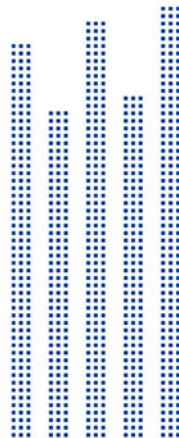


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## Industrial Alliance Insurance and Financial Services Inc.

Interim Condensed Consolidated Financial Statements  
For the third quarter of 2023

As at September 30, 2023 and 2022



## Interim Condensed Consolidated Financial Statements (unaudited)

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## Consolidated Income Statements

(unaudited, in millions of Canadian dollars, unless otherwise indicated)	Quarters ended September 30		Nine months ended September 30	
	2023	2022 <sup>1</sup>	2023	2022 <sup>1</sup>
<b>Insurance service result</b>				
Insurance revenue (Note 11)	\$ 1,374	\$ 1,211	\$ 3,952	\$ 3,576
Insurance service expenses (Note 11)	(1,096)	(909)	(3,226)	(2,711)
Net expenses from reinsurance contracts (Note 11)	(48)	(91)	(54)	(251)
	230	211	672	614
<b>Net investment result</b>				
<b>Net investment income</b> (Note 5)				
Interest and other investment income	442	501	1,377	1,318
Change in fair value of investments	(3,023)	(322)	(1,848)	(9,763)
	(2,581)	179	(471)	(8,445)
Finance income (expenses) from insurance contracts (Note 11)	2,602	(256)	873	8,387
Finance income (expenses) from reinsurance contracts (Note 11)	(28)	16	49	(11)
(Increase) decrease in investment contract liabilities and interest on deposits	(41)	(19)	(108)	(17)
	(48)	(80)	343	(86)
Investment income (expenses) from segregated funds net assets	(950)	(169)	1,555	(5,548)
Finance income (expenses) related to segregated funds liabilities (Note 11)	950	169	(1,555)	5,548
	—	—	—	—
	(48)	(80)	343	(86)
Other revenues	340	318	1,007	997
Other operating expenses	(425)	(404)	(1,281)	(1,218)
Other financing charges	(3)	(5)	(15)	(13)
<b>Income before income taxes</b>	94	40	726	294
Income tax (expense) recovery (Note 16)	(18)	6	(145)	(10)
<b>Net income</b>	76	46	581	284
Dividends on preferred shares (Note 13)	(1)	(3)	(6)	(14)
<b>Net income attributed to common shareholder</b>	\$ 75	\$ 43	\$ 575	\$ 270
<b>Basic earnings per common share</b> (in dollars) (Note 18)	\$ 0.66	\$ 0.38	\$ 5.07	\$ 2.44

<sup>1</sup> The Consolidated Income Statement and the *Earnings per common share* for the quarter ended September 30, 2022 and for the nine months ended September 30, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

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

## Consolidated Comprehensive Income Statements

(unaudited, in millions of Canadian dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022 <sup>1</sup>	2023	2022 <sup>1</sup>
<b>Net income</b>	<b>\$ 76</b>	<b>\$ 46</b>	<b>\$ 581</b>	<b>\$ 284</b>
<b>Other comprehensive income, net of income taxes</b>				
<b>Items that may be reclassified subsequently to net income:</b>				
Net investment hedge				
Unrealized gains (losses) on currency translation in foreign operations	47	119	(2)	155
Hedges of net investment in foreign operations	(40)	(96)	3	(138)
	7	23	1	17
<b>Items that will not be reclassified subsequently to net income:</b>				
Revaluation surplus related to transfers to investment properties	1	—	3	—
Remeasurement of post-employment benefits	10	(14)	1	74
Total other comprehensive income	18	9	5	91
<b>Comprehensive income attributed to shareholders</b>	<b>\$ 94</b>	<b>\$ 55</b>	<b>\$ 586</b>	<b>\$ 375</b>

## Income Taxes Included in Other Comprehensive Income

(unaudited, in millions of Canadian dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022 <sup>1</sup>	2023	2022 <sup>1</sup>
<b>Income tax recovery (expense) related to:</b>				
<b>Items that may be reclassified subsequently to net income:</b>				
Hedges of net investment in foreign operations	\$ 6	\$ 16	\$ (1)	\$ 23
<b>Items that will not be reclassified subsequently to net income:</b>				
Remeasurement of post-employment benefits	(4)	5	(1)	(26)
<b>Total income tax recovery (expense) included in other comprehensive income</b>	<b>\$ 2</b>	<b>\$ 21</b>	<b>\$ (2)</b>	<b>\$ (3)</b>

<sup>1</sup> The Consolidated Comprehensive Income Statement and the Income Taxes Included in Other Comprehensive Income for the quarter ended September 30, 2022 and for the nine months ended September 30, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

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

## Consolidated Statements of Financial Position

(unaudited, in millions of Canadian dollars, unless otherwise indicated)	As at September 30 2023	As at December 31 2022 <sup>1</sup>	As at January 1 2022 <sup>1</sup>
<b>Assets</b>			
<b>Investments (Note 5)</b>			
Cash and short-term investments	\$ 854	\$ 1,221	\$ 1,467
Bonds	26,483	26,049	32,488
Stocks	3,799	3,908	3,742
Loans	3,717	3,704	3,870
Derivative financial instruments (Note 8)	1,357	988	917
Other invested assets	522	509	477
Investment properties	1,668	1,804	1,870
	<b>38,400</b>	<b>38,183</b>	<b>44,831</b>
Other assets	3,224	2,756	2,633
Insurance contract assets (Note 11)	199	215	123
Reinsurance contract assets (Note 11)	1,981	1,800	1,687
Fixed assets	310	321	353
Deferred income tax assets	156	58	90
Intangible assets	795	793	778
Goodwill	553	553	550
General fund assets	45,618	44,679	51,045
Segregated funds net assets (Note 9)	39,122	37,334	39,577
<b>Total assets</b>	<b>\$ 84,740</b>	<b>\$ 82,013</b>	<b>\$ 90,622</b>
<b>Liabilities</b>			
Insurance contract liabilities (Note 11)	\$ 28,785	\$ 29,114	\$ 36,631
Reinsurance contract liabilities (Note 11)	191	233	129
Investment contract liabilities and deposits	5,479	4,350	4,150
Derivative financial instruments (Note 8)	1,546	1,465	494
Other liabilities	3,204	2,935	2,693
Deferred income tax liabilities	219	228	401
Debentures	4	404	653
General fund liabilities	39,428	38,729	45,151
Insurance contract liabilities related to segregated funds (Note 11)	28,188	26,901	28,692
Investment contract liabilities related to segregated funds	10,934	10,433	10,885
<b>Total liabilities</b>	<b>\$ 78,550</b>	<b>\$ 76,063</b>	<b>\$ 84,728</b>
<b>Equity</b>			
Share capital	\$ 1,880	\$ 2,030	\$ 2,180
Retained earnings and accumulated other comprehensive income	4,310	3,920	3,714
	<b>6,190</b>	<b>5,950</b>	<b>5,894</b>
<b>Total liabilities and equity</b>	<b>\$ 84,740</b>	<b>\$ 82,013</b>	<b>\$ 90,622</b>

<sup>1</sup> The Consolidated Statements of Financial Position as at December 31, 2022 and as at January 1, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

