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**Industrial Alliance Insurance and Financial Services Inc.**

Management's Discussion and Analysis for the Second Quarter of 2020

July 30, 2020



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for Industrial Alliance Insurance and Financial Services Inc. ("iA Insurance" or the "Company") is dated July 30, 2020. iA Financial Corporation Inc. ("iA Financial Corporation") became the parent company of iA Insurance on January 1, 2019, as a result of a plan of arrangement (the "arrangement"). 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, 2020 and 2019. It should also be read with the Management's Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2019. 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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## HIGHLIGHTS<sup>1</sup>

**Profitability** – In the second quarter of 2020, iA Insurance recorded net income attributed to its sole common shareholder, iA Financial Corporation, of \$193.1 million, compared to \$181.2 million a year earlier. This increase is mainly explained by the positive impact of growth in equity markets (related to universal life insurance policies and investment fund income), the gain on the sale of iA Investment Counsel Inc. (mentioned below) and the increase in net premiums and investment income.

**Business growth** – Premiums and deposits totalled nearly \$2.7 billion for the quarter, up from second quarter 2019 (+5%). Total assets under management and administration were down slightly during the quarter (-1%) mainly due to the sale of iA Investment Counsel Inc., amounting to \$173.4 billion at June 30, 2020. In Canada, second quarter sales were particularly good for Individual Insurance (+10%), segregated funds (+10%), Employee Plans (+\$18.8 million) and iAAH (+11%). Gross mutual fund sales were up 4% year over year at \$504.6 million, and net sales were positive for the first time since first quarter 2018 with inflows of \$49.9 million. Segregated funds recorded strong net inflows totalling \$417.0 million. In the U.S., Individual Insurance sales were up year over year (+33%), while Dealer Services sales were impacted by the negative effects of the pandemic like in Canada, albeit to a lesser extent.

**Launch of participating life insurance product** – On June 8, 2020, iA Financial Group's Individual Insurance sector rounded out its product lineup by launching iA PAR, a flexible new participating life insurance product designed for clients looking to maximize their estate value, gain access to a source of liquidity and diversify their investments. The iA participating account will be managed by the team at iA Investment Management, a subsidiary of iA Financial Group.

**COVID-19 pandemic and macroeconomic changes** – Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. How long it will last, the effectiveness of government measures to slow its spread and the impact of those measures on the economy all remain uncertain. As a result, we cannot accurately predict the total bearing the pandemic will have on the Company's financial results for 2020, but the impact could be material. Despite the short-term negative impacts of the pandemic on its results, the Company remains financially solid, as demonstrated by its above-target solvency ratio, sound debt ratio, adequate liquidity and well-positioned reserves. The Company's business continuity protocol has continued, as discussed when the first quarter results were released on May 7, 2020. This protocol aims to ensure clients a quality of service that is similar to or better than before the pandemic and enable employees and advisors to continue all their activities, supported by secure processes.

**Financial position** – The solvency ratio was 121% at June 30, 2020, compared with 116% at the end of the previous quarter and 125% a year earlier. This is above the minimum required by regulatory authorities as well as the Company's target range of 110% to 116%.

**Dividend** – iA Insurance did not declare any dividend for the second quarter of 2020 or for the third quarter of 2020 to its sole common shareholder, iA Financial Corporation.

**Sale of iA Investment Counsel** – As announced on March 2, 2020, the Company completed the sale of iA Investment Counsel Inc. to CWB Financial Group on June 1, 2020. This sale reflects iA Financial Group's decision to focus on serving the wealth management needs of high-net-worth Canadians exclusively through its expanding network of independent, entrepreneur-owned investment advisory practices.

**Sale of residential mortgage portfolio** – On May 27, 2020, the Company committed to sell its residential mortgage portfolio. The sale reflects management's decision to exit the residential mortgage market and focus on the multi-residential and non-residential markets. Subject to required approvals, the transaction is expected to close on September 1, 2020. Note that this commitment is not reflected in the second quarter 2020 financial statements.

**Executive Committee** – On May 20, 2020, Sean O'Brien was appointed Executive Vice-President, Wealth Management, and François Blais was appointed Executive Vice-President, Dealer Services and Special Risks. This growth-oriented reorganization will enable the Company to better position itself in the Canadian wealth management market and to meet future challenges in this sector.

**Board of Directors** – The Company's Annual Meeting was held on Thursday, May 7, for the first time in a virtual setting. At this event, Jacques Martin, Chair of the Board, announced the election of the twelve directors named in the Proxy Circular dated March 9, 2020.

