

SUSTAINABLE GROWTH



iA Financial Corporation Inc.

Management's Discussion and Analysis for the Second Quarter of 2019

August 1, 2019



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.

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HIGHLIGHTS¹

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) ^{2,3,4}	12.6%	12.4%	12.5%	12.2%
Core return on common shareholders' equity (ROE) ^{2,3,4}	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.

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

² Trailing twelve months.

³ 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.

⁴ 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 ^{5,6}						
(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 ⁷	163.5	131.6	31.9	314.7	260.2	54.5
General Insurance ⁸	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.

⁵ 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.

⁶ This table presents non-IFRS measures.

⁷ 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.

⁸ Includes iAAH and some minor consolidation adjustments

Assets Under Management and Administration^{9,10}				
(In millions of dollars)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
Assets under management				
General fund ¹¹	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 Business¹²						
(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 ¹³	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%

⁹ This table presents non-IFRS measures.

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

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

¹² Sales are not an IFRS measure.

¹³ 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 ¹⁴						
(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.

¹⁴ 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
Reported EPS	\$1.69	\$1.44	17%	\$3.09	\$2.73	13%
Adjusted for:						
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	—	
Core EPS	\$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.

Revenues by Line of Business							
(In millions of dollars)	Second quarter						
	Individual Insurance	Individual Wealth Management	Group Insurance	Group Savings and Retirement	US Operations	Other	Total
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, 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

Investment Mix				
(In millions of dollars, unless otherwise indicated)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
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.

Quality of Investments				
(In millions of dollars, unless otherwise indicated)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
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 ¹⁵	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) ¹⁶	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.

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

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

Derivative Financial Instruments				
(In millions of dollars, unless otherwise indicated)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
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

Capital				
(In millions of dollars)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
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 ^{17,18}	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

¹⁷ 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.

¹⁸ 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.

Solvency^{19,20,21}				
(In millions of dollars, unless otherwise indicated)	June 30, 2019	March 31, 2019	January 1, 2018	June 30, 2018
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
Total	8,523.4	8,754.3	8,514.5	8,557.9
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.

Financial Leverage				
	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
Debt ratio				
Debentures/capital ^{20,21}	10.0%	13.5%	13.6%	15.2%
Debentures + preferred shares issued by a subsidiary/capital ^{20,21}	18.1%	21.3%	21.5%	23.1%
Coverage ratio ²²	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.

Book Value per Common Share and Market Capitalization				
	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
Book value per common share ^{20,21}	\$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.

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

²⁰ 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.

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

²² 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 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 ²³				
	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 ^{24,25}	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% ²⁴				(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)

²³ The sensitivity analysis is based on non-IFRS measures.

²⁴ 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.

²⁵ 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.

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 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, 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.

Conference Call

Management will hold a conference call to present iA Financial Group's second quarter results on Thursday, August 1, 2019 at 4:30 p.m. (ET). The toll-free dial-in number is 1-800-909-7944. A replay of the conference call will be available for a one-week period, starting at 7:00 p.m. on Thursday, August 1, 2019. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21925449. A webcast of the conference call (listen-only mode) will also be available on the iA Financial Group website at ia.ca.

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).

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

CONSOLIDATED INCOME STATEMENTS

(Unaudited, in millions of dollars, unless otherwise indicated)	Quarters ended June 30		Six months ended June 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues				
Premiums				
Gross premiums	2,186	2,066	4,727	4,420
Premiums ceded	(203)	(216)	(389)	(384)
Net premiums	1,983	1,850	4,338	4,036
Investment income				
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
Policy benefits and expenses				
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
Income before income taxes	241	225	449	403
Income taxes	54	59	104	94
Net income	187	166	345	309
Net income attributed to participating policyholders	—	1	1	1
Net income attributed to shareholders	187	165	344	308
Dividends attributed to preferred shares issued by a subsidiary	6	6	12	10
Net income attributed to common shareholders	181	159	332	298
Earnings per common share (in dollars)				
Basic	1.70	1.45	3.10	2.75
Diluted	1.69	1.44	3.09	2.73
Weighted average number of shares outstanding (in millions of units)				
Basic	107	110	107	109
Diluted	107	110	108	109
Dividends per common share (in dollars)	0.45	0.38	0.87	0.76