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

## Consolidated Equity Statements

	As at September 30, 2023					
	Participating policyholders' accounts	Common shares	Preferred shares	Retained earnings	Accumulated other comprehensive income	Total
(unaudited, in millions of Canadian dollars)		(Note 13)	(Note 13)		(Note 14)	
Balance as at December 31, 2021	\$ 48	\$ 1,655	\$ 525	\$ 3,628	\$ 75	\$ 5,931
Impact of adopting IFRS 17 (Note 4)	(48)	—	—	(225)	—	(273)
Impact of adopting IFRS 9 (Note 4)	—	—	—	296	(60)	236
Balance as at January 1, 2022 <sup>1</sup>	—	1,655	525	3,699	15	5,894
Net income	—	—	—	489	—	489
Other comprehensive income	—	—	—	—	34	34
<b>Comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>489</b>	<b>34</b>	<b>523</b>
<b>Equity transactions</b>						
Transfer of post-employment benefits	—	—	—	(7)	7	—
Issuance of common shares	—	100	—	—	—	100
Redemption of preferred shares	—	—	(250)	—	—	(250)
Dividends on common shares	—	—	—	(300)	—	(300)
Dividends on preferred shares	—	—	—	(18)	—	(18)
Other	—	—	—	1	—	1
	—	100	(250)	(324)	7	(467)
<b>Balance as at December 31, 2022<sup>1</sup></b>	<b>—</b>	<b>1,755</b>	<b>275</b>	<b>3,864</b>	<b>56</b>	<b>5,950</b>
Impact of adopting IFRS 9 (Note 4)	—	—	—	7	—	7
<b>Balance as at January 1, 2023</b>	<b>—</b>	<b>1,755</b>	<b>275</b>	<b>3,871</b>	<b>56</b>	<b>5,957</b>
Net income	—	—	—	581	—	581
Other comprehensive income	—	—	—	—	5	5
<b>Comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>581</b>	<b>5</b>	<b>586</b>
<b>Equity transactions</b>						
Transfer of post-employment benefits	—	—	—	1	(1)	—
Redemption of preferred shares	—	—	(150)	—	—	(150)
Dividends on common shares	—	—	—	(200)	—	(200)
Dividends on preferred shares	—	—	—	(6)	—	(6)
Other	—	—	—	3	—	3
	—	—	(150)	(202)	(1)	(353)
<b>Balance as at September 30, 2023</b>	<b>\$ —</b>	<b>\$ 1,755</b>	<b>\$ 125</b>	<b>\$ 4,250</b>	<b>\$ 60</b>	<b>\$ 6,190</b>

<sup>1</sup> The Consolidated Equity Statements as at December 31, 2022 and as at January 1, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

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

As at September 30, 2022

	Participating policyholders' accounts	Common shares (Note 13)	Preferred shares (Note 13)	Retained earnings	Accumulated other comprehensive income (Note 14)	Total
(unaudited, in millions of Canadian dollars)						
Balance as at December 31, 2021	\$ 48	\$ 1,655	\$ 525	\$ 3,628	\$ 75	\$ 5,931
Impact of adopting IFRS 17 (Note 4)	(48)	—	—	(225)	—	(273)
Impact of adopting IFRS 9 (Note 4)	—	—	—	296	(60)	236
Balance as at January 1, 2022 <sup>1</sup>	—	1,655	525	3,699	15	5,894
Net income	—	—	—	284	—	284
Other comprehensive income	—	—	—	—	91	91
<b>Comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>284</b>	<b>91</b>	<b>375</b>
<b>Equity transactions</b>						
Transfer of post-employment benefits	—	—	—	74	(74)	—
Issuance of common shares	—	100	—	—	—	100
Redemption of preferred shares	—	—	(250)	—	—	(250)
Dividends on common shares	—	—	—	(150)	—	(150)
Dividends on preferred shares	—	—	—	(14)	—	(14)
Other	—	—	—	1	—	1
	—	100	(250)	(89)	(74)	(313)
Balance as at September 30, 2022 <sup>1</sup>	\$ —	\$ 1,755	\$ 275	\$ 3,894	\$ 32	\$ 5,956

<sup>1</sup> The Consolidated Equity Statements as at September 30, 2022 and as at January 1, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

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

## Consolidated Cash Flows Statements

(unaudited, in millions of Canadian dollars)	Nine months ended September 30	
	2023	2022 <sup>1</sup>
<b>Cash flows from operating activities</b>		
Income before income taxes	\$ 726	\$ 294
Other financing charges	15	13
Income taxes paid, net of refunds	(120)	(217)
Operating activities not affecting cash:		
Expenses (income) from insurance contracts	(1,599)	(9,252)
Expenses (income) from reinsurance contracts	5	262
Expenses (income) from investment contracts and interest on deposits	108	17
Unrealized losses (gains) on investments	1,856	9,765
Provision for credit losses	39	38
Other depreciation	119	101
Other items not affecting cash	(21)	(39)
Operating activities affecting cash:		
Sales, maturities and repayments on investments	17,510	20,971
Purchases of investments	(19,867)	(22,421)
Change in assets/liabilities related to insurance contracts	1,291	908
Change in assets/liabilities related to reinsurance contracts	(230)	(200)
Change in liabilities related to investment contracts and deposits	1,021	255
Other items affecting cash	(361)	(217)
Net cash from (used in) operating activities	492	278
<b>Cash flows from investing activities</b>		
Sales (purchases) of fixed and intangible assets	(75)	(84)
Net cash from (used in) investing activities	(75)	(84)
<b>Cash flows from financing activities</b>		
Issuance of common shares (Note 13)	—	100
Redemption of preferred shares (Note 13)	(150)	(250)
Redemption of debentures (Note 12)	(400)	(250)
Reimbursement of lease liabilities <sup>2</sup>	(13)	(13)
Dividends paid on common shares	(200)	(150)
Dividends paid on preferred shares	(6)	(14)
Interest paid on debentures	(14)	(17)
Interest paid on lease liabilities	(2)	(3)
Net cash from (used in) financing activities	(785)	(597)
Foreign currency gains (losses) on cash	1	9
<b>Increase (decrease) in cash and short-term investments</b>	<b>(367)</b>	<b>(394)</b>
<b>Cash and short-term investments at beginning</b>	<b>1,221</b>	<b>1,467</b>
<b>Cash and short-term investments at end</b>	<b>\$ 854</b>	<b>\$ 1,073</b>
<b>Supplementary information:</b>		
Cash	\$ 458	\$ 331
Short-term investments including cash equivalents	396	742
<b>Total cash and short-term investments</b>	<b>\$ 854</b>	<b>\$ 1,073</b>

<sup>1</sup> The Consolidated Cash Flows Statement for the nine months ended September 30, 2022 reflects the adoption of IFRS 17 and IFRS 9 on January 1, 2022 and consequently the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Interim Condensed Consolidated Financial Statements.

<sup>2</sup> For the nine months ended September 30, 2023, lease liabilities, presented in *Other liabilities* in the Consolidated Statements of Financial Position, include an amount of \$14 (\$7 for the nine months ended September 30, 2022) of items not affecting cash, mostly attributable to new liabilities.

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



# Notes to Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and 2022 (unaudited) (in millions of Canadian dollars, unless otherwise indicated)

## 1 › General Information

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

The Company's Interim Condensed Consolidated Financial Statements (the "Financial Statements") are prepared on the basis of International Financial Reporting Standards (IFRS) in accordance with IAS 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB). These Financial Statements do not contain all the information required in a complete annual financial statement and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2022. Following the adoption of IFRS 17 and IFRS 9 mentioned in Note 3 and Note 4, the Company has applied new accounting policies for the preparation of these Financial Statements, which are described in Note 2. In addition, certain information presented annually have been added to these Financial Statements in order to update the relevant information to their understanding.

Publication of these Financial Statements was authorized for issue by the Company's Board of Directors on November 7, 2023.

## 2 › Material Accounting Policy Information

### a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards (IFRS) applicable to financial statements beginning on or after January 1, 2023. The IFRS are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the IFRS Interpretations Committee (IFRS IC).

