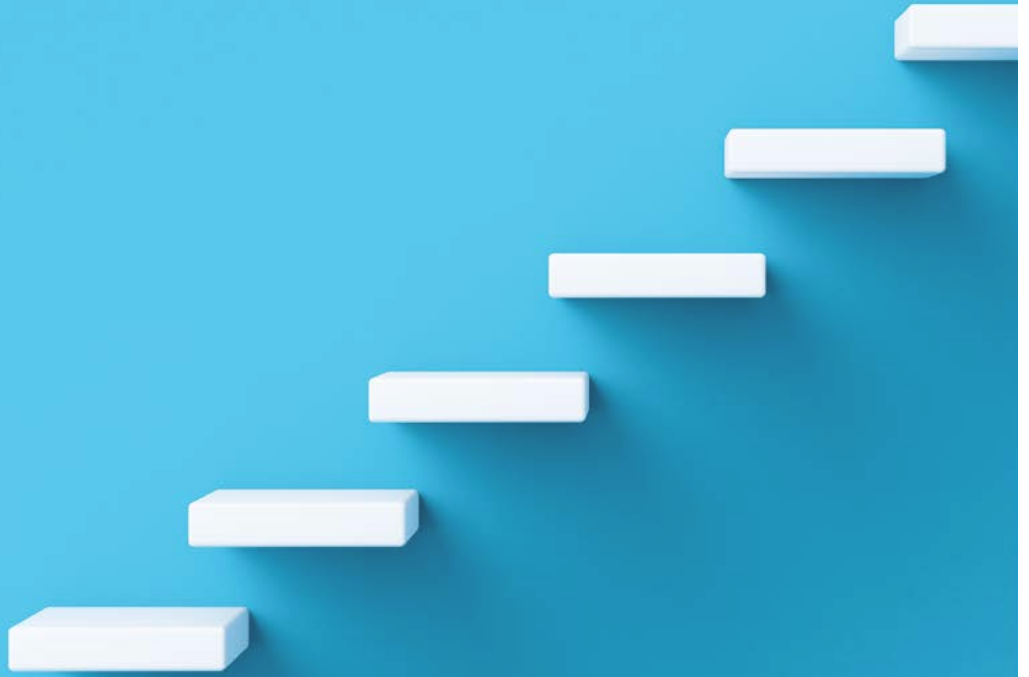


# SUSTAINABLE GROWTH





## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for iA Financial Corporation Inc. ("iA Financial Corporation" or the "Company") is dated August 1, 2019. iA Financial Corporation became the parent company of Industrial Alliance Insurance and Financial Services Inc. ("iA Insurance") as of January 1, 2019, under the terms of a plan of arrangement. Under this arrangement, iA Financial Corporation became the successor issuer and the financial results of iA Insurance for the year ended December 31, 2018 constitute the financial results of iA Financial Corporation. The comparative data for 2018 and 2017 presented herein is therefore the same as the data for iA Insurance. This Management's Discussion and Analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018. It should also be read with the Management's Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2018. The Rolling Nine Quarters Financial Information Package may contain additional data that complements the information in this Management's Discussion and Analysis.

### TABLE OF CONTENTS

|   |    |
|---|----|
| <b>HIGHLIGHTS</b> .....   | 2  |
| <b>BUSINESS GROWTH</b> .....  | 3  |
| <b>ANALYSIS ACCORDING TO SOURCES OF EARNINGS</b> .....                    | 5  |
| <b>ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS</b> .....               | 7  |
| <b>INVESTMENTS</b> .....  | 10 |
| <b>FINANCIAL POSITION</b> .....   | 11 |
| <b>DECLARATION OF DIVIDEND</b> .....                                      | 13 |
| <b>SENSITIVITY ANALYSIS</b> .....   | 13 |
| <b>NOTICE AND GENERAL INFORMATION</b> .....                               | 14 |
| <b>CONSOLIDATED FINANCIAL STATEMENTS</b> .....                            | 16 |
| <b>NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b> ..... | 22 |
| <b>GENERAL INFORMATION</b> .....  | 55 |

**HIGHLIGHTS<sup>1</sup>**

| Profitability  | Second quarter   |         |           | Year-to-date at June 30 |         |           |
|--|--|---------|-----------|-------------------------|---------|-----------|
|  | 2019   | 2018    | Variation | 2019                    | 2018    | Variation |
|  | Net income attributed to common shareholders (in millions) | \$181.4 | \$159.1   | 14%                     | \$332.5 | \$298.3   |
| Weighted average number of common shares (diluted) (in millions) | 107.2  | 110.2   | (3%)      | 107.6                   | 109.2   | (1%)      |
| Earnings per common share (EPS) (diluted)                        | \$1.69   | \$1.44  | 17%       | \$3.09                  | \$2.73  | 13%       |
| Core earnings per common share (EPS) (diluted)                   | \$1.61   | \$1.38  | 17%       | \$2.89                  | \$2.70  | 7%        |

|   | June 30, 2019 | March 31, 2019 | December 31, 2018 | June 30, 2018 |
|---|---------------|----------------|-------------------|---------------|
| Return on common shareholders' equity (ROE) <sup>2,3,4</sup>      | 12.6%         | 12.4%          | 12.5%             | 12.2%         |
| Core return on common shareholders' equity (ROE) <sup>2,3,4</sup> | 12.1%         | 12.0%          | 12.4%             | 12.2%         |

The Company ended the second quarter of 2019 with net income to common shareholders of \$181.4 million versus \$159.1 million in 2018 (+14%), and diluted earnings per common share (EPS) of \$1.69 versus \$1.44 in 2018 (+17%).

Return on common shareholders' equity (ROE) was 12.6% at June 30, 2019, which is just above guidance of 11.0% to 12.5%. This result is calculated on a trailing twelve-month basis and compares with 12.2% at June 30, 2018.

Diluted core EPS of \$1.61 is above guidance of \$1.45 to \$1.55 and is up from \$1.38 for the same period in 2018.

**Business growth** – Total assets under management and administration grew 3% during the quarter to reach \$186.5 billion at June 30, 2019, an increase of 5% over \$177.3 billion a year earlier. Premiums and deposits totalled nearly \$2.6 billion for the quarter, up from second quarter 2018 (+4%). In Canada, second quarter sales were particularly good for segregated funds, the Special Markets Solutions division and iA Auto and Home. Individual Insurance sales improved and were up slightly year over year, while mutual funds recorded net outflows. In US Operations, sales continued to be strong in both Individual Insurance and Dealer Services.

**Financial position** – The solvency ratio was 127% at June 30, 2019, compared with 124% at the end of the previous quarter and 122% a year earlier. The Company's solvency ratio target range is 110% to 116%. The Company organically generated additional capital of approximately \$80 million during the quarter and the debt ratio was 18.1%.

**Debenture redemption** – On May 16, 2019, iA Insurance redeemed its 2.80% subordinated debentures due May 16, 2024, with a nominal value of \$250 million.

**Book value** – The book value per common share was \$49.70 at June 30, 2019, up 1.9% from the last quarter and 8.4% over twelve months.

**Dividend** – The Board of Directors approved a quarterly dividend of \$0.4500 per common share payable in the third quarter of 2019.

**Normal Course Issuer Bid** – Under the program in effect from November 12, 2018 to November 11, 2019, the Company may redeem up to 5,482,768 common shares, representing approximately 5% of its 109,655,360 common shares issued and outstanding at November 1, 2018. In the second quarter of 2019, the Company redeemed over 0.7 million shares for a total value of \$37.6 million. Between November 12, 2018 and June 30, 2019, the Company redeemed 3.6 million shares for a total value of \$178.4 million, representing 3.3% of its shares at November 1, 2018.

<sup>1</sup> This section presents non-IFRS measures. See "Non-IFRS Financial Information" at the end of this document.

<sup>2</sup> Trailing twelve months.

<sup>3</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings at January 1, 2017 by \$58 million.

<sup>4</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

**Litigation** – iA Insurance is involved in litigation with a third party, Ituna Investment LP (Ituna), which was seeking to use insurance contracts for purposes not originally intended. The application was heard by the Court of Queen's Bench for Saskatchewan in September 2018. Subsequent to this application, the government of Saskatchewan published new regulations limiting the amount of premiums an insurer may receive or accept for deposit in life insurance policy side accounts. These regulations are consistent with the position taken by iA Insurance. On March 15, 2019, the Saskatchewan Court of Queen's Bench dismissed, in its entirety, the application commenced by Ituna against iA Insurance. Ituna indicated on April 15 that it would appeal the decision. iA Insurance has always maintained that the position taken by Ituna was legally unfounded and will respond to the appeal with the same conviction.

**Board of Directors** – The Company's annual meeting was held on Thursday, May 9, 2019. During the meeting, two new directors, Monique Mercier and Benoit Daignault, were elected to replace those not seeking another term. In addition, on July 9, 2019, the Company announced the appointment of Ginette Maillé to the board.

**Credit rating** – On July 22, 2019, the Standard & Poor's rating agency raised the issuer credit rating of iA Financial Corporation from A- to A, as well as the issuer credit and financial strength ratings of iA Insurance from A+ to AA-, citing operational performance, consistent profitability in various business lines and solid risk management.

## BUSINESS GROWTH

Business growth is measured by growth in sales, premiums and assets under management and administration. Sales measure the Company's ability to generate new business and are defined as fund entries on new business written during the period. Net premiums, which are part of the revenues presented in the financial statements, include both fund entries from new business written and from in-force contracts. Assets under management and administration measure the Company's ability to generate fees, particularly for investment funds and funds under administration. An additional analysis of revenues by line of business is presented in the "Analysis According to the Financial Statements" section of this Management's Discussion and Analysis.

| Net Premiums, Premium Equivalents and Deposits <sup>5,6</sup> |                |         |           |                         |         |           |
|---|----------------|---------|-----------|-------------------------|---------|-----------|
| (In millions of dollars)                                      | Second quarter |         |           | Year-to-date at June 30 |         |           |
|   | 2019           | 2018    | Variation | 2019                    | 2018    | Variation |
| Individual Insurance  | 391.3          | 378.7   | 12.6      | 779.1                   | 770.5   | 8.6       |
| Individual Wealth Management                                  | 1,128.6        | 1,087.8 | 40.8      | 2,395.0                 | 2,485.2 | (90.2)    |
| Group Insurance   | 447.4          | 437.3   | 10.1      | 884.5                   | 859.8   | 24.7      |
| Group Savings and Retirement                                  | 351.3          | 363.7   | (12.4)    | 1,020.8                 | 892.7   | 128.1     |
| US Operations <sup>7</sup>                                    | 163.5          | 131.6   | 31.9      | 314.7                   | 260.2   | 54.5      |
| General Insurance <sup>8</sup>                                | 77.3           | 73.2    | 4.1       | 152.4                   | 144.9   | 7.5       |
| Total   | 2,559.4        | 2,472.3 | 87.1      | 5,546.5                 | 5,413.3 | 133.2     |

Premiums and deposits totalled nearly \$2.6 billion in the second quarter, an increase of 4% year over year, mainly due to the contribution of the Individual Wealth and US Operations business lines. For the year to date, premiums and deposits surpassed \$5.5 billion for a year-over-year increase of 2%, largely explained by the positive performance of the Group Savings and Retirement line in the first quarter.

<sup>5</sup> Premiums and deposits include all premiums collected by the Company for its insurance and annuity activities (and posted to the general fund), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance and Group Savings and Retirement sectors and mutual fund deposits.

<sup>6</sup> This table presents non-IFRS measures.

<sup>7</sup> In Q3-2018, an adjustment retroactive to Q1-2018 was made to include premium equivalents for US P&C insurance business following the acquisition of iA American Casualty Holdings Inc.

<sup>8</sup> Includes iAAH and some minor consolidation adjustments

| Assets Under Management and Administration <sup>9,10</sup> |               |                |                   |               |
|--|---------------|----------------|-------------------|---------------|
| (In millions of dollars)                                   | June 30, 2019 | March 31, 2019 | December 31, 2018 | June 30, 2018 |
| Assets under management                                    |               |                |                   |               |
| General fund <sup>11</sup>                                 | 43,432.1      | 42,530.9       | 39,759.5          | 39,920.0      |
| Segregated funds   | 26,388.7      | 25,759.5       | 23,780.6          | 24,887.6      |
| Mutual funds   | 11,431.0      | 11,467.0       | 10,832.8          | 11,740.3      |
| Other  | 15,421.8      | 15,199.0       | 14,721.1          | 15,194.1      |
| Subtotal   | 96,673.6      | 94,956.4       | 89,094.0          | 91,742.0      |
| Assets under administration                                | 89,841.7      | 86,114.1       | 79,677.5          | 85,510.8      |
| Total  | 186,515.3     | 181,070.5      | 168,771.5         | 177,252.8     |

Assets under management and administration of \$186.5 billion were up 5% year over year and 3% quarter over quarter, mainly due to market growth and the influx of new assets.

| Sales Growth by Line of Business <sup>12</sup>       |                |         |           |                         |         |           |
|--|----------------|---------|-----------|-------------------------|---------|-----------|
| (In millions of dollars, unless otherwise indicated) | Second quarter |         |           | Year-to-date at June 30 |         |           |
|  | 2019           | 2018    | Variation | 2019                    | 2018    | Variation |
| Individual Insurance                                 |                |         |           |                         |         |           |
| Minimum premiums                                     | 43.1           | 44.3    | (3%)      | 82.1                    | 85.3    | (4%)      |
| Excess premiums                                      | 4.9            | 3.1     | 58%       | 7.1                     | 8.8     | (19%)     |
| Total  | 48.0           | 47.4    | 1%        | 89.2                    | 94.1    | (5%)      |
| Individual Wealth Management                         |                |         |           |                         |         |           |
| General fund   | 97.9           | 98.0    | —         | 207.1                   | 207.7   | —         |
| Segregated funds                                     | 544.8          | 445.9   | 22%       | 1,155.7                 | 1,063.5 | 9%        |
| Mutual funds   | 485.9          | 543.9   | (11%)     | 1,032.2                 | 1,214.0 | (15%)     |
| Total  | 1,128.6        | 1,087.8 | 4%        | 2,395.0                 | 2,485.2 | (4%)      |
| Net sales (after redemptions and transfers)          |                |         |           |                         |         |           |
| Segregated funds                                     | 106.2          | 63.4    | 42.8      | 251.4                   | 283.1   | (31.7)    |
| Mutual funds   | (136.8)        | (3.2)   | (133.6)   | (225.3)                 | 42.6    | (267.9)   |
| Group Insurance                                      |                |         |           |                         |         |           |
| Employee Plans                                       | 4.1            | 56.4    | (93%)     | 30.0                    | 75.9    | (60%)     |
| Dealer Services                                      |                |         |           |                         |         |           |
| Creditor Insurance                                   | 91.3           | 106.6   | (14%)     | 156.1                   | 178.9   | (13%)     |
| P&C Insurance  | 74.3           | 71.4    | 4%        | 126.9                   | 121.3   | 5%        |
| Car loan originations                                | 104.5          | 82.7    | 26%       | 196.6                   | 157.1   | 25%       |
| Special Markets Solutions                            | 61.1           | 56.8    | 8%        | 134.7                   | 121.8   | 11%       |
| Group Savings and Retirement                         | 358.4          | 370.0   | (3%)      | 1,033.9                 | 905.3   | 14%       |
| US Operations (\$US)                                 |                |         |           |                         |         |           |
| Individual Insurance                                 | 24.7           | 21.5    | 15%       | 43.9                    | 38.8    | 13%       |
| Dealer Services – P&C Insurance <sup>13</sup>        | 114.4          | 102.9   | 11%       | 224.1                   | 191.0   | 17%       |
| General Insurance                                    |                |         |           |                         |         |           |
| iAAH (auto and home insurance)                       | 112.4          | 104.8   | 7%        | 178.6                   | 167.0   | 7%        |

<sup>9</sup> This table presents non-IFRS measures.

<sup>10</sup> In Q3-2018, assets were retroactively adjusted to take into account recent acquisitions.

<sup>11</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

<sup>12</sup> Sales are not an IFRS measure.

<sup>13</sup> Property and casualty insurance.

*Individual Insurance in Canada* – Second quarter sales totalled \$48.0 million, slightly up from \$47.4 million in the same period last year. The number of policies issued in the second quarter was up 3% year over year, reflecting increased business in the distribution networks.

*Individual Wealth Management* – Guaranteed product (general fund) sales for the quarter were similar to last year at \$97.9 million. Gross segregated fund sales were up 22% year over year at \$544.8 million, while net sales amounted to \$106.2 million compared to \$63.4 million a year earlier. We remain number one in the industry for net sales.

Gross mutual fund sales of \$485.9 million compared with \$543.9 million a year ago, with net outflows of \$136.8 million. Note that after five months, the mutual fund industry posted its worst sales performance since 2009 (as at May 31, 2019).

*Group Insurance – Employee Plans* – Second quarter sales totalled \$4.1 million, compared to \$56.4 million in the same quarter last year. Note that sales in this division vary considerably from one quarter to another based on the size of the contracts sold.

*Group Insurance – Dealer Services* – Total sales of \$270.1 million in the second quarter were up 4% year over year. By product, P&C sales (including extended warranties and replacement insurance) were up 4% from the previous year at \$74.3 million, while creditor insurance sales of \$91.3 million compared with \$106.6 million a year ago. Car loan originations of \$104.5 million were up 26% year over year.

*Group Insurance – Special Markets Solutions* – Second quarter sales totalled \$61.1 million (+8%).

*Group Savings and Retirement* – Total second quarter sales amounted to \$358.4 million compared to \$370.0 million a year earlier. Note that for the first half of the year, sales were up 14% compared to 2018.

*US Operations* – Individual Insurance sales grew by 15% in the second quarter to US \$24.7 million. Dealer Services sales grew 11% to US \$114.4 million.

*General Insurance (IAAH)* – Written premiums grew by 7% to \$112.4 million in the second quarter.

## ANALYSIS ACCORDING TO SOURCES OF EARNINGS

| Results According to Sources of Earnings <sup>14</sup>     |                |        |           |                         |        |           |
|--|----------------|--------|-----------|-------------------------|--------|-----------|
| (In millions of dollars)                                   | Second quarter |        |           | Year-to-date at June 30 |        |           |
|  | 2019           | 2018   | Variation | 2019                    | 2018   | Variation |
| Operating profit   |                |        |           |                         |        |           |
| Expected profit on in-force                                | 194.4          | 172.3  | 22.1      | 368.9                   | 331.4  | 37.5      |
| Experience gains (losses)                                  | 15.6           | 35.7   | (20.1)    | 31.8                    | 46.2   | (14.4)    |
| Gain (strain) on sales                                     | (1.3)          | (6.5)  | 5.2       | (7.4)                   | (16.2) | 8.8       |
| Changes in assumptions                                     | —              | —      | —         | —                       | —      | —         |
| Subtotal   | 208.7          | 201.5  | 7.2       | 393.3                   | 361.4  | 31.9      |
| Income on capital  | 32.4           | 23.0   | 9.4       | 55.0                    | 40.9   | 14.1      |
| Income taxes   | (54.0)         | (59.3) | 5.3       | (104.4)                 | (94.1) | (10.3)    |
| Net income attributed to shareholders                      | 187.1          | 165.2  | 21.9      | 343.9                   | 308.2  | 35.7      |
| Less: dividends on preferred shares issued by a subsidiary | 5.7            | 6.1    | (0.4)     | 11.4                    | 9.9    | 1.5       |
| Net income attributed to common shareholders               | 181.4          | 159.1  | 22.3      | 332.5                   | 298.3  | 34.2      |

The analysis of profitability according to the sources of earnings presents the key variations between reported net income and the Company's expectation for the three-month period ended June 30, 2019. This data complements information presented in the section entitled "Analysis According to the Financial Statements" and provides additional information to better understand the Company's financial results. This analysis contains non-IFRS measures, which are explained in the "Non-IFRS Financial Information" section at the end of this document.

<sup>14</sup> This table contains measures that have no IFRS equivalents. See "Non-IFRS Financial Information" at the end of this document for more information.