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

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

## ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS

The following analysis should be read in conjunction with Note 16 "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		
	2020	2019	Variation	2020	2019	Variation
Revenues						
Net premiums	2,104.4	1,982.7	121.7	4,850.5	4,337.5	513.0
Investment income	4,154.5	1,671.3	2,483.2	3,297.0	3,833.3	(536.3)
Other revenues	417.8	424.5	(6.7)	855.6	834.9	20.7
Total	6,676.7	4,078.5	2,598.2	9,003.1	9,005.7	(2.6)
Less: policy benefits and expenses	6,415.9	3,837.8	2,578.1	8,696.3	8,556.8	139.5
Income before income taxes	260.8	240.7	20.1	306.8	448.9	(142.1)
Less: income taxes	55.6	53.9	1.7	54.1	104.4	(50.3)
Net income	205.2	186.8	18.4	252.7	344.5	(91.8)
Less: net income attributed to participating policyholders	6.7	(0.1)	6.8	8.0	0.6	7.4
Net income attributed to shareholders	198.5	186.9	11.6	244.7	343.9	(99.2)
Less: preferred share dividends	5.4	5.7	(0.3)	11.0	11.4	(0.4)
Net income attributed to common shareholder	193.1	181.2	11.9	233.7	332.5	(98.8)

## 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	393.5	774.2	356.7	354.2	150.3	75.5	2,104.4
Variation vs. 2019	2.2	131.5	(56.4)	15.5	30.7	(1.8)	121.7
Investment income	3,727.5	(71.8)	89.5	276.9	91.9	40.5	4,154.5
Variation vs. 2019	2,372.0	(138.0)	42.0	169.7	36.5	1.0	2,483.2
Other revenues	27.8	370.0	9.3	24.9	34.5	(48.7)	417.8
Variation vs. 2019	(4.5)	4.5	(5.2)	0.9	15.0	(17.4)	(6.7)
Total	4,148.8	1,072.4	455.5	656.0	276.7	67.3	6,676.7
Variation vs. 2019	2,369.7	(2.0)	(19.6)	186.1	82.2	(18.2)	2,598.2

*Net premiums* – The \$121.7 million increase over the second quarter of 2019 is mainly explained by an increase in segregated fund premiums and an increase in guaranteed investment certificate (GIC) and high interest savings account sales in Individual Wealth Management and, to a lesser extent, growth in net premiums in US Operations. This increase was reduced by lower net premiums in Group Insurance associated with the pandemic.

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 Company's segregated funds, but do not include those invested by clients in mutual funds.

*Investment income* – The \$2,483.2 million increase in investment income compared to second quarter 2019 is largely due to the increase in the fair value of bond investments, equity investments and derivatives, mainly caused by variations in exchange rates, interest rates, issuer spreads and market performance.

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. The gain realized on the disposal of iA Investment Counsel Inc. in the second quarter is also included under this item for the Individual Wealth Management sector. The decrease in other revenues in the second quarter of 2020 versus second quarter 2019 is largely due to the impact of the current economic environment on certain sectors.

#### Policy Benefits and Expenses

Policy benefits and expenses increased by \$2,578.1 million in the second quarter compared to the same period last year. This increase is explained by:

- 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 transfers to segregated funds compared to 2019 mainly in the Individual Wealth Management sector.

The increase in policy benefits and expenses was mitigated by:

- A decrease in net benefits partly explained by the pandemic environment. Net benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

#### Income Taxes

For the second quarter of 2020, the Company recorded an income tax expense of \$55.6 million, compared to \$53.9 million in 2019. These amounts represent the Company's tax expense net of adjustments for prior years, if applicable.

#### Net Income Attributed to Common Shareholder

Net income attributed to the sole common shareholder, iA Financial Corporation, totalled \$193.1 million for the second quarter of 2020, compared to \$181.2 million for the same period last year. The increase is mainly explained by the items mentioned above.

The following table presents a summary of iA Insurance's financial results for the last nine quarters.

