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iA Financial Corporation Inc.

2020 Management's Discussion and Analysis

for the year ended December 31, 2020

February 11, 2021

Notice

Legal Constitution and General Information

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

iA Financial Corporation is a “successor issuer” of iA Insurance as defined in securities regulations with respect to the common shares previously issued by iA Insurance. The comparative figures prior to 2019 presented in this Management’s Discussion and Analysis are therefore the same as those of iA Insurance.

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

iA Financial Corporation is governed by the *Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the “1999 Private Bill”), as amended by the *Act to amend the Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the “2018 Private Bill,” collectively with the 1999 Private Bill, the “Private Bill”). The 1999 Private Bill was enacted by the Quebec National Assembly on November 26, 1999, and its amendment, the 2018 Private Bill, was enacted on June 15, 2018. The Private Bill prohibits any person and his/her affiliates from acquiring, either directly or indirectly, voting shares of iA Financial Corporation if the acquisition results in the person and his/her affiliates holding 10% or more of the voting rights related to the shares. The Private Bill further provides that in the event that an acquisition is made in contravention of the foregoing, an individual on behalf of whom the shares are acquired cannot exercise the voting rights attached to the aggregate of his/her shares for as long as they are in contravention of this provision. In addition, under this Private Bill, iA Financial Corporation must directly or indirectly hold 100% of the common shares of iA Insurance.

Unless otherwise indicated, all information presented in this Management’s Discussion and Analysis is established as at December 31, 2020, or for the year ended on that date.

Unless otherwise indicated, all amounts that appear in this Management’s Discussion and Analysis are denominated in Canadian dollars. The financial information is presented in accordance with International Financial Reporting Standards (IFRS), as they apply to life insurance companies in Canada, and with the accounting requirements prescribed by the regulatory authorities.

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

This Management’s Discussion and Analysis is dated February 11, 2021.

Non-IFRS Financial Measures

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

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

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

Core earnings (loss) and financial measures based on core earnings (loss), including core EPS and core ROE, are non-IFRS financial measures used to better understand the capacity of the Company to generate sustainable earnings. Core earnings (loss) remove from reported earnings (loss) the impacts of the following items that create volatility in the Company's results under IFRS, or that are not representative of its underlying operating performance:

Core earnings definition prior to 2021:
(a) specific items, including but not limited to year-end assumption changes and unusual income tax gains and losses;
(b) gains and losses from macroeconomic variations related to universal life policies, the level of assets backing long-term liabilities, investment funds (MERs) and the dynamic hedging program for segregated fund guarantees;
(c) 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.

Core earnings definition as of 2021:
(a) market-related impacts that differ from management's best estimate assumptions, which include impacts of returns on equity markets and changes in interest rates related to (i) management fees collected on assets under management or administration (MERs), (ii) universal life policies, (iii) the level of assets backing long-term liabilities, and (iv) the dynamic hedging program for segregated fund guarantees;
(b) assumption changes and management actions;
(c) gains or losses on acquisition or disposition of a business, including acquisition, integration and restructuring costs;
(d) amortization of acquisition-related finite life intangible assets;
(e) non-core pension expense, that represents the difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets and the IFRS prescribed pension plan discount rate.;
(f) specified items which management believes are not representative of the performance of the Company, including (i) material legal settlements and provisions, (ii) unusual income tax gains and losses, (iii) material impairment charges related to goodwill and intangible assets, and (iv) other specified unusual gains and losses.

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

Forward-Looking Statements

This Management's Discussion and Analysis may contain statements relating to strategies used by iA Financial Corporation or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may," "could," "should," "would," "suspect," "expect," "anticipate," "intend," "plan," "believe," "estimate," and "continue" (or the negative thereof), as well as words such as "objective," "goal," "guidance," and "forecast" 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 Financial Corporation believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: general business and economic conditions; level of competition and consolidation; changes in laws and regulations, including tax laws; liquidity of iA Financial Corporation, including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by iA Financial Corporation; insurance risks such as mortality, morbidity, longevity and policyholder behaviour, including the occurrence of natural or man-made disasters, pandemic diseases (such as the current COVID-19 pandemic) and acts of terrorism.

Potential impacts of the COVID-19 pandemic – Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. The overall impact of the COVID-19 pandemic is still uncertain and depends on many factors, such as the progression of the virus, the emergence of new variants, the duration of the pandemic, potential treatments and therapies, the availability of vaccines, the effectiveness of government measures to slow the virus's spread and the impact of those measures on the economy. As a result, we cannot accurately predict the total bearing the pandemic will have, but the impact on iA Financial Corporation's business and financial results could be material. However, despite the short-term negative impacts of the pandemic on its results, iA Financial Corporation remains financially solid. In addition, iA Financial Corporation's business continuity protocol has continued, ensuring that the quality of service clients receive is similar to or better than before the pandemic and enabling employees and advisors to continue to work safely and securely.

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of this Management's Discussion and Analysis, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2020, and elsewhere in iA Financial Corporation's filings with Canadian Securities Administrators, which are available for review at sedar.com.

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

Documents Related to the Financial Results

All documents related to iA Financial Corporation's financial results are available on the iA Financial Group website at ia.ca, under *About iA*, in the *Investor Relations/Financial Reports* section. More information about the Company can be found on the SEDAR website at sedar.com, as well as in the annual information forms for iA Financial Corporation and for iA Insurance, which can be found on the iA Financial Group website or the SEDAR website.

2020 Management's Discussion and Analysis

Highlights

In a year marked by the pandemic and its many impacts on society and the financial markets, the Company's priority has been protecting the health and wellbeing of its employees, distributors and clients, and supporting the community. In this context, the Company's 2020 results demonstrate the resiliency and soundness of its business model.

Sales growth was very strong in nearly all business units. This excellent performance was due in part to the scope and diversity of the Company's distribution networks, the range and relevance of its products, and the effectiveness of the digital tools available to representatives, clients and employees. In addition, the Company completed the largest acquisition in its history with the purchase of U.S. company IAS Parent Holdings, Inc. and its subsidiaries, creating one of the largest vehicle warranty platforms in the United States.

The Company finished 2020 with net income attributed to common shareholders of $611.2 million and maintained a strong solvency ratio above its target despite the significant capital deployment for the IAS acquisition. Organic capital generation was good, the investment portfolio remained of the highest quality and book value per share increased by 7%.

Moreover, in addition to the annual actuarial assumption review, additional risk management initiatives were put in place that included the signing of new reinsurance agreements and additional protections in the reserves to counter the potential impacts of the pandemic. Overall, these actions had no material impact on 2020 results.

Profitability

Net income attributed to common shareholders amounted to $611.2 million in 2020 compared to $687.4 million the year before. Diluted EPS was $5.70, compared to $6.40 a year earlier. Refer to the "Profitability" section of this Management's Discussion and Analysis for more information on the Company's profitability in 2020.

Business Growth

Premiums and deposits of nearly $14.1 billion were up 24% compared to 2019. Despite the pandemic, sales growth was excellent, particularly in Individual Insurance, Individual Wealth Management, Group Insurance Employee Plans, Group Savings and Retirement, US Operations and at iA Auto and Home. Refer to the sections that follow for more information on business growth by line of business.

Profitability

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Net income attributed to common shareholders	611.2	687.4	(11%)
Earnings per common share (EPS) (diluted) (in dollars)	5.70	6.40	(11%)

Assets Under Management and Administration

	As at December 31		
(In millions of dollars unless otherwise indicated)	2020	2019	Variation
Assets under management	101,655.9	100,241.8	1%
Assets under administration	95,830.1	89,245.8	7%
Total	**197,486.0**	**189,487.6**	**4%**

Premiums and Deposits[1]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Individual Insurance	1,624.8	1,586.5	2%
Individual Wealth Management	6,417.7	4,975.0	29%
Group Insurance	1,743.5	1,788.2	(2%)
Group Savings and Retirement	3,056.2	2,046.5	49%
US Operations	896.1	651.1	38%
General Insurance	340.2	314.2	8%
Total	**14,078.5**	**11,361.5**	**24%**

Sales by Line of Business[2]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Individual Insurance			
Minimum premiums	202.4	176.4	15%
Excess premiums	20.8	11.1	87%
Total	223.2	187.5	19%
Individual Wealth Management			
General fund	836.1	545.8	53%
Segregated funds	3,079.6	2,365.5	30%
Mutual funds	2,502.0	2,063.7	21%
Total	6,417.7	4,975.0	29%
Group Insurance			
Employee Plans	136.2	49.1	177%
Dealer Services[3]	971.6	1,020.3	(5%)
Special Markets	205.4	273.9	(25%)
Total	1,313.2	1,343.3	(2%)
Group Savings and Retirement	3,082.9	2,073.6	49%
US Operations			
Individual Insurance ($US)	127.2	99.2	28%
Dealer Services ($US)	719.0	449.2	60%
iA Auto and Home	395.0	351.0	13%

1 Premiums and deposits include all premiums collected by the Company for its insurance and annuity activities (and posted to the Company's general fund), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance and Group Savings and Retirement sectors and mutual fund deposits.
2 Refer to the sections on the Company's different business lines for a definition of sales.
3 Includes creditor insurance, P&C products and car loan originations.

Financial Strength

At December 31, 2020, the Company had capital of nearly $8.0 billion and a solvency ratio[4] of 130% compared to 133% a year earlier, despite the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries. The resulting decrease in the solvency ratio was offset by good organic capital generation, the subordinated debenture issuance and the impact of the additional risk management initiatives and year-end actuarial assumption review. The Company's solvency ratio remained above the 110% to 116% target range throughout 2020. We expect that good organic capital generation will continue in 2021 and that the Company will maintain a solvency ratio within or above the target range of 110% to 116% at all times.

The coverage ratio,[4] which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, finished the year at 11.7x, compared to 16.6x in 2019. This decrease is mainly explained by the $400 million subordinated debenture issuance in February 2020. The debt ratio including debentures and preferred shares was 24.8% at December 31, 2020, an increase from December 31, 2019, also mainly explained by the subordinated debenture issuance in February 2020. Lastly, in accordance with regulators' instructions to suspend common share buybacks due to the pandemic, the Company's Normal Course Issuer Bid program was not renewed.

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

Dividends

In February 2020, the Company increased its quarterly dividend per common share from $0.4500 to $0.4850. As a result, the dividend for 2020 totalled $1.9400 per common share, compared to $1.7650 per common share in 2019, an increase of 10%. The dividend payout ratio was 34% for the year, which is near the top of the 25% to 35% target range given as guidance at the beginning of 2020. Note that regulators have given instructions not to raise dividends to common shareholders due to the pandemic. As such, the dividend has not been increased since February 13, 2020, and the quarterly dividend announced in the fourth quarter 2020 results disclosure remains $0.4850 per common share, payable in the first quarter of 2021.

Quality of Investments

The Company's investment portfolio continued to be of excellent quality in 2020, in spite of the pandemic environment. At December 31, 2020, as presented in the table to the right, the proportion of net impaired investments remained relatively low at 0.07% of total investments, despite a slight increase owing to provisions taken on assets due to the impact of the pandemic. In addition, bonds rated BB and lower accounted for just 0.99% of the bond portfolio and the occupancy rate of the real estate portfolio remained relatively stable at 95.0%. No mortgage delinquency is recorded as at December 31, 2020, primarily due to the 2020 sale of the residential mortgage portfolio, which is therefore no longer a part of the investment portfolio. For detailed comments on investments, refer to the "Investments" section of this Management's Discussion and Analysis.

Sensitivity Analysis[5]

The analysis of the Company's sensitivity to macroeconomic changes was updated at the end of 2020. The main results of the analysis are shown in the table to the right and explained under "Market Risk" in the "Risk Management" section of this Management's Discussion and Analysis.

Financial Strength

(As as December 31)	2020	2019
Solvency ratio	130%	133%
Debt ratio	24.8%	21.9%
Coverage ratio	**11.7x**	**16.6x**

Dividend

(To common shareholders)	2020	2019
Dividend	**$1.9400**	$1.7650

Investment Quality Indices

(As at December 31)	2020	2019
Net impaired investments ($M)	$31.1	$10.9
Net impaired investments as a % of total investments	0.07%	0.03%
Bonds - Proportion rated BB and lower	0.99%	0.87%
Mortgages - Delinquency rate	—	0.08%
Investment properties - Occupancy rate	95.0%	94.0%

Sensitivity Analysis[6]

	As at December 31	
(In millions of dollars, unless otherwise indicated)	2020	2019
Drop in the S&P/TSX index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities[6]	(27%)	(24%)
Drop in the S&P/TSX[6] index that would decrease the solvency ratio to 110%	(83%)	(91%)
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(34)	(31)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	4	2
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(68)	(61)

Acquisitions, Dispositions and Structure of Businesses

On January 10, 2020, the Company acquired three Canadian companies specializing in vehicle warranties: WGI Service Plan Division Inc., WGI Manufacturing Inc. and Lubrico Warranty Inc. The goal of these acquisitions is to pursue strategic growth in order to become a major player in the Canadian automotive environment.

On May 22, 2020, the Company also concluded the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries (collectively "IAS"). IAS is one of the largest independent providers of solutions in the U.S. vehicle warranty market, with 35 years of history. It provides a comprehensive portfolio of vehicle warranties and related software and services sold through one of the industry's broadest and most diverse distribution networks. With the integration of IAS, the Company is creating one of the largest vehicle warranty platforms in the U.S.

4 The solvency and coverage ratios are not IFRS measures. Refer to the "Financial Position" section for more details.
5 The sensitivity analysis includes measures that have no IFRS equivalents.
6 Decrease compared to the actual index values at December 31 of the indicated years.

On June 1, 2020, the Company completed the sale of its iA Investment Counsel Inc. subsidiary to CWB Financial Group. The sale reflects the Company's decision to focus on serving the wealth management needs of high-net-worth Canadians exclusively through its expanding network of investment advisory practices.

For more information on the acquisitions and dispositions completed in 2020, refer to Note 4 of the Company's consolidated financial statements entitled *Acquisition and Disposal of Businesses*.

On January 1, 2020, iA Insurance and its subsidiary, The Excellence Life Insurance Company, merged in order to improve operational efficiency, with full transparency for existing clients.

Carbon neutrality

For many years, iA Financial Group has been committed to supporting the fight against climate change by proactively reducing its carbon footprint. In 2020, the Company became carbon neutral. While continuing its projects and initiatives aimed at reducing greenhouse gas (GHG) emissions at the source, the Company is now also committed to offsetting its GHG emissions through the purchase of carbon credits.

Litigation

iA Insurance is involved in litigation with a third party, Ituna Investment LP, 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.

Changes to Accounting Policies in 2020 and Future Changes in Accounting

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2020. None of these amendments or standards had an impact on the Company's financial statements. For more information on these amendments and new standards, refer to Note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies." Also, on June 25, 2020, the IASB published an amendment to IFRS 4 *Insurance Contracts* to extend the deferral approach until January 1, 2023. This approach provides an optional temporary exemption from applying IFRS 9 *Financial Instruments* until January 1, 2023 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 *Insurance Contracts*. Lastly, the Company is continuing its work related to the application of IFRS 17 *Insurance Contracts,* which is scheduled to take effect on January 1, 2023. The Company is currently evaluating the impact of this standard on its financial statements.

Outlook for 2021[7]

With everything that has been achieved and put in place in 2020, and with its proven business model, iA Financial Group is well positioned to grow its earnings and create value for its shareholders in 2021.

The balance sheet remains solid and the Company has the protection and resources it needs to adjust to financial market fluctuations. Among other things, the Company took advantage of the 2020 year-end actuarial assumption review to put additional protections in place in order to reduce potential mortality and policyholder behaviour experience losses in 2021 onwards arising from the pandemic.

iA Financial Group will hold a virtual Investor Day on March 10, 2021, during which management will discuss the Company's strategy and outlook for the coming years.