*Expected profit on in-force* – The expected profit on in-force represents the portion of income expected to come from policies in force at the beginning of the period based on management's best-estimate assumptions when the 2019 budget was prepared. Expected profit for the wealth lines is updated quarterly to reflect changes in the stock markets and net fund entries.

For the second quarter of 2019, expected profit on in-force was up 13% (+\$22.1 million) year over year due to growth in all business lines and, to a lesser extent, the quarterly update for the wealth lines (as explained in the previous paragraph). Growth exceeded 30% for two of the five business lines (Group Insurance and US Operations). For the first half of the year, expected profit on in-force was up 11% versus 2018.

*Experience gains (losses) versus expected profit* – Experience gains or losses represent the difference between reported income and the income that would have been reported if all assumptions made at the start of the period had materialized. Experience gains and losses include market impact, policyholder experience and certain specific items.

In the second quarter of 2019, the Company recorded a net experience gain of \$15.6 million, or \$11.4 million after tax (+\$0.10 EPS), due to the following:

- *Individual Insurance* – Experience for this business line was positive in the second quarter (+\$6.4 million after tax or +\$0.06 EPS), resulting from favourable policyholder (lapse) experience (+\$0.04 EPS), favourable mortality and morbidity (+\$0.01 EPS) and various other positive items (+\$0.01 EPS). Note that market impact on universal life policies was in line with expectations.
- *Individual Wealth Management* – Experience for this business line in the second quarter was in line with expectations (slight after-tax gain of \$0.4 million). Market impact related to the dynamic hedging program for seg fund guarantees was positive (+ \$0.03 EPS). Otherwise, expenses were higher than expected (-\$0.02 EPS) and income from affiliated distributors was slightly lower than expected (-\$0.01 EPS). Note that market impact on investment fund income (MERS) was in line with expectations.
- *Group Insurance* – This business line recorded an after-tax gain of \$0.7 million for the quarter (+\$0.01 EPS) due to slightly better experience for multiple coverage types in the Special Markets Solutions division. Experience in Employee Plans and Dealer Services (including car loans) was essentially on par with expectations.
- *Group Savings and Retirement* – This business line reported an after-tax gain of \$2.3 million (+\$0.02 EPS) due mainly to favourable longevity experience.
- *US Operations* – The business line recorded a gain of \$1.6 million after tax (+\$0.01 EPS) due to favourable experience in the Individual Insurance division, while experience in the Dealer Services division was in line with expectations.

*Strain in Individual Insurance and US Operations* – Strain on new business amounted to \$1.4 million pre-tax, or 2% of sales for the quarter. This is at the low end of guidance of 0% to 15% and better than expected due to a favourable sales mix. This item represents a gain of \$0.03 EPS for the quarter.

*Income on capital* – Net income earned on the Company's surplus funds, which includes income from iA Auto and Home (iAAH), was \$32.4 million before tax for the second quarter, representing a gain of \$0.05 EPS versus management expectations. Investment income on capital was higher (+\$0.02 EPS) essentially due to gains on available-for-sale (AFS) securities and financing expenses were lower (+\$0.02 EPS) mainly due to the debenture redemption in May. In addition, experience at iAAH was slightly better than expected (+ \$0.01 EPS).

*Income taxes* – Income taxes totalled \$54.0 million in the second quarter for an effective tax rate of 22%, which is near the upper limit of guidance of 20% to 22%. Three items deviated from expectations for a net negative impact of \$0.01 EPS. First, an increase in taxes resulted from the Company's status as a multinational insurer (-\$0.04 EPS). This was offset by a drop in the corporate tax rate in Alberta (+\$0.04 EPS). Lastly, the implementation of an investment strategy to reduce income sensitivity to macroeconomic fluctuations caused a slight tax increase that will be recurrent (-\$0.01 EPS).

### **Core Earnings Per Common Share**

Core earnings per common share is a non-IFRS measure that represents management's view of the Company's capacity to generate sustainable earnings. See "Non-IFRS Financial Information" at the end of this Management's Discussion and Analysis for more information and an explanation of the adjustments applied in the Company's core EPS calculation.



For the second quarter of 2019, diluted core EPS of \$1.61 was above guidance of \$1.45 to \$1.55. Four items were adjusted in the core EPS calculation for the quarter, as shown in the table below. This table reconciles the Company's reported and core EPS.

| Reported EPS and Core EPS Reconciliation                         |                |          |           |                         |          |           |
|--|----------------|----------|-----------|-------------------------|----------|-----------|
| (On a diluted basis)   | Second quarter |          |           | Year-to-date at June 30 |          |           |
|  | 2019           | 2018     | Variation | 2019                    | 2018     | Variation |
| <b>Reported EPS</b>  | \$1.69         | \$1.44   | 17%       | \$3.09                  | \$2.73   | 13%       |
| <b>Adjusted for:</b>   |                |          |           |                         |          |           |
| Specific items:  |                |          |           |                         |          |           |
| Unusual income tax gains and losses                              | (\$0.04)       | \$0.07   |           | (\$0.04)                | \$0.07   |           |
| Market-related gains and losses                                  | (\$0.03)       | (\$0.05) |           | (\$0.18)                | (\$0.01) |           |
| Policyholder experience gains and losses in excess of \$0.04 EPS | (\$0.02)       | (\$0.08) |           | —                       | (\$0.09) |           |
| Usual income tax gains and losses in excess of \$0.04 EPS        | \$0.01         | —        |           | \$0.02                  | —        |           |
| <b>Core EPS</b>  | \$1.61         | \$1.38   | 17%       | \$2.89                  | \$2.70   | 7%        |

### ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS

The following analysis should be read in conjunction with Note 14 *Segmented Information* in the Company's unaudited interim condensed consolidated financial statements.

| Consolidated Income Statements                             |                |         |           |                         |         |           |
|--|----------------|---------|-----------|-------------------------|---------|-----------|
| (In millions of dollars)                                   | Second quarter |         |           | Year-to-date at June 30 |         |           |
|  | 2019           | 2018    | Variation | 2019                    | 2018    | Variation |
| Revenues   |                |         |           |                         |         |           |
| Net premiums   | 1,982.7        | 1,850.0 | 132.7     | 4,337.5                 | 4,036.5 | 301.0     |
| Investment income  | 1,671.5        | 484.9   | 1,186.6   | 3,833.3                 | 435.5   | 3,397.8   |
| Other revenues   | 424.5          | 437.8   | (13.3)    | 834.9                   | 872.8   | (37.9)    |
| Total  | 4,078.7        | 2,772.7 | 1,306.0   | 9,005.7                 | 5,344.8 | 3,660.9   |
| Less: policy benefits and expenses                         | 3,837.8        | 2,547.5 | 1,290.3   | 8,556.8                 | 4,941.3 | 3,615.5   |
| Income before income taxes                                 | 240.9          | 225.2   | 15.7      | 448.9                   | 403.5   | 45.4      |
| Less: income taxes   | 53.9           | 59.4    | (5.5)     | 104.4                   | 94.2    | 10.2      |
| Net income   | 187.0          | 165.8   | 21.2      | 344.5                   | 309.3   | 35.2      |
| Less: net income attributed to participating policyholders | (0.1)          | 0.6     | (0.7)     | 0.6                     | 1.1     | (0.5)     |
| Net income attributed to shareholders                      | 187.1          | 165.2   | 21.9      | 343.9                   | 308.2   | 35.7      |
| Less: preferred share dividends issued by a subsidiary     | 5.7            | 6.1     | (0.4)     | 11.4                    | 9.9     | 1.5       |
| Net income attributed to common shareholders               | 181.4          | 159.1   | 22.3      | 332.5                   | 298.3   | 34.2      |

## Revenues

The following table presents the composition of revenues by line of business.

| (In millions of dollars)  | Second quarter       |                              |                 |                              |               |              | Total          |
|---------------------------|----------------------|------------------------------|-----------------|------------------------------|---------------|--------------|----------------|
|                           | Individual Insurance | Individual Wealth Management | Group Insurance | Group Savings and Retirement | US Operations | Other        |                |
| Net premiums              | 391.3                | 642.7                        | 413.1           | 338.7                        | 119.6         | 77.3         | 1,982.7        |
| <i>Variation vs. 2018</i> | <i>12.6</i>          | <i>98.8</i>                  | <i>11.3</i>     | <i>(17.7)</i>                | <i>23.6</i>   | <i>4.1</i>   | <i>132.7</i>   |
| Investment income         | 1,355.5              | 66.3                         | 47.5            | 107.3                        | 55.4          | 39.5         | 1,671.5        |
| <i>Variation vs. 2018</i> | <i>944.2</i>         | <i>82.8</i>                  | <i>22.3</i>     | <i>71.3</i>                  | <i>61.8</i>   | <i>4.2</i>   | <i>1,186.6</i> |
| Other revenues            | 32.3                 | 365.5                        | 14.5            | 24.0                         | 19.5          | (31.3)       | 424.5          |
| <i>Variation vs. 2018</i> | <i>(14.8)</i>        | <i>3.4</i>                   | <i>(1.2)</i>    | <i>2.1</i>                   | <i>2.4</i>    | <i>(5.2)</i> | <i>(13.3)</i>  |
| Total                     | 1,779.1              | 1,074.5                      | 475.1           | 470.0                        | 194.5         | 85.5         | 4,078.7        |
| <i>Variation vs. 2018</i> | <i>942.0</i>         | <i>185.0</i>                 | <i>32.4</i>     | <i>55.7</i>                  | <i>87.8</i>   | <i>3.1</i>   | <i>1,306.0</i> |

*Net premiums* – The \$132.7 million increase over the second quarter of 2018 is mainly explained by:

- Premium growth in Individual Wealth Management, owing to increased premiums in segregated funds; and, to a lesser extent,
- Net premium growth in Individual Insurance, Group Insurance and US Operations.

Other factors that can cause premiums to fluctuate from one quarter to another are generally as follows:

- The tendency of clients to concentrate their deposits in registered retirement savings products during the first 60 days of the year.
- Stock market fluctuations and the signing of new agreements with large groups in the group business lines.

Note that net premiums include amounts invested by insureds in the segregated funds, but do not include those invested by clients in mutual funds.

*Investment income* – The \$1,186.6 million increase in investment income compared to second quarter 2018 is largely due to the increase in the fair value of bond investments and derivatives, mainly caused by variations in interest rates.

Note that investment income mostly fluctuates based on variations in the fair value of investments due to changes in interest rates, stock markets and issuer spreads, particularly for bonds, equities and derivatives. Investment income also varies based on interest income, dividends, rental income from real estate and realized profits and losses on the disposition of available-for-sale assets.

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

*Other revenues* – Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company’s brokerage subsidiaries and assets managed for third parties. Other revenues decreased \$13.3 million in the second quarter of 2019 versus second quarter 2018, essentially due to the harmonization of an accounting policy of one of the individual wealth subsidiaries with that used by the other entities of the group.

### Policy Benefits and Expenses

Policy benefits and expenses increased by \$1,290.3 million in the second quarter of 2019 compared to the same period in 2018. The main items contributing to this increase are as follows:

Increased expenses from:

- An increase in insurance contract liabilities. The variation in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the variation in net policy premiums and benefits, net transfers to segregated funds and variations in the provisions for future policy benefits due to assumption changes.
- An increase in net policy benefits reflecting the normal course of business. Net policy benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

The increase in policy benefits and expenses was mitigated by a decrease in the following expenses:

- A positive variation in reinsurance assets in 2019 versus the previous year. This item is generally influenced by the same factors that influence the variation in insurance contract liabilities mentioned above.

### Income Taxes

For the second quarter of 2019, the Company recorded an income tax expense of \$53.9 million, compared to \$59.4 million in 2018. These amounts represent the Company's tax expense net of adjustments for prior years.

### Net Income Attributed to Common Shareholders

Net income attributed to common shareholders totalled \$181.4 million for the second quarter of 2019, compared to \$159.1 million for the same period last year. The increase is primarily explained by the factors mentioned above.

The following table presents a summary of iA Financial Corporation's financial results for the last eight quarters.

| Selected Financial Data                                 |         |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| (In millions of dollars,<br>unless otherwise indicated) | 2019    |         | 2018    |         |         |         | 2017    |         |
|   | Q2      | Q1      | Q4      | Q3      | Q2      | Q1      | Q4      | Q3      |
| Revenues  | 4,078.7 | 4,927.0 | 2,587.4 | 1,980.2 | 2,772.7 | 2,572.1 | 3,680.2 | 1,622.8 |
| Net income attributed to common shareholders            | 181.4   | 151.1   | 149.5   | 164.9   | 159.1   | 139.2   | 132.8   | 144.9   |
| Earnings per common share                               |         |         |         |         |         |         |         |         |
| Basic   | \$1.70  | \$1.41  | \$1.37  | \$1.50  | \$1.45  | \$1.30  | \$1.25  | \$1.36  |
| Diluted   | \$1.69  | \$1.40  | \$1.36  | \$1.50  | \$1.44  | \$1.29  | \$1.24  | \$1.35  |

### Related Party Transactions

The iA Insurance subsidiary has entered into a financing agreement with the Company in the amount of \$80 million, to be used only to finance the Company's Normal Course Issuer Bid program. This operation does not appear in the Company's unaudited interim condensed consolidated financial statements due to the consolidation of this subsidiary.

### Liquidity

To honour its commitments, the Company maintains a sufficient level of liquidity by holding a proportion of marketable securities and strictly managing cash flows and matching.

Given the volatility of the financial markets, the Company carries out simulations to measure its liquidity needs under various scenarios, some of which can be qualified as extreme. In light of these simulations, and given the quality of its investment portfolio, the Company believes its current level of liquidity is not an issue.

For more information on liquidity risk and how this risk is managed, refer to the "Risk Management" section of the iA Financial Group 2018 Annual Report.

The Company also has certain investment commitments as well as a line of credit. Its investment commitments correspond to various contractual commitments related to commercial and residential loan offers, private placements, joint ventures and real estate which are not reflected in the financial statements and may not be fulfilled.

For more information on the Company's commitments, refer to Note 17 of the Company's unaudited interim condensed consolidated financial statements.

### Accounting Policies and Main Accounting Estimates

The Company's second quarter unaudited interim condensed consolidated financial statements were prepared as outlined in Note 1 *General Information* of the financial statements.

The preparation of financial statements requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results could differ from management's best estimates. Management has exercised its judgment and made estimates and assumptions as outlined in Note 2 b) of the consolidated financial statements in the iA Financial Group 2018 *Annual Report*.

More information on new accounting standards used and changes in accounting policies is presented in Note 2 *Changes in Accounting Policies* of the unaudited interim condensed consolidated financial statements.

## INVESTMENTS

| <b>Investment Mix</b>                                       |                      |                       |                          |                      |
|---|----------------------|-----------------------|--------------------------|----------------------|
| <b>(In millions of dollars, unless otherwise indicated)</b> | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Book value of investments                                   | 37,987.9             | 36,572.6              | 34,578.9                 | 34,805.4             |
| Allocation of investments by asset class                    |                      |                       |                          |                      |
| Bonds   | 69.1%                | 69.0%                 | 68.3%                    | 69.8%                |
| Stocks  | 7.4%                 | 8.5%                  | 8.8%                     | 9.7%                 |
| Mortgages and other loans                                   | 10.0%                | 10.0%                 | 10.6%                    | 9.6%                 |
| Investment properties                                       | 4.6%                 | 4.7%                  | 5.0%                     | 3.9%                 |
| Policy loans  | 2.4%                 | 2.6%                  | 2.7%                     | 2.7%                 |
| Cash and short-term investments                             | 2.3%                 | 2.5%                  | 3.0%                     | 2.4%                 |
| Other   | 4.2%                 | 2.7%                  | 1.6%                     | 1.9%                 |
| Total   | 100.0%               | 100.0%                | 100.0%                   | 100.0%               |

The total value of the investment portfolio amounted to nearly \$38.0 billion at June 30, 2019, up from March 31, 2019. The above table shows the main asset classes that make up the Company's investment portfolio. The implementation of an investment strategy during the quarter to reduce income sensitivity to macroeconomic fluctuations explains the variation in *Stocks* and *Other* during the period.

| <b>Quality of Investments</b>   |                      |                       |                          |                      |
|---|----------------------|-----------------------|--------------------------|----------------------|
| <b>(In millions of dollars, unless otherwise indicated)</b>           | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Gross impaired investments  | 23.9                 | 24.2                  | 24.5                     | 24.7                 |
| Provisions for impaired investments                                   | 11.1                 | 8.6                   | 8.6                      | 6.1                  |
| Net impaired investments  | 12.8                 | 15.6                  | 15.9                     | 18.6                 |
| Net impaired investments as a % of total investments                  | 0.03%                | 0.04%                 | 0.05%                    | 0.05%                |
| Bonds – Proportion rated BB or lower                                  | 0.86%                | 0.92%                 | 0.78%                    | 0.81%                |
| Mortgages – Proportion of securitized and insured loans <sup>15</sup> | 38.1%                | 39.7%                 | 37.2%                    | 39.7%                |
| – Proportion of insured loans   | 37.4%                | 36.9%                 | 39.3%                    | 36.5%                |
| – Delinquency rate  | 0.10%                | 0.10%                 | 0.09%                    | 0.12%                |
| Investment properties – Occupancy rate                                | 96.0%                | 96.0%                 | 95.0%                    | 92.0%                |
| Car loans – Average credit loss rate (non-prime) <sup>16</sup>        | 5.4%                 | 5.3%                  | 5.2%                     | 5.4%                 |

The indices in the above table confirm the quality of the investment portfolio in the second quarter.

<sup>15</sup> A marginal portion of the securitized and insured loans may be uninsured at the end of the quarter.

<sup>16</sup> Represents the non-prime credit losses for the last twelve months divided by the average finance receivables over the same period.

| <b>Derivative Financial Instruments</b>                     |                      |                       |                          |                      |
|---|----------------------|-----------------------|--------------------------|----------------------|
| <b>(In millions of dollars, unless otherwise indicated)</b> | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Total notional amount (\$B)                                 | 25.0                 | 19.5                  | 17.4                     | 15.0                 |
| Company's credit risk                                       |                      |                       |                          |                      |
| AA - or higher  | 100%                 | 100%                  | 100%                     | 100%                 |
| A +   | —                    | —                     | —                        | —                    |
| Positive fair value   | 1,205.2              | 657.1                 | 224.9                    | 360.9                |
| Negative fair value   | 262.0                | 237.1                 | 429.2                    | 265.5                |

The Company uses derivative financial instruments in the normal course of managing the risks associated with fluctuations in interest rates, stock markets, currencies and the fair value of invested assets. These instruments are composed of various types of contracts, including interest rate swaps, market index and exchange rate contracts, as well as forward agreements and futures contracts.

Derivative financial instruments are used as part of the Company's hedging program designed to alleviate the sensitivity of segregated fund guarantees to interest rate and stock market fluctuations. They are also used to hedge the Company's foreign exchange and interest rate risks and as part of investment strategies to reduce the Company's risk profile.

The positive fair value represents the amounts payable to the Company by the different counterparties. This amount fluctuates from one period to another according to changes in interest rates, equity markets and exchange rates. Conversely, negative fair value represents the amount payable by the Company to the different counterparties.

For more information, refer to Note 3 and Note 6 of the Company's unaudited interim condensed consolidated financial statements.

## FINANCIAL POSITION

| <b>Capital</b>                          |                      |                       |                          |                      |
|---|----------------------|-----------------------|--------------------------|----------------------|
| <b>(In millions of dollars)</b>         | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Equity                                  |                      |                       |                          |                      |
| Common shares                           | 1,632.3              | 1,634.5               | 1,655.5                  | 1,669.9              |
| Preferred shares issued by a subsidiary | 525.0                | 525.0                 | 525.0                    | 525.0                |
| Contributed surplus                     | 22.5                 | 22.5                  | 22.8                     | 20.9                 |
| Retained earnings <sup>17,18</sup>      | 3,541.5              | 3,474.0               | 3,447.0                  | 3,304.9              |
| Accumulated other comprehensive income  | 91.7                 | 84.8                  | 22.5                     | 29.1                 |
| Subtotal                                | 5,813.0              | 5,740.8               | 5,672.8                  | 5,549.8              |
| Debtures                                | 651.5                | 901.5                 | 901.4                    | 1,000.8              |
| Participating policyholders' accounts   | 45.6                 | 45.7                  | 45.3                     | 42.1                 |
| Total                                   | 6,510.1              | 6,688.0               | 6,619.5                  | 6,592.7              |

<sup>17</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings at January 1, 2017 by \$58 million.