Selected Financial Data									
(In millions of dollars, unless otherwise indicated)	2020		2019				2018		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	6,676.7	2,326.4	2,541.4	3,715.2	4,078.5	4,927.2	2,587.4	1,980.2	2,772.7
Net income attributed to common shareholders	193.1	40.6	174.8	183.4	181.2	151.3	149.5	164.9	159.1
Earnings per common share									
Basic	\$1.78	\$0.37	\$1.61	\$1.69	\$1.67	\$1.39	\$1.37	\$1.50	\$1.45
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	\$1.36	\$1.50	\$1.44

### Related Party Transactions

The Company has a financing agreement with iA Financial Corporation in the amount of \$80 million, to be used only to finance iA Financial Corporation's Normal Course Issuer Bid program.

### 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 addition, the various client support measures implemented in the business lines given the current COVID-19 pandemic were assessed in terms of impact on the Company's liquidity. In light of the simulations carried out, 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 iA Financial Group's Management's Discussion and Analysis for 2019.

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 19 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 for the year ended December 31, 2019 and in Note 2 "Impacts of COVID-19 Pandemic" of the unaudited interim condensed consolidated financial statements.

More information on new accounting standards used and changes in accounting policies is presented in Note 3 "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, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Book value of investments	43,111.0	40,748.8	39,496.9	37,920.5
Allocation of investments by asset class				
Bonds	69.4%	67.9%	68.8%	69.3%
Stocks	6.8%	6.7%	7.7%	7.4%
Mortgages and other loans	8.7%	9.4%	9.8%	10.0%
Investment properties	4.6%	5.0%	5.3%	4.6%
Policy loans	2.2%	2.3%	2.3%	2.4%
Cash and short-term investments	3.3%	5.4%	2.5%	2.1%
Other	5.0%	3.3%	3.6%	4.2%
Total	100.0%	100.0%	100.0%	100.0%

The total value of the investment portfolio amounted to \$43.1 billion at June 30, 2020, up from March 31, 2020 due to the market recovery in the second quarter. Note that market volatility was fairly high given the economic uncertainty created by the pandemic. The above table shows the main asset classes that make up the Company's investment portfolio. Liquidity remains sufficient to meet commitments as the pandemic continues.

<b>Quality of Investments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Gross impaired investments	44.5	5.3	21.4	23.9
Provisions for impaired investments	8.1	2.6	10.5	11.1
Net impaired investments	36.4	2.7	10.9	12.8
Net impaired investments as a % of total investments	0.08%	0.01%	0.03%	0.03%
Bonds – Proportion rated BB or lower	0.83%	0.75%	0.87%	0.86%

The indicators in the above table confirm the quality of the investment portfolio in the second quarter. The change in impaired investments is the result of a corporate bond for which a provision was taken. In addition, given the pandemic environment, the Company continued to strictly monitor its bond downgrade risk exposure.

<b>Derivative Financial Instruments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Total notional amount (\$B)	31.7	30.8	29.9	25.0
Company's credit risk				
AA - or higher	100%	100%	100%	100%
A +	—	—	—	—
Positive fair value	1,711.3	911.9	1,003.4	1,205.2
Negative fair value	858.0	1,734.3	431.1	262.0

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, forward agreements, futures contracts, and market index and currency options.

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**

In accordance with the terms of the arrangement, the Company's class A preferred shares and debentures issued and outstanding at the effective date of the arrangement are guaranteed by iA Financial Corporation. If iA Insurance should default on its obligations, iA Financial Corporation will be jointly and severally liable with iA Insurance for payments due in connection with the debentures and preferred shares.

<b>Capital</b>				
<b>(In millions of dollars)</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Equity				
Common shares	1,655.5	1,655.5	1,655.5	1,655.5
Preferred shares	525.0	525.0	525.0	525.0
Contributed surplus	—	—	—	—
Retained earnings	2,968.0	2,900.5	3,460.1	3,442.2
Accumulated other comprehensive income	105.5	(30.5)	76.4	91.7
Subtotal	5,254.0	5,050.5	5,717.0	5,714.4
Debentures	652.5	652.5	652.0	651.5
Participating policyholders' accounts	50.0	43.3	41.9	52.6
Total	5,956.5	5,746.3	6,410.9	6,418.5

The Company's capital totalled \$5,956.5 million at June 30, 2020, compared with \$5,746.3 million at March 31, 2020 and \$6,418.5 million at June 30, 2019. The increase during the second quarter is essentially explained by the increase in accumulated other comprehensive income and the increase in retained earnings.