The main guidance targets for 2021 are presented in the table below.

EPS and ROE target growth is explained by:

- Adjustments to the definition of core earnings (see the "Profitability" section of this Management's Discussion and Analysis for more details)
- Organic growth, which refers to normal growth in expected profit on in-force
- Profitability improvement initiatives in all lines of business
- Acquisitions and technology improvements made in recent years
- Initiatives to fully leverage the Company's strong and diversified distribution networks

Lastly, the decrease in the new business strain target is confirmation of improvement in this metric over the past several years. The other guidance targets remain unchanged for 2021.

Market Guidance[8]

	2021	2020
Core earnings per common share[8]	**$7.60 to $8.20**	$6.30 to $6.90
Core return on common shareholders' equity[8]	**12.5% to 14.0%**	11.5% to 13.0%
Organic capital generation	**$275M to $325M**	$250M to $300M
Effective tax rate	**20% to 22%**	20% to 22%
Solvency ratio	**110% to 116%**	110% to 116%
New business strain	**2%** (quarterly range of -5% to 10%)	3% (quarterly range of -5% to 10%)
Dividend payout ratio	**25% to 35%** (midpoint)	25% to 35% (midpoint)

[7] The Company's outlook for 2021 is based on numerous assumptions and is subject to multiple risks, as described in the "Risk Management" section of this Management's Discussion and Analysis. Also refer to the "Notice" section at the beginning of this document for information about forward-looking statements.

[8] Guidance for EPS and ROE excludes non-core items as well as any potential impact of the year-end assumption review. Guidance for 2020 was based on the definition of core earnings used prior to 2021, and guidance for 2021 is based on the revised definition of core earnings in use as of 2021. Refer to the "Profitability" section of this Management's Discussion and Analysis for an explanation of core earnings.

Highlights of the Company's Actions and Initiatives Related to the Pandemic

iA Financial Group's resilient business model, including the strength of its distribution networks and its sound risk management practices, has helped mitigate the impacts of the COVID-19 pandemic. As a result, the Company has been fully able to continue generating growth while ensuring the financial wellbeing of its clients.

The Company's solid financial results at December 31, 2020 demonstrate the soundness of its choices, particularly in terms of technology, and its strategic vision. Despite the pandemic, these factors have allowed the Company to successfully continue its growth.

From the first signs of the pandemic, management prioritized the health and safety of employees and distributors, along with business continuity. iA Financial Group adjusted quickly and efficiently, implementing telework for the vast majority of employees and using high-performance digital tools that were already in place.

Profitability, Growth and Financial Strength

The pandemic has brought about significant changes in the distribution of financial products. The Company and its distribution networks have managed to adapt quickly to the new reality, in particular thanks to its digital tools available to distributors and clients. Business growth was excellent in 2020, as demonstrated by the Company's strong results versus 2019. iA Financial Group's largest business line, individual life insurance, posted a 19% year-over-year increase in sales. Meanwhile, individual wealth management recorded net inflows of more than $2 billion in 2020, almost eight times higher than in 2019. These results are mainly attributable to three factors: the strength and diversification of the Company's distribution networks, the excellent performance of its digital tools, and the wide range of products offered.

Sales were also excellent in most other business units, for the same reasons. They were more difficult in certain segments, however, including Special Markets, due to lower travel insurance sales, and Dealer Services, due to the impact of lockdown measures on auto sales.

The Company's financial results remained largely on track in 2020. The iA Auto and Home subsidiary stood out in this regard, as did several other business units in the group. The biggest negative impact of the pandemic occurred in March when the stock markets experienced extreme volatility. This historic volatility affected the results of the hedging program for segregated fund guarantees. Nonetheless, the program succeeded in its goal of providing protection, as the negative impact on the Company's results would have been much greater without it. The investment portfolio also held up well during this period of extreme volatility, demonstrating its superior quality and excellent asset diversification.

In terms of solvency, despite the impacts of the pandemic and the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries, the Company's solvency ratio was 130% at the end of 2020. Added to this is the Company's distinctive protection against market fluctuations, which is equivalent to an additional ten percentage points. This favourable result is mainly due to the Company's strong capacity for organic capital generation and the positive impact of its additional risk management initiatives.

Lastly, the Company took advantage of its year-end actuarial assumption review to strengthen the reserves. Moreover, additional risk management initiatives were put in place that included the signing of new reinsurance treaties and additional protections in the reserves to absorb potential negative impacts that may result from the pandemic in the coming years.

Client Relief Measures and Community Support

Since the beginning of the pandemic, iA Financial Group has been committed to contributing tirelessly and in every possible way to the immense social efforts being made to counter its effects.

The Company put various relief measures in place to support clients experiencing financial hardship as a direct result of the pandemic. These measures benefitted clients in all segments: life, critical illness, disability and personal accident insurance; individual savings and retirement; group insurance; auto and home insurance; residential mortgages; and car loans.

Since March 2020, iA Financial Group has also been committed to the fight against COVID-19 and its unprecedented effects on our communities. The Company increased donations in the areas of health and community services, specifically targeting organizations with urgent needs due to the pandemic.

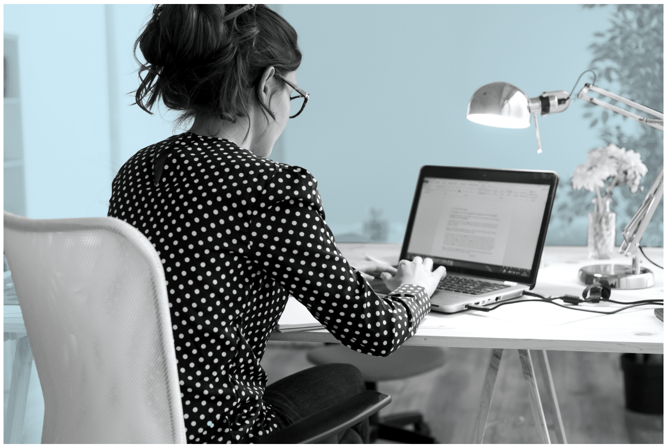
In 2020, a total of nearly $2.5 million was donated to fight the COVID-19 crisis, including donations to the COVID-19 emergency funds of various hospital and health research centre foundations, as well as to food banks in several Canadian provinces.

Employee Health and Wellbeing

iA Financial Group has spared no effort to ensure the health and safety of its employees and to try to reduce the spread of the virus in the community. In mid-March 2020, the Company quickly took steps to enable telework for almost all employees and to ensure the safety of its offices for those required to work onsite for business continuity purposes.

The Company also offered its employees various support measures, including allowances for Internet fees and the purchase of telework equipment, as well as five additional paid wellness days.

These measures were in addition to the services already available to employees, including access to telemedicine, a stress management and wellness program, and an employee and family assistance program.



Beyond the Pandemic

While it remains to be seen when the pandemic will end, vaccinations underway around the world are finally providing a light at the end of the tunnel.

With everything achieved and put in place in 2020, and with its tested and proven business model, iA Financial Group is well positioned to grow and create value for its shareholders and other stakeholders in 2021 and beyond.

Those elements that have enabled the Company to achieve strong sales growth in 2020 remain in place. In addition, increased IT investments will keep the Company at the leading edge of digital solutions for its clients, distributors and employees.

With its high solvency ratio and the strengthening of its actuarial reserves in 2020, the Company has solid foundations to support its growth. In its reserves, the Company has distinctive protection against market fluctuations, as well as additional protections which will be used to respond to temporary pandemic or post-pandemic uncertainties by absorbing unfavourable mortality or lapse experience.

As a result, the Company is well positioned to take advantage of post-pandemic opportunities while remaining resilient and committed to the wellbeing of its clients, employees and communities.

Analysis by business segment

Lines of business

Canada

1 INDIVIDUAL INSURANCE

2 INDIVIDUAL WEALTH MANAGEMENT

3 GROUP SAVINGS AND RETIREMENT

4 GROUP INSURANCE

Divisions
- Employee Plans
- Dealer Services
- Special Markets

United States

5 U.S. OPERATIONS

Divisions
- Individual Insurance
- Dealer Services

Subsidiary – Quebec

iA AUTO AND HOME

Individual Insurance

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

From a historical standpoint, 2020 was a year unlike any other. In addition to making extra efforts to deploy digital tools in response to the new reality, the Company also launched two new insurance products:

- An enhanced version of yearly renewable term (YRT) universal life insurance offering exceptional flexibility and high accumulation potential for clients.
- A permanent participating (PAR) life insurance product for clients seeking insurance protection combined with growth, stability and diversification for their investment portfolio. This type of product represents approximately half of the Canadian life insurance market.

Already a leader in instant acceptance at the point of sale thanks to its EVO tool, the Company again demonstrated its capacity for innovation by further simplifying the purchase of up to $2 million in coverage for clients age 50 and under.

In addition, the sector has continued its efforts to ensure a superior advisor and client experience by enhancing online sales tools for representatives. The illustration tool for life and critical illness products, for example, has been redesigned to provide a modernized, simplified experience adapted to the current reality of advisors and clients.

Business Growth

(In millions of dollars unless otherwise indicated)	2020	2019	Variation
Sales[9]			
Minimum premiums[10]	202.4	176.4	15%
Excess premiums[10]	20.8	11.1	87%
Total	**223.2**	**187.5**	**19%**
Net premiums	1,624.8	1,586.5	2%

Total sales amounted to $223.2 million in 2020, a significant increase of 19% compared to 2019. The success of the new YRT and PAR products launched during the year largely contributed to this growth. Because these products allow for the deposit of additional sums, there was also a sizable increase of 87% in excess premiums in 2020 versus 2019.

Net premiums were up 2% in 2020 at $1,624.8 million. Note that premiums are a key long-term profitability driver for the sector.

In terms of the Company's performance in the industry, according to the Canadian data published by LIMRA for the first nine months of the year, iA Financial Group ranked:

- First for life insurance products, with the highest premium sales and annual sales growth.
- First for the number of individual insurance policies sold (life, critical illness and disability combined), with a market share of over 20%, and fourth for sales, with a market share of over 10%.
- First for critical illness insurance sales, with a market share of 25%.
- Third for disability product sales, with a market share of 9%.

The sales mix shifted in 2020. The pandemic and economic environment made growth more difficult for disability insurance products, therefore the weight of these products in the new business portfolio declined.

In addition, the Company's Career Network performed very well in 2020.

Business Focus

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

Products and Services

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

Manufacturers and Subsidiaries

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

Distribution Affiliates and Networks

- Career Network (iA) (2,060 advisors)
- Managing General Agents Network (14,625 representatives)
- National Accounts Network (630 representatives)
- PPI Management Inc. (5,000 representatives)
- Michel Rhéaume et associés

9 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Insurance sector, sales are defined as first-year annualized premiums. The net premiums presented in the consolidated financial statements include fund entries on both in-force contracts and new business written during the period, less premiums ceded to reinsurers.

10 Minimum premiums are the portion of the premium used to cover the insurance risks under an individual insurance contract and are an important way to measure the sector's performance. Excess premiums include all deposits to accumulation funds available under universal life policies, as well as contributions to the additional deposit option for the participating life insurance product.

Individual Wealth Management

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

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

The sector also has three distribution affiliates working in mutual fund and securities brokerage: FundEX Investments, iA Private Wealth[11] and Investia Financial Services.

Business Focus

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

Products and Services

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

Manufacturers and Subsidiaries

- iA Insurance
- iA Clarington
- FundEX Investments
- iA Private Wealth
- Investia Financial Services
- iA Trust
- iA Investment Management
- Invisor Investment Management
- Forstrong Global Asset Management

Distribution Affiliates and Networks

- Career Network (iA) (2,060 advisors)
- Managing General Agents Network (14,625 representatives)
- National Accounts Network (630 representatives)
- PPI Management Inc. (5,000 representatives)
- Distribution affiliates (FundEX, iA Private Wealth and Investia) (2,120 advisors)

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Gross sales[12]			
General fund	836.1	545.8	53%
Segregated funds	3,079.6	2,365.5	30%
Mutual funds	2,502.0	2,063.7	21%
Total	**6,417.7**	**4,975.0**	**29%**
Net sales			
Segregated funds	1,763.9	662.8	166%
Mutual funds	243.5	(407.6)	NM*
Total	**2,007.4**	**255.2**	**687%**

* Not meaningful

Despite the many impacts of the pandemic, business growth was excellent in this sector.

Gross sales of over $6.4 billion were up 29% from 2019. By product category, sales were up 53% for guaranteed return products (found in iA Insurance's general fund), reflecting the Company's competitive position and the popularity of the high interest savings account launched in June 2019. This product offers clients the simplicity of having all their investments (segregated funds, guaranteed interest funds and high interest savings account) combined under one contract.

Gross segregated fund sales reached a record high, up 30% from 2019. This is explained in part by the success of the Company's distribution strategy. The Company continued to rank first in Canada for net segregated fund sales and third in terms of assets.[13]

Gross mutual fund sales totalled over $2.5 billion due to strong growth of 21% versus 2019. Net inflows totalled $243.5 million.

Total assets amounted to nearly $128.3 billion at December 31, 2020, up 5% from the end of the previous year, mainly due to market growth and net fund entries of over $2 billion. Growth in assets under management, which is reliant on gross sales, in-force business persistency and the return on assets, is the key long-term profitability driver for the sector.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Funds under management			
General fund	2,121.7	1,807.5	17%
Segregated funds	19,240.2	16,391.9	17%
Mutual funds	11,393.1	11,594.2	(2%)
Other[14]	995.3	4,509.0	(78%)
Subtotal	33,750.3	34,302.6	(2%)
Funds under administration[15]	94,534.2	88,142.1	7%
Total	**128,284.5**	**122,444.7**	5%

11 As of January 18, 2021, iA Private Wealth is the new brand replacing iA Securities and HollisWealth.
12 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Wealth Management sector, total sales (or gross sales) for general fund and segregated fund products correspond to the net premiums presented in the consolidated financial statements. Sales for mutual funds are defined as deposits.
13 Source: Investor Economics
14 The *Other* category of funds under management includes assets from the Company's private wealth management activities.
15 Includes assets related to affiliated dealers.

Group Insurance

Employee Plans

The Employee Plans division offers a broad range of group benefits products for companies and organizations. The division has over 600 employees, has signed agreements with some 1,000 groups, and serves over 525,000 plan members.

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

In the context of the current pandemic, financial relief measures have been put in place to support plan administrators and members. The deployment of telemedicine and mental health coaching solutions has also been accelerated in order to promote greater accessibility to healthcare. In addition, a preventive opioid management program has been set up to minimize the risks of addiction and overdose.

Business Focus

- Accelerating profitable growth
- Enhancing client experience (for plan administrators and members) through simplified processes
- Maximizing efficiency gains by taking advantage of greater synergy between business units
- Strengthening digital tools for global benefits management

Products and Services

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

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales[16]	136.2	49.1	177%
Premiums	1,028.2	985.7	4%
Premium equivalents[17]	63.5	70.9	(10%)
Investment contracts[18]	77.0	78.8	(2%)
Total	**1,168.7**	**1,135.4**	**3%**

Total premiums, premium equivalents and investment contract deposits reached $1,168.7 million in 2020, up 3% from 2019.

Premium growth was driven by strong growth in sales, which were up 177% compared to 2019. This growth was nonetheless slowed by the relief measures put in place due to the pandemic, in particular a temporary reduction in rates for certain coverages.

Looking at sales by region, the majority of sales came from Quebec in 2020, as was the case in 2019.