<sup>18</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

## Capitalization

The Company's capital amounted to more than \$6.5 billion at June 30, 2019, down \$177.9 million from March 31, 2019. This decrease results essentially from the subordinated debenture redemption in May, partially offset by the increase in retained earnings.

| <b>Solvency<sup>19,20,21</sup></b>                          |                      |                       |                        |                      |
|---|----------------------|-----------------------|------------------------|----------------------|
| <b>(In millions of dollars, unless otherwise indicated)</b> | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>January 1, 2018</b> | <b>June 30, 2018</b> |
| Available capital   |                      |                       |                        |                      |
| Tier 1  | 3,028.1              | 3,082.7               | 3,076.9                | 3,195.8              |
| Tier 2  | 1,201.2              | 1,403.4               | 1,392.0                | 1,354.3              |
| Surplus allowance and eligible deposits                     | 4,294.1              | 4,268.2               | 4,045.6                | 4,007.8              |
| <b>Total</b>  | <b>8,523.4</b>       | <b>8,754.3</b>        | <b>8,514.5</b>         | <b>8,557.9</b>       |
| Base solvency buffer  | 6,720.0              | 7,048.1               | 6,755.2                | 7,041.6              |
| Solvency ratio  | 127%                 | 124%                  | 126%                   | 122%                 |

The Company ended the second quarter of 2019 with a solvency ratio of 127%. The variation from March 31, 2019 is due to the net impact of the following items: organic capital generation, which includes the contribution of earnings net of dividends paid to shareholders (+1 percentage point); the impact of investment strategies to reduce macroeconomic risks (+6 percentage points); and the impact of the subordinated debenture redemption combined with the Normal Course Issuer Bid (-4 percentage points). The Company's solvency ratio target range is 110% to 116%.

During the second quarter, the Company organically generated approximately \$80 million in additional capital.

| <b>Financial Leverage</b>   |                      |                       |                          |                      |
|---|----------------------|-----------------------|--------------------------|----------------------|
|   | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Debt ratio  |                      |                       |                          |                      |
| Debentures/capital <sup>20,21</sup>   | 10.0%                | 13.5%                 | 13.6%                    | 15.2%                |
| Debentures + preferred shares issued by a subsidiary/capital <sup>20,21</sup> | 18.1%                | 21.3%                 | 21.5%                    | 23.1%                |
| Coverage ratio <sup>22</sup>  | 15.9x                | 14.8x                 | 14.6x                    | 14.4x                |

The decrease in debt ratios during the second quarter reflects the variation in Company capital and the subordinated debenture redemption. The increase in the coverage ratio mainly reflects the increase in profits realized and the decrease in financing charges over the past twelve months.

| <b>Book Value per Common Share and Market Capitalization</b> |                      |                       |                          |                      |
|--|----------------------|-----------------------|--------------------------|----------------------|
|  | <b>June 30, 2019</b> | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>June 30, 2018</b> |
| Book value per common share <sup>20,21</sup>                 | \$49.70              | \$48.79               | \$47.40                  | \$45.85              |
| Number of common shares outstanding                          | 106,421,099          | 106,944,397           | 108,575,222              | 109,610,110          |
| Value per share at close                                     | \$53.34              | \$49.28               | \$43.57                  | \$50.75              |
| Market capitalization  | \$5,676,501,421      | \$5,270,219,884       | \$4,730,622,423          | \$5,562,713,083      |

Book value per common share was \$49.70 at June 30, 2019, up 1.9% from March 31, 2019 and 8.4% over the last twelve months. This increase mainly reflects the contribution of retained earnings.

The decrease in the number of common shares during the quarter is primarily due to the buyback of shares under the Normal Course Issuer Bid. During the second quarter of 2019, the Company redeemed 0.7 million shares for a total value of \$37.6 million. Between November 12, 2018 and June 30, 2019, the Company has redeemed 3.6 million shares for a total value of \$173.4 million, representing 3.3% of its shares as at November 1, 2018. The Company's market capitalization was nearly \$5.7 billion at June 30, 2019, an increase of 7.7% during the quarter.

<sup>19</sup> This table uses non-IFRS measures to assess the Company's ability to meet regulatory capital requirements.

<sup>20</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings as at January 1, 2017 by \$58 million.

<sup>21</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

<sup>22</sup> Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, dividends on preferred shares issued by a subsidiary and redemption premiums on preferred shares issued by a subsidiary (if applicable).

## DECLARATION OF DIVIDEND

The Board of Directors of iA Financial Corporation approved a quarterly dividend of \$0.4500 per share on the Company's outstanding common shares, the same as that announced the previous quarter.

The Board of Directors of iA Insurance approved a quarterly dividend of \$0.2875 per Non-Cumulative Class A Preferred Share – Series B, \$0.2360625 per Non-Cumulative Class A Preferred Share – Series G, and \$0.3000 per Non-Cumulative Class A Preferred Share – Series I.

Following are the amounts and dates of payment and closing of registers for the iA Financial Corporation common shares and iA Insurance preferred shares.

| Declaration of Dividend                           |             |                    |                 |                         |
|---|-------------|--------------------|-----------------|-------------------------|
|   | Amount      | Payment date       | Closing date    |                         |
| Common share – iA Financial Corporation           | \$0.4500    | September 16, 2019 | August 23, 2019 |                         |
| Class A Preferred Share – Series B – iA Insurance | \$0.2875    | September 30, 2019 | August 30, 2019 | Non-cumulative dividend |
| Class A Preferred Share – Series G – iA Insurance | \$0.2360625 | September 30, 2019 | August 30, 2019 | Non-cumulative dividend |
| Class A Preferred Share – Series I – iA Insurance | \$0.3000    | September 30, 2019 | August 30, 2019 | Non-cumulative dividend |

The Board of Directors of iA Insurance also approved a dividend of \$81 million to its sole common shareholder, iA Financial Corporation. This dividend will be paid in the third quarter of 2019.

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

## Reinvestment of Dividends

Registered shareholders wishing to enrol in the Company's Dividend Reinvestment and Share Purchase Plan (DRIP) so as to be eligible to reinvest the next dividend payable on September 16, 2019 must ensure that the duly completed form is delivered to Computershare no later than 4:00 p.m. on August 16, 2019. Enrolment information is provided on iA Financial Group's website at [ia.ca](http://ia.ca) under *About iA*, in the *Investor Relations/Dividends* section. Common shares issued under the Company's DRIP will be purchased on the secondary market and no discount will apply.

## SENSITIVITY ANALYSIS

| Sensitivity Analysis <sup>23</sup>   |               |                |                   |               |
|--|---------------|----------------|-------------------|---------------|
|  | June 30, 2019 | March 31, 2019 | December 31, 2018 | June 30, 2018 |
| S&P/TSX Closing Value  | 16,382 points | 16,102 points  | 14,323 points     | 16,278 points |
| Solvency ratio <sup>24,25</sup>  | 127%          | 124%           | 126%              | 122%          |
| Impact of a drop in the stock markets (S&P/TSX Index)  |               |                |                   |               |
| Decrease in index requiring a strengthening of provisions for future policy benefits for stocks matched to long-term liabilities | (25%)         | (26%)          | (20%)             | (28%)         |
| Index trigger threshold  | 12,300 points | 11,900 points  | 11,500 points     | 11,800 points |
| Decrease in index that reduces the solvency ratio to 110%  | (74%)         | (73%)          | (65%)             |               |
| Index trigger threshold  | 4,200 points  | 4,400 points   | 5,000 points      |               |
| Decrease in index that reduces the solvency ratio to 112% <sup>24</sup>  |               |                |                   | (44%)         |
| Index trigger threshold  |               |                |                   | 9,100 points  |
| Impact on net income of a sudden 10% drop in the stock markets (over one year)   | (\$32M)       | (\$32M)        | (\$30M)           | (\$32M)       |
| Impact on net income attributed to common shareholders of a hypothetical 10 bps decrease in interest rates                       |               |                |                   |               |
| Drop in initial reinvestment rate (IRR)  | (\$12M)       | (\$13M)        | (\$10M)           | (\$11M)       |
| Drop in ultimate reinvestment rate (URR)   | (\$64M)       | (\$68M)        | (\$66M)           | (\$70M)       |

<sup>23</sup> The sensitivity analysis is based on non-IFRS measures.

<sup>24</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings as at January 1, 2017 by \$58 million.

<sup>25</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

**Caution related to sensitivities**

The sensitivities presented above are estimates of the impact on the financial statements of sudden changes in interest rates and equity values. Actual results can differ significantly from these estimates for a variety of reasons such as the interaction between these factors, changes in business mix, changes in actuarial and investment assumptions, changes in investment strategies, actual experience differing from assumptions, the effective tax rate, market factors and limitations of our internal models. Therefore, these sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions indicated above. Given the nature of these calculations, we cannot provide assurance that the actual impact on net income and the solvency ratio will be as outlined.

*Capital sensitivities to equity market* – Equity market variation represents an immediate change in public and private equity investments (excluding infrastructure investments) at quarter-end. These sensitivities include the use of the Company's stock market protection to prevent an impact on net income and the impact of rebalancing equity hedges for the Company's dynamic hedging program. They exclude any subsequent action on the Company's investment portfolio.

**NOTICE AND GENERAL INFORMATION****Internal Control Over Financial Reporting**

No changes were made to the Company's internal control over financial reporting during the interim period ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Non-IFRS Financial Information**

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

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

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

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

Management's estimate of core earnings per common share excludes: 1) specific items, including but not limited to year-end assumption changes and unusual income tax gains and losses; 2) market gains and losses related to universal life policies, investment funds (MERS) and the dynamic hedging program for segregated fund guarantees; 3) gains and losses in excess of \$0.04 per share, on



a quarterly basis, for strain on Individual Insurance sales, for policyholder experience by business segment (Individual Insurance, Individual Wealth Management, Group Insurance, Group Savings and Retirement, US Operations and iA Auto and Home Insurance), for usual income tax gains and losses and for investment income on capital.

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

### **Forward-Looking Statements**

This Management's Discussion and Analysis may contain statements relating to strategies used by iA Financial Group or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may", "will", "could", "should", "would", "suspect", "expect", "anticipate", "intend", "plan", "believe", "estimate", and "continue" (or the negative thereof), as well as words such as "objective" or "goal" or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. Forward-looking statements include, but are not limited to, information concerning possible or assumed future operating results. These statements are not historical facts; they represent only expectations, estimates and projections regarding future events.

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

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of the *Management's Discussion and Analysis* for 2018 and in the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2018, and elsewhere in iA Financial Group's filings with Canadian securities regulators, which are available for review at [sedar.com](http://sedar.com).

The forward-looking statements in this document reflect the Company's expectations as of the date of this Management's Discussion and Analysis. iA Financial Group does not undertake to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.

### **Documents Related to the Financial Results**

All documents related to iA Financial Corporation's and iA Insurance's financial results are available on the iA Financial Group website at [ia.ca](http://ia.ca) under *About iA*, in the *Investor Relations/Financial Reports* section. More information about the companies can also be found on the SEDAR website at [sedar.com](http://sedar.com), as well as in the iA Insurance Annual Information Form, which can also be found on the iA Financial Group website or the SEDAR website.

## Consolidated Income Statements

| (Unaudited, in millions of dollars, unless otherwise indicated)                       | Quarters ended<br>June 30 |       | Six months ended<br>June 30 |       |
|---|---------------------------|-------|-----------------------------|-------|
|   | 2019                      | 2018  | 2019                        | 2018  |
|   | \$                        | \$    | \$                          | \$    |
| <b>Revenues</b>   |                           |       |                             |       |
| <b>Premiums</b>   |                           |       |                             |       |
| Gross premiums  | 2,186                     | 2,066 | 4,727                       | 4,420 |
| Premiums ceded  | (203)                     | (216) | (389)                       | (384) |
| Net premiums (Note 14)  | 1,983                     | 1,850 | 4,338                       | 4,036 |
| <b>Investment income (Note 3)</b>   |                           |       |                             |       |
| Interest and other investment income  | 328                       | 325   | 654                         | 650   |
| Change in fair value of investments   | 1,343                     | 160   | 3,179                       | (214) |
|   | 1,671                     | 485   | 3,833                       | 436   |
| Other revenues  | 425                       | 438   | 835                         | 873   |
|   | 4,079                     | 2,773 | 9,006                       | 5,345 |
| <b>Policy benefits and expenses</b>   |                           |       |                             |       |
| Gross benefits and claims on contracts  | 1,442                     | 1,346 | 2,936                       | 2,739 |
| Ceded benefits and claims on contracts  | (125)                     | (145) | (242)                       | (257) |
| Net transfer to segregated funds  | 196                       | 171   | 420                         | 486   |
| Increase in insurance contract liabilities  | 1,550                     | 351   | 3,900                       | 301   |
| Increase in investment contract liabilities   | 7                         | 2     | 21                          | 3     |
| Decrease (increase) in reinsurance assets   | (41)                      | 33    | (80)                        | 99    |
|   | 3,029                     | 1,758 | 6,955                       | 3,371 |
| Commissions   | 410                       | 411   | 795                         | 820   |
| General expenses  | 353                       | 332   | 714                         | 656   |
| Premium and other taxes   | 32                        | 31    | 64                          | 62    |
| Financing charges   | 14                        | 16    | 29                          | 33    |
|   | 3,838                     | 2,548 | 8,557                       | 4,942 |
| <b>Income before income taxes</b>   | 241                       | 225   | 449                         | 403   |
| Income taxes (Note 13)  | 54                        | 59    | 104                         | 94    |
| <b>Net income</b>   | 187                       | 166   | 345                         | 309   |
| Net income attributed to participating policyholders                                  | —                         | 1     | 1                           | 1     |
| <b>Net income attributed to shareholders</b>  | 187                       | 165   | 344                         | 308   |
| Dividends attributed to preferred shares issued by a subsidiary (Note 10)             | 6                         | 6     | 12                          | 10    |
| <b>Net income attributed to common shareholders</b>                                   | 181                       | 159   | 332                         | 298   |
| <b>Earnings per common share (in dollars) (Note 15)</b>                               |                           |       |                             |       |
| Basic   | 1.70                      | 1.45  | 3.10                        | 2.75  |
| Diluted   | 1.69                      | 1.44  | 3.09                        | 2.73  |
| <b>Weighted average number of shares outstanding (in millions of units) (Note 15)</b> |                           |       |                             |       |
| Basic   | 107                       | 110   | 107                         | 109   |
| Diluted   | 107                       | 110   | 108                         | 109   |
| <b>Dividends per common share (in dollars) (Note 9)</b>                               | 0.45                      | 0.38  | 0.87                        | 0.76  |

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

## Consolidated Comprehensive Income Statements

| (Unaudited, in millions of dollars)   | Quarters ended<br>June 30 |      | Six months ended<br>June 30 |      |
|---|---------------------------|------|-----------------------------|------|
|   | 2019                      | 2018 | 2019                        | 2018 |
|   | \$                        | \$   | \$                          | \$   |
| <b>Net income</b>   | 187                       | 166  | 345                         | 309  |
| <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                        | 20                        | (9)  | 90                          | (24) |
| Reclassification of gains on available for sale financial assets included in net income | (7)                       | (1)  | (9)                         | (3)  |
|   | 13                        | (10) | 81                          | (27) |
| Net investment hedge  |                           |      |                             |      |
| Unrealized (losses) gains on currency translation in foreign operations                 | (26)                      | 19   | (51)                        | 46   |
| Hedges of net investment in foreign operations  | 21                        | (17) | 41                          | (38) |
|   | (5)                       | 2    | (10)                        | 8    |
| Cash flow hedge   |                           |      |                             |      |
| Unrealized losses on cash flow hedges   | (1)                       | —    | (2)                         | —    |
| Reclassification of gains on cash flow hedges included in net income                    | —                         | —    | —                           | (1)  |
|   | (1)                       | —    | (2)                         | (1)  |
| <b>Items that will not be reclassified subsequently to net income:</b>                  |                           |      |                             |      |
| Remeasurement of post-employment benefits   | (35)                      | 53   | (57)                        | 39   |
| Total other comprehensive income  | (28)                      | 45   | 12                          | 19   |
| <b>Comprehensive income</b>   | 159                       | 211  | 357                         | 328  |
| Comprehensive income attributed to participating policyholders                          | —                         | 1    | 1                           | 1    |
| <b>Comprehensive income attributed to shareholders</b>                                  | 159                       | 210  | 356                         | 327  |

## Income Taxes Included in Other Comprehensive Income

| (Unaudited, in millions of dollars)   | Quarters ended<br>June 30 |      | Six months ended<br>June 30 |      |
|---|---------------------------|------|-----------------------------|------|
|   | 2019                      | 2018 | 2019                        | 2018 |
|   | \$                        | \$   | \$                          | \$   |
| <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                        | (6)                       | 3    | (31)                        | 8    |
| Reclassification of gains on available for sale financial assets included in net income | 2                         | —    | 4                           | 1    |
| Hedges of net investment in foreign operations  | (4)                       | 3    | (7)                         | 7    |
|   | (8)                       | 6    | (34)                        | 16   |
| <b>Items that will not be reclassified subsequently to net income:</b>                  |                           |      |                             |      |
| Remeasurement of post-employment benefits   | 12                        | (19) | 20                          | (14) |
| <b>Total income tax recovery (expense) included in other comprehensive income</b>       | 4                         | (13) | (14)                        | 2    |

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

## Consolidated Statements of Financial Position

| (In millions of dollars)                                     | As at June 30<br>2019<br>(unaudited)<br>\$ | As at December 31<br>2018<br>\$ |
|--|--|---------------------------------|
| <b>Assets</b>  |  |                                 |
| Cash and short-term investments                              | 873  | 1,046                           |
| Bonds  | 26,292                                     | 23,592                          |
| Stocks   | 2,810                                      | 3,055                           |
| Mortgages and other loans                                    | 3,796                                      | 3,661                           |
| Derivative financial instruments (Note 6)                    | 1,205                                      | 225                             |
| Policy loans   | 907  | 951                             |
| Other invested assets  | 376  | 329                             |
| Investment properties  | 1,729                                      | 1,720                           |
| Total investments (Note 3)                                   | 37,988                                     | 34,579                          |
| Other assets   | 2,233                                      | 2,172                           |
| Reinsurance assets   | 1,059                                      | 1,001                           |
| Fixed assets   | 402  | 277                             |
| Deferred income tax assets                                   | 29   | 26                              |
| Intangible assets  | 1,092                                      | 1,071                           |
| Goodwill   | 629  | 633                             |
| General fund assets  | 43,432                                     | 39,759                          |
| Segregated funds net assets (Note 7)                         | 26,389                                     | 23,781                          |
| <b>Total assets</b>  | <b>69,821</b>                              | <b>63,540</b>                   |
| <b>Liabilities</b>   |  |                                 |
| Insurance contract liabilities                               | 29,790                                     | 25,940                          |
| Investment contract liabilities                              | 618  | 630                             |
| Derivative financial instruments (Note 6)                    | 262  | 429                             |
| Other liabilities  | 5,981                                      | 5,875                           |
| Deferred income tax liabilities                              | 271  | 266                             |
| Debentures   | 651  | 901                             |
| General fund liabilities                                     | 37,573                                     | 34,041                          |
| Segregated funds liabilities (Note 7)                        | 26,389                                     | 23,781                          |
| <b>Total liabilities</b>                                     | <b>63,962</b>                              | <b>57,822</b>                   |
| <b>Equity</b>  |  |                                 |
| Share capital and contributed surplus                        | 1,655                                      | 1,678                           |
| Preferred shares issued by a subsidiary (Note 10)            | 525  | 525                             |
| Retained earnings and accumulated other comprehensive income | 3,633                                      | 3,470                           |
| Participating policyholders' accounts                        | 46   | 45                              |
|  | 5,859                                      | 5,718                           |
| <b>Total liabilities and equity</b>                          | <b>69,821</b>                              | <b>63,540</b>                   |