<b>Solvency<sup>2</sup></b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Available capital, surplus allowance and eligible deposits	8,816.5	8,077.4	8,766.6	8,425.9
Base solvency buffer	7,258.1	6,941.5	6,971.9	6,718.8
Solvency ratio	121%	116%	126%	125%

iA Insurance ended the second quarter of 2020 with a solvency ratio of 121%, compared to 116% at the end of the previous quarter and 125% a year earlier. The positive variation of five percentage points versus March 31, 2020 is the net result of the following items: the impact of macroeconomic changes (+2.0 percentage points), greater organic capital generation as no dividend was declared for payment to the sole common shareholder (+2.0 percentage points), and the sale of iA Investment Counsel Inc. (+1.0 percentage point). The Company's solvency ratio target range is 110% to 116%.

#### DECLARATION OF DIVIDEND

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. In addition, as of today, iA Insurance has not declared any dividend to its sole common shareholder, iA Financial Corporation, for the third quarter.

Following are the amounts and dates of payment and closing of registers for the various categories of iA Insurance's preferred shares.

<b>Declaration of Dividend</b>				
	<b>Amount</b>	<b>Payment date</b>	<b>Closing date</b>	
Class A Preferred Share – Series B	\$0.2875	September 30, 2020	August 28, 2020	Non-cumulative dividend
Class A Preferred Share – Series G	\$0.2360625	September 30, 2020	August 28, 2020	Non-cumulative dividend
Class A Preferred Share – Series I	\$0.3000	September 30, 2020	August 28, 2020	Non-cumulative dividend

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

<sup>2</sup> This table uses non-IFRS measures to assess the Company's ability to meet regulatory capital requirements.



## 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, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Non-IFRS Financial Information

iA Insurance 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), sales, assets under management (AUM), assets under administration (AUA), capital and solvency ratio.

Sales is a non-IFRS measure used to assess the Company's ability to generate new business. They are defined as fund entries on new business written during the period. Net premiums, which are part of the revenues presented in the financial statements, include fund entries from both in-force contracts and new business written during the period. Assets under management and administration is a non-IFRS measure used to assess the Company's ability to generate fees, particularly for investment funds and funds under administration. An analysis of revenues by sector is presented in the "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 Insurance 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. In this Management's Discussion and Analysis, forward-looking statements include, but are not limited to, information concerning possible or assumed future operating results. These statements are not historical facts; they represent only expectations, estimates and projections regarding future events and are subject to change, particularly in light of the ongoing and evolving COVID-19 pandemic, its effect on the global economy and its uncertain impact on our operations.

Although iA Insurance 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 Insurance 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 Insurance; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases (such as the current COVID-19 pandemic) 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 2019, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2019, the "Risk Update" section of the Management's Discussion and Analysis for the period ended March 31, 2020, and elsewhere in iA Insurance's filings with Canadian Securities Administrators, which are available for review at [sedar.com](http://sedar.com).

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

**Documents Related to the Financial Results**

All documents related to the Company's financial results are available on the iA Financial Group website at [ia.ca](http://ia.ca) under *About iA*, in the *Investor Relations/Financial Reports* section. More information about the Company can also be found on the SEDAR website at [sedar.com](http://sedar.com), as well as in the Company's 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, July 30, 2020 at 2:00 p.m. (ET). The dial-in number is 416-981-9010 or 1-877-211-4546 (toll-free within North America). A replay of the conference call will be available for a one-week period, starting at 4:30 p.m. on Thursday, July 30, 2020. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21964532. A webcast of the conference call (listen-only mode) will also be available on the iA Financial Group website at [ia.ca](http://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).

**CONSOLIDATED INCOME STATEMENTS**

(Unaudited, in millions of dollars, unless otherwise indicated)	Quarters ended June 30		Six months ended June 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Revenues</b>				
<b>Premiums</b>				
Gross premiums	2,310	2,186	5,251	4,727
Premiums ceded	(206)	(203)	(401)	(389)
Net premiums	2,104	1,983	4,850	4,338
<b>Investment income</b>				
Interest and other investment income	310	328	749	654
Change in fair value of investments	3,845	1,343	2,548	3,179
	4,155	1,671	3,297	3,833
Other revenues	418	425	856	835
	6,677	4,079	9,003	9,006
<b>Policy benefits and expenses</b>				
Gross benefits and claims on contracts	1,218	1,442	2,828	2,936
Ceded benefits and claims on contracts	(137)	(125)	(271)	(242)
Net transfer to segregated funds	524	196	1,212	420
Increase (decrease) in insurance contract liabilities	4,018	1,550	3,316	3,900
Increase (decrease) in investment contract liabilities	21	7	22	21
Decrease (increase) in reinsurance assets	(19)	(41)	(94)	(80)
	5,625	3,029	7,013	6,955
Commissions	395	410	834	795
General expenses	355	353	762	714
Premium and other taxes	27	32	60	64
Financing charges	14	14	27	29
	6,416	3,838	8,696	8,557
<b>Income before income taxes</b>	261	241	307	449
Income taxes	56	54	54	104
<b>Net income</b>	205	187	253	345
Net income attributed to participating policyholders	7	—	8	1
<b>Net income attributed to shareholders</b>	198	187	245	344
Dividends attributed to preferred shares	5	6	11	12
<b>Net income attributed to common shareholder</b>	193	181	234	332
<b>Basic earnings per common share (in dollars)</b>	1.78	1.67	2.15	3.06