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

### b) Important Estimates, Assumptions and Judgments

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

Determination of control for purposes of consolidation	Note 2, section c) "Basis of Consolidation and Method" Note 7 "Management of Financial Risks Associated with Financial Instruments and Insurance Contracts"
Fair value and impairment of financial instruments and fair value of investment properties	Note 2, section d) "Invested Assets and Net Investment Income" Note 5 "Invested Assets and Net Investment Income" Note 6 "Fair Value of Financial Instruments and Investment Properties" Note 7 "Management of Financial Risks Associated with Financial Instruments and Insurance Contracts"
Classification and measurement of insurance contracts, reinsurance contracts and financial instruments at transition to IFRS 17 and IFRS 9	Note 4 "Impact of IFRS 17 and IFRS 9 Adoption"
Classification of contracts and measurement of insurance contracts and reinsurance contracts	Note 2, section j) "Insurance Contracts and Reinsurance Contracts" Note 11 "Insurance Contracts and Reinsurance Contracts", section F) "Important Judgments in the Measurement of Insurance Contracts and Reinsurance Contracts"
Intangible assets and goodwill	Note 2, section g) "Intangible Assets" Note 2, section h) "Goodwill"
Income taxes	Note 2, section m) "Income Taxes" Note 16 "Income Taxes"
Post-employment benefits	Note 2, section q) "Post-Employment Benefits" Note 19 "Post-Employment Benefits"
Determination of reportable operating segments and allocation methodology in the presentation of segmented information	Note 17 "Segmented Information"

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

**c) Basis of Consolidation and Method**

Entities over which the Company exercises control are consolidated. Management makes judgments in determining whether control exists, particularly in determining the extent to which the Company has the ability to exercise its power to generate variable returns. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. Intercompany balances and revenues and expenses for intercompany transactions are eliminated on consolidation.

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

**d) Invested Assets and Net Investment Income**

Invested assets include financial assets such as cash and short-term investments, bonds, stocks, loans, derivative financial instruments, other invested assets and investment properties. At initial recognition, all financial assets are recorded at fair value.

Financial assets are classified into one of the following categories:

- assets at fair value through profit or loss;
- assets at amortized cost using the effective interest method.

Financial assets are classified according to their business model. The business model reflects how the Company manages the assets in order to generate cash flows and achieve business objectives. Judgment is used in determining the business models.

The management and performance assessment of most of the Company's financial instruments are carried out on a fair value basis. Consequently, most of the financial instruments of the Company must be classified at fair value through profit or loss. Three major exceptions are car loans, other loans and accounts receivable, which are managed with the primary objective of holding them in order to collect contractual cash flows, and not selling them. As such, they are classified at amortized cost.

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making its assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement. If the Company determines that the contractual cash flows associated with a financial asset are not solely payments of principal and interest, or if the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company applies the trade date accounting method, which is the date on which the Company commits to purchase or sell assets. Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred. Transaction costs related to assets classified at amortized cost are capitalized and amortized in the Income Statement using the effective interest method.

Invested assets are accounted for using the methods described below.

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

Cash and short-term investments consist of cash, payments in transit and fixed income securities held for short-term commitments. Cash, payments in transit and some fixed income securities are classified at amortized cost and accounted for at amortized cost using the effective interest method. Other fixed income securities are classified at fair value through profit or loss and accounted for at fair value.

**ii) Bonds***Fair Value Through Profit or Loss*

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

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

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

**iv) Loans****Mortgages***Fair Value Through Profit or Loss*

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

*Securitization of Mortgages**Residential Mortgages*

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

*Multi-residential and Non-residential Mortgages*

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

**Car Loans and Other Loans***Amortized Cost*

Car loans and other loans are classified at amortized cost and are carried at amortized cost using the effective interest method. The carrying amount of the assets is adjusted by any allowance for credit losses. Interest and realized gains or losses on disposition of car loans and other loans are accounted for in *Interest and other investment income* in the Income Statement. The allowance for credit losses is recognized and measured as described in section ix) "Impairment of Financial Assets" of the present note.

**v) Derivative Financial Instruments**

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

The Company has elected, as permitted under IFRS 9, to continue applying the hedge accounting requirements of IAS 39.

*Hedge Accounting*

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

*Fair Value Hedging*

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

*Cash Flow Hedging*

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

*Net Investment Hedge*

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

**vi) Other Invested Assets**

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

**vii) Investment Properties**

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

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

#### **viii) Derecognition**

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

#### **ix) Impairment of Financial Assets**

At the end of each reporting period, the Company applies a three-stage impairment model to measure the allowance for credit losses on all financial assets classified at amortized cost. Off-balance sheet items subject to impairment assessment include financial guarantees and loan commitments. The expected credit losses model is forward looking. Measurement of the allowance for credit losses reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. The amount of the allowance for credit losses therefore reflects changes in credit risk since the initial recognition of the financial asset.

#### **Determining the Stage**

The expected credit losses model uses a three-stage impairment approach, based on the change in the credit quality of financial assets since initial recognition.

If, at the reporting date, the credit risk of non-impaired financial assets has not increased significantly since initial recognition, these financial assets are classified in Stage 1, and an allowance for credit losses, which is measured at each reporting date at an amount equal to 12-month expected credit losses, is recorded.

When there is a significant increase in credit risk since initial recognition, these non-impaired financial assets are migrated to Stage 2, and an allowance for credit losses, that is measured, at each reporting date, at an amount equal to lifetime expected credit losses, is recorded.

In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risk since initial recognition, in accordance with the expected credit losses model, the financial asset must be reverted to Stage 1.

When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance for credit losses equal to lifetime expected losses continues to be recorded or the financial asset is written off.

The interest income is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Financial assets may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and their level of expected credit losses. Financial assets are always classified in the various stages of the impairment model based on the change in credit risk between the initial recognition date of the financial asset and the reporting date, and an analysis of evidence of impairment.

#### **Definition of Default and Credit-Impaired Financial Asset**

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes.

Regardless of the above analysis, the Company considers that default occurs when contractual payments on the financial asset are in arrears for more than 90 days, unless the Company has reasonable and justifiable information to demonstrate that a late default criterion is more appropriate.

A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on estimated future cash flows is considered insignificant.

#### **Measurement of the Allowance for Credit Losses**

The allowance for credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The cash shortfall is the difference between all contractual cash flows owed to the Company and all the cash flows that the Company expects to receive.

The measurement of the allowance for credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely probability of default, loss given default and exposure at default. The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. For financial assets in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the financial asset. Expected remaining life is the maximum contractual period the Company is exposed to credit risk, including extension options which the borrower has a unilateral right to exercise.

The allowance for credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the allowance for credit losses, the Company uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Macroeconomic variables used in the expected credit loss models include gross domestic product, unemployment rate and Bank of Canada overnight rate. The Company uses three scenarios (base, optimistic and pessimistic) to determine the allowance for credit losses and assigns to each scenario a probability of occurrence. Each macroeconomic scenario used in the allowance for credit losses calculation includes a projection of all relevant macroeconomic variables used in depreciation models for a three-year period. The Company may also make adjustments in some cases to take into account the relevant information that affects the measurement of the allowance for credit losses and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the allowance for credit losses does not require the use of credit risk parameters, but is based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

#### Recognition of the Allowance for Credit Losses

At each reporting date, the Company assesses on a forward-looking basis the expected credit losses associated with its financial assets and recognizes a loss allowance for such credit losses. When there is an impairment, the Company recognizes and presents the allowance for credit losses as described below, according to the different types of assets and their classification.

The allowance for credit losses for loans measured at amortized cost, such as car loans and other loans, is deducted from the gross carrying amount of the financial assets in the Statement of Financial Position and accounted for in *Net Investment Income* in the Income Statement. If the credit risk on the financial asset at the end of the reporting period is low or has not increased significantly since initial recognition, the Company records an allowance for credit losses on this financial asset related to expected credit losses for the next 12 months. Conversely, the Company recognizes expected lifetime credit losses on the financial asset in the event of a significant increase in credit risk since initial recognition.

#### Write-offs

A financial asset and its related allowance for credit losses is normally written off in whole or in part when the Company considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Company have been exhausted or if the borrower is bankrupt or winding up and balances owing are not likely to be recovered.