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

## Consolidated Equity Statements

(Unaudited, in millions of dollars)

As at June 30, 2019

|  | Participating<br>policyholders'<br>accounts | Common<br>shares<br>(Note 9) | Preferred<br>shares issued<br>by a<br>subsidiary<br>(Note 10) | Contributed<br>surplus | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(Note 11) | Total        |
|--|---|------------------------------|---|------------------------|----------------------|--|--------------|
|  | \$  | \$                           | \$  | \$                     | \$                   | \$   | \$           |
| Balance as at December 31, 2017                                | 41  | 1,521                        | 375   | 19                     | 3,073                | 49   | 5,078        |
| Impact of adopting IFRS-15                                     | —   | —                            | —   | —                      | (20)                 | —  | (20)         |
| Balance as at January 1, 2018                                  | 41  | 1,521                        | 375   | 19                     | 3,053                | 49   | 5,058        |
| Net income attributed to shareholders                          | —   | —                            | —   | —                      | 634                  | —  | 634          |
| Net income attributed to participating policyholders' accounts | 4   | —                            | —   | —                      | —                    | —  | 4            |
| Other comprehensive income                                     | —   | —                            | —   | —                      | —                    | (36)   | (36)         |
| <b>Comprehensive income for the year</b>                       | <b>4</b>                                    | <b>—</b>                     | <b>—</b>  | <b>—</b>               | <b>634</b>           | <b>(36)</b>  | <b>602</b>   |
| Transfer of post-employment benefits                           | —   | —                            | —   | —                      | (10)                 | 10   | —            |
| <b>Equity transactions</b>                                     |   |                              |   |                        |                      |  |              |
| Stock option plan  | —   | —                            | —   | 5                      | —                    | —  | 5            |
| Stock options exercised  | —   | —                            | —   | (1)                    | —                    | —  | (1)          |
| Common shares issued   | —   | 151                          | —   | —                      | —                    | —  | 151          |
| Preferred shares issued by a subsidiary, net of issuance costs | —   | —                            | 150   | —                      | (3)                  | —  | 147          |
| Redemption of common shares                                    | —   | (17)                         | —   | —                      | (33)                 | —  | (50)         |
| Dividends on common shares                                     | —   | —                            | —   | —                      | (173)                | —  | (173)        |
| Dividends on preferred shares issued by a subsidiary           | —   | —                            | —   | —                      | (21)                 | —  | (21)         |
| <b>Balance as at December 31, 2018</b>                         | <b>45</b>                                   | <b>1,655</b>                 | <b>525</b>  | <b>23</b>              | <b>3,447</b>         | <b>23</b>  | <b>5,718</b> |
| Net income attributed to shareholders                          | —   | —                            | —   | —                      | 344                  | —  | 344          |
| Net income attributed to participating policyholders' accounts | 1   | —                            | —   | —                      | —                    | —  | 1            |
| Other comprehensive income                                     | —   | —                            | —   | —                      | —                    | 12   | 12           |
| <b>Comprehensive income for the period</b>                     | <b>1</b>                                    | <b>—</b>                     | <b>—</b>  | <b>—</b>               | <b>344</b>           | <b>12</b>  | <b>357</b>   |
| Transfer of post-employment benefits                           | —   | —                            | —   | —                      | (57)                 | 57   | —            |
| Other  | —   | —                            | —   | —                      | (3)                  | —  | (3)          |
| <b>Equity transactions</b>                                     |   |                              |   |                        |                      |  |              |
| Stock option plan  | —   | —                            | —   | 2                      | —                    | —  | 2            |
| Stock options exercised  | —   | —                            | —   | (2)                    | —                    | —  | (2)          |
| Common shares issued   | —   | 15                           | —   | —                      | —                    | —  | 15           |
| Redemption of common shares                                    | —   | (38)                         | —   | —                      | (86)                 | —  | (124)        |
| Dividends on common shares                                     | —   | —                            | —   | —                      | (92)                 | —  | (92)         |
| Dividends on preferred shares issued by a subsidiary           | —   | —                            | —   | —                      | (12)                 | —  | (12)         |
| <b>Balance as at June 30, 2019</b>                             | <b>46</b>                                   | <b>1,632</b>                 | <b>525</b>  | <b>23</b>              | <b>3,541</b>         | <b>92</b>  | <b>5,859</b> |

(Unaudited, in millions of dollars)

As at June 30, 2018

|   | Participating<br>policyholders'<br>accounts | Common<br>shares | Preferred<br>shares issued<br>by a subsidiary | Contributed<br>surplus | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br><br>(Note 11) | Total      |
|---|---|------------------|---|------------------------|----------------------|--|------------|
|   | \$  | \$               | \$  | \$                     | \$                   | \$   | \$         |
| Balance as at December 31, 2017                                   | 41  | 1,521            | 375   | 19                     | 3,073                | 49   | 5,078      |
| Impact of adopting IFRS-15  | —   | —                | —   | —                      | (20)                 | —  | (20)       |
| Balance as at January 1, 2018                                     | 41  | 1,521            | 375   | 19                     | 3,053                | 49   | 5,058      |
| Net income attributed to shareholders                             | —   | —                | —   | —                      | 308                  | —  | 308        |
| Net income attributed to participating<br>policyholders' accounts | 1   | —                | —   | —                      | —                    | —  | 1          |
| Other comprehensive income  | —   | —                | —   | —                      | —                    | 19   | 19         |
| <b>Comprehensive income for the period</b>                        | <b>1</b>                                    | <b>—</b>         | <b>—</b>                                      | <b>—</b>               | <b>308</b>           | <b>19</b>  | <b>328</b> |
| Transfer of post-employment benefits                              | —   | —                | —   | —                      | 39                   | (39)   | —          |
| <b>Equity transactions</b>  |   |                  |   |                        |                      |  |            |
| Stock option plan   | —   | —                | —   | 2                      | —                    | —  | 2          |
| Common shares issued  | —   | 149              | —   | —                      | —                    | —  | 149        |
| Preferred shares issued by a subsidiary, net of<br>issuance costs | —   | —                | 150   | —                      | (3)                  | —  | 147        |
| Dividends on common shares  | —   | —                | —   | —                      | (82)                 | —  | (82)       |
| Dividends on preferred shares issued<br>by a subsidiary           | —   | —                | —   | —                      | (10)                 | —  | (10)       |
| Balance as at June 30, 2018                                       | 42  | 1,670            | 525   | 21                     | 3,305                | 29   | 5,592      |

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

## Consolidated Cash Flows Statements

| (Unaudited, in millions of dollars)                       | Six months ended<br>June 30 |              |
|---|-----------------------------|--------------|
|   | 2019                        | 2018         |
|   | \$                          | \$           |
| <b>Cash flows from operating activities</b>               |                             |              |
| Income before income taxes                                | 449                         | 403          |
| Financing charges   | 29                          | 33           |
| Income taxes paid, net of refunds                         | (156)                       | (91)         |
| Operating activities not affecting cash:                  |                             |              |
| Increase in insurance contract liabilities                | 3,920                       | 332          |
| Increase (decrease) in investment contract liabilities    | (12)                        | 28           |
| Decrease (increase) in reinsurance assets                 | (61)                        | 62           |
| Unrealized (gains) losses on investments                  | (3,175)                     | 215          |
| Provisions for losses                                     | 19                          | 10           |
| Amortization of premiums and discounts                    | 8                           | 15           |
| Other depreciation  | 119                         | 78           |
| Other items not affecting cash                            | 51                          | (90)         |
| Operating activities affecting cash:                      |                             |              |
| Sales, maturities and repayments on investments           | 7,692                       | 5,189        |
| Purchases of investments                                  | (8,174)                     | (6,435)      |
| Realized gains on investments                             | (19)                        | (9)          |
| Other items affecting cash                                | (297)                       | 79           |
| Net cash from (used in) operating activities              | 393                         | (181)        |
| <b>Cash flows from investing activities</b>               |                             |              |
| Acquisitions of businesses, net of cash                   | (2)                         | (221)        |
| Purchases of fixed and intangible assets                  | (75)                        | (70)         |
| Net cash used in investing activities                     | (77)                        | (291)        |
| <b>Cash flows from financing activities</b>               |                             |              |
| Issuance of common shares (Note 9)                        | 13                          | 147          |
| Redemption of common shares                               | (124)                       | —            |
| Issuance of preferred shares by a subsidiary (Note 10)    | —                           | 146          |
| Redemption of subordinated debentures                     | (250)                       | (11)         |
| Reimbursement of lease liabilities                        | (7)                         | —            |
| Dividends paid on common shares                           | (92)                        | (82)         |
| Dividends paid on preferred shares issued by a subsidiary | (12)                        | (10)         |
| Interest paid on debentures                               | (13)                        | (16)         |
| Interest paid on lease liabilities                        | (2)                         | —            |
| Net cash from (used in) financing activities              | (487)                       | 174          |
| Foreign currency (losses) gains on cash                   | (2)                         | 4            |
| <b>Decrease in cash and short-term investments</b>        | <b>(173)</b>                | <b>(294)</b> |
| <b>Cash and short-term investments at beginning</b>       | <b>1,046</b>                | <b>1,141</b> |
| <b>Cash and short-term investments at end</b>             | <b>873</b>                  | <b>847</b>   |
| <b>Supplementary information:</b>                         |                             |              |
| Cash  | 501                         | 626          |
| Short-term investments                                    | 372                         | 221          |
| Total cash and short-term investments                     | 873                         | 847          |

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

## Notes to Interim Condensed Consolidated Financial Statements

Six months ended June 30, 2019 and 2018 (unaudited) (in millions of dollars, unless otherwise indicated)

### 1 › General Information

iA Financial Corporation Inc. (iA Financial Corporation) is a holding company listed on the Toronto Stock Exchange and incorporated under the *Business Corporations Act* (Quebec). iA Financial Corporation and its subsidiaries (the "Company") offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgages, 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.

On January 1, 2019, Industrial Alliance Insurance and Financial Services Inc. (iA Insurance) and iA Financial Corporation completed an operation pursuant to which iA Financial Corporation became the holding company that owns all the common shares of iA Insurance by way of a plan of arrangement under the *Companies Act* (Quebec) and the *Business Corporations Act* (Quebec) (the "arrangement") (Note 18).

The Company's Interim Consolidated Financial Statements are prepared on the basis of International Financial Reporting Standards (IFRS) in accordance with IAS-34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (IASB). These Interim Consolidated Financial Statements do not contain all the information required in a complete annual financial statement and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2018, which are included in the 2018 Annual Report of Industrial Alliance Insurance and Financial Services Inc. As a "successor issuer", the significant accounting policies used to prepare these Interim Consolidated Financial Statements are consistent with those found in the 2018 Annual Report of Industrial Alliance Insurance and Financial Services Inc., except for items mentioned in Note 2.

Publication of these Interim Consolidated Financial Statements was authorized for issue by the Company's Board of Directors on August 1, 2019.

### 2 › Changes in Accounting Policies

#### New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2019.

| Standards or amendments     | Description of the standards or amendments and impacts on financial statements of the Company   |
|-----------------------------|---|
| IFRS-4 "Insurance Contract" | <p><i>Description:</i> On September 12, 2016, the IASB published an amendment to IFRS-4 "Insurance Contract". This amendment, "Applying IFRS-9 Financial Instruments with IFRS-4 Insurance Contract", 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 November 14, 2018, the IASB decided to propose extending the deferral approach until January 1, 2022. This decision is subject to public consultation currently underway.</p> <p><i>Status:</i> The Company met all criteria and chose the deferral approach, as described below. The Company will apply IFRS-9 only to financial statements beginning on January 1, 2021, or January 1, 2022 if approved.</p> |
| IFRS-16 "Leases"            | <p><i>Description:</i> On January 13, 2016, the IASB published the standard IFRS-16 "Leases", which replaces the standard IAS-17 "Leases". This new standard specifies:</p> <ul style="list-style-type: none"> <li>how to recognize, measure, present and disclose leases;</li> <li>for the lessee: <ul style="list-style-type: none"> <li>the requirement to recognize assets and liabilities for all leases;</li> <li>unless the lease term is 12 months or less or the underlying asset has a low value;</li> </ul> </li> <li>for the lessor: <ul style="list-style-type: none"> <li>that the accounting remains substantially unchanged.</li> </ul> </li> </ul> <p><i>Impact:</i> The Company has applied this new standard as of January 1, 2019 and the impact is described below.</p>  |
| IAS-19 "Employee Benefits"  | <p><i>Description:</i> On February 7, 2018, the IASB published an amendment to IAS-19 "Employee Benefits". The amendment "Plan Amendment, Curtailment or Settlement" clarifies, for defined benefit pension plans, when changes require a revaluation of the net cost of assets and liabilities involved. The amendment requires the entity to use the adjusted assumptions resulting from the reassessment to determine the cost of services rendered during the period and the net interest for the period following the changes made to the pension plans or the revaluation. This amendment applies prospectively.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>   |



|   |   |
|---|---|
| IFRIC-23 "Uncertainty over Income Tax Treatments"     | <p><i>Description:</i> On June 7, 2017, the IASB published Interpretation IFRIC-23, "Uncertainty over Income Tax Treatments". This interpretation clarifies how to apply the recognition and measurement requirement in IAS-12 "Income Taxes" when there is uncertainty over income tax treatments. This interpretation applies to the determination of taxable profit (taxable loss), tax bases, unused tax losses, unused tax credits and tax rates when there is doubt as to the tax treatments to be used in accordance with IAS-12.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>   |
| IAS-28 "Investments in Associates and Joint Ventures" | <p><i>Description:</i> On October 12, 2017, the IASB published an amendment to IAS-28 "Investments in Associates and Joint Ventures". The amendment "Long-term Interest in Associates and Joint Ventures" clarifies the situation where an entity applies the equity method and owns long-term interests that meet the criteria to be qualified in substance as long-term net investments. This amendment applies more specifically to shares when there are losses that must be absorbed by long-term interests.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p>  |
| Annual Improvements to IFRSs 2015-2017 Cycle          | <p><i>Description:</i> In December 2017, the IASB published the Annual Improvements to IFRSs 2015-2017 Cycle. The Annual Improvements clarify situations specific to four standards:</p> <ul style="list-style-type: none"> <li>• IFRS-3 "Business Combinations" related to the fact that a business combination achieved in stages is applicable when a party to a joint arrangement obtains control of a business that is a joint operation, and this improvement will apply prospectively;</li> <li>• IFRS-11 "Joint Arrangements" related to the fact that an interest previously owned by an entity in a joint operation is not remeasured when the entity obtains joint control of the joint operation, and this improvement will apply prospectively;</li> <li>• IAS-12 "Income Taxes" related to the recognition of income taxes on dividend liabilities to be paid, and this improvement will apply retrospectively;</li> <li>• IAS-23 "Borrowing Costs" related to the fact that an entity shall exclude from the calculation of capitalized borrowing costs the borrowing costs for the period during the completion of the assets, and this improvement will apply prospectively.</li> </ul> <p><i>Impact:</i> No impact on the Company's financial statements.</p> |

#### Impact of the application of IFRS-16

The Company chose to apply this new standard on a modified retrospective basis as at January 1, 2019. As a result, the comparative figures are not restated. The Company also elected to use the simplification measure relating to the identification of leases at transition date. Accordingly, this standard has been applied to leases previously identified as such in accordance with IAS-17 "Leases" and IFRIC-4 "Determining whether an Arrangement Contains a Lease". The Company has also elected to use the exemption for lease periods with a term of 12 months or less, or those whose underlying asset has a low value. As a result, these leases are recognized in *General expenses*.

On January 1, 2019, the Company recognized right-of-use assets of \$140 and lease liabilities of \$142, calculated using a weighted average incremental borrowing rate of 3%. The Company also reversed a liability of \$2 that was presented in *Other liabilities*.

#### Reconciliation of lease liabilities as at January 1, 2019:

|  | \$         |
|--|------------|
| Commitments related to operating leases as at December 31, 2018            | 187        |
| Exemptions related to short-term or low-value contracts                    | (1)        |
| Variable costs and non-lease components                                    | (74)       |
| Extension options considered in the lease liabilities                      | 72         |
|  | 184        |
| Effect of discount at the incremental borrowing rate as at January 1, 2019 | (42)       |
| <b>Lease liabilities as at January 1, 2019</b>                             | <b>142</b> |

Right-of-use assets are recognized in *Fixed assets* and lease liabilities are recognized in *Other liabilities*. Therefore, the following new accounting policies apply:

#### Fixed assets

Right-of-use assets are recorded at cost less accumulated amortization. Right-of-use assets consist of fixed assets such as rental space and other assets arising from leases recognized at the commencement date of the contract, that is when the leased asset is made available for the Company. The Company calculates depreciation using the straight-line method. The depreciation period is based on the estimated useful life. Right-of-use assets are amortized over periods ranging from 2 to 30 years.

### Other liabilities

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. Subsequently, 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*.

### 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 or amendments                      | Description of the standards or amendments  |
|--|---|
| IFRS-9 "Financial Instruments"               | <p>The Company adopted the amendment IFRS-4 "Insurance Contract", described in the section <i>New Accounting Policies Applied</i>. Consequently, even if the provisions of IFRS-9 applied to financial statements beginning on 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 "Financial Instruments" which replaces the provisions of the standard IAS-39 "Financial Instruments: Recognition and Measurement". 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 this new standard will apply retrospectively or on a modified retrospective basis.</p> <p>On October 12, 2017, the IASB published an amendment to IFRS-9 "Financial Instruments". The amendment "Prepayment Features with Negative Compensation" enables entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.</p> <p><i>Status:</i> The Company is evaluating the impact of this standard on its financial statements.</p> |
| IFRS-17 "Insurance Contracts"                | <p><i>Description:</i> On May 18, 2017, the IASB published the standard IFRS-17 "Insurance Contracts" which replaces the provisions of the standard IFRS-4 "Insurance Contracts". 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 this new standard 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, 2021. Early adoption is permitted if IFRS-9 "Financial Instruments" and IFRS-15 "Revenue from Contracts with Customers" are previously applied.</p> <p>On November 14, 2018, the IASB decided to propose extending the date of application to financial statements beginning on or after January 1, 2022. This decision is subject to public consultation currently underway.</p> <p><i>Status:</i> The Company is evaluating the impact on presentation, disclosure and measurement of the insurance contract liabilities that this standard will have on its financial statements.</p>   |
| Conceptual Framework for Financial Reporting | <p><i>Description:</i> On March 29, 2018, the IASB published a revised version of the Conceptual Framework for Financial Reporting. The IASB decided to revise the Conceptual Framework because important issues were not addressed and some indications were outdated or unclear. This revised version includes, among other things, a new chapter on valuation, guidance on the presentation of financial performance and improved definitions of an asset and a liability and guidance in support of those definitions. The Conceptual Framework helps entities to develop their accounting method when no IFRS is applicable to a specific situation. The provisions will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this revised version on its financial statements.</p>   |

|  |   |
|--|---|
| IFRS-3 "Business Combinations"   | <p><i>Description:</i> On October 22, 2018, the IASB published an amendment to the standard IFRS-3 "Business Combinations". The amendment "Definition of a Business" clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The provisions of this amendment will apply prospectively to transactions for which the acquisition date is on or after January 1, 2020. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p>                |
| IAS-1 "Presentation of Financial Statements" and IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors" | <p><i>Description:</i> On October 31, 2018, the IASB published an amendment to IAS-1 "Presentation of Financial Statements" and IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendment "Definition of Material" clarifies the definition of material in IAS-1 and the explanation accompanying that definition and aligns the definitions used across IFRS standards. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2020. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p> |

#### Information on the Deferral of the Application of IFRS-9 "Financial Instruments"

The Company applies IFRS-4 "Insurance Contracts" in its operations. 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 is 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, segregated funds liabilities and debentures as at December 31, 2015. Liabilities related to its insurance activities are greater than 90% of total liabilities.