For the first nine months of the year, for groups with 100 to 4,999 employees, the market closest to the division's target market, iA Financial Group ranked fifth with 9% of market sales.[19]

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

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

17 Premium equivalents are income from administrative services only (ASO) contracts.

18 Premiums from Hold Harmless Agreements

19 Source: LIMRA

Group Insurance

Dealer Services

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

The division has more than 600 employees, insures over 725,000 individuals and over one million vehicles, and has more than 40,000 car loans outstanding. Its products are offered through a Canada-wide direct distribution network of nearly 6,700 automobile and other motor vehicle dealers. Distributors demand one-stop shopping for their aftermarket needs and iA Financial Group is one of the few companies that can provide it.

Business Focus

- Signing new dealer groups
- Exploiting our connections within iA group to develop new businesses
- Partnering with original equipment manufacturers
- Improving dealer experience through new digital initiatives
- Adapting our products and distribution practices for an enhanced client experience

Products and Services

- Creditor insurance
- P&C products
- Car loans

Manufacturers and Subsidiaries

- iA Insurance
- SAL Marketing Inc.
- National Warranties MRWV Limited
- Industrial Alliance Pacific General Insurance Corporation
- WGI Service Plan Division Inc.
- Lubrico Warranty Inc.
- iA Auto Finance
- iA Advantages Damage Insurance

Distribution Affiliates and Networks

- Direct distribution through automobile and other motor vehicle dealers (6,700 dealers)
- Original equipment manufacturers (OEM)
- Preferred partnerships

Business Growth

Dealer Services sales totaled $971.6 million in 2020. The division continues to expand its presence across Canada by signing deals with large dealership groups and car manufacturers, and by developing new products.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales[20]			
Creditor[21]	260.7	328.7	(21%)
P&C	270.5	253.4	7%
Car loans	440.4	438.2	1%
Total	**971.6**	**1,020.3**	**(5%)**

Creditor Insurance

Creditor insurance sales decreased from 2019, totalling $260.7 million. This variation was partly caused by declining Canadian light vehicle sales, which were down 5.1%[22] compared to 2019, as well as restrictions and shutdowns in some provinces amid the pandemic.

P&C Products

P&C sales were up 7% from 2019 to reach $270.5 million despite declining Canadian light vehicle sales. New acquisitions at the beginning of the year and consumers' affinity for P&C products were the major drivers of sales growth.

Car Loans

Car loan originations were up 1% from 2019 to reach $440.4 million. Restrictions and shutdowns in some provinces amid the pandemic led to a smaller non-prime loan market. Although the market was smaller, market share improved over the prior year due to increased penetration within the distribution network.

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

[21] Includes all creditor insurance business sold by the Company.

[22] Source: DesRosiers Automotive Consultants Inc., December 2020 year-to-date information.

Group Insurance

Special Markets

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

Special Markets has contracts with over 4,000 groups and associations.

Business Focus

- Achieving position as best provider of AD&D in Canada
- Accelerating sales growth of critical illness block
- Strengthening position as best-in-class provider of voluntary products (AD&D, CI and Life)
- Partnering with large Canadian Third Party Administrators as their preferred partner for specialty products
- Enhancing digital platform for clients and employees

Products and Services

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

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Distribution partners
- Specialized insurance brokers

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales (gross premiums)[23]	205.4	273.9	(25%)
Net sales[24]	187.4	256.2	(27%)

Special Markets sales decreased by 25% in 2020 to $205.4 million. This was primarily driven by the individual travel business, which was adversely impacted by the COVID-19 pandemic. The division maintained strong sales in life, AD&D, critical illness and health insurance products, similar to 2019 results.

Net sales, defined as gross premiums net of reinsurance, experienced a similar decrease of 27% in 2020.

Efforts to maintain a competitive edge in the special risks market continued throughout 2020. The division pursued its development of product enhancements and entered into a partnership to offer voluntary products on a digital platform.

[23] Sales are not an IFRS measure. Sales (gross premiums) are before reinsurance.

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

Group Savings and Retirement

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

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

The Group Savings and Retirement sector has approximately 200 employees, has signed agreements with nearly 12,000 groups and serves close to 430,000 plan members and 60,000 annuitants.

The sector's actions to improve competitiveness in 2020 included the redesign of the ATTITUDE life cycle portfolios, which now provide more room for direct alternative investments.

Also, given the pandemic and the fluctuations in financial markets, several initiatives have been implemented to keep plan administrators and members abreast of economic issues.

Lastly, in order to better serve the Prairies region and strengthen its presence from coast to coast, the sector has opened a sales office in Winnipeg.

Business Focus

- Accelerating profitable growth
- Enhancing client experience (for plan administrators and members) through simplified processes
- Maximizing efficiency gains by taking advantage of greater synergy between business units
- Strengthening digital tools for global benefits management

Products and Services

- Capital accumulation products
- Disbursement products (insured annuities)

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

Business Growth

Group Savings and Retirement posted strong sales in 2020, ending the year with premiums up 49% over 2019.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Premiums (sales)[25]			
Accumulation Products			
Recurring premiums	1,160.3	1,057.3	10%
Transfers	1,177.2	342.7	244%
Premium equivalents	38.0	46.0	(17%)
Subtotal	2,375.5	1,446.0	64%
Insured Annuities	707.4	627.6	13%
Total	**3,082.9**	**2,073.6**	**49%**
New plan sales[26]	**1,902.2**	**1,249.2**	**52%**

Accumulation Products

Recurring premiums for accumulation products represent sustainable business development and are a key part of the sector's strategy. They correspond to regular member contributions collected from in-force group clients. Recurring premiums were up 10% in 2020. New plan sales, which accelerate contribution growth, grew significantly in 2020.

Accumulation Products – Net Fund Entries[27]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Entries	2,327.0	1,050.1	122%
Disbursements	1,567.4	755.8	107%
Net entries	**759.6**	**294.3**	**158%**

Insured Annuities

In the insured annuities segment, the year ended with $707.4 million in sales, up 13% compared to 2019.

Funds Under Management

	As at December 31		
(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Accumulation Products	14,226.4	12,573.5	13%
Insured Annuities	4,758.4	3,929.2	21%
Total	**18,984.8**	**16,502.7**	**15%**

Funds under management totalled nearly $19 billion at year-end, an increase of 15%. Growth was driven by new sales of accumulation products and insured annuities, as well as positive market impact. Growth in assets under management is a key long-term profitability driver for the sector.

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

26 New plan sales are measured by the sum of first-year annualized premiums (which correspond to the total of the initial asset transfer and recurring first-year annualized premiums) plus insured annuities. The prior year figures have been revised due to the new definition of sales.

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

US Operations

Individual Insurance

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

The iA American group of companies markets their life insurance products through independent marketing organizations, or IMOs, and collectively these organizations have over 18,000 independent agents under contract with the group.

These companies operate primarily in the simplified issue marketplace with final expense life insurance and mortgage protection / family protection term life representing almost 80% of new business sales. They also offer universal life and other specialty life products in the government and worksite markets. They have the ability to customize products for larger marketing organizations and this flexibility has played a key role in their success.

Digital enhancements to improve and simplify the sales process from both the agent and client perspectives have been an important component in the companies' ability to compete. A point-of-sale underwriting decision engine for final expense products was introduced in early 2019. This platform simplifies and greatly accelerates the sales process and the majority of final expense product sales are made using this technology.

Business Growth

(In millions of US dollars, unless otherwise indicated)	2020	2019	Variation
Sales[28]	127.2	99.2	28%
Premiums	344.4	305.3	13%

U.S. life insurance sales ended the year at US$127.2 million, a 28% increase over the previous year. The increase in sales resulted from several top IMOs having high growth rates in conjunction with significant contributions from newly contracted sales organizations. Sales in 2020 were also very positively influenced by the companies' ability to quickly react to the COVID-19 pandemic by providing remote selling capabilities to their agents.

The number of policies issued in 2020 increased 29% over the previous year and that resulted in a significant contribution to total premiums collected. Total premiums grew to US$344.4 million in 2020, representing a 13% increase over 2019.

The U.S. sales mix by product is relatively consistent and varied only slightly in 2020. The percentage of whole life insurance sales increased from 75% in 2019 to 76% in 2020, due primarily to the increase in final expense business.

The sales mix by market has shifted somewhat based on the growth in the final expense line of business. Final expense sales as a percentage of total sales increased from 61% in 2019 to 67% in 2020, due primarily to the continued enhancements related to the final expense underwriting process along with high growth rates for several IMOs that focus on that line of business.

Business Focus

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

Products and Services

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

Manufacturers and Subsidiaries

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

Distribution Affiliates and Networks

- Independent marketing organizations (18,600 agents)

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

US Operations

Dealer Services

In May 2020, iA Financial Group concluded the acquisition of Innovative Aftermarket Systems (IAS), which expanded the Company's presence in the United States within the Dealer Services business and complements the Company's existing Dealer Services operations in the U.S with respect to product suite, distribution networks, and geographic scope. In early 2021, the companies will re-brand to iA American Warranty Group.

iA American Warranty Group and its affiliates distribute casualty products that include extended warranties, a full range of ancillary products covering additional vehicle components, and additional products such as training, income development, and marketing services to help dealerships improve their bottom line. The company benefits from vertical integration of insurance, administration and reinsurance services and is one of only a handful of full service providers in the United States. Products are sold through a network of general agents, automobile dealers, finance companies and third party administrators.

Aftermarket contracts are a combination of many different products, providing coverage for a wide range of risks associated with vehicle ownership.

The division employs over 600 people and administers products for more than 7,000 dealerships throughout the U.S. Products are often customized for larger producers and this flexibility has played a key role in the success of iA American Warranty Group.

Business Growth

Sales production was strong and totalled US$719.0 million in 2020, which represents a 60% increase over 2019 sales.

(In millions of US dollars, unless otherwise indicated)	2020	2019	Variation
Sales[29]	719.0	449.2	60%

With the acquisition of IAS, U.S. Dealer Services operations market delineation increased strongly in affiliate versus non-affiliate sales. Both distribution channels saw their sales increase in 2020.

Sales by Market	%
Affiliate producers	66
Non-affiliate producers	34
Total	100

Business Focus

- Increasing distribution
- Enhancing the client experience
- Integration of IAS
- Maximizing synergies between IAS and existing businesses

Products and Services

- Extended warranties
- Guaranteed asset protection
- Ancillary vehicle protection
- Training services
- Marketing services

Manufacturers and Subsidiaries

- Dealers Assurance Company
- Dealers Alliance Company
- iA American Warranty Corp.
- iA American Warranty, L.P. (formerly IAS)
- First Automotive Service Corporation
- Dealer Wizard, LLC

Distribution Affiliates and Networks

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

[29] Sales are not an IFRS measure. In the Dealer Services division of the US Operations sector, sales are defined as direct written premiums (before reinsurance) and premium equivalents.

Auto and Home Insurance

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

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

Since the beginning of the pandemic, iAAH has been fully committed to countering the pandemic's many negative effects on employees, clients and partners. To this end, numerous measures have been put in place for clients, including rebates on car insurance premiums and more flexible payment options.

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Direct written premiums[30]	395.0	351.0	13%

Direct written premiums totalled $395.0 million in 2020, up 13% from the previous year. Premium growth was strong in 2020, mainly due to improved client retention. This improvement is the result of better competitive positioning and reflects a high level of customer satisfaction. The five-year compound annual growth rate for iAAH's business volume is 10%.

Combined Ratio

(%)	2020	2019	2018	2017	2016
Combined ratio	78.7	93.1	95.8	103.9	105.5

The combined ratio, which represents the sum of the expense ratio and the claims ratio, improved from 2019. Claims ratio improvement was due in part to actions taken with regard to pricing and underwriting, as well as modified client behaviour due to the pandemic. The combined ratio was below 100% for the third time since 2015.

Business Focus

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

Products and Services

- Auto and home insurance

Manufacturers and Subsidiaries

- iA Auto and Home Insurance
- Prysm General Insurance

Distribution Affiliates and Networks

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

30 Direct written premiums are not an IFRS measure.

Profitability

Highlights

In spite of the difficult pandemic context, the Company's 2020 results were solid and demonstrated the resiliency and soundness of its business model.

The Company ended the year with net income attributed to common shareholders of $611.2 million, compared to $687.4 million in 2019. Diluted earnings per common share (EPS) was $5.70 in 2020, compared to $6.40 in 2019, and return on common shareholders' equity (ROE) was 10.6% for the year.

Moreover, in addition to the annual actuarial assumption review, additional risk management initiatives were put in place that included the signing of new reinsurance agreements and additional protections in the reserves to counter the potential impacts of the pandemic. Overall, these actions had almost no impact on 2020 results, generating a net gain equivalent to $0.04 EPS.

Profitability

(In millions of dollars, unless otherwise indicated)	2020	2019	2018	2017	2016
Income attributed to shareholders	633.5	709.5	633.7	531.4	553.7
Less: preferred share dividends	22.3	22.1	21.0	15.9	16.5
Net income attributed to common shareholders	**611.2**	**687.4**	**612.7**	**515.5**	**537.2**
Earnings per common share (EPS)					
Basic	$5.71	$6.43	$5.62	$4.84	$5.22
Diluted	$5.70	$6.40	$5.59	$4.81	$5.19
Return on common shareholders' equity (ROE)[31]	10.6%	12.9%	12.5%	11.4%	13.2%

Analysis According to Sources of Earnings

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

Expected profit on in-force – Expected profit on in-force reflects the best estimates determined by management when the 2020 budget was prepared at the end of 2019. However, expected profit for the savings sectors is updated quarterly to reflect changes in the stock markets and net fund entries. In addition, expected profit on in-force for US Operations was adjusted in 2020 to take into account the actual date of the IAS acquisition.

Expected profit on in-force amounted to $800.9 million in 2020, a year-over-year increase of $32.3 million, or 4%, before tax. The increase is mainly explained by expected organic growth and the contribution of the IAS acquisition in US Operations. Expected profit growth was slowed during the year by the quarterly updates mentioned above, however, due to the negative impact of the equity markets.

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

The Company ended the year with experience losses of $97.1 million before tax, compared to gains of $25.5 million in 2019.

The 2020 result is mostly explained by a loss of $90.7 million before tax generated by the negative impact of high market volatility on the dynamic hedging program. The main goal of this program is to reduce the sensitivity of net income to market drops with respect to the capital guarantees offered on certain segregated funds. Despite the recorded loss, the program achieved its goal of providing protection. At its highest point in March, when the Canadian stock market (based on the S&P/TSX Index) was in sharp decline, the economic value of the hedged guarantees increased by $575 million, and this amount was essentially offset by the change in value of the hedging assets.

The paragraphs that follow provide details on the 2020 results for each line of business.

- *Individual Insurance* – An experience gain of $10.1 million before tax was recorded in 2020, compared to a gain of $19.3 million in 2019. The gain in 2020 was mainly generated by favourable morbidity and positive market impact, while mortality was slightly unfavourable due to the pandemic.
- *Individual Wealth Management* – A negative variance of $86.5 million before tax was recorded in 2020, compared to a positive variance of $6.5 million in 2019. The 2020 result was mainly generated by the hedging program loss mentioned above. Note that there was a gain on the sale of iA Investment Counsel Inc.
- *Group Insurance* – An experience loss of $8.6 million before tax was recorded in 2020, compared to a loss of $16.7 million in 2019. This loss is essentially explained by the $9.0 million before-tax increase of the provision for losses on car loans in the first quarter due to the pandemic. Most of this amount was still provisioned as at December 31, 2020. Aside from this item, the results in all three divisions (Employee Plans, Special Markets and Dealer Services) were near expectations.

[31] ROE is not an IFRS measure.

- *Group Savings and Retirement* **–** A favourable variance of $4.9 million before tax was recorded in 2020, compared to a favourable variance of $10.1 million in 2019. The positive result in 2020 is mostly due to favourable longevity experience.
- *US Operations* **–** An experience loss of $17.0 million before tax was recorded in 2020, compared to a gain of $6.3 million the year before. This result was essentially due to unfavourable mortality in the Individual Insurance division, largely stemming from the COVID-19 pandemic. Moreover, the Dealer Services division performed close to expectations, which were adjusted at the time of the second quarter 2020 results disclosure.