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of dollars)	As at June 30 2020 (unaudited) \$	As at December 31 2019 \$
<b>Assets</b>		
<b>Investments</b>		
Cash and short-term investments	1,414	1,005
Bonds	29,964	27,189
Stocks	2,920	3,024
Mortgages and other loans	3,749	3,870
Derivative financial instruments	1,711	1,003
Policy loans	931	900
Other invested assets	433	429
Investment properties	1,989	2,077
	<b>43,111</b>	<b>39,497</b>
Other assets	3,072	2,147
Reinsurance assets	1,223	1,030
Fixed assets	383	394
Deferred income tax assets	56	24
Intangible assets	760	805
Goodwill	555	606
General fund assets	49,160	44,503
Segregated funds net assets	28,505	27,868
<b>Total assets</b>	<b>77,665</b>	<b>72,371</b>
<b>Liabilities</b>		
Insurance contract liabilities	34,178	30,665
Investment contract liabilities	654	630
Derivative financial instruments	858	431
Other liabilities	7,265	6,079
Deferred income tax liabilities	249	287
Debentures	652	652
General fund liabilities	43,856	38,744
Liabilities related to segregated funds net assets	28,505	27,868
<b>Total liabilities</b>	<b>72,361</b>	<b>66,612</b>
<b>Equity</b>		
Share capital and contributed surplus	2,180	2,180
Retained earnings and accumulated other comprehensive income	3,074	3,537
Participating policyholders' accounts	50	42
	<b>5,304</b>	<b>5,759</b>
<b>Total liabilities and equity</b>	<b>77,665</b>	<b>72,371</b>

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

(in millions of Canadian dollars)

Quarter ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	394	774	357	354	150	75	2,104
Investment income	3,727	(72)	90	277	92	41	4,155
Other revenues	28	370	9	25	35	(49)	418
	4,149	1,072	456	656	277	67	6,677
<b>Operating expenses</b>							
Gross benefits and claims on contracts	198	339	273	272	132	4	1,218
Ceded benefits and claims on contracts	(64)	—	(13)	(7)	(77)	24	(137)
Net transfer to segregated funds	—	423	—	101	—	—	524
Increase (decrease) in insurance contract liabilities	3,732	(72)	22	254	81	1	4,018
Increase (decrease) in investment contract liabilities	—	—	21	—	—	—	21
Decrease (increase) in reinsurance assets	(27)	—	1	1	7	(1)	(19)
Commissions, general and other expenses	204	320	116	26	120	(9)	777
Financing charges	3	1	8	—	—	2	14
	4,046	1,011	428	647	263	21	6,416
Income before income taxes and allocation of other activities	103	61	28	9	14	46	261
Allocation of other activities	30	6	3	1	6	(46)	—
Income before income taxes	133	67	31	10	20	—	261
Income taxes	23	29	2	(2)	4	—	56
<b>Net income</b>	110	38	29	12	16	—	205
Net income attributed to participating policyholders	7	—	—	—	—	—	7
<b>Net income attributed to shareholders</b>	103	38	29	12	16	—	198

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

(in millions of Canadian dollars)

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 (decrease) in insurance contract liabilities	1,354	68	2	50	73	3	1,550
Increase (decrease) in investment contract liabilities	—	—	7	—	—	—	7
Decrease (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>	97	45	22	8	15	—	187

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

(in millions of Canadian dollars)