#### e) Other Assets

Other assets mainly include investment income due and accrued, due from agents, accounts receivable, deferred sales commissions, income tax receivable and funds deposited in trust. Except for commitments related to securities purchased under reverse repurchase agreements, financial assets included in *Other assets* are classified at amortized cost and are subject to impairment as described in section d) ix) "Impairment of Financial Assets". Real estate held for resale (foreclosed properties) is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Funds deposited in trust represent amounts received from clients held in trust.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. Commitments related to securities purchased under reverse repurchase agreements are recorded at fair value through profit or loss. Interest on reverse repurchase operations is recorded in the Income Statement in *Net investment income*.

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

#### f) Fixed Assets

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

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

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

#### g) Intangible Assets

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

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

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

#### h) Goodwill

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

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

#### i) Segregated Funds

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. The underlying assets are registered in the name of the Company and the segregated funds policyholders have no direct access to the specific assets. The policyholders bear the risks and rewards of the funds' investment performance. The Company derives fee income from the management of its segregated funds. These revenues are accounted for in the Income Statement as *Insurance revenue* for annuities classified as insurance contracts and as *Other revenues* for annuities classified as investment contracts. Investment income and changes in fair value of the segregated funds net assets are presented in *Investment income (expenses) from segregated funds net assets*. The risks and rewards of the funds' investment performance are presented in the Income Statement as *Finance income (expenses) related to segregated funds liabilities*.

##### *Segregated Funds Net Assets*

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

##### *Insurance Contract Liabilities Related to Segregated Funds and Investment Contract Liabilities Related to Segregated Funds*

Liabilities related to insurance or investment contracts whose financial risk corresponds to the risk assumed by policyholders are presented separately from the total general fund liabilities in the Statement of Financial Position and are accounted for at the same amount as the fair value of the segregated funds net assets. Both types of contracts are presented distinctively depending of their nature. As *Insurance contract liabilities related to segregated funds* arise from insurance contracts with direct participation features, they are measured under the variable fee approach under IFRS 17. The *Investment contract liabilities related to segregated funds* are accounted for at amortized cost under IFRS 9 *Financial Instruments* as they are investment contracts.

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

#### j) Insurance Contracts and Reinsurance Contracts

##### i) Classification of Contracts

Contracts issued by the Company are classified as insurance contracts, investment contracts or service contracts.

Insurance contracts, including reinsurance acceptances for which the Company accepts insurance risk from other companies, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholders and whose amount and timing are unknown. Insurance contracts are accounted for according to IFRS 17 *Insurance Contracts*.

Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. The financial risk represents the risk of a possible future change in one or more of the following items: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract. Investment contracts are accounted for according to IFRS 9 *Financial Instruments* and are described in section k) "Investment Contract Liabilities and Deposits" in this note.

Service contracts are contracts that do not contain any significant insurance risk and no financial risk and for which the Company offers administrative services. Service contracts also include the service components of investment contracts. Service contracts are accounted for according to IFRS 15 *Revenue from Contracts with Customers* and are further described in section p) "Other Revenues" in the present note.

Contracts are analyzed to determine whether these arrangements should be accounted for as insurance, investment or service contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless criteria for derecognition are met.



In the normal course of business, the Company uses reinsurance to limit its risk exposure. Reinsurance refers to the transfer of insurance risk, in exchange for a compensation (premium), to one or more reinsurers who share the risks. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured.

All references to insurance contracts include insurance contracts issued and reinsurance acceptances by the Company and all references to reinsurance contracts correspond to reinsurance contracts held to reduce the Company's own risk.

#### ii) Separating Components from Insurance Contracts and from Reinsurance Contracts

At inception, insurance contracts and reinsurance contracts are analyzed to determine distinct components which are within the scope of another standard. Both derivatives embedded within insurance contracts to be separated and cash flows related to a distinct investment component must be accounted for according to IFRS 9 *Financial Instruments* as if they were stand-alone financial instruments, when applicable. Any promise to provide distinct goods or services other than insurance contract services, such as administration services, is accounted for according to IFRS 15 *Revenue from Contracts with Customers*. All remaining components of the insurance contract are within the scope of IFRS 17 *Insurance Contracts*.

Unseparated embedded derivatives, investment components and goods or services which are highly interrelated with the insurance contract of which they form a part are considered non-distinct and are accounted for together with the insurance component. Investment component is defined as an amount required to be repaid to a policyholder in all circumstances, regardless of whether an insured event occurs, such as cash surrender value, universal life funds and segregated funds. The Company assesses the existence of any such investment component for all of its contracts at inception.

#### iii) Level of Aggregation and Recognition

The Company has determined that the appropriate level of aggregation of its insurance contracts into portfolios results in the aggregation of its contracts according to its product lines since they present similar risks and are managed together. The product lines are composed of the main products and services offered by the Company's different operating segments. Every portfolio is divided into groups that can fall into one of three categories: onerous contracts, non-onerous contracts with no significant possibility of becoming onerous and the remaining non-onerous contracts. Groups are in turn divided into annual cohorts, established by the year of issue. The Company has determined that the product lines also represent the right level of aggregation of its reinsurance contracts into portfolios. Groups are split between net gain and net cost and have annual cohorts. The Company generally assigns contracts to the group by set of contracts, rather than on a contract-by-contract basis.

Portfolios determine the level at which contracts are grouped for presentation purposes in the Statement of Financial Position. Insurance contract portfolios which include the liabilities for remaining coverage (LRC) and the liabilities for incurred claims (LIC) for which the total shows an asset are presented separately from those that show a liability. The same split in the presentation is applicable to reinsurance contract portfolios.

The group determines the level at which recognition and measurement are carried out. Group of contracts are established on initial recognition and their composition is not reassessed subsequently. In general, groups of insurance contracts are recognized when issued. In the event that a group of contracts is onerous, it would be recognized as soon as facts and circumstances indicate that the group is onerous. Groups of reinsurance contracts are recognized from the earlier of the beginning of their coverage period and the date an onerous group of underlying insurance contracts is recognized. In the event that insurance contracts and reinsurance contracts are acquired in a transfer of contracts or a business combination, the date of acquisition corresponds to the date of recognition.

#### iv) Contract Boundaries

All future cash flows within the boundary of each contract in the group have to be considered to measure a group of contracts and they are reassessed at each reporting date.

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide insurance contract services to the policyholder. Any renewal option available in the contract at inception is included in the contract boundaries if the Company is obliged to comply with it at the request of the policyholder. A substantive obligation to provide insurance contract services ends when the Company has the practical ability to reassess the risks and can modify the pricing. Expected premiums or claims outside the contract boundary are not recognized as liabilities or assets, as they relate to future insurance contracts.

Cash flows are within the boundary of a reinsurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks or has a substantive right to terminate the coverage.

#### v) Measurement

The Company must analyze the terms and conditions of each contract to determine whether or not they meet the conditions of a contract with direct participation features. Most of the Company's insurance contracts are contracts without direct participation features. Some of the Company's insurance contracts are classified as direct participating contracts because, at inception, the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items and the Company has the obligation to pay the policyholder an amount equal to the fair value of the underlying items less a variable fee in exchange for investment services.

The Company uses the general measurement model (GMM) to measure the majority of its insurance contracts without direct participation features and its reinsurance contracts. For direct participating insurance contracts, such as segregated funds included in annuity contracts and participating life insurance products, the Company uses the variable fee approach (VFA). As they have similarities, these two methods are usually described together and the term frequently used is "insurance contracts not measured under the PAA".

The Company has chosen to apply the simplified approach called the premium allocation approach (PAA) for certain insurance contracts and reinsurance contracts. Thus, the Company applies the PAA for contracts whose coverage period at inception is one year or less, and for contracts longer than one year for which the measurement of the LRC does not differ materially from the measurement that would be determined by applying the GMM. Auto and home, extended warranties in the United States and special markets products are principally the ones using the PAA.

The Company has chosen to assess the accounting estimates entering into the measurement of insurance contracts and reinsurance contracts on a quarter-to-quarter basis instead of on a year-to-date basis, which means that the accounting estimates made in previous interim financial statements will not be changed. This choice applies to all groups of insurance contracts and reinsurance contracts.