Gain (strain) on sales – In the Individual Insurance sector and the Individual Insurance division of the US Operations sector, new business strain was $27.3 million before tax in 2020, compared to $8.5 million the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 7% in 2020 versus 3% a year earlier. Strain in 2020 was therefore slightly less favourable than in 2019, mainly due to the first quarter decrease in interest rates.

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

Assumption changes, risk management initiatives and management actions – At the end of each quarter, the Company ensures the adequacy of its provisions given the existing economic environment. It also updates all its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience and that of the industry in terms of mortality, morbidity, lapse rates, unit costs and other factors.

In 2020, the usual adjustment of actuarial assumptions used to calculate the net insurance contract liabilities was influenced by the positive impact of the economic assumption adjustments, which led to improved portfolio performance and matching as well as policy liability modelling refinements. In addition, the Company increased reserves due to the revision of mortality and lapse assumptions. For more details, refer to Note 14 to the financial statements, entitled “Insurance Contract Liabilities and Investment Contract Liabilities.”

In addition to the usual adjustment of these actuarial assumptions, extra protections were added to the actuarial reserves at the end of 2020 due to the temporary uncertainty created by the current pandemic. The goal of these protections is to reduce potential experience losses in 2021 and subsequent years for mortality and policyholder behaviour resulting from the direct and indirect impacts of the pandemic.

Lastly, the 2020 risk management initiatives were rounded out with the Company taking advantage of a highly competitive reinsurance environment to sign new reinsurance treaties.

Altogether, these items had a positive net impact on operating profit of $5.6 million before tax, or $0.04 EPS.

Regarding other management actions, a charge was recorded in the first quarter due to the PPI Management goodwill impairment generated by the anticipated economic impact of the pandemic on the subsidiary’s future revenues.

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

Income on capital amounted to $105.6 million before tax in 2020, compared to $122.1 million the previous year. The decrease for the year is partly explained by the impact of the IAS acquisition in the U.S., which included the deployment of about $1 billion and an increase in amortization expenses for intangible assets. Also of note were an IT asset writedown, an increase in the asset default provision and, on the positive side, a strong contribution from the iA Auto and Home subsidiary. Earnings from this subsidiary in 2020 were almost triple those realized in 2019.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and include tax payable and deferred income taxes. A life insurer’s investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purpose of calculating the operating profit. Income taxes amounted to $130.0 million in 2020, for an effective tax rate of 17.0%.

Core Earnings

Financial measures based on core earnings are non-IFRS financial measures used to better understand the capacity of the Company to generate sustainable earnings.

Core earnings remove from reported earnings the impacts of items that create volatility in the Company’s results under IFRS, or that, in management’s view, are not representative of its operating performance.

As of 2021, a new definition of core earnings will be used. The table below presents the six adjustments applied to reported earnings per share (EPS) in the calculation of core EPS.

In particular, these adjustments include market-related impacts, changes in actuarial assumptions, impacts from acquisitions, and non-core pension expense, that represents the difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets and the IFRS prescribed pension plan discount rate.

Based on the new definition established for 2021, core EPS in 2020 grew 9% compared to 2019.

Reported EPS and Core EPS Reconciliation Based on 2021 Definition of Core Earnings

	2020	2019
Earnings per common share (EPS, diluted)	**$5.70**	$6.40
Adjustments:		
Market-related impacts that differ from management's best estimate assumptions	**$0.49**	($0.38)
Assumption changes and management actions	**($0.04)**	($0.02)
Gains or losses on acquisition or disposition of a business, including acquisition, integration and restructuring costs	**($0.01)**	($0.13)
Amortization of acquisition-related finite life intangible assets	**$0.42**	$0.25
Non-core pension expense	**$0.19**	$0.11
Other specified unusual gains and losses	**$0.37**	$0.32
Core EPS	**$7.12**	$6.55

Reconciliation of Certain Non-IFRS Measures with IFRS Measures

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

Reconciliation of Sources of Earnings with IFRS Measures

(In millions of dollars)	2020	2019
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	657.9	779.1
Income on capital (according to sources of earnings)	105.6	122.1
Income attributable to participating contracts and other items	(1.2)	(14.2)
Earnings before taxes according to the financial statements	**762.3**	**887.0**
Income taxes:		
On operating profit and on income on capital	(130.0)	(191.7)
Amount for participating contracts and other items	—	4.1
Income taxes according to financial statements	(130.0)	(187.6)
Net income according to financial statements	**632.3**	**699.4**

Analysis According to the Financial Statements

Annual Results

The following table presents the Company's financial results according to the financial statements for the years ended December 31, 2020, 2019 and 2018.

Consolidated Income Statement

(In millions of dollars)	2020	2019	2018
Revenues			
Net premiums	11,196.1	8,944.0	7,849.3
Investment income	4,668.3	4,641.6	310.8
Other revenues	1,775.1	1,679.5	1,752.3
Total	**17,639.5**	**15,265.1**	**9,912.4**
Policy benefits and expenses			
Net policy benefits	5,290.1	5,392.2	4,870.0
Net transfers to segregated funds	2,872.3	916.5	821.1
Increase (decrease) in insurance contract liabilities	5,760.1	4,773.1	216.0
Increase (decrease) in investment contract liabilities	34.0	27.1	9.2
Decrease (increase) in reinsurance assets	(737.5)	(44.2)	76.2
Commissions	1,788.3	1,653.8	1,582.2
General expenses	1,667.9	1,471.9	1,328.8
Premium and other taxes	128.7	128.2	126.9
Financing charges	73.3	59.5	63.0
Total	**16,877.2**	**14,378.1**	**9,093.4**
Income before income taxes	762.3	887.0	819.0
Less: income taxes	130.0	187.6	181.0
Net income	632.3	699.4	638.0
Less: net income attributed to participating policyholders	(1.2)	(10.1)	4.3
Net income attributed to shareholders	633.5	709.5	633.7
Less: preferred share dividends	22.3	22.1	21.0
Net income attributed to common shareholders	**611.2**	**687.4**	**612.7**

Net Income Attributed to Common Shareholders

The 11% decrease in net income attributed to common shareholders between 2020 and 2019 is mainly due to losses generated by the hedging program for segregated fund guarantees, which was negatively impacted by extreme market volatility. The change in net income attributed to common shareholders is also explained by the items mentioned below.

Revenues

Revenues, whose three components are presented in the above table, totalled more than $17.6 billion in 2020, an increase of nearly 16% compared to 2019. This increase is mainly due to an increase in net premiums, which grew by $2.3 billion, or 25%, compared to the previous year. Growth was observed in almost all sectors, mainly stemming from individual and group savings products such as segregated funds, guaranteed investment certificates, insured annuity contracts and accumulation contracts. The acquisition of IAS Parent Holdings, Inc. in the second quarter of 2020 also contributed to the increase in net premiums for US Operations. The business acquisitions made in 2020 also contributed to the increase in other revenues.

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

Revenues by Sector

(In millions of dollars)	Ind. Ins.	Ind. Wealth Mgmt	Grp Ins.	Grp Sav. and Rtmt	US Oper.	Other	Total
	Year ended December 31, 2020						
Net premiums	1,624.8	3,915.7	1,603.0	3,018.2	694.2	340.2	11,196.1
Var. vs. 2019	*38.3*	*1,004.4*	*(35.5)*	*1,017.7*	*201.2*	*26.0*	*2,252.1*
Invest. income	3,592.5	148.5	194.1	387.1	192.1	154.0	4,668.3
Var. vs. 2019	*(175.0)*	*91.8*	*22.0*	*55.5*	*30.6*	*1.8*	*26.7*
Other revenues	117.5	1,501.4	72.1	105.1	176.0	(197.0)	1,775.1
Var. vs. 2019	*(3.0)*	*38.6*	*17.6*	*7.6*	*72.6*	*(37.8)*	*95.6*
Total	5,334.8	5,565.6	1,869.2	3,510.4	1,062.3	297.2	17,639.5
Var. vs. 2019	*(139.7)*	*1,134.8*	*4.1*	*1,080.8*	*304.4*	*(10.0)*	*2,374.4*

Policy Benefits and Expenses

Policy benefits and expenses were up nearly $2.5 billion from the previous year. The main items contributing to this increase are as follows:

- An increase in net transfers to segregated funds compared to 2019, as premiums grew and benefits declined ($2.0 billion).
- An increase in insurance contract liabilities compared to 2019 ($987.0 million), explained in part by the addition of extra protections due to the uncertainty created by the current pandemic. 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.

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

- An increase in commissions compared to the previous year, which primarily stems from growth of the in-force block of business as well as business acquisitions ($134.5 million). Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.
- An increase in general expenses, mainly due to business growth and acquisitions ($196.0 million).

The increase in policy benefits and expenses was reduced by the following:

- A larger credit related to reinsurance assets in 2020 compared to 2019 ($693.3 million), partly due to the profit generated by signing new reinsurance agreements. This item is generally influenced by the same factors that influence the variation in insurance contract liabilities, but to a lesser extent.
- A decrease in net policy benefits, mostly in Individual Wealth Management ($102.1 million). Net policy benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

Income Taxes

The consolidated financial statements indicate an income tax expense of $130.0 million in 2020, compared to $187.6 million in 2019. These amounts represent the Company's tax expense net of all adjustments for prior years. The variation in 2020 resulted from a decrease in income before income taxes and an increase in tax-exempt investment income.

Quarterly Results

Below is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters. The analysis in this section focuses primarily on the Company's results for the fourth quarter of 2020. Generally speaking, the terminology used in this section is the same terminology used in the financial statements.

Net premiums

Net premiums amounted to $3.1 billion in the fourth quarter, a year-over-year increase of 27%. This variation is mainly explained by significant net premium growth in the Individual Wealth Management and Group Savings and Retirement sectors.

Stock market variations, the level of premiums invested in segregated funds and the signing of new agreements with large groups in the group business lines, among other things, contribute to the fluctuation of premiums from one quarter to another.

Net premiums include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds.

Investment Income

In the fourth quarter of 2020, investment income was up $1,276.3 million from the same quarter in 2019. This was primarily due to an increase in the fair value of bond investments and derivative financial instruments resulting from the variation in interest rates.

Investment income fluctuates in large part based on the fair value of investments, which is influenced by changes in interest rates, stock markets and issuer spreads, particularly for bonds, equities and derivatives. Investment income also varies based on interest income, dividends, rental income from real estate, and realized profits and losses on the disposition of available-for-sale assets.

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

Other Revenues

Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company's brokerage subsidiaries and assets managed for third parties. Other revenues for the fourth quarter were up $35.5 million, or 8%, year over year. This variation came mainly from the Individual Wealth Management business line and from business acquisitions.

Net Income Attributed to Common Shareholders[32]

(In millions of dollars)	Individual Insurance 2020	Individual Insurance 2019	Individual Wealth Management 2020	Individual Wealth Management 2019	Group Insurance 2020	Group Insurance 2019	Group Savings and Retirement 2020	Group Savings and Retirement 2019	US Operations 2020	US Operations 2019	Total 2020	Total 2019
Sources of earnings:												
Expected profit on in-force	361.7	350.9	238.9	227.7	89.9	108.1	22.3	26.1	88.1	55.8	800.9	768.6
Experience gains (losses)	10.1	19.3	(86.5)	6.5	(8.6)	(16.7)	4.9	10.1	(17.0)	6.3	(97.1)	25.5
Gain (strain) on sales	(16.1)	—	—	—	—	—	(0.2)	(0.9)	(11.2)	(8.5)	(27.5)	(9.4)
Changes in assumptions	(19.6)	(6.1)	(1.3)	(1.0)	(4.7)	(6.7)	11.6	5.9	(4.4)	2.3	(18.4)	(5.6)
Operating profit	336.1	364.1	151.1	233.2	76.6	84.7	38.6	41.2	55.5	55.9	657.9	779.1
Income on capital	82.0	92.6	15.3	2.8	1.1	5.9	4.6	3.1	2.6	17.7	105.6	122.1
Income taxes	(67.1)	(79.5)	(42.1)	(61.2)	(15.2)	(23.6)	(8.6)	(11.8)	3.0	(15.6)	(130.0)	(191.7)
Net income attributed to shareholders	351.0	377.2	124.3	174.8	62.5	67.0	34.6	32.5	61.1	58.0	633.5	709.5
Less: preferred share dividends	16.4	17.7	3.3	2.5	1.6	1.4	1.0	0.5	—	—	22.3	22.1
Net income attributed to common shareholders	**334.6**	**359.5**	**121.0**	**172.3**	**60.9**	**65.6**	**33.6**	**32.0**	**61.1**	**58.0**	**611.2**	**687.4**

Quarterly Results

(In millions of dollars, unless otherwise indicated)	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Revenues								
Net premiums	3,080.0	3,247.6	2,113.4	2,755.1	2,417.0	2,189.5	1,982.7	2,354.8
Investment income	974.8	395.5	4,155.0	(857.0)	(301.5)	1,109.8	1,671.5	2,161.8
Other revenues	463.9	455.4	415.7	440.1	428.4	416.2	424.5	410.4
Total	**4,518.7**	**4,098.5**	**6,684.1**	**2,338.2**	**2,543.9**	**3,715.5**	**4,078.7**	**4,927.0**
Income before income taxes	203.8	267.5	246.9	44.1	197.1	241.0	240.9	208.0
Income taxes	31.4	48.5	52.0	(1.9)	31.3	51.9	53.9	50.5
Net income	172.4	219.0	194.9	46.0	165.8	189.1	187.0	157.5
Less: net income attributed to participating policyholders	(5.2)	(4.0)	6.7	1.3	(10.7)	—	(0.1)	0.7
Net income attributed to shareholders	177.6	223.0	188.2	44.7	176.5	189.1	187.1	156.8
Less: preferred share dividends	5.7	5.5	5.5	5.6	5.3	5.4	5.7	5.7
Net income attributed to common shareholders	**171.9**	**217.5**	**182.7**	**39.1**	**171.2**	**183.7**	**181.4**	**151.1**
Earnings per common share								
Basic	$1.61	$2.03	$1.71	$0.37	$1.60	$1.73	$1.70	$1.41
Diluted	$1.60	$2.03	$1.71	$0.36	$1.59	$1.72	$1.69	$1.40
Net transfers to segregated funds	1,038.2	622.2	523.5	688.4	234.6	261.9	195.5	224.5
Increase (decrease) in insurance contract liabilities	1,494.4	949.5	4,018.5	(702.3)	(283.0)	1,156.0	1,550.0	2,350.1
Increase (decrease) in investment contract liabilities	8.5	3.5	20.6	1.4	(1.0)	6.7	7.5	13.9
Total general fund assets	53,661.5	52,705.8	51,499.5	47,811.4	45,279.6	45,458.8	43,432.1	42,530.9
Segregated funds net assets	32,804.0	30,119.0	28,504.8	25,460.1	27,867.9	26,976.4	26,388.7	25,759.5

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

Financial Position

Capitalization and Solvency

Capitalization

iA Financial Corporation's capital structure can be divided into three categories: equity, debentures, and participating policyholders' accounts. At December 31, 2020, the Company's capital exceeded $7.9 billion, a year-over-year increase of 11%, with equity and participating policyholders' accounts accounting for 82% of total capital.

The increase in 2020 is mainly due to the contribution of retained earnings resulting from profits realized during the year, net of dividends paid to common shareholders, and, to a lesser extent, the debenture issuance mentioned later in this section.