The Company has decided to defer the application of IFRS-9 until January 1, 2021 (or January 1, 2022 if the proposition is accepted), when IFRS-17 "Insurance Contracts", which includes the valuation of these policies, becomes effective. 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 or available for sale as at June 30, 2019, an amount of \$844 does not meet the solely payments of principal and interest test in accordance with IFRS-9. In addition, for mortgages, the Company cannot use the low credit risk exemption in the calculation of expected credit losses.

### 3 › Invested Assets and Investment Income

#### a) Carrying Value and Fair Value

| As at June 30, 2019                     |  |                       |                          |       |        |            |
|---|--|-----------------------|--------------------------|-------|--------|------------|
|   | At fair value<br>through<br>profit or loss | Available for<br>sale | Loans and<br>receivables | Other | Total  | Fair value |
|   | \$   | \$                    | \$                       | \$    | \$     | \$         |
| <b>Cash and short-term investments</b>  | 450  | —                     | 423                      | —     | 873    | 873        |
| <b>Bonds</b>                            |  |                       |                          |       |        |            |
| Governments                             | 11,411                                     | 1,673                 | 112                      | —     | 13,196 |            |
| Municipalities                          | 1,160                                      | 149                   | 40                       | —     | 1,349  |            |
| Corporate and other                     | 8,105                                      | 1,537                 | 2,105                    | —     | 11,747 |            |
|   | 20,676                                     | 3,359                 | 2,257                    | —     | 26,292 | 26,563     |
| <b>Stocks</b>                           |  |                       |                          |       |        |            |
| Common                                  | 1,474                                      | 32                    | —                        | —     | 1,506  |            |
| Preferred                               | 185  | 370                   | —                        | —     | 555    |            |
| Stock indexes                           | 216  | 51                    | —                        | —     | 267    |            |
| Investment fund units                   | 475  | 7                     | —                        | —     | 482    |            |
|   | 2,350                                      | 460                   | —                        | —     | 2,810  | 2,810      |
| <b>Mortgages and other loans</b>        |  |                       |                          |       |        |            |
| <b>Insured mortgages</b>                |  |                       |                          |       |        |            |
| Residential                             | —  | —                     | 876                      | —     | 876    |            |
| Multi-residential                       | —  | —                     | 1,444                    | —     | 1,444  |            |
| Non-residential                         | —  | —                     | 6                        | —     | 6      |            |
|   | —  | —                     | 2,326                    | —     | 2,326  |            |
| <b>Conventional mortgages</b>           |  |                       |                          |       |        |            |
| Residential                             | —  | —                     | 256                      | —     | 256    |            |
| Multi-residential                       | 68   | —                     | 167                      | —     | 235    |            |
| Non-residential                         | 29   | —                     | 235                      | —     | 264    |            |
|   | 97   | —                     | 658                      | —     | 755    |            |
| <b>Other loans</b>                      | —  | —                     | 715                      | —     | 715    |            |
|   | 97   | —                     | 3,699                    | —     | 3,796  | 3,885      |
| <b>Derivative financial instruments</b> | 1,205                                      | —                     | —                        | —     | 1,205  | 1,205      |
| <b>Policy loans</b>                     | —  | —                     | 907                      | —     | 907    | 907        |
| <b>Other invested assets</b>            | —  | —                     | 6                        | 370   | 376    | 376        |
| <b>Investment properties</b>            | —  | —                     | —                        | 1,729 | 1,729  | 1,747      |
| <b>Total</b>                            | 24,778                                     | 3,819                 | 7,292                    | 2,099 | 37,988 | 38,366     |

| As at December 31, 2018                 |                                      |                    |                       |       |        |            |
|---|--------------------------------------|--------------------|-----------------------|-------|--------|------------|
|   | At fair value through profit or loss | Available for sale | Loans and receivables | Other | Total  | Fair value |
|   | \$                                   | \$                 | \$                    | \$    | \$     | \$         |
| <b>Cash and short-term investments</b>  | 465                                  | —                  | 581                   | —     | 1,046  | 1,046      |
| <b>Bonds</b>                            |                                      |                    |                       |       |        |            |
| Governments                             | 9,857                                | 1,996              | 118                   | —     | 11,971 |            |
| Municipalities                          | 1,045                                | 110                | 40                    | —     | 1,195  |            |
| Corporate and other                     | 6,721                                | 1,725              | 1,980                 | —     | 10,426 |            |
|   | 17,623                               | 3,831              | 2,138                 | —     | 23,592 | 23,733     |
| <b>Stocks</b>                           |                                      |                    |                       |       |        |            |
| Common                                  | 1,793                                | 31                 | —                     | —     | 1,824  |            |
| Preferred                               | 177                                  | 320                | —                     | —     | 497    |            |
| Stock indexes                           | 236                                  | 77                 | —                     | —     | 313    |            |
| Investment fund units                   | 415                                  | 6                  | —                     | —     | 421    |            |
|   | 2,621                                | 434                | —                     | —     | 3,055  | 3,055      |
| <b>Mortgages and other loans</b>        |                                      |                    |                       |       |        |            |
| <b>Insured mortgages</b>                |                                      |                    |                       |       |        |            |
| Residential                             | —                                    | —                  | 859                   | —     | 859    |            |
| Multi-residential                       | —                                    | —                  | 1,427                 | —     | 1,427  |            |
| Non-residential                         | —                                    | —                  | 6                     | —     | 6      |            |
|   | —                                    | —                  | 2,292                 | —     | 2,292  |            |
| <b>Conventional mortgages</b>           |                                      |                    |                       |       |        |            |
| Residential                             | —                                    | —                  | 221                   | —     | 221    |            |
| Multi-residential                       | 60                                   | —                  | 174                   | —     | 234    |            |
| Non-residential                         | 30                                   | —                  | 222                   | —     | 252    |            |
|   | 90                                   | —                  | 617                   | —     | 707    |            |
| <b>Other loans</b>                      | —                                    | —                  | 662                   | —     | 662    |            |
|   | 90                                   | —                  | 3,571                 | —     | 3,661  | 3,705      |
| <b>Derivative financial instruments</b> | 225                                  | —                  | —                     | —     | 225    | 225        |
| <b>Policy loans</b>                     | —                                    | —                  | 951                   | —     | 951    | 951        |
| <b>Other invested assets</b>            | —                                    | —                  | 7                     | 322   | 329    | 329        |
| <b>Investment properties</b>            | —                                    | —                  | —                     | 1,720 | 1,720  | 1,738      |
| <b>Total</b>                            | 21,024                               | 4,265              | 7,248                 | 2,042 | 34,579 | 34,782     |

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 accounted for using the equity method.

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

The Company holds interests ranging from 25% to 33% (ranging from 25% to 30% as at December 31, 2018). The carrying value of those investments as at June 30, 2019 is \$370 (\$322 as at December 31, 2018). The share of net income and comprehensive income for the six months ended June 30, 2019 amounts to \$11 (\$10 for the six months ended June 30, 2018).

## c) Investment Income

|   | Quarters ended<br>June 30 |            | Six months ended<br>June 30 |              |
|---|---------------------------|------------|-----------------------------|--------------|
|   | 2019                      | 2018       | 2019                        | 2018         |
|   | \$                        | \$         | \$                          | \$           |
| Interest                                    | 242                       | 239        | 478                         | 475          |
| Dividends                                   | 32                        | 38         | 60                          | 67           |
| Derivative financial instruments            | 3                         | 4          | 8                           | 10           |
| Rental income                               | 48                        | 38         | 96                          | 79           |
| Gains realized                              | 8                         | 2          | 19                          | 9            |
| Variation in provisions for losses          | (11)                      | (5)        | (19)                        | (10)         |
| Other                                       | 6                         | 9          | 12                          | 20           |
| <b>Interest and other investment income</b> | <b>328</b>                | <b>325</b> | <b>654</b>                  | <b>650</b>   |
| Cash and short-term investments             | 2                         | 1          | 4                           | 1            |
| Bonds                                       | 912                       | 26         | 2,090                       | (171)        |
| Stocks                                      | 11                        | 80         | 130                         | 25           |
| Mortgages and other loans                   | (1)                       | 2          | (2)                         | 3            |
| Derivative financial instruments            | 416                       | 16         | 973                         | (103)        |
| Investment properties                       | (2)                       | 32         | (10)                        | 29           |
| Other                                       | 5                         | 3          | (6)                         | 2            |
| <b>Change in fair value of investments</b>  | <b>1,343</b>              | <b>160</b> | <b>3,179</b>                | <b>(214)</b> |
| <b>Total</b>                                | <b>1,671</b>              | <b>485</b> | <b>3,833</b>                | <b>436</b>   |

## 4 › 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 uses its judgment to determine the data 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 a similar risk profile 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 uses 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 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 in the market is used to ascertain the fair value of these derivative financial instruments. While these data are not observable, they are based on assumptions deemed appropriate given the circumstances. Once the restricted trading period ends, the instruments are valued using standard valuation models based on data observable in the market, as described previously. The Company's use of non-observable data is limited to the trading restrictions period, and their effect on the fair value of derivative financial instruments does not represent a significant amount.

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

*Other Investments* – The fair value of other investments 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 popular, as it is based on an investor's behaviour in relation to income expectations 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 use 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, legally admissible, financially feasible physical use achievable in the short term based on demand and must be tied to the likelihood of being achieved rather than to the simple possibility. Valuations are performed by external, independent, certified appraisers, or internally, on an annual basis.

### **Financial Liabilities**

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

The fair value of securitization liabilities is estimated by discounting cash flows with the interest rates currently prevailing on the market for new debts with substantially the same terms.

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. Important data used in these models include, but are not limited to, yield curves, credit risk, issuer spreads, the measure of volatility and liquidity and other reference data published by the markets.

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

*Derivative Financial Instruments* – The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 6 *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.

### **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

|   | As at June 30, 2019 |               |              |               |
|---|---------------------|---------------|--------------|---------------|
|   | Level 1             | Level 2       | Level 3      | Total         |
|   | \$                  | \$            | \$           | \$            |
| <b>Recurring fair value assessments</b>                                 |                     |               |              |               |
| <b>Cash and short-term investments</b>                                  |                     |               |              |               |
| Held for trading  | —                   | 450           | —            | 450           |
| <b>Bonds</b>  |                     |               |              |               |
| Designated at fair value through profit or loss                         |                     |               |              |               |
| Governments   | 359                 | 11,052        | —            | 11,411        |
| Municipalities  | —                   | 1,160         | —            | 1,160         |
| Corporate and other   | —                   | 7,973         | 132          | 8,105         |
|   | 359                 | 20,185        | 132          | 20,676        |
| Available for sale  |                     |               |              |               |
| Governments   | 107                 | 1,566         | —            | 1,673         |
| Municipalities  | —                   | 149           | —            | 149           |
| Corporate and other   | —                   | 1,526         | 11           | 1,537         |
|   | 107                 | 3,241         | 11           | 3,359         |
|   | 466                 | 23,426        | 143          | 24,035        |
| <b>Stocks</b>   |                     |               |              |               |
| Designated at fair value through profit or loss                         | 1,195               | —             | 1,155        | 2,350         |
| Available for sale  | 61                  | 370           | 29           | 460           |
|   | 1,256               | 370           | 1,184        | 2,810         |
| <b>Mortgages and other loans</b>  |                     |               |              |               |
| Designated at fair value through profit or loss                         | —                   | 97            | —            | 97            |
| <b>Derivative financial instruments</b>                                 |                     |               |              |               |
| Held for trading  | 172                 | 1,033         | —            | 1,205         |
| <b>Investment properties</b>  |                     |               |              |               |
|   | —                   | —             | 1,729        | 1,729         |
| <b>General fund investments accounted at fair value</b>                 | <b>1,894</b>        | <b>25,376</b> | <b>3,056</b> | <b>30,326</b> |
| <b>Segregated funds financial instruments and investment properties</b> | <b>20,084</b>       | <b>6,034</b>  | <b>55</b>    | <b>26,173</b> |
| <b>Total financial assets at fair value</b>                             | <b>21,978</b>       | <b>31,410</b> | <b>3,111</b> | <b>56,499</b> |



|   | As at December 31, 2018 |         |         |        |
|---|-------------------------|---------|---------|--------|
|   | Level 1                 | Level 2 | Level 3 | Total  |
|   | \$                      | \$      | \$      | \$     |
| <b>Recurring fair value assessments</b>                                 |                         |         |         |        |
| <b>Cash and short-term investments</b>                                  |                         |         |         |        |
| Held for trading  | —                       | 465     | —       | 465    |
| <b>Bonds</b>  |                         |         |         |        |
| Designated at fair value through profit or loss                         |                         |         |         |        |
| Governments   | 358                     | 9,499   | —       | 9,857  |
| Municipalities  | —                       | 1,045   | —       | 1,045  |
| Corporate and other   | —                       | 6,581   | 140     | 6,721  |
|   | 358                     | 17,125  | 140     | 17,623 |
| Available for sale  |                         |         |         |        |
| Governments   | 185                     | 1,811   | —       | 1,996  |
| Municipalities  | —                       | 110     | —       | 110    |
| Corporate and other   | —                       | 1,709   | 16      | 1,725  |
|   | 185                     | 3,630   | 16      | 3,831  |
|   | 543                     | 20,755  | 156     | 21,454 |
| <b>Stocks</b>   |                         |         |         |        |
| Designated at fair value through profit or loss                         | 1,487                   | —       | 1,134   | 2,621  |
| Available for sale  | 86                      | 319     | 29      | 434    |
|   | 1,573                   | 319     | 1,163   | 3,055  |
| <b>Mortgages and other loans</b>  |                         |         |         |        |
| Designated at fair value through profit or loss                         | —                       | 90      | —       | 90     |
| <b>Derivative financial instruments</b>                                 |                         |         |         |        |
| Held for trading  | 27                      | 197     | 1       | 225    |
| <b>Investment properties</b>  |                         |         |         |        |
|   | —                       | —       | 1,720   | 1,720  |
| <b>General fund investments accounted at fair value</b>                 |                         |         |         |        |
|   | 2,143                   | 21,826  | 3,040   | 27,009 |
| <b>Segregated funds financial instruments and investment properties</b> |                         |         |         |        |
|   | 17,852                  | 5,894   | 47      | 23,793 |
| <b>Total financial assets at fair value</b>                             |                         |         |         |        |
|   | 19,995                  | 27,720  | 3,087   | 50,802 |

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 1.19% to 2.67% as at June 30, 2019 (1.40% to 3.25% as at December 31, 2018). 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 June 30, 2019 are the discount rate, which is between 5.00% and 9.00% (5.00% and 9.00% as at December 31, 2018) and the terminal capitalization rate, which is between 4.25% and 7.00% (4.25% and 7.75% as at December 31, 2018). The discount rate is based on market activity by type of building and the 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 location. This rate reflects the expected rate of return on the investment 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.

Due to 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 the fair value. Also, the investment properties as well as bonds and stocks classified as designated at fair value through profit or loss support the Company's insurance contract liabilities. Consequently, changes in fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the Canadian Asset Liability Method (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:

As at June 30, 2019

|   | Balance as at<br>December 31,<br>2018 | Realized<br>and<br>unrealized<br>gains<br>(losses)<br>included in<br>net income | Realized and<br>unrealized<br>gains (losses)<br>included in<br>other<br>comprehensive<br>income | Purchases  | Sales and<br>settlements | Transfers<br>in (out)<br>of<br>Level 3 | Balance as at<br>June 30, 2019 | Total<br>unrealized<br>gains<br>(losses)<br>included in<br>net income<br>on<br>investments<br>still held |
|---|---------------------------------------|---|---|------------|--------------------------|--|--------------------------------|--|
|   | \$                                    | \$  | \$  | \$         | \$                       | \$                                     | \$                             | \$   |
| <b>Bonds</b>  |                                       |   |   |            |                          |  |                                |  |
| Designated at fair value<br>through profit or loss                                  | 140                                   | 8   | —   | —          | (16)                     | —                                      | 132                            | 9  |
| Available for sale  | 16                                    | —   | —   | —          | (5)                      | —                                      | 11                             | —  |
| <b>Stocks</b>   |                                       |   |   |            |                          |  |                                |  |
| Designated at fair value<br>through profit or loss                                  | 1,134                                 | (29)  | —   | 71         | (21)                     | —                                      | 1,155                          | (29)   |
| Available for sale  | 29                                    | —   | (1)   | 1          | —                        | —                                      | 29                             | —  |
| <b>Derivative financial<br/>instruments</b>   |                                       |   |   |            |                          |  |                                |  |
| Held for trading  | 1                                     | —   | —   | —          | (1)                      | —                                      | —                              | —  |
| Investment properties   | 1,720                                 | (10)  | —   | 23         | (4)                      | —                                      | 1,729                          | (10)   |
| <b>General fund<br/>investments<br/>accounted at fair value</b>                     |                                       |   |   |            |                          |  |                                |  |
|   | 3,040                                 | (31)  | (1)   | 95         | (47)                     | —                                      | 3,056                          | (30)   |
| <b>Segregated funds<br/>financial instruments<br/>and investment<br/>properties</b> |                                       |   |   |            |                          |  |                                |  |
|   | 47                                    | 1   | —   | 8          | (1)                      | —                                      | 55                             | 1  |
| <b>Total</b>  | <b>3,087</b>                          | <b>(30)</b>   | <b>(1)</b>  | <b>103</b> | <b>(48)</b>              | <b>—</b>                               | <b>3,111</b>                   | <b>(29)</b>  |

As at December 31, 2018

|   | Balance as at<br>December 31,<br>2017 | Realized<br>and<br>unrealized<br>gains<br>(losses)<br>included in<br>net income | Realized and<br>unrealized<br>gains (losses)<br>included in<br>other<br>comprehensive<br>income | Purchases | Sales and<br>settlements | Transfers in<br>(out) of<br>Level 3 | Balance as at<br>December 31,<br>2018 | Total<br>unrealized<br>gains (losses)<br>included in net<br>income<br>on<br>investments<br>still held |
|---|---------------------------------------|---|---|-----------|--------------------------|-------------------------------------|---------------------------------------|---|
|   | \$                                    | \$  | \$  | \$        | \$                       | \$                                  | \$                                    | \$  |
| <b>Bonds</b>  |                                       |   |   |           |                          |                                     |                                       |   |
| Designated at fair value through profit or loss                         | 145                                   | (2)   | —   | —         | (3)                      | —                                   | 140                                   | (2)   |
| Available for sale  | 15                                    | —   | 1   | —         | —                        | —                                   | 16                                    | —   |
| <b>Stocks</b>   |                                       |   |   |           |                          |                                     |                                       |   |
| Designated at fair value through profit or loss                         | 902                                   | 74  | —   | 235       | (61)                     | (16)                                | 1,134                                 | 77  |
| Available for sale  | 18                                    | —   | 2   | 9         | —                        | —                                   | 29                                    | —   |
| <b>Derivative financial instruments</b>                                 |                                       |   |   |           |                          |                                     |                                       |   |
| Held for trading  | 2                                     | —   | —   | —         | (1)                      | —                                   | 1                                     | —   |
| <b>Investment properties</b>  | 1,341                                 | 43  | —   | 378       | (42)                     | —                                   | 1,720                                 | 43  |
| <b>General fund investments accounted at fair value</b>                 |                                       |   |   |           |                          |                                     |                                       |   |
|   | 2,423                                 | 115   | 3   | 622       | (107)                    | (16)                                | 3,040                                 | 118   |
| <b>Segregated funds financial instruments and Investment properties</b> |                                       |   |   |           |                          |                                     |                                       |   |
|   | 22                                    | —   | —   | 27        | (2)                      | —                                   | 47                                    | —   |
| <b>Total</b>  | 2,445                                 | 115   | 3   | 649       | (109)                    | (16)                                | 3,087                                 | 118   |

For the period ended June 30, 2019, an amount of \$23 (\$46 for the year ended December 31, 2018) presented in *Purchases* for investment properties corresponds to capitalizations to *Investment properties*. *Sales and settlements* for investment properties include transfers of \$2 to fixed assets (\$7 for the year ended December 31, 2018).

