

As at December 31, 2022, the Company had operating lines of credit totalling \$56 (\$57 as at December 31, 2021). As at December 31, 2022 and 2021, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

### Legal and Regulatory Proceedings

The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management makes judgments to evaluate the possible outcomes and does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

## 29 Subsidiaries

The following is a list of directly and indirectly held major operating subsidiaries.

As at December 31, 2022	Ownership (%)	Address	Description
Michel Rhéaume et associés ltée	100	Montreal, Canada	Life insurance broker
PPI Management Inc. <sup>1</sup>	100	Toronto, Canada	Insurance broker
IA Clarington Investments Inc. <sup>1</sup>	100	Toronto, Canada	Fund management firm that markets investment products, including mutual funds and segregated funds
Investia Financial Services Inc.	100	Quebec City, Canada	Mutual fund broker
iA Private Wealth Inc. <sup>1</sup>	100	Montreal, Canada	Securities broker
Industrial Alliance Investment Management Inc. <sup>1</sup>	100	Quebec City, Canada	Investment advisor that oversees the management of the Company's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Trust Inc.	100	Quebec City, Canada	Trust services
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Prysm General Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Industrial Alliance Pacific General Insurance Corporation	100	Quebec City, Canada	Property and casualty insurance, and other ancillary products company
SAL Marketing Inc.	100	Vancouver, Canada	Extended warranty and other ancillary products company
National Warranties MRWV Limited	100	Laval, Canada	Extended warranty and other ancillary products company
iA Auto Finance Inc. <sup>1</sup>	100	Oakville, Canada	Auto finance company
IA American Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer Security Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
American-Amicable Life Insurance Company of Texas	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer American Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Occidental Life Insurance Company of North Carolina	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Dealers Alliance Corporation <sup>1</sup>	100	Addison, Texas, United States	Extended warranty/service contracts and other ancillary products company
Dealers Assurance Company	100	Addison, Texas, United States	Property and casualty insurer providing liability insurance coverage to companies offering extended warranty/service contracts and other ancillary products
iA American Warranty Corp.	100	Albuquerque, New Mexico, United States	Administrator of extended warranty/service contracts and other ancillary products
Ecoblock, Inc.	100	Albuquerque, New Mexico, United States	Provider of ancillary automotive products
First Automotive Service Corporation	100	Albuquerque, New Mexico, United States	Extended warranty/service contracts and other ancillary products company

<sup>1</sup> These subsidiaries hold directly or indirectly other subsidiaries with essentially a 100% ownership.