Capital Structure

	As at December 31				
(In millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Equity					
Common shares	1,674.5	1,666.5	1,655.5	1,520.9	1,498.8
Preferred shares[33]	525.0	525.0	525.0	375.0	375.0
Retained earnings[34,35]	4,170.5	3,823.5	3,440.0	3,072.8	2,793.2
Contributed surplus	18.8	17.5	22.8	19.5	18.5
AOCI[36]	82.5	55.6	22.5	48.9	40.1
Subtotal	6,471.3	6,088.1	5,665.8	5,037.1	4,725.6
Debentures[33]	1,448.7	1,049.7	901.4	996.3	995.3
Participating policyholders' accounts[35]	40.7	41.9	52.3	41.0	39.0
Total	**7,960.7**	**7,179.7**	**6,619.5**	**6,074.4**	**5,759.9**

Financial Leverage and Coverage Ratio

The debt ratio measured as debentures over the capital structure was 18.2% at December 31, 2020. With the preferred shares added to the debentures, the ratio was 24.8%. The increase in these ratios is essentially due to the issuance of $400 million in subordinated debentures in February 2020.

At December 31, 2020, the coverage ratio was 11.7x, compared to 16.6x at December 31, 2019. In 2020, the ratio decreased mainly due to the February issuance of $400 million in subordinated debentures. The coverage ratio represents the Company's earnings for the last twelve months before interest and income tax expenses divided by its interest and dividend expenses.

Debt Ratios and Coverage Ratio

	As at December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Debt ratios					
Debentures/capital structure	18.2%	14.6%	13.6%	16.4%	17.3%
Debentures and preferred shares/capital structure	24.8%	21.9%	21.5%	22.6%	23.8%
Coverage ratio (number of times)[37]	11.7x	16.6x	14.6x	13.3x	12.8x

Solvency

When iA Financial Corporation was created as a holding company, it committed to following the Capital Adequacy Requirements for Life and Health Insurance (CARLI) Guideline issued by the Autorité des marchés financiers (AMF). The Company had a solvency ratio of 130% at December 31, 2020, compared to 133% at December 31, 2019, a decrease of just three percentage points despite the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries. The decrease in the ratio that resulted from this acquisition was offset by good organic capital generation, the subordinated debenture issuance and the impact of the risk management initiatives and year-end actuarial assumption review. The ratio at year's end remained well above the 110% to 116% guidance range.

At the end of 2020, the Autorité des marchés financiers du Québec published a revised Capital Adequacy Requirements for Life and Health Insurance (CARLI) Guideline effective January 1, 2021. As a result, the total solvency ratio remains unchanged, iA Financial Corporation's core ratio will gradually decrease by a few percentage points over a period of five quarters and there is an immediate downward impact on the potential capital for deployment. Nonetheless, the Company's ratios remain above regulatory requirements and these changes have no impact on the Company's ability to generate earnings.

For 2021, good organic capital generation is expected to continue and the Company intends to maintain a solvency ratio within or above the target range of 110% to 116% for iA Financial Corporation, as mentioned in the "Highlights" section at the beginning of this document. The target range for the iA Insurance subsidiary is also 110% to 116%.

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2020**	**2019**
Available capital	4,368.0	4,809.1
Surplus allowance and eligible deposits	5,054.6	4,461.8
Base solvency buffer	7,267.3	6,980.2
Solvency ratio[38]	**130%**	**133%**

33 Items considered as long-term debt and included in the debt ratio calculation.
34 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.
35 In the fourth quarter of 2019, an adjustment retroactive to January 1, 2018 was made transferring $7 million from retained earnings to participating policyholders' accounts.
36 AOCI: Accumulated other comprehensive income.
37 Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, preferred share dividends and preferred share redemption premiums (if applicable).
38 This measure, which has no IFRS equivalent, is established in accordance with regulatory requirements.

Equity and Financing

Redemption and Issue of Financial Instruments

In February 2020, iA Financial Corporation issued $400 million in 2.400% fixed/floating subordinated debentures. No subordinated debentures were redeemed in 2020.

Debentures

The Company had four series of debentures on its balance sheet at December 31, 2020, with a total book value of $1,448.7 million. These four series, which are detailed in the table later in this section, were classified as financial liabilities at amortized cost. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors. In 2020, the financing expense, made up of interest and the amortization of issuance costs, amounted to $41.6 million, versus $26.5 million in 2019.

Outstanding Common Shares

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

The number of issued and outstanding common shares at December 31, 2020 was 107,063,827, an increase of 97,628 compared to December 31, 2019. This slight increase is essentially due to the exercise of options under the Stock Option Plan for executives. Otherwise, there were no common share issuances in 2020 and very few share redemptions under the Normal Course Issuer Bid, as redemptions have been suspended by regulators due to the pandemic. For this same reason, the Normal Course Issuer Bid expiring on November 11, 2020 was not renewed.

Common Shares

	As at December 31				
(In millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Number of common shares outstanding	107.1	107.0	108.6	106.8	106.2

Stock Price and Market Capitalization

Industrial Alliance became a stock company in February 2000. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of $7.875, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005. The Company's stock closed the year at $55.18 in 2020, with market capitalization exceeding $5.9 billion.

Stock Price and Market Capitalization

	As at December 31				
(In millions of dollars, unless otherwise indicated)	**2020**	**2019**	**2018**	**2017**	**2016**
Stock price	$55.18	$71.33	$43.57	$59.82	$53.39
Market capitalization	5,907.8	7,629.9	4,730.6	6,386.2	5,670.3

Book Value per Common Share

The book value per common share was $55.52 at the end of 2020, up nearly 7% during the year. This increase stems mainly from the contribution of retained earnings net of dividends paid in 2020.

Book Value per Common Share

	As at December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Book value per common share	$55.52	$51.99	$47.34	$43.65	$40.97

Preferred Shares

In 2020, the iA Insurance subsidiary paid $22.4 million in dividends to preferred shareholders with Class A Shares, Series B, G and I. iA Insurance's capital currently includes these three series of Class A Preferred Shares, as shown in the full-page table later in this section.

Dividends

In February 2020, the Company increased its quarterly dividend per common share from $0.4500 to $0.4850. As a result, the dividend for 2020 totalled $1.9400 per common share, compared to $1.7650 per common share in 2019, an increase of 10%. In total, the Company paid out $207.7 million in dividends to common shareholders in 2020. The dividend payout ratio for the year was 34% of the net income attributed to common shareholders, which is near the top of the 25% to 35% target range given as guidance at the beginning of 2020. Note that regulators have given instructions not to raise dividends to common shareholders due to the pandemic. As such, the dividend has not been increased since February 13, 2020, and, as shown below, the quarterly dividend announced in the fourth quarter 2020 results disclosure remains $0.4850 per common share, payable in the first quarter of 2021.

Dividends

	2020	**2019**	**2018**	**2017**	**2016**
Dividends paid per common share	$1.94	$1.77	$1.59	$1.43	$1.26
Dividend payout ratio	34%	27%	28%	30%	24%

Declaration of Fourth Quarter Dividends

Following are the amounts and dates of payment and closing of registers for common shares and the various categories of preferred shares.

In accordance with regulators' instructions not to increase dividends on common shares due to the COVID-19 pandemic, the Board of Directors has approved a quarterly dividend of $0.4850 per share, the same as that announced the previous quarter, on the outstanding common shares of iA Financial Corporation. This dividend is payable on March 15, 2021 to the shareholders of record at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has approved the payment of a dividend in the amount of $250.0 million to its sole common shareholder, iA Financial Corporation.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.2875 per non-cumulative Class A Preferred Share – Series B. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.2360625 per non-cumulative Class A Preferred Share – Series G. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.3000 per non-cumulative Class A Preferred Share – Series I. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

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

Stock Option Plan

In accordance with the Stock Option Plan adopted by the Board of Directors in 2001, the Human Resources and Compensation Committee granted 285,000 new share purchase options in 2020. These new options, which will expire in 2030, were granted at a weighted average exercise price of $73.93. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 1,964,983, or 1.84% of the number of issued and outstanding shares at December 31, 2020.

Dividend Reinvestment and Share Purchase Plan for Common Shareholders

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

Normal Course Issuer Bid

In accordance with regulators' instructions suspending common share redemptions due to the pandemic, the Company did not renew the Normal Course Issuer Bid that expired on November 11, 2020. In 2020, before the regulators' instructions were issued, the Company redeemed 86,872 common shares for a total cost of $4 million.

Preferred Shares and Debentures – iA Financial Corporation Inc.

Subordinated debentures issued on February 21, 2020 and maturing on February 21, 2030	
Nominal value:	$400.0 million
Book value:	$398.2 million
Interest:	2.400% until February 21, 2025. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 0.71%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after February 21, 2025, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.8 million.
Subordinated debentures issued on September 24, 2019 and maturing on September 24, 2031	
Nominal value:	$400.0 million
Book value:	$398.0 million
Interest:	3.072% until September 24, 2026. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 1.31%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 24, 2026, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $2.0 million.

Preferred Shares and Debentures – Industrial Alliance Insurance and Financial Services Inc.

Class A Preferred Shares – Series B	
Number:	5,000,000
Nominal value:	$125.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Fixed non-cumulative quarterly dividend of $0.2875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares, convertible to Class A Preferred Shares.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the Autorité des marchés financiers (AMF), on or after March 31, 2011.
Class A Preferred Shares – Series G	
Number:	10,000,000
Nominal value:	$250.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of $1.0750 in cash per preferred share until June 30, 2017. The annual rate was modified on June 30, 2017 to $0.94425 in cash per preferred share.
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Share – Series H on June 30, 2017 and on June 30 every 5 years thereafter.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on June 30, 2017 and on June 30 every 5 years thereafter.
Class A Preferred Shares – Series I	
Number:	6,000,000
Nominal value:	$150.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of $1.20 in cash per preferred share until March 31, 2023. On March 31, 2023 and on March 31 every 5 years thereafter, the dividend rate will be adjusted to equal the sum of the then current 5-year Government of Canada bond yield plus 2.75%.
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Shares – Series J on March 31, 2023 and on March 31 every 5 years thereafter.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on March 31, 2023 and on March 31 every 5 years thereafter.
Subordinated debentures issued on February 23, 2015 and maturing on February 23, 2027	
Nominal value:	$250.0 million
Book value:	$249.7 million
Interest:	2.64% until February 23, 2022. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 1.08%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after February 23, 2022, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $0.3 million.
Subordinated debentures issued on September 16, 2016 and maturing on September 15, 2028	
Nominal value:	$400.0 million
Book value:	$399.0 million
Interest:	3.30% until September 15, 2023. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 2.14%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 15, 2023, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.0 million.

More information about the features of the preferred shares and debentures can be found in the prospectus documents, which are available on the Company's website at ia.ca in the *Investor Relations* section under *About iA*.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary in order that appropriate decisions may be made regarding disclosure. These controls and procedures are also designed to ensure that the information is gathered, recorded, processed, condensed and reported within the time frames prescribed by the *Canadian Securities Act*.

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2020, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance that the Company's financial reporting is reliable and that, for the purposes of publishing its financial information, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of Disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2020, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the *Internal Control - Integrated Framework* report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the year, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

Significant Accounting and Actuarial Policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For more information on significant accounting policies, refer to Note 2 of the Company's consolidated financial statements.

The preparation of the financial statements requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results may differ from management's estimates. The estimates and assumptions are revised periodically based on changes in relevant facts and circumstances. The changes are then accounted for in the period in which the revisions are made and in all subsequent periods affected by the revisions. The most significant estimates and judgments pertain to the classification of contracts and the determination of policy liabilities.

Other Items

Related Party Transactions

The value of the related party transactions is presented in Note 28 of the Company's consolidated financial statements.

Guarantees, Commitments and Contingencies

In the normal course of business, the Company frequently signs various types of contracts or agreements which, in certain cases, can be considered to be guarantees, commitments or contingencies.

As at December 31, 2020, the Company's contractual obligations and commitments were as follows:

Contractual Obligations – Payments Due by Period

	As at December 31, 2020			
(In millions of dollars)	**Total**	**Less than 1 year**	**1 year to 5 years**	**More than 5 years**
Debentures	1,448.7	—	—	1,448.7
Lease liabilities	140.5	22.0	66.5	52.0
Purchasing commitments	317.5	68.7	248.8	—
Other long-term commitments	5,548.2	3,837.9	1,166.3	544.0
Total of contractual obligations	**7,454.9**	**3,928.6**	**1,481.6**	**2,044.7**

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

Credit Ratings

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

In 2020, the credit ratings assigned by Standard & Poor's and A.M. Best remained unchanged, with a stable outlook.

In December 2020, DBRS placed the principal credit ratings of iA Financial Corporation Inc. and Industrial Alliance Insurance and Financial Services Inc. under review with positive implications, citing the Company's significant efforts to improve its risk profile, in particular its sensitivity to interest rates and stock markets.

Credit Ratings

iA Financial Corporation Inc.

Agency	Type of evaluation	Rating
Standard & Poor's	Issuer Credit Rating	A
	Subordinated Debentures	A-
DBRS	Issuer Rating	A (low)
	Subordinated Debentures	BBB (high)

Industrial Alliance Insurance and Financial Services Inc.

Standard & Poor's	Issuer Credit Rating	AA-
	Financial Strength Rating	AA-
	Subordinated Debentures	A+
	Preferred Shares – Canadian scale	P-1 (Low)
	Preferred Shares – Global scale	A
DBRS	Financial Strength	A (high)
	Issuer Credit Rating	A (high)
	Subordinated Debentures	A
	Preferred Shares	Pfd-2 (high)
A.M. Best	Financial Strength	A+ (Superior)
	Issuer Credit Rating	aa-
	Subordinated Debentures	a
	Preferred Shares	a-

IA American Life Group Entities (IA American Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer Security Life Insurance Company, Pioneer American Insurance Company, Occidental Life Insurance Company of North Carolina)

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

Industrial Alliance Pacific General Insurance Corporation

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

Dealers Assurance Company

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

Investments

Description of Sector

The Investments sector has two main functions: managing the assets in the Company's general fund and managing the investment funds offered to its clients. All of iA Financial Group's investment activities, including those associated with its US Operations, are combined under a single authority and share a common philosophy. The Investments management structure is illustrated below.

EXECUTIVE VICE-PRESIDENT AND CHIEF INVESTMENT OFFICER

- Economy and Strategy
- General Fund
  - Securities
  - Mortgages[39]
  - Real Estate Investments
- Risk Monitoring
- Investment Funds
  - Segregated Funds
  - Mutual Funds

The general fund experts manage a diverse range of investments, including bonds, stocks, mortgages, real estate investments, short-term investments and derivatives.

The risk monitoring team is responsible for developing a global vision for the control and monitoring of the various investment risks (interest rate, stock market, foreign currency, credit, liquidity, etc.). In addition to quantifying the risks, the team helps develop strategies for managing these risks effectively.

Most of iA Financial Group's investment professionals work for iA Investment Management, where they look after asset allocation and securities selection for the general fund and for a number of segregated and mutual funds, in addition to overseeing all external managers.

Assets Under Management and Administration

At December 31, 2020, iA Financial Group had $197.5 billion in assets under management and administration, an increase of nearly $8.0 billion, or 4.2%, versus the previous year. Note that growth over the past year was slowed in the second quarter by the sale of iA Investment Counsel.

Assets Under Management and Administration

	As at December 31				
(In millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Assets under management					
General fund	53,661.5	45,279.6	39,759.5	37,789.4	35,223.8
Segregated funds	32,804.0	27,867.9	23,780.6	24,117.0	21,825.8
Mutual funds	11,393.1	11,594.2	10,832.8	11,723.2	10,937.5
Other	3,797.3	15,500.1	14,721.1	15,123.1	16,859.9
Subtotal	101,655.9	100,241.8	89,094.0	88,752.7	84,847.0
Assets under administration	95,830.1	89,245.8	79,677.5	80,787.1	41,387.2
Total	**197,486.0**	**189,487.6**	**168,771.5**	**169,539.8**	**126,234.2**

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as *Other*), increased 1.4% compared to the previous year, amounting to $101.7 billion at December 31, 2020.