#### **i. Insurance Contracts Not Measured Under the PAA**

##### **Initial Measurement**

On initial recognition, the measure of a group of insurance contracts not measured under the PAA corresponds to the total of the fulfilment cash flows and the contractual service margin.

##### *Fulfilment Cash Flows*

The fulfilment cash flows comprise estimates of future cash flows that the Company expects to fulfil insurance contracts, an adjustment to reflect the time value of money and the financial risk related to those cash flows, plus a risk adjustment for non-financial risk.

The estimates of future cash flows include all cash flows that are within the contract boundary including but not limited to premiums, claims and other insurance service expenses, surrender value options, policy loans which correspond to the unpaid capital balance that are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made, and an allocation of insurance acquisition cash flows. Insurance acquisition cash flows, which consist of the costs of selling, underwriting and starting a group of insurance contracts, are directly included in the initial measurement of the group within the fulfilment cash flows.

The discount rate adjusting the estimates of future cash flows to reflect time value of money and the financial risk related to those cash flows must be consistent with the readily available quoted price in active markets and reflect the characteristics of the cash flows and liquidity of the insurance contracts.

The risk adjustment for non-financial risk for a group of insurance contracts is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

##### *Contractual Service Margin*

The contractual service margin (CSM) is a component of the liability of the group of insurance contracts which represents an unearned profit the Company will recognize as it provides insurance contract services in the future. On initial recognition of a group of insurance contracts, the CSM is measured as the excess, if any, of the expected present value of cash inflows over cash outflows within the boundary of the contract after adding the risk adjustment for non-financial risk. If the total is a net inflow, the group is non-onerous and no income or expenses arise from the initial recognition of the group. If the total is a net outflow, the group is onerous and no CSM is established for the group, a loss is immediately recognized in the Income Statement and a loss component is created in the LRC.

##### *Loss Component*

The loss component of the LRC determines the maximum amount of fulfilment cash flows that could subsequently be accounted for in the Income Statement as a reversal of losses on onerous contracts in the *Insurance service expenses* and which would be excluded from the *Insurance revenue*.

##### *Contracts Acquired*

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date. If the total is a net outflow, the group is onerous and a loss is immediately recognized in the Income Statement for contracts acquired in a transfer. If the contracts are acquired in a business combination, the net outflow is rather an adjustment to goodwill or to a gain on a bargain purchase.

#### **Subsequent Measurement**

At each reporting date, the carrying amount of a group of insurance contracts not measured under the PAA is the sum of the LRC and the LIC. The LRC comprises the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and the remaining CSM at that date. The LIC includes the fulfilment cash flows for incurred claims and expenses that have not been paid, including claims that have been incurred but have not been reported.

##### *Fulfilment Cash Flows*

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

Changes in fulfilment cash flows relating to future services are offset by an equivalent amount in the CSM when the group is non-onerous (see "Contractual Service Margin" section below) whereas they are recognized under *Insurance service result* in the Income Statement for onerous groups. Changes in fulfilment cash flows relating to current or past services are recognized under *Insurance service result*. Changes in the effects of the time value of money and financial risk (on estimates of future cash flows and on the risk adjustment for non-financial risk) are recognized under *Net investment result* for contracts measured under the GMM. However, for contracts measured under the VFA, those changes are instead offset by an equivalent variation of the CSM, except for items covered by the risk mitigation option.



For contracts measured under the GMM, in order to have a consistent accounting treatment of the estimates of future cash flows and of the risk adjustment for non-financial risk, the Company has made the accounting policy choice to disaggregate the changes in the risk adjustment for non-financial risk. Therefore, the effects of the time value of money and financial risk are recognized in *Net investment result* instead of being recognized under *Insurance service result* (for current services) or offset by the CSM (for future services).

#### *Contractual Service Margin*

The subsequent measurement of the CSM is different depending on whether the GMM or VFA is used.

#### *Insurance Contracts Without Direct Participation Features*

Under the GMM, the carrying amount of the CSM at each reporting date is the balance at the beginning of the reporting period, plus the CSM of new contracts added to the group during the period and the interest accreted at discount rates at initial recognition on the carrying amount of the CSM during the period, adjusted by the changes in fulfilment cash flows relating to future services and by the effect of currency exchange differences on the CSM if applicable, less the amount recognized as insurance revenue due to the services provided in the period.

The changes in fulfilment cash flows relating to future services (mentioned above in the “Fulfilment Cash Flows” section) that adjust the CSM include experience adjustments arising from premiums received in the period that relate to future services, changes in estimates of the present value of future cash flows in the LRC at discount rates at initial recognition and not related to the time value of money nor financial risk, differences between investment components expected to be payable in the period versus the actual investment components that become payable in the period, and changes in risk adjustment for non-financial risk that relate to future services.

#### *Direct Participating Insurance Contracts*

Under the VFA, the changes in the obligation to pay policyholders an amount equal to the fair value of the underlying items that adjust the fulfilment cash flows do not adjust the CSM and are instead recognized in the Income Statement as these changes do not relate to future services.

The carrying amount of the CSM at each reporting date assessed under the VFA is the balance at the beginning of the reporting period, plus the CSM of new contracts added to the group during the period, adjusted by the changes in the amount of the Company’s share of the fair value of the underlying items related to future service and by the changes in fulfilment cash flows that do not vary based on the returns on underlying items related to future services, except for items covered by the risk mitigation option, less the amount recognized as insurance revenue because of the services provided in the period.

The changes in fulfilment cash flows that do not vary based on the returns on underlying items that adjust the CSM are mostly the same as those specified in the section above for insurance contracts without direct participation features and are however measured at current discount rates. Moreover, they comprise the changes in the effect of the time value of money and financial risk that do not arise from underlying items, except for items covered by the risk mitigation option which are included in *Finance income (expenses) from insurance contracts*.

The changes in fulfilment cash flows that do not adjust the CSM are instead recognized in the Income Statement. These are changes in the Company’s variable fee in the event that it exceeds the CSM resulting in a loss in the Income Statement, and also the changes in the effects of time value of money and financial risk allowed by the risk mitigation option that are included in *Finance income (expenses) from insurance contracts*. Indeed, the Company has made the accounting policy choice to use the risk mitigation option for cash flows that are covered by the dynamic hedging program used by the Company to mitigate financial risk arising from financial guarantees through the use of derivative and non-derivative financial instruments measured at fair value through profit or loss. Consequently, the effects of time value of money and financial risk on the Company’s share of the fair value of the underlying items and on fulfilment cash flows covered by the dynamic hedging program are not recognized in the CSM.

#### *Loss Component*

Groups of contracts that were not onerous at initial recognition can subsequently become onerous if assumptions and experience changes and therefore a loss component of the LRC is afterwards established for those groups. The loss component is released based on a systematic allocation of the subsequent changes in the fulfilment cash flows between the loss component of the LRC and the LRC excluding the loss component. When the loss component reaches zero, then any excess over the amount allocated to the loss component creates a new CSM for the group of contracts.

## **ii. Reinsurance Contracts Not Measured Under the PAA**

The measurement of reinsurance contracts applying the GMM is similar to that of insurance contracts without direct participation features, with the exception of the following:

### **Initial Measurement**

#### *Fulfilment Cash Flows*

For reinsurance contracts, the estimates of present value of the future cash flows are consistent with the assumptions of the underlying insurance contracts and contain an adjustment for the effect of the non-performance risk of the reinsurer. The risk adjustment for non-financial risk represents the amount of risk being transferred to the reinsurer, which is determined by the Company.

#### *Contractual Service Margin*

On initial recognition of a group of reinsurance contracts, the CSM represents a net cost or a net gain on purchasing the reinsurance and is accounted for in the Statement of Financial Position. The CSM is measured as the opposite amount of the sum of the fulfilment cash flows (estimates of discounted future cash flows plus a risk adjustment for non-financial risk) and the income recognized in the Income Statement for recovery of a loss recognized on onerous underlying contracts. Nevertheless, if a net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the group, the cost is immediately recognized in the Income Statement as an expense.