*Realized and unrealized gains (losses) included in net income* and *Total unrealized gains (losses) included in net income on financial instruments still held* are presented in the *Investment income* in the Income Statement, except the value of segregated fund assets, which are not presented in the Income Statement, but are included in the change in segregated funds net assets in Note 7 *Segregated Funds Net Assets*. *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 11 *Accumulated Other Comprehensive Income in Unrealized gains (losses)*.

#### Fair Value Disclosed in the Notes

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

|  | As at June 30, 2019 |         |         |       |
|--|---------------------|---------|---------|-------|
|  | Level 1             | Level 2 | Level 3 | Total |
|  | \$                  | \$      | \$      | \$    |
| <b>Classified as loans and receivables</b>                 |                     |         |         |       |
| <b>Bonds</b>   |                     |         |         |       |
| Governments  | —                   | 8       | 136     | 144   |
| Municipalities   | —                   | 52      | —       | 52    |
| Corporate and other  | —                   | 250     | 2,082   | 2,332 |
|  | —                   | 310     | 2,218   | 2,528 |
| <b>Mortgages and other loans</b>                           | —                   | 3,788   | —       | 3,788 |
| <b>Total of assets classified as loans and receivables</b> | —                   | 4,098   | 2,218   | 6,316 |

|  | As at December 31, 2018 |         |         |       |
|--|-------------------------|---------|---------|-------|
|  | Level 1                 | Level 2 | Level 3 | Total |
|  | \$                      | \$      | \$      | \$    |
| <b>Classified as loans and receivables</b>                 |                         |         |         |       |
| <b>Bonds</b>   |                         |         |         |       |
| Governments  | —                       | 9       | 128     | 137   |
| Municipalities   | —                       | 48      | —       | 48    |
| Corporate and other  | —                       | 251     | 1,843   | 2,094 |
|  | —                       | 308     | 1,971   | 2,279 |
| <b>Mortgages and other loans</b>                           | —                       | 3,615   | —       | 3,615 |
| <b>Total of assets classified as loans and receivables</b> | —                       | 3,923   | 1,971   | 5,894 |

**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:

|  | As at June 30, 2019 |              |          |              |
|--|---------------------|--------------|----------|--------------|
|  | Level 1             | Level 2      | Level 3  | Total        |
|  | \$                  | \$           | \$       | \$           |
| <b>Recurring fair value assessments</b>                    |                     |              |          |              |
| <b>Other liabilities</b>                                   |                     |              |          |              |
| Held for trading   | 27                  | 156          | —        | 183          |
| <b>Derivative financial instruments</b>                    |                     |              |          |              |
| Held for trading   | 58                  | 204          | —        | 262          |
| <b>Total of liabilities classified as held for trading</b> | <b>85</b>           | <b>360</b>   | <b>—</b> | <b>445</b>   |
| <b>Classified at amortized cost</b>                        |                     |              |          |              |
| <b>Other liabilities</b>                                   |                     |              |          |              |
| Securitization liabilities                                 | —                   | 1,226        | —        | 1,226        |
| <b>Debentures</b>  | <b>—</b>            | <b>667</b>   | <b>—</b> | <b>667</b>   |
| <b>Total of liabilities classified at amortized cost</b>   | <b>—</b>            | <b>1,893</b> | <b>—</b> | <b>1,893</b> |

|  | As at December 31, 2018 |              |           |              |
|--|-------------------------|--------------|-----------|--------------|
|  | Level 1                 | Level 2      | Level 3   | Total        |
|  | \$                      | \$           | \$        | \$           |
| <b>Recurring fair value assessments</b>                    |                         |              |           |              |
| <b>Other liabilities</b>                                   |                         |              |           |              |
| Held for trading   | 48                      | 127          | —         | 175          |
| <b>Derivative financial instruments</b>                    |                         |              |           |              |
| Held for trading   | 10                      | 388          | 31        | 429          |
| <b>Total of liabilities classified as held for trading</b> | <b>58</b>               | <b>515</b>   | <b>31</b> | <b>604</b>   |
| <b>Classified at amortized cost</b>                        |                         |              |           |              |
| <b>Other liabilities</b>                                   |                         |              |           |              |
| Securitization liabilities                                 | —                       | 1,154        | —         | 1,154        |
| <b>Debentures</b>  | <b>—</b>                | <b>899</b>   | <b>—</b>  | <b>899</b>   |
| <b>Total of liabilities classified at amortized cost</b>   | <b>—</b>                | <b>2,053</b> | <b>—</b>  | <b>2,053</b> |

## 5 Management of Risks Associated with Financial Instruments

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

During the period ended June 30, 2019 and the year ended December 31, 2018, the Company did not reclassify any unrealized losses of stocks classified as available for sale from the *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:

|                     | As at June 30, 2019 |                   |                  | As at December 31, 2018 |                   |                  |
|---------------------|---------------------|-------------------|------------------|-------------------------|-------------------|------------------|
|                     | Fair value          | Unrealized losses | Unrealized gains | Fair value              | Unrealized losses | Unrealized gains |
|                     | \$                  | \$                | \$               | \$                      | \$                | \$               |
| <b>Bonds</b>        |                     |                   |                  |                         |                   |                  |
| Governments         | 1,673               | (1)               | 63               | 1,996                   | (6)               | 31               |
| Municipalities      | 149                 | —                 | 4                | 110                     | (1)               | 1                |
| Corporate and other | 1,537               | (2)               | 57               | 1,725                   | (23)              | 7                |
|                     | <b>3,359</b>        | <b>(3)</b>        | <b>124</b>       | <b>3,831</b>            | <b>(30)</b>       | <b>39</b>        |
| <b>Stocks</b>       | <b>460</b>          | <b>(24)</b>       | <b>6</b>         | <b>434</b>              | <b>(21)</b>       | <b>8</b>         |
| <b>Total</b>        | <b>3,819</b>        | <b>(27)</b>       | <b>130</b>       | <b>4,265</b>            | <b>(51)</b>       | <b>47</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 their commitments.

#### b) i) Credit Quality Indicators

##### Bonds by Investment Grade

|              | As at           | As at             |
|--------------|-----------------|-------------------|
|              | June 30, 2019   | December 31, 2018 |
|              | Carrying amount |                   |
|              | \$              | \$                |
| AAA          | 1,200           | 1,229             |
| AA           | 9,342           | 8,355             |
| A            | 11,106          | 9,882             |
| BBB          | 4,417           | 3,942             |
| BB and lower | 227             | 184               |
| <b>Total</b> | <b>26,292</b>   | <b>23,592</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 \$1,962 (\$1,801 as at December 31, 2018).

**Mortgages and Other Loans**

|                        | As at<br>June 30, 2019 | As at<br>December 31, 2018 |
|------------------------|------------------------|----------------------------|
|                        | \$                     | \$                         |
| Insured mortgages      | 2,326                  | 2,292                      |
| Conventional mortgages | 755                    | 707                        |
| Other loans            | 715                    | 662                        |
| <b>Total</b>           | <b>3,796</b>           | <b>3,661</b>               |

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

**b) ii) Past Due or Impaired Financial Assets****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. 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 or in foreclosure is assumed to be impaired. Any impaired loan which is not insured and and fully guaranteed is normally impaired.

|                                | As at June 30, 2019                             |   |             |              |
|--------------------------------|---|---|-------------|--------------|
|                                | Bonds classified<br>as loans and<br>receivables | Mortgages<br>classified as loans<br>and receivables | Other loans | Total        |
|                                | \$  | \$  | \$          | \$           |
| <b>Gross values</b>            |   |   |             |              |
| Not past due and not impaired  | 2,246   | 2,977   | 687         | 5,910        |
| Past due and not impaired      |   |   |             |              |
| 30 – 89 days in arrears        | —   | 2   | 30          | 32           |
| 90 – 119 days in arrears       | —   | 3   | 4           | 7            |
| 120 days and more in arrears   | —   | —   | 2           | 2            |
| Impaired                       | 21  | 3   | 1           | 25           |
| <b>Total of gross values</b>   | <b>2,267</b>                                    | <b>2,985</b>  | <b>724</b>  | <b>5,976</b> |
| Specific provisions for losses | 10  | 1   | —           | 11           |
|                                | <b>2,257</b>                                    | <b>2,984</b>  | <b>724</b>  | <b>5,965</b> |
| Collective provisions          | —   | —   | 9           | 9            |
| <b>Total of net values</b>     | <b>2,257</b>                                    | <b>2,984</b>  | <b>715</b>  | <b>5,956</b> |

| As at December 31, 2018        |   |   |             |              |
|--------------------------------|---|---|-------------|--------------|
|                                | Bonds classified as<br>loans and<br>receivables | Mortgages<br>classified as loans<br>and receivables | Other loans | Total        |
|                                | \$  | \$  | \$          | \$           |
| <b>Gross values</b>            |   |   |             |              |
| Not past due and not impaired  | 2,125   | 2,902   | 636         | 5,663        |
| Past due and not impaired      |   |   |             |              |
| 30 – 89 days in arrears        | —   | 2   | 27          | 29           |
| 90 – 119 days in arrears       | —   | 3   | 4           | 7            |
| 120 days and more in arrears   | —   | —   | 2           | 2            |
| Impaired                       | 21  | 3   | 1           | 25           |
| <b>Total of gross values</b>   | <b>2,146</b>                                    | <b>2,910</b>  | <b>670</b>  | <b>5,726</b> |
| Specific provisions for losses | 8   | 1   | —           | 9            |
|                                | 2,138   | 2,909   | 670         | 5,717        |
| Collective provisions          | —   | —   | 8           | 8            |
| <b>Total of net values</b>     | <b>2,138</b>                                    | <b>2,909</b>  | <b>662</b>  | <b>5,709</b> |

#### Foreclosed Properties

During the period ended June 30, 2019, the Company did not take possession of properties held as collateral on mortgages (less than \$1 as at December 31, 2018). Foreclosed properties that the Company still held at the end of the period are presented as real estate held for resale in the line *Other assets*.

#### Specific Provisions for Losses

| As at June 30, 2019                         |   |   |             |           |
|---|---|---|-------------|-----------|
|   | Bonds classified<br>as loans and<br>receivables | Mortgages<br>classified as loans<br>and receivables | Other loans | Total     |
|   | \$  | \$  | \$          | \$        |
| Balance at beginning                        | 8   | 1   | —           | 9         |
| Variation in specific provisions for losses | 2   | —   | —           | 2         |
| <b>Balance at end</b>                       | <b>10</b>                                       | <b>1</b>  | <b>—</b>    | <b>11</b> |

| As at December 31, 2018                     |   |   |             |          |
|---|---|---|-------------|----------|
|   | Bonds classified as<br>loans and<br>receivables | Mortgages<br>classified as loans<br>and receivables | Other loans | Total    |
|   | \$  | \$  | \$          | \$       |
| Balance at beginning                        | 6   | 2   | —           | 8        |
| Variation in specific provisions for losses | 2   | (1)   | —           | 1        |
| <b>Balance at end</b>                       | <b>8</b>  | <b>1</b>  | <b>—</b>    | <b>9</b> |

#### 6 › 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.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments which have a positive value, should the counterparty default. The maximum credit risk of derivative financial instruments is \$1,203 (\$220 as at December 31, 2018). The Company's exposure at the end of each period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

## As at June 30, 2019

|                                   | Notional amount  |              |              | Total         | Fair value   |              |
|-----------------------------------|------------------|--------------|--------------|---------------|--------------|--------------|
|                                   | Less than 1 year | 1 to 5 years | Over 5 years |               | Positive     | Negative     |
|                                   | \$               | \$           | \$           |               | \$           | \$           |
| <b>Equity contracts</b>           |                  |              |              |               |              |              |
| Swap contracts                    | 559              | 20           | 98           | 677           | 15           | (3)          |
| Futures contracts                 | 735              | —            | —            | 735           | 1            | (6)          |
| Options                           | 5,068            | —            | —            | 5,068         | 183          | (58)         |
| <b>Currency contracts</b>         |                  |              |              |               |              |              |
| Forward contracts                 | 3,129            | 50           | —            | 3,179         | 75           | (4)          |
| Swap contracts                    | 33               | 751          | 2,004        | 2,788         | 65           | (88)         |
| Options                           | 17               | —            | —            | 17            | —            | —            |
| <b>Interest rate contracts</b>    |                  |              |              |               |              |              |
| Swap contracts                    | 1,168            | 3,114        | 4,821        | 9,103         | 473          | (66)         |
| Forward contracts                 | 874              | 2,115        | —            | 2,989         | 392          | —            |
| Options                           | 33               | —            | —            | 33            | —            | —            |
| <b>Other derivative contracts</b> | 80               | 2            | 358          | 440           | 1            | (37)         |
| <b>Total</b>                      | <b>11,696</b>    | <b>6,052</b> | <b>7,281</b> | <b>25,029</b> | <b>1,205</b> | <b>(262)</b> |

## As at December 31, 2018

|                                   | Notional amount  |              |              | Total         | Fair value |              |
|-----------------------------------|------------------|--------------|--------------|---------------|------------|--------------|
|                                   | Less than 1 year | 1 to 5 years | Over 5 years |               | Positive   | Negative     |
|                                   | \$               | \$           | \$           |               | \$         | \$           |
| <b>Equity contracts</b>           |                  |              |              |               |            |              |
| Swap contracts                    | 521              | 16           | 88           | 625           | 4          | (11)         |
| Futures contracts                 | 642              | —            | —            | 642           | 4          | (3)          |
| Options                           | 740              | 225          | —            | 965           | 31         | (7)          |
| <b>Currency contracts</b>         |                  |              |              |               |            |              |
| Forward contracts                 | 3,157            | 49           | —            | 3,206         | 6          | (104)        |
| Swap contracts                    | 20               | 764          | 1,489        | 2,273         | 25         | (136)        |
| <b>Interest rate contracts</b>    |                  |              |              |               |            |              |
| Swap contracts                    | 1,089            | 2,477        | 3,126        | 6,692         | 126        | (108)        |
| Forward contracts                 | 760              | 1,898        | —            | 2,658         | 28         | (29)         |
| <b>Other derivative contracts</b> | 2                | 2            | 367          | 371           | 1          | (31)         |
| <b>Total</b>                      | <b>6,931</b>     | <b>5,431</b> | <b>5,070</b> | <b>17,432</b> | <b>225</b> | <b>(429)</b> |



|   | As at June 30, 2019 |              |              |
|---|---------------------|--------------|--------------|
|   | Notional amount     | Fair value   |              |
|   |                     | Positive     | Negative     |
|   | \$                  | \$           | \$           |
| Derivative financial instruments not designated as hedge accounting | 22,838              | 1,200        | (204)        |
| Net investment hedge  | 1,165               | —            | (46)         |
| Fair value hedges   |                     |              |              |
| Interest risk   | 959                 | 5            | (11)         |
| Currency risk   | 16                  | —            | (1)          |
| Cash flow hedges  |                     |              |              |
| Interest risk   | 8                   | —            | —            |
| Currency risk   | 43                  | —            | —            |
| <b>Total of derivative financial instruments</b>                    | <b>25,029</b>       | <b>1,205</b> | <b>(262)</b> |

|   | As at December 31, 2018 |            |              |
|---|-------------------------|------------|--------------|
|   | Notional amount         | Fair value |              |
|   |                         | Positive   | Negative     |
|   | \$                      | \$         | \$           |
| Derivative financial instruments not designated as hedge accounting | 15,590                  | 211        | (373)        |
| Net investment hedge  | 1,022                   | —          | (46)         |
| Fair value hedges   |                         |            |              |
| Interest risk   | 736                     | 14         | (8)          |
| Currency risk   | 15                      | —          | (1)          |
| Cash flow hedges  |                         |            |              |
| Interest risk   | 44                      | —          | —            |
| Currency risk   | 25                      | —          | (1)          |
| <b>Total of derivative financial instruments</b>                    | <b>17,432</b>           | <b>225</b> | <b>(429)</b> |

#### Embedded Derivative Financial Instruments

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

#### Net Investment Hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than one year (less than one year as at December 31, 2018). 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 periods ended June 30, 2019 and 2018, the Company has recognized no ineffectiveness.

#### Fair Value Hedges

The interest rate swap contracts, designated as interest rate risk hedging related to financial assets classified as available for sale, have maturities ranging from 2 years to 11 years (from 3 years to 9 years as at December 31, 2018). Changes in fair value due to the interest rate of the hedged item are recorded in *Investment income* in the Income Statement against variations in fair value of the derivative financial instruments considered as hedging items. Variations in fair value related to the credit risk of hedged items are reported in *Other comprehensive income*.

The Company uses 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 uses forward contracts with maturities of less than 3 years (less than 4 years as at December 31, 2018). For the periods ended June 30, 2019 and 2018, the Company has recognized no ineffectiveness.

The Company uses 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 uses interest rate swap contracts with maturities of less than one year to 9 years (less than one year to 10 years as at December 31, 2018).

The effective portion of the fair value hedging relationship is recorded in *Net income*. For the period ended June 30, 2019, the Company has recognized a gain of \$28 on the hedging instruments (gain of \$2 for the period ended June 30, 2018) and a loss of \$28 on the hedged items (loss of \$3 for the period ended June 30, 2018). For the period ended June 30, 2019, the Company has recognized no ineffectiveness (\$1 for the period ended June 30, 2018).

### Cash Flow Hedges

The Company uses a cash flow hedging relationship in order to manage its exposure to variations of interest risks on forecasted transactions. The Company uses forward contracts on bonds that have maturities of less than one year (less than one year as at December 31, 2018). For the periods ended June 30, 2019 and 2018, the Company has recognized no ineffectiveness.

The Company uses 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 uses swap contracts that have maturities from 6 years to 10 years (from 6 years to 10 years as at December 31, 2018). For the periods ended June 30, 2019 and 2018, the Company has recognized no ineffectiveness.

## 7 > Segregated Funds Net Assets

|                                       | As at June 30 | As at December 31 |
|---------------------------------------|---------------|-------------------|
|                                       | 2019          | 2018              |
|                                       | \$            | \$                |
| <b>Assets</b>                         |               |                   |
| Cash and short-term investments       | 1,233         | 1,156             |
| Bonds                                 | 4,965         | 5,006             |
| Stocks                                | 20,038        | 17,743            |
| Mortgages                             | 18            | 16                |
| Investment properties                 | 9             | 9                 |
| Derivative financial instruments      | 48            | —                 |
| Other assets                          | 372           | 166               |
| <b>Total assets</b>                   | <b>26,683</b> | <b>24,096</b>     |
| <b>Liabilities</b>                    |               |                   |
| Accounts payable and accrued expenses | 294           | 310               |
| Derivative financial instruments      | —             | 5                 |
| <b>Total liabilities</b>              | <b>294</b>    | <b>315</b>        |
| <b>Net assets</b>                     | <b>26,389</b> | <b>23,781</b>     |

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

|                                     | Quarters ended<br>June 30 |               | Six months ended<br>June 30 |               |
|-------------------------------------|---------------------------|---------------|-----------------------------|---------------|
|                                     | 2019                      | 2018          | 2019                        | 2018          |
|                                     | \$                        | \$            | \$                          | \$            |
| Balance at beginning                | 25,759                    | 24,100        | 23,781                      | 24,117        |
| Add:                                |                           |               |                             |               |
| Amounts received from policyholders | 967                       | 827           | 2,023                       | 1,911         |
| Interest and dividends              | 149                       | 137           | 280                         | 265           |
| Net realized gains                  | 239                       | 112           | 247                         | 231           |
| Net increase in fair value          | 185                       | 479           | 1,919                       | 41            |
|                                     | <b>27,299</b>             | <b>25,655</b> | <b>28,250</b>               | <b>26,565</b> |
| Less:                               |                           |               |                             |               |
| Amounts withdrawn by policyholders  | 788                       | 649           | 1,624                       | 1,445         |
| Operating expenses                  | 122                       | 118           | 237                         | 232           |
|                                     | <b>910</b>                | <b>767</b>    | <b>1,861</b>                | <b>1,677</b>  |
| <b>Balance at end</b>               | <b>26,389</b>             | <b>24,888</b> | <b>26,389</b>               | <b>24,888</b> |

## 8 › Debentures

On May 16, 2019, iA Insurance redeemed all of its \$250 subordinated debentures maturing May 16, 2024, bearing interest of 2.80% payable semi-annually until May 16, 2019. The subordinated debentures were redeemed for 1,014 dollars for each 1,000 dollars of subordinated debenture capital. Consequently, the subsidiary paid a total of \$254.