Assets under administration of $95.8 billion at December 31, 2020 increased 7.4% compared to the previous year. Assets under administration essentially include third-party assets that are administered through the mutual fund brokerage companies (primarily Investia Financial Services and FundEX Investments), the securities brokerage company (iA Private Wealth[40]) and the trust company (iA Trust).

General Fund

General Fund Investments

The Company takes a prudent, disciplined approach to investing and aims to achieve an optimal balance between risk and return. In addition to ensuring that its investments are well diversified among issuers and operating sectors, as well as geographically, the Company closely monitors its asset/liability matching and maintains a sufficient level of liquidity at all times. For more information about liquidity risk and how it is managed and about the asset/liability matching process and the measures used by the Company to reduce the risks associated with this process, refer to the "Risk Management" section of this Management's Discussion and Analysis.

The assets related to the Company's insurance and annuity operations are mainly invested in fixed-income securities, such as bonds, and to a lesser extent, in equity securities (stocks). The assets related to the Company's capital are invested in fixed-income securities and preferred shares.

39 The Company withdrew from the residential mortgage market in 2020. The mortgage portfolio is now made up of multi-unit residential and non-residential loans.
40 As of January 18, 2021, iA Private Wealth is the new brand replacing iA Securities and HollisWealth.

Composition of General Fund Investments

At the end of 2020, 71.1% of the Company's investments were invested in bonds and 6.2% in mortgages and other loans, for a total of 77.3% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 77% and 79% over the last five years, while stocks have varied between 7% and 11%.

General Fund Investments

	As at December 31				
(In millions of dollars)	2020	2019	2018	2017	2016
Bonds	32,098.6	27,508.5	23,592.3	22,944.1	21,086.8
Mortgages and other loans	2,801.5	3,870.2	3,661.3	3,288.1	3,292.3
Stocks	3,285.7	3,023.5	3,054.8	3,467.0	3,083.0
Real estate	1,916.1	2,076.6	1,720.5	1,340.8	1,237.8
Other invested assets	5,045.2	3,440.4	2 550,0	2 781,9	2 391,0
Total	**45,147.1**	**39,919.2**	**34,578.9**	**33,821.9**	**31,090.9**

Investments by Asset Category

	As at December 31	
	2020	2019
Portfolio	**$45.1B**	**$39.9B**
Bonds	71.1%	68.8%
Mortgages and other loans	6.2%	9.7%
Stocks	7.3%	7.6%
Real estate	4.2%	5.2%
Other	11.2%	8.7%

Overall Quality of Investments

The overall quality of investments continued to be very good in 2020, despite the pandemic environment.

At December 31, 2020, net impaired investments totalled $31.1 million, compared to $10.9 million a year earlier. On a $45.1 billion portfolio, this represents just 0.07% of total investments (0.03% at December 31, 2019). This increase is related to a single bond that was impacted by the pandemic and for which a provision was taken.

Net Impaired Investments (Excluding Insured Loans)

	As at December 31				
(In millions of dollars)	2020	2019	2018	2017	2016
Bonds	30.8	10.1	12.8	15.1	16.9
Mortgages and other loans	0.3	0.8	3.1	8.3	6.5
Total	**31.1**	**10.9**	**15.9**	**23.4**	**23.4**

Net impaired investments are made up of bonds and conventional mortgages that are three or more months in arrears, as well as restructured loans and other loans in default, taking into account any specific provisions for losses set up in consideration of these assets.

Net Impaired Investments as a Percentage of Total Investments

	As at December 31				
(%)	2020	2019	2018	2017	2016
Net impaired investments	0.07	0.03	0.05	0.07	0.08

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as *available for sale* amounted to $0.2 million at December 31, 2020 ($1.7 million at December 31, 2019).

Bond Portfolio

The quality of the Company's bond portfolio is very good, totalling $32.1 billion at December 31, 2020.

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

The proportion of bonds rated A or higher made up 82.8% of the bond portfolio at the end of 2020, compared to 83.3% at the end of 2019. At December 31, 2020, bonds rated BB and lower (high-yield bonds) totalled $316.7 million (1.0% of the bond portfolio), compared to $238.0 million at December 31, 2019 (0.9% of the bond portfolio).

Bonds by Credit Rating

	As at December 31	
	2020	2019
Portfolio	**$32.1B**	**$27.5B**
AAA	6.0%	6.8%
AA	47.3%	47.6%
A	29.5%	28.9%
BBB	16.2%	15.8%
BB and lower	1.0%	0.9%

In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2020, private issue bonds totalled $5.4 billion, accounting for 16.8% of the bond portfolio ($4.7 billion or 17.3% of the portfolio at December 31, 2019).

Bond Portfolio

	As at December 31				
	2020	2019	2018	2017	2016
Book value of the portfolio ($M)	**32,098.6**	**27,508.5**	**23,592.3**	**22,944.1**	**21,086.8**
Distribution by category of issuer (%)					
Governments	47.4	49.7	50.7	52.0	51.4
Municipalities	4.8	4.8	5.1	5.0	4.4
Corporates – Public issues	31.1	28.2	26.3	26.1	26.2
Corporates – Private issues	16.7	17.3	17.9	16.9	18.0
Total	100.0	100.0	100.0	100.0	100.0

Mortgages and Other Loans Portfolio

The mortgages and other loans portfolio amounted to $2.8 billion at December 31, 2020, a decrease of nearly $1.1 billion from the end of 2019. This decrease is mainly explained by the third quarter sale of the residential mortgage portfolio, which is no longer part of the investment portfolio. At the end of 2020, 15% of the portfolio ($437 million) was securitized through the Canada Mortgage and Housing Corporation (CMHC) Canada Mortgage Bond (CMB) program.

The mortgage portfolio alone, made up of multi-unit residential and non-residential mortgages, totalled $1.9 billion and was of excellent quality at December 31, 2020, with a delinquency rate of nil. The delinquency rate data includes both insured and uninsured mortgages. During the year, a mortgage payment deferral plan was put in place due to the COVID-19 pandemic. In total, 0.1% of the portfolio was impacted by this plan.

Delinquency Rate as a Percentage of Mortgages

	As at December 31				
(%)	2020	2019	2018	2017	2016
Delinquency rate	—	0.08	0.09	0.34	0.27

As shown in the table below, insured mortgages have represented approximately three-quarters of total mortgages in recent years (73.2% in 2020).

Mortgages and Other Loans Portfolio

	As at December 31				
(%)	2020	2019	2018	2017	2016
Book value of the portfolio ($M)					
Mortgages	1,891.5	3,076.2	2,999.4	2,718.5	2,776.5
Other loans – Car loans	910.0	794.0	661.9	569.6	515.8
Total	**2,801.5**	**3,870.2**	**3,661.3**	**3,288.1**	**3,292.3**
Distribution of mortgages by type of loan (%)					
Insured loans	**73.2**	73.8	76.4	78.1	77.1
Conventional loans	**26.8**	26.2	23.6	21.9	22.9
Total	**100.0**	100.0	100.0	100.0	100.0
Mortgage delinquency rate (%)	—	0.08	0.09	0.34	0.27

At December 31, 2020, the proportion of mortgages secured by multi-unit residential properties was 86.0% (91.6% at December 31, 2019, including residential properties). This number has been above 80% for several years.

Mortgages by Type of Property

	As at December 31	
	2020	2019
Portfolio	**$1.9B**	**$3.1B**
Residential	—	37.0%
Multi-unit residential	86.0%	54.6%
Non-residential	14.0%	8.4%

In addition to mortgages and other loans, the Company also manages assets for third parties. In total, the Company's portfolio of mortgages and other loans plus assets managed for third parties amounted to $5.1 billion at December 31, 2020 ($12.9 billion at December 31, 2019). This decrease in assets is explained in part by the sale of the residential mortgage portfolio as well as the transfer to a third-party administrator of a mortgage portfolio that was formerly administered by the Company.

Stock Portfolio

At December 31, 2020, investments in equity securities amounted to $3.3 billion, or 7.3% of the Company's total investments, compared to $3.0 billion or 7.6% a year earlier.

Investments in equity securities, as well as the Company's preferred shares, are used to match long-term insurance contract liabilities and to cover the commitments on certain Universal Life policies. The stock portfolio matched to very long-term commitments delivered a return of 12.9% in 2020, while the Company's preferred shares delivered a return of 9.5%. Private equities occupy an increasingly large part of the portfolio. This equity category offers opportunities in terms of diversification, returns and matching of very long-term commitments.

Stock Portfolio by Type of Matching

	As at December 31	
	2020	2019
Portfolio	**$3.3B**	**$3.0B**
Very long-term commitments	51.2%	49.7%
Universal Life policies	28.9%	29.4%
Capital (preferred shares)	19.9%	20.9%

The management strategy used for the stock portfolio aims to optimize return through investments in preferred shares, common shares, market indices and investment funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its exposure to concentration risk and to participate in the growth of all primary economic sectors.

Stock Portfolio

	As at December 31				
	2020	2019	2018	2017	2016
Book value of the portfolio ($M)	**3,285.7**	**3,023.5**	**3,054.8**	**3,467.0**	**3,083.0**
Distribution by category of stock (%)					
Common shares and investment fund units	30.1	27.3	35.7	41.2	43.3
Preferred shares	22.5	18.5	16.3	18.3	19.7
Market indices	2.1	10.3	10.2	14.3	13.7
Private equities	45.3	43.9	37.8	26.2	23.3
Total	100.0	100.0	100.0	100.0	100.0

Real Estate Portfolio

The Company recognizes investment properties at fair value. The book value of investment properties decreased by $160.5 million in the past year to $1.9 billion at December 31, 2020. Changes in the book value are normally due to the net amount of acquisitions and dispositions, the change in the fair value of investment properties that were reappraised during the year and any capital expenses on the properties. Real estate investments made up 4.2% of total investments at December 31, 2020.

Despite the pandemic, the occupancy rate of investment properties increased slightly during the year (95.0% at December 31, 2020, compared to 94.0% at December 31, 2019). It continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for nearly 87% of the Company's real estate investments.

Investment Properties

(In millions of dollars, unless otherwise indicated)	As at December 31				
	2020	2019	2018	2017	2016
Book value of the portfolio	**1,916.1**	**2,076.6**	**1,720.5**	**1,340.8**	**1,237.8**
Occupancy rate	95.0%	94.0%	95.0%	93.0%	90.2%

Investment Properties by Category of Property

	As at December 31	
	2020	2019
Portfolio	**$1.9B**	**$2.1B**
Office	85.9%	85.0%
Retail	9.8%	11.4%
Industrial	3.9%	3.2%
Multi-unit residential, land and other	0.4%	0.4%

Derivative Financial Instruments

The Company uses derivative financial instruments in the normal course of managing the risk arising from fluctuations in interest rates, equity markets, currencies and credit. These instruments are primarily made up of interest rate, equity and foreign exchange swaps, as well as options, futures and forward contracts.

Derivative financial instruments are used as part of the Company's hedging program. This program aims to alleviate the sensitivity of the capital guarantees on certain segregated fund products to interest rate and stock market fluctuations.

The Company also uses derivatives in the implementation of strategies to improve the matching of assets backing long-term life insurance liabilities and to hedge the risk associated with the Universal Life policy funds.

The Company uses derivative financial instruments to hedge its exposure to currency risk when investing in assets not denominated in the same currency as the liabilities backed by these assets.

The Company has an investment strategy that uses options to obtain synthetic stock market exposure while reducing its macroeconomic risk profile.

The table below presents certain values pertaining to the Company's financial instruments. For more information, refer to Note 8 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

(In millions of dollars)	As at December 31	
	2020	2019
Net fair value	1,083	548
Notional amount	32,318	29,905

Other Invested Assets

The *Other invested assets* category is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), derivatives, short-term investments and other investments. These investments totalled $5.0 billion at December 31, 2020 ($3.4 billion at December 31, 2019).

Investment Funds
(Segregated Funds and Mutual Funds)

Investment Fund Assets

Investment fund assets for iA Financial Group totalled $44.2 billion at December 31, 2020 ($32.8 billion in segregated funds and $11.4 billion in mutual funds), up from the previous year. This increase is mainly explained by favourable markets, as well as positive segregated fund sales.

Segregated Fund and Mutual Fund Assets

(In billions of dollars)	As at December 31				
	2020	2019	2018	2017	2016
Segregated funds	32.8	27.9	23.8	24.1	21.8
Mutual funds	11.4	11.6	10.8	11.7	10.9

Range of Funds

iA Financial Group offers a broad, diverse range of investment funds. At December 31, 2020, the Company offered close to 200 funds to its clients, and over half of the assets in these funds were managed in-house.

The Company continued to redesign its segregated fund offering in 2020 to increase its diversity and complementarity while adjusting to client demand. In the Individual segregated fund segment, the Company added lower-risk funds to align with certain types of guarantees offered. Funds that meet environmental, social and governance (ESG) criteria were also added during the year. In addition, certain smaller or less popular funds were merged to keep the lineup to a reasonable number of funds.

On the mutual fund front, IA Clarington Investments also reviewed its fund lineup during the year. It added more depth to its fixed-income fund lineup, including the addition of a global fixed-income product. It also made changes to management responsibilities on certain funds and merged several lower-demand products.

Lastly, in the Group Savings and Retirement sector, the Company enhanced its lineup with several new funds, including a number of ESG funds covering both the fixed-income and Canadian and global equity markets.

iA Financial Group's Active Investment Funds

	As at December 31, 2020	
	Assets ($Billion)	**Distribution of assets**
Segregated funds	32.8	74%
Mutual funds	11.4	26%
Total	**44.2**	**100%**

Investment Fund Performance

While financial markets continued their good momentum at the beginning of the year, the longest bull market in history ended abruptly last March. Nonetheless, 2020 still proved to be a good year for investors. The massive, coordinated efforts of governments and central banks allowed for a rapid rebound of the markets. The combination of massive stimulus packages, cash injections by central banks and announcements of the beginning of the global vaccination campaign pushed at-risk assets to new highs at the end of the year.

Highlights for 2020 include the performance of the tech-heavy NASDAQ index, which posted an annual return of 43.6% (local currency). The S&P 500 Index, which represents the U.S. stock market, was also carried by technology heavyweights throughout the recovery, ending the year up 16.3% (local currency). The MSCI World and MSCI Emerging Markets indices rose 11.7% and 16.6% respectively, while the S&P/TSX, which represents the Canadian stock market, rose 5.6%. Even the bond market generated solid results as downward pressure on interest rates continued throughout the year, with the FTSE Canada Universe Bond Index posting a gain of 8.7% in 2020.

In this context, the returns on the vast majority of our funds were favourable for our clients. Compared to the competition, our funds posted above-average returns over many periods. The returns on all the Company's investment funds, as well as detailed financial information on these funds, are presented in the investment fund financial reports prepared by iA Financial Group.

Risk Management

The "Risk Management" section of the Management's Discussion and Analysis contains certain information required under IFRS 7 *Financial Instruments: Disclosures* of the International Financial Reporting Standards (IFRS) regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2020, given that the standard permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally aligned with what is found in the financial statements.

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

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

Risk Management Principles and Responsibilities

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

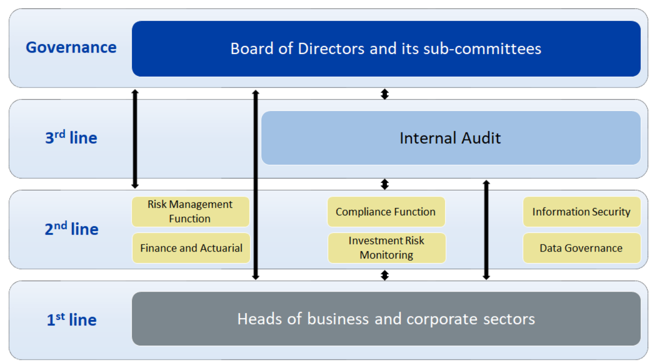
In accordance with this principle, the Company has implemented an enterprise risk management framework that is continually applied and taken into account in developing the Company's business strategies and in all of its operations.