Six months ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	791	1,852	772	987	288	160	4,850
Investment income	2,481	255	108	229	146	78	3,297
Other revenues	57	746	28	52	67	(94)	856
	3,329	2,853	908	1,268	501	144	9,003
<b>Operating expenses</b>							
Gross benefits and claims on contracts	427	896	565	658	257	25	2,828
Ceded benefits and claims on contracts	(127)	—	(26)	(13)	(151)	46	(271)
Net transfer to segregated funds	—	848	—	364	—	—	1,212
Increase (decrease) in insurance contract liabilities	2,497	404	32	186	196	1	3,316
Increase (decrease) in investment contract liabilities	—	—	22	—	—	—	22
Decrease (increase) in reinsurance assets	(39)	—	4	2	(60)	(1)	(94)
Commissions, general and other expenses	448	671	262	54	232	(11)	1,656
Financing charges	8	1	16	—	—	2	27
	3,214	2,820	875	1,251	474	62	8,696
Income before income taxes and allocation of other activities	115	33	33	17	27	82	307
Allocation of other activities	56	8	5	2	11	(82)	—
Income before income taxes	171	41	38	19	38	—	307
Income taxes	20	26	1	(1)	8	—	54
<b>Net income</b>	151	15	37	20	30	—	253
Net income attributed to participating policyholders	8	—	—	—	—	—	8
<b>Net income attributed to shareholders</b>	143	15	37	20	30	—	245



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

(in millions of Canadian dollars)

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 (decrease) 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

**Segmented Premiums**

(in millions of Canadian dollars)

Quarter ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	493	174	383	72	280	19	1,421
Invested in segregated funds	—	600	—	289	—	—	889
	493	774	383	361	280	19	2,310
<b>Premiums ceded</b>							
Invested in general fund	(99)	—	(26)	(7)	(130)	56	(206)
<b>Net premiums</b>	394	774	357	354	150	75	2,104

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

(in millions of Canadian dollars)

	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
	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

(in millions of Canadian dollars)

	Six months ended June 30, 2020						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$		
<b>Gross premiums</b>							
Invested in general fund	980	380	829	120	537	52	2,898
Invested in segregated funds	—	1,472	—	881	—	—	2,353
	980	1,852	829	1,001	537	52	5,251
<b>Premiums ceded</b>							
Invested in general fund	(189)	—	(57)	(14)	(249)	108	(401)
<b>Net premiums</b>	791	1,852	772	987	288	160	4,850

(in millions of Canadian dollars)

	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
	969	1,363	881	1,012	406	96	4,727
<b>Premiums ceded</b>							
Invested in general fund	(190)	—	(71)	(13)	(171)	56	(389)
<b>Net premiums</b>	779	1,363	810	999	235	152	4,338

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

(in millions of Canadian dollars)

As at June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	
<b>Assets</b>							
Invested assets	25,684	2,453	2,006	4,176	1,231	7,561	43,111
Segregated funds net assets	—	16,755	—	11,750	—	—	28,505
Reinsurance assets	(664)	—	226	130	1,670	(139)	1,223
Other	110	1,143	—	—	43	3,530	4,826
<b>Total assets</b>	<b>25,130</b>	<b>20,351</b>	<b>2,232</b>	<b>16,056</b>	<b>2,944</b>	<b>10,952</b>	<b>77,665</b>
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	23,975	2,257	2,329	4,328	2,038	(95)	34,832
Liabilities related to segregated funds net assets	—	16,755	—	11,750	—	—	28,505
Other	680	56	10	17	—	8,261	9,024
<b>Total liabilities</b>	<b>24,655</b>	<b>19,068</b>	<b>2,339</b>	<b>16,095</b>	<b>2,038</b>	<b>8,166</b>	<b>72,361</b>

(in millions of Canadian dollars)

As at December 31, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	
<b>Assets</b>							
Invested assets	23,113	1,880	1,881	3,998	1,058	7,567	39,497
Segregated funds net assets	—	16,392	—	11,476	—	—	27,868
Reinsurance assets	(702)	—	233	132	1,491	(124)	1,030
Other	121	866	—	—	38	2,951	3,976
<b>Total assets</b>	<b>22,532</b>	<b>19,138</b>	<b>2,114</b>	<b>15,606</b>	<b>2,587</b>	<b>10,394</b>	<b>72,371</b>
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	21,470	1,839	2,199	4,142	1,744	(99)	31,295
Liabilities related to segregated funds net assets	—	16,392	—	11,476	—	—	27,868
Other	342	37	5	5	—	7,060	7,449
<b>Total liabilities</b>	<b>21,812</b>	<b>18,268</b>	<b>2,204</b>	<b>15,623</b>	<b>1,744</b>	<b>6,961</b>	<b>66,612</b>