*Loss-Recovery Component*

A loss-recovery component of the asset for remaining coverage (ARC) included in the reinsurance assets is established for a group of reinsurance contracts for which onerous underlying insurance contracts had a loss recognized on initial recognition and is adjusted when further onerous underlying insurance contracts are added to a group. The loss-recovery component determines the maximum amount that could subsequently be accounted for in the Income Statement as reversal of recoveries of losses from reinsurance contracts.

*Contracts Acquired*

For reinsurance contracts acquired in a transfer of contracts or a business combination, the consideration paid for the contracts is used as a proxy of the premiums paid at the date of initial recognition. For reinsurance contracts covering onerous underlying contracts, the adjustment to the CSM is determined by multiplying the amount of the loss component that relates to the underlying contracts at the date of acquisition by the percentage of claims on the underlying contracts at the date of acquisition that the Company expects to recover from the reinsurance contract. The amount of a loss-recovery component arising from reinsurance contracts acquired in a business combination is recognized as part of goodwill or as a gain on a bargain purchase, and is accounted for as income in the Income Statement when it arises from a transfer.

**Subsequent Measurement**

At each reporting date, the carrying amount of a group of reinsurance contracts is the sum of the ARC and the asset for incurred claims (AIC). The ARC comprises the fulfilment cash flows that relate to services that will be received under the contracts in future periods and any remaining CSM at that date. The AIC includes the fulfilment cash flows for incurred claims and amounts recoverable that have not been received from the reinsurer, including claims that have been incurred but have not been reported.

*Fulfilment Cash Flows*

The fulfilment cash flows of a group of reinsurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognized on the same pattern as the underlying contracts depending on whether they are onerous or non-onerous. Similar to insurance contracts measured under the GMM, the Company has made the accounting choice to disaggregate the changes in the risk adjustment for non-financial risk to recognize the effects of the time value of money and financial risk under *Net investment result*, in *Finance income (expenses) from reinsurance contracts*.

*Contractual Service Margin*

Under the GMM, the carrying amount of the CSM at each reporting date is the balance at the beginning of the reporting period adjusted for the variation in the period regarding the CSM of new contracts added to the group, the interest accreted at discount rates at initial recognition on the carrying amount of the CSM, the changes in fulfilment cash flows relating to future services except those relating to the onerous underlying ceded contracts that are recognized in the Income Statement, the effect of currency exchange differences on the CSM (if applicable) and the amount recognized in the Income Statement relating to services received in the period. The CSM is also adjusted for income recognized to cover a loss on initial recognition of an onerous group of underlying contracts and for reversals of a loss-recovery component related to the changes on onerous groups of underlying contracts. Changes in fulfilment cash flows arising from the underlying ceded contracts that have been recognized in the Income Statement as well as changes in the non-performance risk of the reinsurer assessed at each reporting date are recognized in the Income Statement and do not adjust CSM.

*Loss-Recovery Component*

The loss-recovery component is subsequently adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts and shall not exceed the portion of the carrying amount of the loss component that the Company expects to recover from the group of reinsurance contracts.

**iii. Insurance Contracts Measured Under the PAA****Initial Measurement**

On initial recognition, the carrying value of the LRC of a group that is not onerous is the total of the premiums received less any insurance acquisition cash flows at that date. The Company has chosen to include the insurance acquisition cash flows in the initial measurement of the LRC of the group.

For contracts longer than one year, the LRC is discounted to reflect the time value of money and financial risk using discount rates at initial recognition. For contracts with a coverage period of one year or less, there is no significant financing component related to the LRC and there is no adjustment for time value of money and financial risk.

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. In such case, a loss is immediately recognized in the Income Statement for the net outflow and a loss component of the LRC is created for the group.

**Subsequent Measurement**

At each reporting date, the carrying amount of a group of insurance contracts measured under the PAA is the sum of the LRC and the LIC.

The LRC at the beginning of the period is adjusted for the variations related to the period for the premiums received, the insurance acquisition cash flows paid, the amount recognized as insurance revenue for the services provided, the amounts relating to the amortization of the insurance acquisition cash flows recognized as an expense for the group and an adjustment for time value of money and the effect of financial risk for contracts with a significant financing component.

Similar to insurance contracts not measured under the PAA, the LIC includes the fulfilment cash flows for incurred claims and expenses that have not been paid, including claims that have been incurred but have not been reported.

*Loss Component*

If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group. By the end of the coverage period of the group of contracts, the loss component will reach zero.

#### iv. Reinsurance Contracts Measured Under the PAA

The Company applies the same accounting policies to measure a group of reinsurance contracts as a group of insurance contracts measured under the PAA, adapted where necessary to reflect features that differ from those of insurance contracts.

If a loss-recovery component is created for a group of reinsurance contracts measured under the PAA, the amount is recognized directly in the carrying amount of the ARC instead of the adjustment to the CSM that is required for reinsurance contracts not measured under the PAA.

#### vi) Derecognition and Contract Modification

An insurance contract is derecognized when it is extinguished, whether because the rights and obligations relating to the contract have expired, are discharged or are cancelled. On derecognition of a contract from within a group of contracts not measured under the PAA, the fulfilment cash flows allocated to the group are reduced by derecognizing the present value of the future cash flows and risk adjustment for non-financial risk that relate to the rights and obligations. The CSM of the group is then adjusted for the change in the fulfilment cash flows, except for changes allocated to a loss component. The number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognized from the group.

A contract modification may lead to a derecognition under certain conditions such as substantial changes to the contract boundary, or contract conditions that require the modified contract to be included in a different group or to use a different model for the measurement. Consequently, the modified contract is recognized as a new contract.

When a contract modification is not treated as a derecognition because neither of the criteria are met, the amounts paid or received for the modification to the contract are considered as changes in estimates of fulfilment cash flows of the LRC.

#### vii) Presentation in the Income Statement

##### Insurance Revenue

###### *Insurance Contracts Not Measured Under PAA*

At each reporting date, the Company recognizes insurance revenue in the Income Statement as it satisfies its performance obligations which consists in providing services under groups of insurance contracts, including investment services for managing underlying items on behalf of policyholders for direct participating insurance contracts. The amounts recognized during the period relating to the services provided correspond to the total of the changes in the LRC in the period that relate to services for which the Company expects to receive consideration. Insurance revenue is principally composed of recognition of the CSM for services provided, changes in the risk adjustment for non-financial risk relating to current services and release of expected claims and other insurance service expenses incurred in the period. In addition, a portion of revenue is recognized in a systematic way based on the passage of time for the recovery of the insurance acquisition cash flows. The release of the CSM into insurance revenue is done by equally allocating the CSM at the end of the period to each coverage unit provided in the current period and those expected to be provided in the future within the contract boundary.

###### *Insurance Contracts Measured Under PAA*

For contracts measured under the PAA, the insurance revenue for the period is the amount of expected premium receipts allocated for services provided in the period. For contracts with a coverage period of one year or less, the Company allocates the expected premium receipts on the basis of the passage of time since this represents the expected pattern of release of risk during the coverage period. For contracts with a coverage period longer than one year, the allocation to each period is made on the basis of the expected timing of incurred insurance service expenses.

##### Insurance Service Expenses

Insurance service expenses are composed principally of incurred claims and other insurance service expenses, amortization of insurance acquisition cash flows and losses on onerous contracts and reversals of such losses.

##### Net Expenses from Reinsurance Contracts

The Company has chosen to present income and expenses from reinsurance contracts, other than finance income and expenses from reinsurance contracts, under a single net amount as *Net expenses from reinsurance contracts* under *Insurance service result*, which corresponds to the net basis of the allocation to the Income Statement of reinsurance premium paid and the amounts recoverable from reinsurers. The allocation of reinsurance premiums paid is recognized in the Income Statement as the Company receives services under groups of reinsurance contracts. The amounts recovered from reinsurers comprise cash flows related to claims or benefit experience of the underlying contracts. The CSM amortization reflects the expected pattern of underwriting of the underlying contracts because the level of services provided depends on the number of underlying contracts in force.