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

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

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

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



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

The first line of defense includes the President and Chief Executive Officer and the heads of the business and corporate sectors. They are responsible for selecting and executing the business strategies in keeping with the Company's defined risk appetite and tolerance and ensuring a good long-term balance between risk and return. They are also responsible for implementing policies and procedures and for identifying, communicating and managing risks that could prevent them from achieving the objectives identified in their respective areas of responsibility.

The second line of defense includes the risk management and compliance functions, respectively headed up by the Chief Risk Officer and the Chief Compliance Officer. Also included are the Finance and Actuarial, Investment Risk Monitoring, Data Governance and Information Security sectors. The second line of defense is responsible for coordinating the application and enforcement of the enterprise risk management framework within the Company and ensuring that appropriate policies and procedures are defined and effectively implemented by the first line of defense. To this end, it coordinates, guides and supports the first line of defense in the rigorous assessment of significant risks to which the Company is exposed. It works together with the first line to ensure prudent and disciplined management in protecting the Company's reputation and long-term sustainability. The first two lines of defense are also responsible for keeping the Board of Directors regularly informed about the Company's main risks and the steps taken to manage them.

The Chief Risk Officer and his team work closely with the other second line functions and with the first line to promote a culture of sound risk management across the organization. Based on a holistic view of the risks and considering the interrelationships that may exist between them, the Chief Risk Officer communicates any pertinent information to senior management and the Board of Directors.

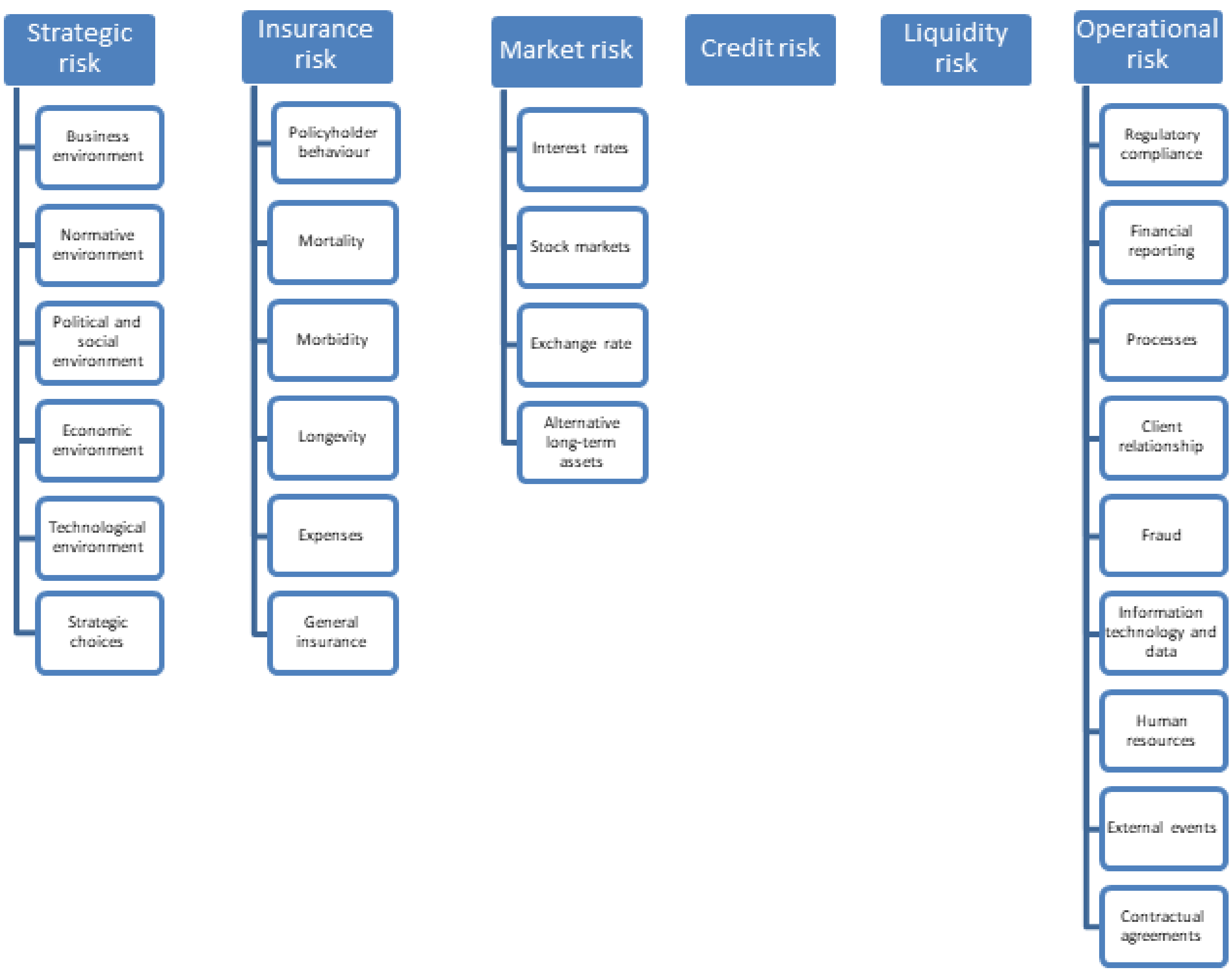
As the third line of defense, Internal Audit assesses the effectiveness of the enterprise risk management framework, recommends improvements to the people involved in the process and reports on the situation to the Board of Directors' Audit Committee.

The Board of Directors verifies and approves the global policy governing the enterprise risk management framework as well as any changes that are made to it. It also approves the overall level of risk the Company is willing to take as well as the tolerance thresholds it is willing to withstand in order to meet its business and growth objectives.

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

The boards of directors of the subsidiaries, which are made up of members renowned for their expertise in their respective fields as well as senior executives from the parent company, also play an important role in risk management oversight.

Risk Categories



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

The Company is also exposed to reputation risk. This risk can arise from the occurrence of one or more risks that appear in the six categories outlined below. It may result from negligence or unauthorized actions by an employee or other individual affiliated with the Company, inappropriate behaviour by one of its representatives, or some other event that may, rightly or wrongly, have a negative impact on the public's perception of the Company and potentially lead to fewer clients, lost revenues or considerable litigation costs.

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

Specific management strategies are used for each of the six risk categories. That said, the management of these risks is based on a common underlying element that transcends the organization: the risk management culture. This culture can be defined as the behaviours adopted by Company employees, who observe and apply the principles of the enterprise risk management framework to their job and their day-to-day activities. These behaviours are also governed by respect for ethics and transparency in decision-making. This culture and these behaviours make up the solid common foundation for the Company's risk management activities.

Strategic Risk

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

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

Risk Associated with the Normative Environment – Financial institutions are subject to a vast number of laws and regulations. As a result, legislative and regulatory changes could increase the amount of time and resources needed to ensure ongoing compliance. The Company is also exposed to risk related to changes in accounting and actuarial standards.

Risk Associated with the Political and Social Environment – Political events or decisions could have an adverse impact on the relevance of the Company's products or its profitability. This also includes risks associated with climate change. The Company is mainly exposed to transition risks (impacts of implementing a low carbon economic model) through its investment portfolio, but this risk appears to be negligible. Its exposure to the oil and gas sector, for example, represents about 3% of the total portfolio as at December 31, 2020. In addition, as a signatory of the United Nations-supported Principles for Responsible Investment (PRI), iA Investment Management analyzes environmental, social and governance (ESG) criteria as part of its investment process. The Company could also be exposed to physical risks (damage resulting directly from weather events) through its general insurance subsidiary, but this risk appears to be negligible. For more information on climate-related risk management, refer to the sustainability report.

Risk Associated with the Economic Environment – Changes in the economic environment like increased credit risk or a deterioration in financial market conditions that leads to increased volatility could increase pressure on the business model or adversely affect the Company's profitability, financial strength and access to capital.

Risk Associated with the Technological Environment – Not adapting well to changes in the technological environment could impact the integrity of our information systems and technology infrastructure or generally disrupt the Company's business plan.

In addition to continuous monitoring, senior management reassesses known and emerging strategic risks annually or more frequently, at their discretion and according to the circumstances. During the corporate and sector strategic planning exercises carried out across the organization, these risks are analyzed to determine their impact on the Company's strategy and, conversely, to identify whether additional strategies are needed to manage or mitigate the risks.

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

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

Main Strategic and Emerging Risks

During the 2020 review of strategic and emerging risks, the identified risks were confirmed and the strategies in place for managing them were renewed.

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

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

Risk Related to the COVID-19 Pandemic – Since March 2020, the COVID-19 pandemic has impacted both society in general 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. The Company's business continuity protocol was deployed in March 2020, ensuring that the quality of service clients receive is similar to or better than before the pandemic and enabling employees and advisors to continue to work safely and securely.

Data Security and Cyber Risk – The Company pays particular attention to the risk of data theft and other cyber risks by continuously strengthening its cybersecurity risk management framework (see the description of this mechanism in the "Operational Risk" section).

Insurance Risk

Insurance risk is the risk of loss arising from higher claims than anticipated during product pricing and design. This category is associated with the following risk factors:

Policyholder Behaviour – Risk of decrease (increase) in lapse rates compared to assumptions for lapse-supported products (other products).

Mortality – Risk of unfavourable variability in the level, trend or volatility of mortality rates.

Morbidity – Risk of increase (decrease) in occurrence rates (termination rates) for disability or illness insurance claims.

Longevity – Risk of overestimation of the mortality rate in product pricing and design assumptions.

Expenses – Risk of unfavourable variability in the cost of servicing and maintaining in-force policies and associated indirect expenses.

General Insurance – Risk of loss arising from higher claims than anticipated when designing and pricing general insurance products.

Insurance risk can occur at various stages of a product's life cycle, for example during product design and pricing, during underwriting or claims adjudication or when calculating the provisions for future policy benefits. The Company has put controls and processes in place at each of these stages to ensure appropriate management of these risks.

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

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

Calculating Provisions for Future Policy Benefits – The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the Canadian Institute of Actuaries (or any other relevant body), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

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

The Company's Sensitivity to Certain Insurance Risks – The table below summarizes the impact on net income attributed to common shareholders of adverse deviations from assumptions for certain insurance risks.

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

(In millions of dollars)	2020	2019
Insurance risk: adverse deviation of 5%		
Mortality rate[41]	179	205
Lapse rate[42]	181	167
Unit costs[43]	64	62
Morbidity rate[44]	65	59

Favourable variances from the assumptions would have the same impact, but in the opposite direction.

For more information on insurance risk management, refer to notes 13 and 14 of the Company's audited consolidated financial statements.

Market Risk

The Company is exposed to market risk, which is the risk that the fair value/future cash flows of an insurance contract/financial instrument will fluctuate due to variations in market risk factors. This category includes risk factors related to interest rates, stock markets, foreign currency and return on alternative long-term assets.

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

Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. Interest rate risk is the risk of loss associated with fluctuations in benchmark interest rates and/or rate spreads. It can occur if the asset cash flows cannot be reinvested at high enough interest rates compared to the interest rates on the corresponding liabilities, or if an asset needs to be liquidated in order to match the liability cash flows and a loss in market value of the liquidated asset occurs due to rising interest rates. This risk depends on asset allocation as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

41 The adverse deviation is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products.
42 The adverse deviation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.
43 Adjusted to reflect the adjustability of certain products.
44 The adverse deviation is expressed assuming 95% of the expected termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active, adjusted to reflect the adjustability of certain products.

To mitigate this risk, the Company has developed a strict matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

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

Net Liabilities According to Type of Matching

	As at December 31			
	2020		2019	
	$M	%	$M	%
Immunized liabilities				
On a cash flow basis	8,866	25%	7,500	25%
Universal Life policy accounts	1,664	5%	1,533	5%
Subtotal	10,530	30%	9,033	30%
Non-immunized liabilities	24,938	70%	21,294	70%
Total	**35,468**	**100%**	**30,327**	**100%**

1› **Liabilities Immunized on a Cash Flow Basis**

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

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

To measure the sensitivity to interest rate fluctuations, the Company uses metrics recognized by immunization experts, such as duration and dispersion. The investment policies set out maximum spreads between the result of the measures applied to the assets and the corresponding result obtained for the liabilities. These results are provided to the Investment Committee on a quarterly basis.

The Company also carries out sensitivity analyses to assess the financial impact that would result from various types of fluctuations in the interest rate yield curve. These analyses are carried out using stochastic scenarios that are used to quantify the residual risks that may remain in the portfolios. Simulations based on predefined scenarios are also analyzed to measure the impact of specific fluctuations. The sensitivity analyses are also used to assess the behaviour of the future fluctuation margins projected in the actuarial valuation of the policy liabilities.

In addition, in order to minimize the reinvestment risk that can arise when the maturity of the assets does not match the maturity of the corresponding liabilities, the investment policies also require that an effort be made to ensure that the asset cash flows correspond to the liability cash flows. To this end, the policies set relative and absolute limits regarding the size of the cumulative net cash flows, both for all the matching blocks combined and for each individual block.

For this liability category, the use of a very strict immunization approach means that the impact on net income of a decrease or increase in interest rates would be negligible.

2› **Immunized Liabilities Linked to Universal Life Policy Accounts**

This category represents 5% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities are determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

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

3› **Non-Immunized Liabilities**

This category corresponds to 70% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets by using the various types of leverage available to limit its exposure to reinvestment risk.

For this liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the attendant increase in policy liabilities. If interest rates were to decrease, the reinvested cash flows would generate lower investment income for the total duration of the investment. A decrease in interest rates could lead to a downward adjustment of the initial reinvestment rate (IRR) assumption, and a prolonged decrease could lead to a decrease in the ultimate reinvestment rate (URR) assumption used to calculate the policy liabilities.

The Company uses high-quality assets, primarily made up of long term fixed income securities, equity securities (common and preferred shares, market indexes, market index options and investment fund units), and real estate. The asset class allocation aims to achieve an optimal return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and performance of the stock markets. At the same time, the strategy takes into account the constraints imposed by the investment policies, particularly with regard to diversification of the portfolio.

The Company also uses various types of leverage, including an inter segment note program that allows cash flows to be exchanged among activity sectors and various derivative financial instruments to be used to reduce the reinvestment risk (IRR).

During the period ended December 31, 2020, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate fluctuations on these non-liability backing assets and its mortgage securitization activities, the Company used hedge accounting through derivative instruments with a nominal value of $860 million in 2020 ($1,002 million in 2019). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2020.

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

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

(In millions of dollars)	2020	2019
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)[45]	(10)	(6)
10 basis point decrease in the ultimate reinvestment rate (URR)	68	61

Decrease in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

(In millions of dollars)	2020	2019
Interest rate risk		
25 basis point drop in interest rates[46]	11	6

Similar increases in the IRR, URR and interest rates would have the same impact as corresponding decreases, but in the opposite direction.

To test for market sensitivity, the Company uses an interest rate variance of 25 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2020.

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

Stock Market Risk – Stock market risk represents the risk of loss resulting from a downturn in the stock markets. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) a strengthening of provisions for future policy benefits; and 4) the income on capital generated by the assets backing the Company's capital. For these items, the Company estimates that a sudden 10% drop in the markets as at December 31, 2020 would have led to a $34 million decrease in net income and a $51 million decrease in other comprehensive income over a twelve-month period. A 25% drop in the markets as at December 31, 2020 would have reduced net income by approximately $127 million, and other comprehensive income by $127 million over a twelve-month period.