## 9 › Share Capital

As a result of the change in company's structure (Note 18), the Company's authorized share capital consists of the following:

### Common Shares

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

### Preferred Shares, Class A

Unlimited preferred shares of Class A, without par value, without voting rights that can be issued in series. The number that may be issued is limited to not more than one-half of the number of common shares issued and outstanding at the time of the proposed issue of such preferred shares.

|  | As at June 30, 2019                |              | As at December 31, 2018            |              |
|--|------------------------------------|--------------|------------------------------------|--------------|
|  | Number of shares<br>(in thousands) | Amount<br>\$ | Number of shares<br>(in thousands) | Amount<br>\$ |
| <b>Common shares</b>                       |                                    |              |                                    |              |
| Balance at beginning                       | 108,575                            | 1,655        | 106,756                            | 1,521        |
| Shares issued on exercise of stock options | 378                                | 15           | 159                                | 7            |
| Shares issued                              | —                                  | —            | 2,750                              | 144          |
| Shares redemption                          | (2,533)                            | (38)         | (1,090)                            | (17)         |
| <b>Balance at end</b>                      | <b>106,420</b>                     | <b>1,632</b> | <b>108,575</b>                     | <b>1,655</b> |

### Stock Options

Following the change in company structure by which iA Insurance became a subsidiary of the Company, the stock option plan of iA Insurance was replaced by an identical plan under which any shares issued under the new plan will be issued by the Company. Consequently, any share issued under the plan is issued by the Company. As at June 30, 2019, the number of outstanding stock options (in thousands) was 2,783 (2,875 as at December 31, 2018). For the period ended June 30, 2019, the Company granted 288 stock options exercisable at \$48.82 (311 stock options exercisable at \$58.18 for the year ended December 31, 2018).

### Normal Course Issuer Bid Redemption

With the approval of the Toronto Stock Exchange, the Board of Directors has authorized the Company to purchase, in the normal course of its activities, from November 12, 2018 to November 11, 2019, up to 5,482,768 common shares, representing approximately 5% of its 109,655,360 common shares issued and outstanding as at November 1, 2018. For the period ended June 30, 2019, a total of 2,532,573 common shares were purchased and cancelled for a net cash amount of \$124, of which \$38 was recorded against share capital and \$86 against retained earnings.

### Dividends

|                      | Quarters ended June 30 |              |       |              | Six months ended June 30 |              |       |              |
|----------------------|------------------------|--------------|-------|--------------|--------------------------|--------------|-------|--------------|
|                      | 2019                   |              | 2018  |              | 2019                     |              | 2018  |              |
|                      | Total                  | Per share    | Total | Per share    | Total                    | Per share    | Total | Per share    |
|                      | \$                     | (in dollars) | \$    | (in dollars) | \$                       | (in dollars) | \$    | (in dollars) |
| <b>Common shares</b> | <b>47</b>              | <b>0.45</b>  | 41    | 0.38         | <b>92</b>                | <b>0.87</b>  | 82    | 0.76         |

### Dividends Declared and Not Recognized on Common Shares of the Company

A dividend of 0.45 dollars per share was approved by the Board of Directors of the Company on August 1, 2019. This dividend was not recorded as a liability in these financial statements. This dividend will be paid on September 16, 2019 to the shareholders of record as of August 23, 2019, date on which it will be recognized in the equity of the Company.

### Dividend Reinvestment and Share Purchase Plan

The Company offers a Dividend Reinvestment and Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized. The common shares issued under the plan will be purchased on the secondary market.

**10 › Preferred Shares Issued by a Subsidiary**

Preferred shares issued by iA Insurance, a subsidiary of the Company, are the following:

|   | As at June 30, 2019 |            | As at December 31, 2018 |            |
|---|---------------------|------------|-------------------------|------------|
|   | Number of shares    | Amount     | Number of shares        | Amount     |
|   | (in thousands)      | \$         | (in thousands)          | \$         |
| <b>Preferred shares, Class A , issued by iA Insurance</b> |                     |            |                         |            |
| Balance at beginning                                      | 21,000              | 525        | 15,000                  | 375        |
| Shares issued   | —                   | —          | 6,000                   | 150        |
| <b>Balance at end</b>                                     | <b>21,000</b>       | <b>525</b> | <b>21,000</b>           | <b>525</b> |

**Dividends**

|   | Quarters ended June 30 |              |          |              | Six months ended June 30 |              |           |              |
|---|------------------------|--------------|----------|--------------|--------------------------|--------------|-----------|--------------|
|   | 2019                   |              | 2018     |              | 2019                     |              | 2018      |              |
|   | Total                  | Per share    | Total    | Per share    | Total                    | Per share    | Total     | Per share    |
|   | \$                     | (in dollars) | \$       | (in dollars) | \$                       | (in dollars) | \$        | (in dollars) |
| <b>Preferred shares, issued by iA Insurance</b> |                        |              |          |              |                          |              |           |              |
| Class A – Series B                              | 1                      | 0.29         | 2        | 0.29         | 3                        | 0.58         | 3         | 0.58         |
| Class A – Series G                              | 3                      | 0.23         | 2        | 0.23         | 5                        | 0.47         | 5         | 0.47         |
| Class A – Series I                              | 2                      | 0.30         | 2        | 0.38         | 4                        | 0.60         | 2         | 0.38         |
| <b>Total</b>                                    | <b>6</b>               |              | <b>6</b> |              | <b>12</b>                |              | <b>10</b> |              |

## 11 › Accumulated Other Comprehensive Income

|   | Bonds     | Stocks      | Currency<br>translation | Hedging     | Total     |
|---|-----------|-------------|-------------------------|-------------|-----------|
|   | \$        | \$          | \$                      | \$          | \$        |
| Balance as at December 31, 2018           | 6         | (10)        | 135                     | (108)       | 23        |
| Unrealized gains (losses)                 | 126       | (5)         | —                       | —           | 121       |
| Income taxes on unrealized gains (losses) | (32)      | 1           | —                       | —           | (31)      |
| Other                                     | —         | —           | (51)                    | 46          | (5)       |
| Income taxes on other                     | —         | —           | —                       | (7)         | (7)       |
|   | 94        | (4)         | (51)                    | 39          | 78        |
| Realized losses                           | (13)      | —           | —                       | —           | (13)      |
| Income taxes on realized losses           | 4         | —           | —                       | —           | 4         |
|   | (9)       | —           | —                       | —           | (9)       |
| <b>Balance as at June 30, 2019</b>        | <b>91</b> | <b>(14)</b> | <b>84</b>               | <b>(69)</b> | <b>92</b> |
| Balance as at December 31, 2017           | 28        | 7           | 49                      | (35)        | 49        |
| Unrealized losses                         | (42)      | (40)        | —                       | —           | (82)      |
| Income taxes on unrealized losses         | 11        | 11          | —                       | —           | 22        |
| Other                                     | —         | —           | 86                      | (86)        | —         |
| Income taxes on other                     | —         | —           | —                       | 13          | 13        |
|   | (31)      | (29)        | 86                      | (73)        | (47)      |
| Realized gains                            | 12        | 16          | —                       | —           | 28        |
| Income taxes on realized gains            | (3)       | (4)         | —                       | —           | (7)       |
|   | 9         | 12          | —                       | —           | 21        |
| Balance as at December 31, 2018           | 6         | (10)        | 135                     | (108)       | 23        |
| Balance as at December 31, 2017           | 28        | 7           | 49                      | (35)        | 49        |
| Unrealized losses                         | (27)      | (5)         | —                       | —           | (32)      |
| Income taxes on unrealized losses         | 7         | 1           | —                       | —           | 8         |
| Other                                     | —         | —           | 46                      | (46)        | —         |
| Income taxes on other                     | —         | —           | —                       | 7           | 7         |
|   | (20)      | (4)         | 46                      | (39)        | (17)      |
| Realized gains (losses)                   | (6)       | 2           | —                       | —           | (4)       |
| Income taxes on realized gains (losses)   | 2         | (1)         | —                       | —           | 1         |
|   | (4)       | 1           | —                       | —           | (3)       |
| Balance as at June 30, 2018               | 4         | 4           | 95                      | (74)        | 29        |

## 12 › Capital Management

### Regulatory Requirements and Solvency Ratio

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 common shareholders and 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, for between-risk diversification and for 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.

The Company manages its capital on a consolidated basis. As at June 30, 2019, the Company maintains a ratio that satisfies the regulatory requirements.

|   | June 30, 2019 |
|---|---------------|
|   | \$            |
| Available Capital                       |               |
| Tier 1 Capital                          | 3,028         |
| Tier 2 Capital                          | 1,201         |
| Surplus allowance and eligible deposits | 4,294         |
| <b>Total</b>                            | <b>8,523</b>  |
| <b>Base solvency buffer</b>             | <b>6,720</b>  |
| <b>Total ratio</b>                      | <b>127%</b>   |

In the consolidated financial statements of the subsidiary iA Insurance as at December 31, 2018, the solvency ratio was 126% and it maintained a ratio that satisfied the regulatory requirements.

### 13 › Income Taxes

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

|  | Quarters ended June 30 |           |           |           | Six months ended June 30 |           |           |           |
|--|------------------------|-----------|-----------|-----------|--------------------------|-----------|-----------|-----------|
|  | 2019                   |           | 2018      |           | 2019                     |           | 2018      |           |
|  | \$                     | %         | \$        | %         | \$                       | %         | \$        | %         |
| Income before income taxes   | 241                    |           | 225       |           | 449                      |           | 403       |           |
| Income tax expense at Canadian statutory tax rate                        | 64                     | 27        | 60        | 27        | 120                      | 27        | 108       | 27        |
| Increase (decrease) in income taxes due to:                              |                        |           |           |           |                          |           |           |           |
| Differences in tax rates on income not subject to tax in Canada          | (1)                    | —         | (1)       | —         | (2)                      | —         | (2)       | —         |
| Tax-exempt investment income   | (5)                    | (2)       | (15)      | (7)       | (10)                     | (2)       | (26)      | (7)       |
| Non-taxable portion of the change in fair value of investment properties | (1)                    | —         | —         | —         | (1)                      | —         | —         | —         |
| Adjustments of previous years  | (1)                    | —         | 14        | 7         | (1)                      | —         | 14        | 3         |
| Variation in tax rates   | (3)                    | (1)       | —         | —         | (4)                      | (1)       | (1)       | —         |
| Other  | 1                      | —         | 1         | —         | 2                        | —         | 1         | —         |
| <b>Income tax expense (recovery) and effective income tax rate</b>       | <b>54</b>              | <b>24</b> | <b>59</b> | <b>27</b> | <b>104</b>               | <b>24</b> | <b>94</b> | <b>23</b> |

### 14 › 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 uses judgment 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 uses assumptions, judgments 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

|   | Quarter ended June 30, 2019 |                   |           |                        |               |          |            |
|---|-----------------------------|-------------------|-----------|------------------------|---------------|----------|------------|
|   | Individual                  |                   | Group     |                        |               |          | Total      |
|   | Insurance                   | Wealth Management | Insurance | Savings and Retirement | US Operations | Other    |            |
| \$  | \$                          | \$                | \$        | \$                     | \$            | \$       |            |
| <b>Revenues</b>   |                             |                   |           |                        |               |          |            |
| Net premiums  | 391                         | 643               | 413       | 339                    | 120           | 77       | 1,983      |
| Investment income   | 1,356                       | 66                | 48        | 107                    | 54            | 40       | 1,671      |
| Other revenues  | 32                          | 365               | 15        | 24                     | 20            | (31)     | 425        |
|   | 1,779                       | 1,074             | 476       | 470                    | 194           | 86       | 4,079      |
| <b>Operating expenses</b>                                     |                             |                   |           |                        |               |          |            |
| Gross benefits and claims on contracts                        | 192                         | 514               | 293       | 305                    | 100           | 38       | 1,442      |
| Ceded benefits and claims on contracts                        | (56)                        | —                 | (14)      | (7)                    | (57)          | 9        | (125)      |
| Net transfer to segregated funds                              | —                           | 110               | —         | 86                     | —             | —        | 196        |
| Increase in insurance contract liabilities                    | 1,354                       | 68                | 2         | 50                     | 73            | 3        | 1,550      |
| Increase in investment contract liabilities                   | —                           | —                 | 7         | —                      | —             | —        | 7          |
| Increase in reinsurance assets                                | (14)                        | —                 | (1)       | —                      | (24)          | (2)      | (41)       |
| Commissions, general and other expenses                       | 202                         | 323               | 153       | 26                     | 86            | 5        | 795        |
| Financing charges   | 6                           | 1                 | 6         | —                      | —             | 1        | 14         |
|   | 1,684                       | 1,016             | 446       | 460                    | 178           | 54       | 3,838      |
| Income before income taxes and allocation of other activities | 95                          | 58                | 30        | 10                     | 16            | 32       | 241        |
| Allocation of other activities                                | 25                          | 1                 | 1         | 1                      | 4             | (32)     | —          |
| Income before income taxes                                    | 120                         | 59                | 31        | 11                     | 20            | —        | 241        |
| Income taxes  | 23                          | 14                | 9         | 3                      | 5             | —        | 54         |
| <b>Net income attributed to shareholders</b>                  | <b>97</b>                   | <b>45</b>         | <b>22</b> | <b>8</b>               | <b>15</b>     | <b>—</b> | <b>187</b> |



## Quarter ended June 30, 2018

|   | Individual |                   | Group     |                        |               |       | Total |
|---|------------|-------------------|-----------|------------------------|---------------|-------|-------|
|   | Insurance  | Wealth Management | Insurance | Savings and Retirement | US Operations | Other |       |
|   | \$         | \$                | \$        | \$                     | \$            | \$    | \$    |
| <b>Revenues</b>   |            |                   |           |                        |               |       |       |
| Net premiums  | 379        | 544               | 402       | 356                    | 96            | 73    | 1,850 |
| Investment income   | 411        | (16)              | 25        | 36                     | (6)           | 35    | 485   |
| Other revenues  | 47         | 362               | 16        | 22                     | 17            | (26)  | 438   |
|   | 837        | 890               | 443       | 414                    | 107           | 82    | 2,773 |
| <b>Operating expenses</b>                                     |            |                   |           |                        |               |       |       |
| Gross benefits and claims on contracts                        | 199        | 433               | 286       | 292                    | 102           | 34    | 1,346 |
| Ceded benefits and claims on contracts                        | (64)       | —                 | (18)      | (6)                    | (65)          | 8     | (145) |
| Net transfer to segregated funds                              | —          | 68                | —         | 103                    | —             | —     | 171   |
| Increase (decrease) in insurance contract liabilities         | 399        | 22                | (11)      | (6)                    | (50)          | (3)   | 351   |
| Increase in investment contract liabilities                   | —          | —                 | 2         | —                      | —             | —     | 2     |
| Decrease (increase) in reinsurance assets                     | (8)        | —                 | (2)       | 2                      | 35            | 6     | 33    |
| Commissions, general and other expenses                       | 209        | 313               | 154       | 22                     | 68            | 8     | 774   |
| Financing charges   | 5          | —                 | 4         | —                      | 1             | 6     | 16    |
|   | 740        | 836               | 415       | 407                    | 91            | 59    | 2,548 |
| Income before income taxes and allocation of other activities | 97         | 54                | 28        | 7                      | 16            | 23    | 225   |
| Allocation of other activities                                | 17         | 3                 | 1         | —                      | 2             | (23)  | —     |
| Income before income taxes                                    | 114        | 57                | 29        | 7                      | 18            | —     | 225   |
| Income taxes  | 24         | 19                | 10        | 2                      | 4             | —     | 59    |
| <b>Net income</b>   | 90         | 38                | 19        | 5                      | 14            | —     | 166   |
| Net income attributed to participating policyholders          | 1          | —                 | —         | —                      | —             | —     | 1     |
| <b>Net income attributed to shareholders</b>                  | 89         | 38                | 19        | 5                      | 14            | —     | 165   |

|   | Six months ended June 30, 2019 |                   |           |                        |               |       |       |
|---|--------------------------------|-------------------|-----------|------------------------|---------------|-------|-------|
|   | Individual                     |                   | Group     |                        |               |       | Total |
|   | Insurance                      | Wealth Management | Insurance | Savings and Retirement | US Operations | Other |       |
| \$  | \$                             | \$                | \$        | \$                     | \$            | \$    |       |
| <b>Revenues</b>   |                                |                   |           |                        |               |       |       |
| Net premiums  | 779                            | 1,363             | 810       | 999                    | 235           | 152   | 4,338 |
| Investment income   | 3,182                          | 91                | 114       | 261                    | 106           | 79    | 3,833 |
| Other revenues  | 61                             | 719               | 29        | 49                     | 37            | (60)  | 835   |
|   | 4,022                          | 2,173             | 953       | 1,309                  | 378           | 171   | 9,006 |
| <b>Operating expenses</b>                                     |                                |                   |           |                        |               |       |       |
| Gross benefits and claims on contracts                        | 418                            | 1,034             | 584       | 620                    | 198           | 82    | 2,936 |
| Ceded benefits and claims on contracts                        | (108)                          | —                 | (29)      | (13)                   | (111)         | 19    | (242) |
| Net transfer to segregated funds                              | —                              | 257               | —         | 163                    | —             | —     | 420   |
| Increase (decrease) in insurance contract liabilities         | 3,142                          | 127               | 13        | 465                    | 162           | (9)   | 3,900 |
| Increase in investment contract liabilities                   | —                              | —                 | 21        | —                      | —             | —     | 21    |
| Decrease (increase) in reinsurance assets                     | (29)                           | —                 | 1         | 3                      | (64)          | 9     | (80)  |
| Commissions, general and other expenses                       | 402                            | 646               | 298       | 52                     | 165           | 10    | 1,573 |
| Financing charges   | 11                             | 1                 | 12        | —                      | —             | 5     | 29    |
|   | 3,836                          | 2,065             | 900       | 1,290                  | 350           | 116   | 8,557 |
| Income before income taxes and allocation of other activities | 186                            | 108               | 53        | 19                     | 28            | 55    | 449   |
| Allocation of other activities                                | 44                             | (1)               | 2         | 2                      | 8             | (55)  | —     |
| Income before income taxes                                    | 230                            | 107               | 55        | 21                     | 36            | —     | 449   |
| Income taxes  | 48                             | 27                | 15        | 6                      | 8             | —     | 104   |
| <b>Net income</b>   | 182                            | 80                | 40        | 15                     | 28            | —     | 345   |
| Net income attributed to participating policyholders          | 1                              | —                 | —         | —                      | —             | —     | 1     |
| <b>Net income attributed to shareholders</b>                  | 181                            | 80                | 40        | 15                     | 28            | —     | 344   |