##### Finance Income and Expenses from Insurance Contracts and from Reinsurance Contracts

For contracts measured under the GMM and when there is a significant financing component in contracts measured under the PAA, finance income and expenses from insurance contracts and from reinsurance contracts consider the effects of the time value of money, financial risks and their variations during the period on the carrying amount of groups of insurance contracts and of groups of reinsurance contracts.

For contracts measured under the VFA, it comprises changes in the fair value of underlying items, excluding deposits and withdrawals, and changes arising from the effect of the time value of money and financial risk on onerous contracts since these effects cannot be offset by the CSM. As mentioned in the "Direct Participating Insurance Contracts" sub-section, *Finance income (expenses) from insurance contracts* includes the effects of time value of money and financial risk on the Company's share of the fair value of the underlying items and on fulfilment cash flows covered by the dynamic hedging program as allowed by the risk mitigation option. Segregated funds finance income and expenses amounts are presented distinctively in the Income Statement as *Finance income (expenses) related to segregated funds liabilities*. Moreover, the presentation regarding segregated funds is described in section i) "Segregated Funds" above.

The Company has made the accounting policy choice to include the finance income or expenses from insurance contracts and from reinsurance contracts in the Income Statement and therefore does not disaggregate these between the Income Statement and the Other Comprehensive Income Statement. This accounting policy is consistent with the fact that the related financial assets are managed on a fair value basis and measured and accounted for at fair value through profit or loss in the Income Statement.

**Investment Components and Premium Refunds**

Amounts received and payments related to investment components as well as premium refunds which meet the definition of an investment component only affect the insurance contract liabilities or assets and therefore do not have an impact on the Income Statement.

**k) Investment Contract Liabilities and Deposits**

Investment contract liabilities relate to contracts that do not include a significant insurance risk but that contain a financial risk. These contracts are initially carried at fair value less transaction costs directly related to the establishment of the contracts and are subsequently measured at amortized cost. The liability is derecognized when it is extinguished, whether because all the obligations relating to this type of contract have been performed, cancelled or have expired.

Deposits are classified as financial liabilities at amortized cost and are initially recognized at fair value. Subsequently, client deposits are measured at amortized cost using the effective interest rate method. Interest calculated on the effective interest rate is recognized in the Income Statement and presented in *(Increase) decrease in investment contract liabilities and interest on deposits*.

**l) Other Liabilities**

Other liabilities are primarily made up of post-employment benefits, amounts on deposit for products other than insurance contracts, accounts payable, short-selling securities and securitization liabilities. Financial liabilities included in *Other liabilities* are classified as financial liabilities at amortized cost, except for short-selling securities, securitization liabilities and securities sold under repurchase agreements, which are classified at fair value through profit or loss. Securitization liabilities and securities sold under repurchase agreements have been designated at fair value through profit or loss since they are part of a group of financial assets and financial liabilities whose management and performance are evaluated on a fair value basis.

Under securities sold under repurchase agreements, the Company sells securities and, simultaneously, agrees to repurchase them in the short term, at a set price and date. Commitments related to securities acquired under repurchase agreements are recorded at fair value through profit or loss. Interest on repurchase operations is recorded in the Income Statement under *Net investment income*.

Liabilities classified or designated at fair value are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in *Change in fair value of investments* in the Income Statement. For designated financial liabilities, when change in fair value is attributable to a change in the Company's own credit risk, the change of value is presented in the Comprehensive Income Statements. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

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

**m) Income Taxes**

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

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

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

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

**n) Debentures**

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

**o) Foreign Exchange Conversion**

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

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

**p) Other Revenues**

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

**q) Post-Employment Benefits**

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

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

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

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

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

**ii) Share Purchase Plan for Employees**

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

**iii) Deferred Share Units Plan**

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

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

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

**v) Restricted Share Units Plan**

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



### 3 › Changes in Accounting Policies

#### New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2023.

Standards or amendments	Description of the standards or amendments and impacts on financial statements of the Company
IFRS 17 <i>Insurance Contracts</i>	<p><i>Description:</i> On May 18, 2017, the IASB published the standard IFRS 17 <i>Insurance Contracts</i> which replaces the provisions of the standard IFRS 4 <i>Insurance Contracts</i>. Amendments to this standard were also published in June 2020 and December 2021 with the objective to help entities to prepare for its implementation.</p> <p>The standard IFRS 17:</p> <ul style="list-style-type: none"> <li>• has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flows statement;</li> <li>• establishes the principles for recognition, measurement, presentation and disclosure;</li> <li>• defines a general model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities;</li> <li>• defines a specific model for contracts of one year or less.</li> </ul> <p>The key principles of IFRS 17 are that the Company:</p> <ul style="list-style-type: none"> <li>• identifies as insurance contracts those under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;</li> <li>• separates specified embedded derivatives, distinct investment components and distinct non-insurance goods or services from insurance contracts and accounts for them in accordance with other standards;</li> <li>• presents, measures and recognizes insurance contracts and reinsurance contracts separately;</li> <li>• recognizes and measures groups of insurance contracts at present value of the future cash flows; these cash flows incorporate all of the available information about the fulfilment cash flows, plus the risk adjustment and the contractual service margin (CSM);</li> <li>• recognizes the profit from a group of insurance contracts over the period for which the Company provides insurance coverage, and as the Company is released from risk. If a group of contracts is expected to be onerous over the remaining coverage period, the Company recognizes the loss immediately;</li> <li>• presents insurance revenue, insurance service expenses and insurance finance expenses separately, excluding investment components;</li> <li>• discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows.</li> </ul> <p><i>Impact:</i> The Company has applied this new standard as at January 1, 2023 and the impact is described in Note 4 “Impact of IFRS 17 and IFRS 9 Adoption”.</p>
IFRS 9 <i>Financial Instruments</i>	<p><i>Description:</i> On July 24, 2014, the IASB published the standard IFRS 9 <i>Financial Instruments</i> which replaces the provisions of the standard IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. Amendments to IFRS 9 <i>Financial Instruments</i> were also published in October 2017 and August 2020 along with an annual improvement to IFRSs in May 2020 to provide clarifications on specific topics.</p> <p>The standard IFRS 9:</p> <ul style="list-style-type: none"> <li>• requires financial assets to be measured at amortized cost or at fair value on the basis of the entity’s business model for managing assets;</li> <li>• changes the accounting for financial liabilities measured using the fair value option;</li> <li>• proposes a new accounting model related to the recognition of expected credit losses, requiring the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date;</li> <li>• modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities.</li> </ul> <p><i>Impact:</i> The Company has applied this new standard as at January 1, 2023 and the impact is described in Note 4 “Impact of IFRS 17 and IFRS 9 Adoption”.</p>
IAS 1 <i>Presentation of Financial Statements</i>	<p><i>Description:</i> On February 12, 2021, the IASB published an amendment to IAS 1 <i>Presentation of Financial Statements</i>. The amendment <i>Disclosure of Accounting Policies</i> requires entities to disclose their material accounting policy information rather than their significant accounting policies. The provisions of this amendment apply prospectively.</p> <p><i>Impact:</i> No significant impact on the Company’s financial statements.</p>
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<p><i>Description:</i> On February 12, 2021, the IASB published an amendment to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. The amendment <i>Definition of Accounting Estimates</i> introduces the definition of accounting estimates and clarifies the distinction between a change in accounting estimate and a change in accounting policy. The provisions of this amendment apply prospectively.</p> <p><i>Impact:</i> No impact on the Company’s financial statements.</p>