If the markets were to drop more than 27% from their levels at December 31, 2020, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

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

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

	2020	2019
Solvency ratio as at December 31	130%	133%
S&P/TSX index as at December 31	17,433	17,063
Level of S&P/TSX index for the solvency ratio to be at 110%	2,900	1,500
Level of S&P/TSX index for the solvency ratio to be at 100%	N/A	N/A

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2020, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

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

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

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

46 Excluding any downward adjustment of the IRR or URR.

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

Individual Wealth Management
Segregated Fund Assets Under Management

(In millions of dollars)	2020	2019
Assets under management	19,240	16,392
Guaranteed minimum value	15,709	13,753
Value of assets underlying significant guarantees[47]	7,140	7,366
Value of assets underlying minimum guarantees[48]	12,100	9,026

All contracts with significant guarantees are covered under the hedging program. For some of these contracts issued before the hedging program was in place, the Company assumes 10% of the risk for the guarantees at maturity. There is limited risk for guarantees at death and minimum guarantees, so the Company has decided not to include them in its dynamic hedging program.

The dynamic hedging program involves short selling futures contracts on market indices traded on stock exchanges, as well as signing agreements for forward exchange contracts for currencies traded on stock exchanges, interest rate swaps and internal total-rate-of-return swaps for indices traded on stock exchanges. This program is used to hedge a good portion of the sensitivity of net income to the performance of the bond and equity funds and to the interest rate fluctuations arising from the segregated fund guarantees. In order for the Company's strategy to adequately cover the risks related to the hedged guarantees, a dynamic rebalancing of the hedging instruments is carried out based on changes in financial market conditions. Hence, the variations in the economic worth of the liabilities are largely offset by variations in assets held under the hedging program.

Under the dynamic hedging program, the value of the liabilities associated with the guarantees is updated several times per day to reflect differences between expected experience and actual results. In the process of calculating expected experience, the Company uses certain assumptions regarding policyholder longevity and future redemptions. The redemption assumption, however, has certain limitations. The timing and size of the withdrawals and fund transfers cannot be hedged using derivative financial instruments since these are factors decided by the contract holder, and adverse deviation from expected experience can alter the quality of the hedge.

The dynamic hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss on the income statement. The hedging program itself entails certain risks that may limit the program's effectiveness, in particular:

- The program is based on dynamic rebalancing of the derivative hedging instruments. A decrease in the liquidity of these instruments would have an adverse impact on the effectiveness of the program.
- The use of derivative hedging instruments entails a counterparty risk, which is mitigated by the presence of collateral agreements whose net settlement is carried out on a daily basis.
- There may be a favourable or unfavourable variance between the returns realized on the segregated funds and those realized on the hedge positions held to cover the guarantees associated with these funds.

In the first quarter of 2020, the program generated a significant experience loss, mainly due to macroeconomic changes, which can be broken down as follows:

- A loss related to market volatility risk caused by the extreme volatility in March 2020, when volatility levels were among the highest ever and significantly greater than the monthly levels recorded since the program began.
- A loss stemming from the program's basis risk (the difference over time between the return on the funds held by clients and the return on the hedging instruments in the program) and other items.

Nevertheless, the hedging program for segregated fund guarantees continues to be a robust, effective program whose cumulative impact on earnings is expected to be nil in the long term, despite quarterly fluctuations. At its highest point during the first quarter of 2020, the economic value of the hedged guarantees increased by $575 million. This amount was almost entirely offset by the change in value of assets under the hedging program. The program therefore performed as expected and achieved its objective.

In the last eight quarters, the quarterly effectiveness of our dynamic hedging program has fluctuated between 86% and 96% depending on the volatility of the financial markets. In addition, it has had an excellent effectiveness rate of 93% since it was implemented in October 2010.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies define quantitative and qualitative limits for the use of equity securities. The target asset mix in the form of equity securities is designed to maximize the Company's returns and reduce the potential risk associated with guaranteed minimum returns under long-term commitments.

The investment policies allow the Company to use derivative financial instruments. The use of these instruments, however, must comply with the risk tolerance limits and the prudential requirements set out in the investment policies, including a minimum credit rating for the counterparty financial institution.

During the period ended December 31, 2020, derivative financial instruments were used as part of yield enhancement strategies. The use of market index options allows the Company to maintain exposure to stock markets for assets backing non-immunized liabilities while limiting potential losses. They were also used as part of the hedging program for segregated fund guarantees and to hedge the risk associated with Universal Life policy funds.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exchange rates on foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2020, the Company was not exposed to any material foreign currency risk.

[47] Represents the value of assets underlying guarantees at maturity with a significant level of risk, or withdrawal guarantees.
[48] Represents the value of assets for which the risk of the guarantees is limited and which the Company has decided not to include in the dynamic hedging program.

Risk Associated with the Return on Alternative Long-Term Assets – This is the risk of loss arising from fluctuations in the value of private equity, real estate, infrastructure, timberland and farmland.

To mitigate this risk, the Company's investment policies authorize prudent investments in the real estate market, private equity and infrastructure within certain clearly defined limits, both globally and by geographic region. Real estate investments are used to back long term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

Credit Risk

Credit risk represents the risk of loss arising from a deterioration in credit quality (downgrading) or counterparty default. This risk originates mainly from credit granted in the form of loans, private placements and corporate bonds, but also from exposure to derivative financial instruments and to reinsurers that share our policyholder commitments.

The Company uses derivative products under its investment policies, including swaps, futures and options contracts. These contracts are not used for speculation purposes but for matching assets and liabilities and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

The derivative products used under the hedging program for segregated fund guarantees expose the Company to credit risk due to the presence of counterparties involved in the program. As indicated earlier, the counterparty financial institutions for derivative products must meet certain well-defined criteria, and collateral exchange agreements to offset daily variation margins have been reached with these institutions in accordance with industry norms and standards in order to minimize and control the credit risk.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. More information about concentration risk is presented in note 7 of the consolidated financial statements as at December 31, 2020.

The Company's investment policies aim to mitigate concentration risk by promoting the sound diversification of investments, limiting exposure to any one issuer and seeking a relatively high quality of issuers. They also impose limits by groups of related issuers, by activity sector and by geographic region. These limits depend on the credit quality of the issuers.

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

Lastly, although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations. To limit this risk, the Company applies the processes and criteria prescribed in its reinsurance risk management policy, such as conducting due diligence on the selected reinsurers, limiting the concentration of risks and carrying out sensitivity testing.

Liquidity Risk

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

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

The use of derivatives requires that securities be sent as collateral to clearing houses and derivative counterparties in order to mitigate the credit risk. Simulations are carried out to measure the liquidity needs that could arise due to interest rate and stock market turmoil in order to assess the liquidity that needs to be maintained to meet those requirements.

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

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

Operational Risk

Operational risk is the risk of loss arising from deficiencies or errors attributable to processes, people, systems or external events.

This risk is present in all the Company's activities. It can be related to regulatory compliance, financial reporting, human resources, fraud, data protection, information security and technology, process execution, business relationships with clients, external events or contractual agreements with suppliers. The impact of one of these risks occurring can take the form of financial losses, loss of competitive position or injury to reputation. In addition to mitigation measures carried out by Risk Management on all processes and procedures, a continuity plan involving a predefined crisis team reduces this residual risk.

To manage operational risk, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are in place and by utilizing competent, well-trained employees at all levels. The Company also makes it a priority to revise its policies and develop stricter standards, when appropriate, to account for changes in its operations and environment.

In addition, through its enterprise and operational risk management frameworks, the Company makes all managers accountable by asking them to confirm their sector's compliance with procedures, describe the processes in place for ensuring this compliance, and confirm that policies and procedures are up to date. The risks that could arise are also assessed and quantified, as well as the steps taken to manage the most material risks.

Regulatory Non-Compliance Risk – The Company is regulated by the provinces and territories of Canada and by the various states in the U.S. where it conducts business. It is also supervised by various regulatory bodies.

Regulatory non-compliance risk arises from the possibility of the Company failing to comply with applicable regulatory requirements in the jurisdictions where it operates.

The Company has adopted a *Regulatory Risk Management Policy* that is used as the basis for a regulatory risk management program. The Chief Compliance Officer is responsible for coordinating the program within the Company and ensuring that it is implemented and enforced in the various business lines.

To ensure the sound management of regulatory non-compliance risk, the Company uses a methodology that focuses on identifying, assessing and quantifying risk and putting effective, efficient and appropriate controls in place in its day-to-day activities. The Company's assessment of regulatory non-compliance risk includes the potential impacts on its operations and reputation, among other things.

The Company monitors new regulatory risks and communicates them to the appropriate business lines to ensure that any controls required to comply with new laws or guidelines are put in place in a timely manner. More generally, the Company emphasizes ongoing communication to remind employees of the importance of legal and regulatory compliance issues.

Financial Reporting – The Company also maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). Under this program, the managers of each business line evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A summary report is submitted annually to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

Human Resources – The competency of human resources is an essential factor in implementing business and operational risk management strategies. In this regard, the Company follows best practices and has a code of business conduct in addition to well-defined policies and procedures with respect to compensation, recruitment, training, employment equity, diversity and occupational health and safety. These policies are continually kept up to date in order to attract and retain the best candidates at every level of the Company. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Protection of Personal Information – The use of emerging technology entails numerous challenges for the protection of personal information. While data analytics is useful in providing better client service, the increase in available data and the risks associated with it require vigilance by all Company stakeholders. An abundance of privacy risks, ranging from the unethical use of collected data to identity theft, can arise if personal information is hacked or inadvertently disclosed. All of these risks are mitigated by applying sound governance practices throughout the life cycle of all sensitive data. Ensuring the ongoing awareness of all employees and partners also helps to maintain a high level of commitment to privacy, supported by an increased focus on device security. The Company implements policies and directives that regulate data use and governance. It strives to comply with the highest ethical and moral standards while meeting all legal requirements in this regard. It continues to develop new tools and practices to provide optimal protection for all its partners and clients.

Information and Communications Technologies and Cybersecurity – Reliable information and communications technologies (ICTs), protection of information and sophisticated data are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. It has a comprehensive plan in place for reducing and controlling the risk of ICT failure based on best practices and recognized IT standards, protection of information and data management. The management of these risks is reviewed at regular intervals in order to adapt to changing technologies, regulations and Company needs.

Changing business needs in the insurance and financial services industry are accelerating the use of online applications, mobile technologies and cloud computing. Along with this acceleration comes an increase in risks related to information security and cyber threats as it is difficult to develop and implement effective preventive measures to keep up with industry attacks. Cybercrime techniques are sophisticated and continually evolving, and they come from an increasing number of sources: viruses, malware, denial of service, phishing, ransomware, exfiltration, etc.

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

To mitigate information security and cybersecurity risks, the Company has set up and regularly maintains a security risk log for tracking changes in cyber threats, countermeasures and regulatory requirements. In addition, the Company has adopted an information security authority framework outlining roles and responsibilities with respect to information security. It has also approved an information security investment program that includes the implementation of a normative framework, a reference model aligned with industry best practices, and technology resources and services for identifying, preventing, detecting and eliminating threats against its assets and operations. These measures are continuously complemented by information security awareness campaigns and training for all Company employees. The Company also has a cyber risk insurance policy.

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

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

Risk Update on the COVID-19 Pandemic

This section analyzes the impact of the COVID-19 crisis on the Company's main risks.

Our preliminary observations are based on the information currently available and are subject to change as the crisis and the government measures impacting equity markets and policyholder behaviour evolve over the coming months.

Business Continuity – When the first alerts were issued by the World Health Organization (WHO) in late January, the Incident Coordination Committee (ICC) set up a risk watch and put together a comprehensive action plan for the Company. In February 2020, the Company began putting measures in place to protect employees and the community. Virtually all employees have been working remotely since mid-March 2020.

To fully support the distribution network amid social distancing requirements, the Company also accelerated the development of its digital tools, trained its advisors and safeguarded its processes to allow remote client support and ensure business continuity.

Data Security and Cyber Risk – In the deployment of the business continuity plan, and in particular with respect to remote working, the Company has closely monitored data security risk and other cyber risks and reinforced the controls in place where appropriate.

Insurance Risk – COVID-19 has temporarily increased uncertainty about claims volume due to policyholder behaviour, mortality, morbidity, longevity and general insurance claims. The Company's sensitivity to these assumptions is presented in the "Insurance Risk" section of this report.

Interest Rate Risk – The tables presented in the "Interest Rate Risk" section summarize the impact of matching and interest rate risk on net income attributed to common shareholders and on accumulated other comprehensive income.

Stock Market Risk – COVID-19 and its repercussions on the economy increase stock market volatility. The Company's sensitivity to a sudden drop in the markets is presented in the "Stock Market Risk" section of this report.

Strategic Risk – The COVID-19 pandemic could lead to changes in behaviour or health risks (long-term health issues or delayed diagnoses) for clients. Senior management has strengthened the strategic risk assessment for those factors that could increase uncertainty about the growth outlook for certain sectors.

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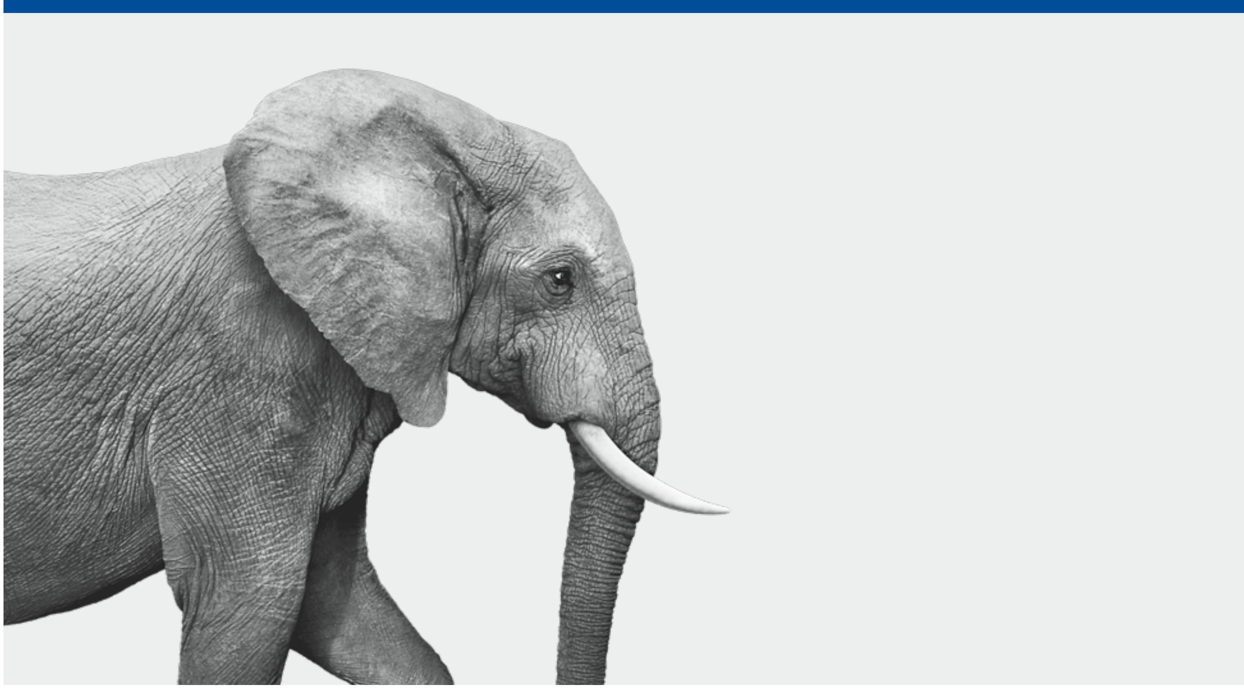

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