## Six months ended June 30, 2018

|   | Individual |                   | Group     |                        |               |       | Total |
|---|------------|-------------------|-----------|------------------------|---------------|-------|-------|
|   | Insurance  | Wealth Management | Insurance | Savings and Retirement | US Operations | Other |       |
|   | \$         | \$                | \$        | \$                     | \$            | \$    | \$    |
| <b>Revenues</b>   |            |                   |           |                        |               |       |       |
| Net premiums  | 771        | 1,271             | 776       | 876                    | 197           | 145   | 4,036 |
| Investment income   | 276        | 8                 | 46        | 62                     | (29)          | 73    | 436   |
| Other revenues  | 79         | 734               | 30        | 45                     | 34            | (49)  | 873   |
|   | 1,126      | 2,013             | 852       | 983                    | 202           | 169   | 5,345 |
| <b>Operating expenses</b>                                     |            |                   |           |                        |               |       |       |
| Gross benefits and claims on contracts                        | 386        | 904               | 565       | 620                    | 183           | 81    | 2,739 |
| Ceded benefits and claims on contracts                        | (120)      | —                 | (37)      | (12)                   | (106)         | 18    | (257) |
| Net transfer to segregated funds                              | —          | 292               | —         | 194                    | —             | —     | 486   |
| Increase (decrease) in insurance contract liabilities         | 292        | 64                | (25)      | 115                    | (134)         | (11)  | 301   |
| Increase in investment contract liabilities                   | —          | —                 | 3         | —                      | —             | —     | 3     |
| Decrease (increase) in reinsurance assets                     | (7)        | —                 | (4)       | 5                      | 94            | 11    | 99    |
| Commissions, general and other expenses                       | 401        | 645               | 291       | 46                     | 141           | 14    | 1,538 |
| Financing charges   | 9          | —                 | 8         | —                      | 1             | 15    | 33    |
|   | 961        | 1,905             | 801       | 968                    | 179           | 128   | 4,942 |
| Income before income taxes and allocation of other activities | 165        | 108               | 51        | 15                     | 23            | 41    | 403   |
| Allocation of other activities                                | 30         | 1                 | 2         | —                      | 8             | (41)  | —     |
| Income before income taxes                                    | 195        | 109               | 53        | 15                     | 31            | —     | 403   |
| Income taxes  | 38         | 31                | 15        | 4                      | 6             | —     | 94    |
| <b>Net income</b>   | 157        | 78                | 38        | 11                     | 25            | —     | 309   |
| Net income attributed to participating policyholders          | 1          | —                 | —         | —                      | —             | —     | 1     |
| <b>Net income attributed to shareholders</b>                  | 156        | 78                | 38        | 11                     | 25            | —     | 308   |

## Segmented Premiums

## Quarter ended June 30, 2019

|                              | Individual |                   | Group     |                        |               |       | Total |
|------------------------------|------------|-------------------|-----------|------------------------|---------------|-------|-------|
|                              | Insurance  | Wealth Management | Insurance | Savings and Retirement | US Operations | Other |       |
|                              | \$         | \$                | \$        | \$                     | \$            | \$    | \$    |
| <b>Gross premiums</b>        |            |                   |           |                        |               |       |       |
| Invested in general fund     | 491        | 98                | 450       | 30                     | 208           | 48    | 1,325 |
| Invested in segregated funds | —          | 545               | —         | 316                    | —             | —     | 861   |
| Total                        | 491        | 643               | 450       | 346                    | 208           | 48    | 2,186 |
| <b>Premiums ceded</b>        |            |                   |           |                        |               |       |       |
| Invested in general fund     | (100)      | —                 | (37)      | (7)                    | (88)          | 29    | (203) |
| <b>Net premiums</b>          | 391        | 643               | 413       | 339                    | 120           | 77    | 1,983 |

## Quarter ended June 30, 2018

|                              | Individual |                   | Group      |                        |               |           | Total        |
|------------------------------|------------|-------------------|------------|------------------------|---------------|-----------|--------------|
|                              | Insurance  | Wealth Management | Insurance  | Savings and Retirement | US Operations | Other     |              |
|                              | \$         | \$                | \$         | \$                     | \$            | \$        | \$           |
| <b>Gross premiums</b>        |            |                   |            |                        |               |           |              |
| Invested in general fund     | 471        | 99                | 450        | 38                     | 190           | 48        | 1,296        |
| Invested in segregated funds | —          | 445               | —          | 325                    | —             | —         | 770          |
| <b>Total</b>                 | <b>471</b> | <b>544</b>        | <b>450</b> | <b>363</b>             | <b>190</b>    | <b>48</b> | <b>2,066</b> |
| <b>Premiums ceded</b>        |            |                   |            |                        |               |           |              |
| Invested in general fund     | (92)       | —                 | (48)       | (7)                    | (94)          | 25        | (216)        |
| <b>Net premiums</b>          | <b>379</b> | <b>544</b>        | <b>402</b> | <b>356</b>             | <b>96</b>     | <b>73</b> | <b>1,850</b> |

## Six months ended June 30, 2019

|                              | Individual |                   | Group      |                        |               |            | Total        |
|------------------------------|------------|-------------------|------------|------------------------|---------------|------------|--------------|
|                              | Insurance  | Wealth Management | Insurance  | Savings and Retirement | US Operations | Other      |              |
|                              | \$         | \$                | \$         | \$                     | \$            | \$         | \$           |
| <b>Gross premiums</b>        |            |                   |            |                        |               |            |              |
| Invested in general fund     | 969        | 207               | 881        | 359                    | 406           | 96         | 2,918        |
| Invested in segregated funds | —          | 1,156             | —          | 653                    | —             | —          | 1,809        |
| <b>Total</b>                 | <b>969</b> | <b>1,363</b>      | <b>881</b> | <b>1,012</b>           | <b>406</b>    | <b>96</b>  | <b>4,727</b> |
| <b>Premiums ceded</b>        |            |                   |            |                        |               |            |              |
| Invested in general fund     | (190)      | —                 | (71)       | (13)                   | (171)         | 56         | (389)        |
| <b>Net premiums</b>          | <b>779</b> | <b>1,363</b>      | <b>810</b> | <b>999</b>             | <b>235</b>    | <b>152</b> | <b>4,338</b> |

## Six months ended June 30, 2018

|                              | Individual |                   | Group      |                        |               |            | Total        |
|------------------------------|------------|-------------------|------------|------------------------|---------------|------------|--------------|
|                              | Insurance  | Wealth Management | Insurance  | Savings and Retirement | US Operations | Other      |              |
|                              | \$         | \$                | \$         | \$                     | \$            | \$         | \$           |
| <b>Gross premiums</b>        |            |                   |            |                        |               |            |              |
| Invested in general fund     | 948        | 208               | 868        | 218                    | 350           | 94         | 2,686        |
| Invested in segregated funds | —          | 1,063             | —          | 671                    | —             | —          | 1,734        |
| <b>Total</b>                 | <b>948</b> | <b>1,271</b>      | <b>868</b> | <b>889</b>             | <b>350</b>    | <b>94</b>  | <b>4,420</b> |
| <b>Premiums ceded</b>        |            |                   |            |                        |               |            |              |
| Invested in general fund     | (177)      | —                 | (92)       | (13)                   | (153)         | 51         | (384)        |
| <b>Net premiums</b>          | <b>771</b> | <b>1,271</b>      | <b>776</b> | <b>876</b>             | <b>197</b>    | <b>145</b> | <b>4,036</b> |

## Segmented Assets and Liabilities

|  | As at June 30, 2019 |                   |              |                        |               |               |               |
|--|---------------------|-------------------|--------------|------------------------|---------------|---------------|---------------|
|  | Individual          |                   | Group        |                        |               |               |               |
|  | Insurance           | Wealth Management | Insurance    | Savings and Retirement | US Operations | Other         | Total         |
|  | \$                  | \$                | \$           | \$                     | \$            | \$            | \$            |
| <b>Assets</b>  |                     |                   |              |                        |               |               |               |
| Invested assets  | 22,190              | 1,815             | 1,838        | 3,769                  | 1,021         | 7,355         | 37,988        |
| Segregated funds assets  | —                   | 15,432            | —            | 10,957                 | —             | —             | 26,389        |
| Reinsurance assets   | (668)               | —                 | 230          | 128                    | 1,441         | (72)          | 1,059         |
| Other  | 126                 | 825               | —            | —                      | 33            | 3,401         | 4,385         |
| <b>Total assets</b>  | <b>21,648</b>       | <b>18,072</b>     | <b>2,068</b> | <b>14,854</b>          | <b>2,495</b>  | <b>10,684</b> | <b>69,821</b> |
| <b>Liabilities</b>   |                     |                   |              |                        |               |               |               |
| Insurance contract liabilities and investment contract liabilities | 20,930              | 1,774             | 2,166        | 3,917                  | 1,691         | (70)          | 30,408        |
| Segregated funds liabilities                                       | —                   | 15,432            | —            | 10,957                 | —             | —             | 26,389        |
| Other  | 167                 | 38                | 3            | 5                      | —             | 6,952         | 7,165         |
| <b>Total liabilities</b>   | <b>21,097</b>       | <b>17,244</b>     | <b>2,169</b> | <b>14,879</b>          | <b>1,691</b>  | <b>6,882</b>  | <b>63,962</b> |

|  | As at December 31, 2018 |                   |              |                        |               |               |               |
|--|-------------------------|-------------------|--------------|------------------------|---------------|---------------|---------------|
|  | Individual              |                   | Group        |                        |               |               |               |
|  | Insurance               | Wealth Management | Insurance    | Savings and Retirement | US Operations | Other         | Total         |
|  | \$                      | \$                | \$           | \$                     | \$            | \$            | \$            |
| <b>Assets</b>  |                         |                   |              |                        |               |               |               |
| Invested assets  | 19,056                  | 1,823             | 1,869        | 3,349                  | 926           | 7,556         | 34,579        |
| Segregated funds assets  | —                       | 13,994            | —            | 9,787                  | —             | —             | 23,781        |
| Reinsurance assets   | (697)                   | —                 | 236          | 131                    | 1,317         | 14            | 1,001         |
| Other  | 121                     | 940               | —            | —                      | 27            | 3,091         | 4,179         |
| <b>Total assets</b>  | <b>18,480</b>           | <b>16,757</b>     | <b>2,105</b> | <b>13,267</b>          | <b>2,270</b>  | <b>10,661</b> | <b>63,540</b> |
| <b>Liabilities</b>   |                         |                   |              |                        |               |               |               |
| Insurance contract liabilities and investment contract liabilities | 17,787                  | 1,643             | 2,148        | 3,452                  | 1,602         | (62)          | 26,570        |
| Segregated funds liabilities                                       | —                       | 13,994            | —            | 9,787                  | —             | —             | 23,781        |
| Other  | 287                     | 59                | 6            | 3                      | —             | 7,116         | 7,471         |
| <b>Total liabilities</b>   | <b>18,074</b>           | <b>15,696</b>     | <b>2,154</b> | <b>13,242</b>          | <b>1,602</b>  | <b>7,054</b>  | <b>57,822</b> |

## 15 › Earnings Per Common Share

## Basic Earnings Per Share

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

|  | Quarters ended<br>June 30 |      | Six months ended<br>June 30 |      |
|--|---------------------------|------|-----------------------------|------|
|  | 2019                      | 2018 | 2019                        | 2018 |
| Net income attributed to common shareholders                         | 181                       | 159  | 332                         | 298  |
| Weighted average number of outstanding shares (in millions of units) | 107                       | 110  | 107                         | 109  |
| Basic earnings per share (in dollars)                                | 1.70                      | 1.45 | 3.10                        | 2.75 |

### Diluted Earnings Per Share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares.

The dilutive effect of stock options considers the number of shares presumed issued without consideration, calculated as the difference between the number of shares deemed to have been issued (by assuming the outstanding stock option grants are exercised) and the number of shares that would have been issued at the average market price for the year (the number of shares that would have been issued using the issuance proceeds, using the average market price of the Company's common shares for the period). For the quarter and for the six months ended June 30, 2019, an average of 139,536 and 176,569 antidilutive stock options (167,085 for the quarter and 132,695 for the six months ended June 30, 2018) were excluded from the calculation.

|   | Quarters ended<br>June 30 |      | Six months ended<br>June 30 |      |
|---|---------------------------|------|-----------------------------|------|
|   | 2019                      | 2018 | 2019                        | 2018 |
| Net income attributed to common shareholders  | 181                       | 159  | 332                         | 298  |
| Weighted average number of outstanding shares (in millions of units)                    | 107                       | 110  | 107                         | 109  |
| Add: dilutive effect of stock options granted and outstanding (in millions of units)    | —                         | —    | 1                           | —    |
| Weighted average number of outstanding shares on a diluted basis (in millions of units) | 107                       | 110  | 108                         | 109  |
| Diluted earnings per share (in dollars)   | 1.69                      | 1.44 | 3.09                        | 2.73 |

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.

### 16 > Post-Employment Benefits

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

The Company also 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.

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

|   | Quarters ended June 30 |             |               |             |
|---|------------------------|-------------|---------------|-------------|
|   | 2019                   |             | 2018          |             |
|   | Pension plans          | Other plans | Pension plans | Other plans |
|   | \$                     | \$          | \$            | \$          |
| Current service cost  | 10                     | —           | 10            | —           |
| Net interest  | 2                      | 1           | 2             | 1           |
| Administrative expense  | 1                      | —           | 1             | —           |
| Components of the cost of defined benefits recognized in the net income                               | 13                     | 1           | 13            | 1           |
| Remeasurement of net liabilities (assets) as defined benefits <sup>1</sup>                            |                        |             |               |             |
| Rate of return on assets (excluding amounts included in the net interest above)                       | (41)                   | —           | (25)          | —           |
| Actuarial losses (gains) on financial assumption changes  | 86                     | 2           | (46)          | (1)         |
| Losses (gains) of components of the cost of defined benefits recognized in other comprehensive income | 45                     | 2           | (71)          | (1)         |
| <b>Total of defined benefit cost components</b>   | <b>58</b>              | <b>3</b>    | <b>(58)</b>   | <b>—</b>    |

<sup>1</sup> Market based assumptions, such as assumptions on rate of return on assets and changes in financial assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

|   | Six months ended June 30 |             |               |             |
|---|--------------------------|-------------|---------------|-------------|
|   | 2019                     |             | 2018          |             |
|   | Pension plans            | Other plans | Pension plans | Other plans |
|   | \$                       | \$          | \$            | \$          |
| Current service cost  | 22                       | 1           | 21            | 1           |
| Net interest  | 4                        | 1           | 3             | 1           |
| Administrative expense  | 1                        | —           | 1             | —           |
| Components of the cost of defined benefits recognized in the net income                               | 27                       | 2           | 25            | 2           |
| Remeasurement of net liabilities (assets) as defined benefits <sup>1</sup>                            |                          |             |               |             |
| Rate of return on assets (excluding amounts included in the net interest above)                       | (134)                    | —           | (6)           | —           |
| Actuarial losses (gains) on financial assumption changes  | 208                      | 3           | (46)          | (1)         |
| Losses (gains) of components of the cost of defined benefits recognized in other comprehensive income | 74                       | 3           | (52)          | (1)         |
| <b>Total of defined benefit cost components</b>   | <b>101</b>               | <b>5</b>    | <b>(27)</b>   | <b>1</b>    |

<sup>1</sup> Market based assumptions, such as assumptions on rate of return on assets and changes in financial assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

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

|  | Quarters ended June 30 |             |               |             |
|--|------------------------|-------------|---------------|-------------|
|  | 2019                   |             | 2018          |             |
|  | Pension plans          | Other plans | Pension plans | Other plans |
|  | \$                     | \$          | \$            | \$          |
| <b>Losses (gains) of components of the cost of defined benefits recognized in other comprehensive income</b> |                        |             |               |             |
| Remeasurement of post-employment benefits  | 45                     | 2           | (71)          | (1)         |
| Income taxes on remeasurement of post-employment benefits  | (12)                   | —           | 19            | —           |
| <b>Total of other comprehensive income</b>   | <b>33</b>              | <b>2</b>    | <b>(52)</b>   | <b>(1)</b>  |

|  | Six months ended June 30 |             |               |             |
|--|--------------------------|-------------|---------------|-------------|
|  | 2019                     |             | 2018          |             |
|  | Pension plans            | Other plans | Pension plans | Other plans |
|  | \$                       | \$          | \$            | \$          |
| <b>Losses (gains) of components of the cost of defined benefits recognized in other comprehensive income</b> |                          |             |               |             |
| Remeasurement of post-employment benefits  | 74                       | 3           | (52)          | (1)         |
| Income taxes on remeasurement of post-employment benefits  | (20)                     | —           | 14            | —           |
| <b>Total of other comprehensive income</b>   | <b>54</b>                | <b>3</b>    | <b>(38)</b>   | <b>(1)</b>  |

## 17 Commitments

### Investment Commitments

In the normal course of business of the Company, various outstanding contractual commitments related to offers for commercial and residential loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. As at June 30, 2019, there were \$850 (\$809 as at December 31, 2018) of outstanding commitments, of which the estimated disbursements will be \$93 (\$42 as at December 31, 2018) in 30 days, \$354 (\$324 as at December 31, 2018) in 31 to 365 days and \$403 (\$443 as at December 31, 2018) 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 June 30, 2019, the balance of these letters is \$2 (\$2 as at December 31, 2018).

**Lines of Credit**

As at June 30, 2019, the Company had operating lines of credit totalling \$56 (\$56 as at December 31, 2018). As at June 30, 2019 and December 31, 2018, 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.

**18 › Change in Company Structure**

On January 1, 2019, iA Insurance implemented a change in its company structure whereby iA Insurance became a wholly owned subsidiary of the Company. Pursuant to a plan of arrangement, all of the outstanding common shares of iA Insurance as at January 1, 2019 were exchanged for newly issued common shares of the Company, on a one for one basis. Issued and outstanding iA Insurance preferred shares and debentures remain issued by iA Insurance and have been guaranteed by the Company in accordance with the terms of the arrangement. The Company is a "successor issuer" of iA Insurance as defined in the securities regulations with respect to previously issued common shares of iA Insurance.

This change in company structure was recorded at the carrying amount and the consolidated financial statements present comparative information as published in the financial statements of the absorbed issuer, iA Insurance as at June 30, 2018 and December 31, 2018, as applicable.

**19 › Comparative Figures**

Certain comparative figures have been reclassified to comply with the current presentation. The reclassifications had no impact on the net income of the Company.



**Conference Call**

Management held a conference call to present its results on Thursday, August 1, at 4:30 p.m. (ET). You can listen to a replay of the conference call for a 90-day period on the Company's website at [ia.ca](http://ia.ca), under *About iA*, in the *Investor Relations/Financial Reports* section.

**About iA Financial Group**

iA Financial Group is one of the largest insurance and wealth management groups in Canada, with operations in the United States. Founded in 1892, it is one of Canada's largest public companies and is listed on the Toronto Stock Exchange under the ticker symbols IAG (common shares) and IAF (preferred shares).

**Shareholder Information**

There are four ways to reach us, depending on the type of information you want to obtain:

For questions regarding your shares, contact Industrial Alliance's share transfer agent:

Computershare Investor Services Inc.

Telephone: 514 982-7555

1 877 684-5000 (toll free)

Email: [ia@computershare.com](mailto:ia@computershare.com)

For questions regarding the Dividend Reinvestment and Share Purchase Plan:

Computershare Trust Company of Canada

Telephone: 514 982-7555

1 877 684-5000 (toll free)

Email: [ia@computershare.com](mailto:ia@computershare.com)

To obtain financial information about Industrial Alliance, contact the Investor Relations Department:

Investor Relations Department

Industrial Alliance Insurance and Financial Services Inc.

Telephone: 418 684-5000, extension 105862

1 800 463-6236, extension 105862 (toll free)

Fax: 418 684-5192

Email: [investors@ia.ca](mailto:investors@ia.ca)

Website: [www.ia.ca](http://www.ia.ca)

For questions regarding Industrial Alliance products and services, contact your agent. If you don't have an agent, contact Industrial Alliance at:

Industrial Alliance Insurance and Financial Services Inc.

1080 Grande Allée West

PO Box 1907, Station Terminus

Quebec City, QC G1K 7M3

Telephone: 418 684-5000

1 800 463-6236 (toll free)

Website: [www.ia.ca](http://www.ia.ca)

**iA Financial Group**

1080 Grande Allée West  
PO Box 1907, Station Terminus  
Quebec City, QC G1K 7M3  
Telephone: 418-684-5000  
Toll-free: 1-800-463-6236



**INVESTED IN YOU.**

---

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

[ia.ca](http://ia.ca)