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of dollars)	As at June 30 2019 (unaudited) \$	As at December 31 2018 \$
Assets		
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	1,205	225
Policy loans	907	951
Other invested assets	376	329
Investment properties	1,729	1,720
Total investments	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	26,389	23,781
Total assets	69,821	63,540
Liabilities		
Insurance contract liabilities	29,790	25,940
Investment contract liabilities	618	630
Derivative financial instruments	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	26,389	23,781
Total liabilities	63,962	57,822
Equity		
Share capital and contributed surplus	1,655	1,678
Preferred shares issued by a subsidiary	525	525
Retained earnings and accumulated other comprehensive income	3,633	3,470
Participating policyholders' accounts	46	45
	5,859	5,718
Total liabilities and equity	69,821	63,540

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

(in millions of Canadian dollar)

Quarter ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
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
Operating expenses							
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
Net income attributed to shareholders	97	45	22	8	15	—	187

SEGMENTED INFORMATION (Continued)**Segmented Income Statements (Continued)**

(in millions of Canadian dollar)

Quarter ended June 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	
Revenues							
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
Operating expenses							
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
Net income	90	38	19	5	14	—	166
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	89	38	19	5	14	—	165

SEGMENTED INFORMATION (Continued)**Segmented Income Statements (Continued)**

(in millions of Canadian dollar)

Six months ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
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
Operating expenses							
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
Net income	182	80	40	15	28	—	345
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	181	80	40	15	28	—	344

SEGMENTED INFORMATION (Continued)**Segmented Income Statements (Continued)**

(in millions of Canadian dollar)

Six months ended June 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
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
Operating expenses							
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
Net income	157	78	38	11	25	—	309
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	156	78	38	11	25	—	308

SEGMENTED INFORMATION (Continued)**Segmented Premiums**

(in millions of Canadian dollar)

Quarter ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Gross premiums							
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
Premiums ceded							
Invested in general fund	(100)	—	(37)	(7)	(88)	29	(203)
Net premiums	391	643	413	339	120	77	1,983

(in millions of Canadian dollar)

Quarter ended June 30, 2018

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

(in millions of Canadian dollar)

Six months ended June 30, 2019

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

SEGMENTED INFORMATION (Continued)**Segmented Premiums (Continued)**

	Six months ended June 30, 2018							Total
	Individual		Group				Other	
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations			
\$	\$	\$	\$	\$	\$	\$		
Gross premiums								
Invested in general fund	948	208	868	218	350	94	2,686	
Invested in segregated funds	—	1,063	—	671	—	—	1,734	
Total	948	1,271	868	889	350	94	4,420	
Premiums ceded								
Invested in general fund	(177)	—	(92)	(13)	(153)	51	(384)	
Net premiums	771	1,271	776	876	197	145	4,036	

Segmented Assets and Liabilities

	As at June 30, 2019							
	Individual		Group				Other	Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations			
\$	\$	\$	\$	\$	\$	\$		
Assets								
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	
Total assets	21,648	18,072	2,068	14,854	2,495	10,684	69,821	
Liabilities								
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	
Total liabilities	21,097	17,244	2,169	14,879	1,691	6,882	63,962	

SEGMENTED INFORMATION (Continued)**Segmented Assets and Liabilities (Continued)**

	As at December 31, 2018						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$	\$	
Assets							
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
Total assets	18,480	16,757	2,105	13,267	2,270	10,661	63,540
Liabilities							
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
Total liabilities	18,074	15,696	2,154	13,242	1,602	7,054	57,822