IAS 12 <i>Income Taxes</i>	<p><i>Description:</i> On May 7, 2021, the IASB published an amendment to IAS 12 <i>Income Taxes</i>. The amendment <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> clarifies the accounting for deferred tax on transactions that give rise to equal taxable and deductible temporary differences on initial recognition, such as with leases and decommissioning obligations. The provisions of this amendment apply on a modified retrospective basis.</p> <p><i>Impact:</i> No impact on the Company's financial statements.</p> <p><i>Description:</i> On May 23, 2023, the IASB published an amendment to IAS 12 <i>Income Taxes</i>. The amendment <i>International Tax Reform – Pillar Two Model Rules</i> provides a temporary exception from recognizing and disclosing information about deferred tax assets and liabilities arising from the Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development (OECD). This mandatory exception applies immediately and retrospectively. The amendment also introduces targeted disclosure requirements for periods in which Pillar Two legislation is enacted or substantively enacted. These disclosure requirements apply prospectively to annual financial statements beginning on or after January 1, 2023.</p> <p><i>Impact:</i> The Company does not recognize nor disclose information about deferred tax assets and liabilities arising from the OECD's Pillar Two Model Rules, as required by the exception provided for in this amendment. The Company is actively monitoring legislative developments in the Canadian government's implementation of the OECD's Pillar Two Model Rules in order to evaluate the impact of this amendment on its financial statements.</p>
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### Future Changes in Accounting Policies

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

Standards or amendments	Description of the standards or amendments
IAS 1 <i>Presentation of Financial Statements</i>	<p><i>Description:</i> On January 23, 2020, the IASB published an amendment to IAS 1 <i>Presentation of Financial Statements</i>. The amendment <i>Classification of Liabilities as Current or Non-current</i> only affects the presentation of liabilities in the statement of financial position, and not the amount or timing of recognition of any asset, liability, income or expense, or the information that entities disclose about those items. The provisions of this amendment were initially to be applied retrospectively to financial statements beginning on or after January 1, 2022, but on July 15, 2020, the IASB decided to postpone the effective date to financial statements beginning on or after January 1, 2023. On October 31, 2022, the IASB published a new amendment, <i>Non-current Liabilities with Covenants</i>, which specifies conditions affecting the classification of a liability when an entity must comply with covenants within 12 months after the reporting period and clarifies the disclosure requirements in the notes. In addition, the latest amendment further postpones the effective date of the previous amendments to financial statements beginning on or after January 1, 2024, with retrospective application. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of these amendments on its financial statements.</p>
IFRS 16 <i>Leases</i>	<p><i>Description:</i> On September 22, 2022, the IASB published an amendment to IFRS 16 <i>Leases</i>. The amendment <i>Lease Liability in a Sale and Leaseback</i> adds requirements for the subsequent measurement of a lease liability by a seller-lessee in a sale and leaseback transaction accounted for as a sale, with the aim to prevent the recognition of a gain or loss relating to the right of use retained. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2024. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p>
IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>	<p><i>Description:</i> On May 25, 2023, the IASB published an amendment to IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i>. The amendment <i>Supplier Finance Arrangements</i> requires entities to disclose information about supplier finance arrangements and their effects on liabilities, cash flows and exposure to liquidity risk in order to increase transparency on this type of arrangement. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2024. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p>
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	<p><i>Description:</i> On August 15, 2023, the IASB published an amendment to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>. The amendment <i>Lack of Exchangeability</i> specifies when a currency is exchangeable and when it is not, how to determine the exchange rate when a currency is not exchangeable, and the additional information required to be disclosed when a currency is not exchangeable. The provisions of this amendment will apply on a modified retrospective basis to financial statements beginning on or after January 1, 2025. Early adoption is permitted.</p> <p><i>Status:</i> The Company is currently evaluating the impact of this amendment on its financial statements.</p>



#### 4 › Impact of IFRS 17 and IFRS 9 Adoption

The initial and simultaneous application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* as at January 1, 2023, had a limited effect on the Company's equity at transition on January 1, 2022, resulting in a \$11 increase in shareholders' equity.

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

The following table presents the impact of the IFRS 17 and IFRS 9 standards on the Consolidated Statement of Financial Position at the transition date. Refer to the sub-sections titled "Impact of the Adoption of IFRS 17" and "Impact of the Adoption of IFRS 9" below to have more information.

(in millions of dollars)	As at December 31, 2021	IFRS 17 adjustments	IFRS 9 adjustments	As at January 1, 2022
Investments	\$ 44,716	\$ (182)	\$ 297	\$ 44,831
Insurance and reinsurance contract assets	1,984	(171)	(3)	1,810
Segregated funds net assets	39,577	—	—	39,577
Other	5,007	(604)	1	4,404
<b>Total assets</b>	<b>\$ 91,284</b>	<b>\$ (957)</b>	<b>\$ 295</b>	<b>\$ 90,622</b>
Insurance, reinsurance and investment contract liabilities and deposits	\$ 37,117	\$ 3,793	\$ —	\$ 40,910
Insurance and investment contract liabilities related to segregated funds	39,577	—	—	39,577
Other	8,659	(4,477)	59	4,241
<b>Total liabilities</b>	<b>\$ 85,353</b>	<b>\$ (684)</b>	<b>\$ 59</b>	<b>\$ 84,728</b>
Participating policyholders' accounts	\$ 48	\$ (48)	\$ —	\$ —
Total shareholders' equity	5,883	(225)	236	5,894
<b>Total equity</b>	<b>\$ 5,931</b>	<b>\$ (273)</b>	<b>\$ 236</b>	<b>\$ 5,894</b>

As a result of the application of IFRS 17 and IFRS 9, described in the following sections, the net income attributed to the common shareholder for the year ended December 31, 2022 resulted in a decrease from \$869 to \$471, and the earnings per common share (basic) for the year ended December 31, 2022 decreased from 7.80 dollars to 4.23 dollars. These results are in the context of the transition of the Company's invested asset portfolio from an asset-liability matching strategy adapted to the previous standards to an asset-liability matching strategy adapted to the new standards. This transition was occurring in 2022 and was not fully completed as at December 31, 2022, and this contributed to higher net income volatility in 2022, as the measurement is now done under the new standards. Therefore, the difference in the net income attributed to the common shareholder is mainly explained by the different impacts of macroeconomic variations under the new applicable standards (IFRS 17 and IFRS 9) and the previous standards (IFRS 4 and IAS 39) in force before the transition.

##### Impact of the Adoption of IFRS 17

The impacts of the adoption of IFRS 17 have been recognized through adjustments to *Retained earnings* and *Participating policyholders' accounts* and are disclosed in the Consolidated Equity Statements. The *Retained earnings* as at January 1, 2022 have been decreased by an amount of \$225 related to the new principles of recognition and measurement of insurance contract liabilities, that is, \$307 before the adjustment of \$82 on deferred income tax net assets. In addition, IFRS 17 has led to some reclassifications between insurance and reinsurance contract assets, insurance, reinsurance and investment contract liabilities, other assets, other liabilities and participating policyholders' accounts which had no impact on shareholders' equity. The amount of \$48 for participating policyholders' accounts is now included in insurance contract liabilities. At the time of transition, in order to group items with a similar nature together, the Company elected to reclassify in *Investment contract liabilities and deposits* an amount of \$2,087 relating to amounts that the Company owes to clients which were in *Other liabilities* before the application of the new standards. All these reclassifications can be found in the *IFRS 17 adjustments* column in the table above.

As IFRS 17 adoption resulted in significant changes to the accounting of insurance contracts and reinsurance contracts, certain comparative figures have been restated and the Company has prepared its opening Statement of Financial Position as at January 1, 2022. As determined in the IFRS 17 transition provisions, the Company has not presented the effects of the initial application of IFRS 17 on each financial statement line item affected in these financial statements.

The nature and main impacts of the changes in accounting policies are summarized below. More detailed information regarding accounting policy choices is described in Note 2 "Material Accounting Policy Information".

##### Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied retrospectively to the extent practicable. On transition date, January 1, 2022, the Company:

- identified, recognized and measured each group of insurance contracts and reinsurance contracts as if IFRS 17 had always applied unless impracticable;
- derecognized any existing balances that would not exist had IFRS 17 always applied. *Outstanding premiums, Due from reinsurers* and an amount of \$216 for *Deferred sales commissions* that were included in *Other assets*, as well as *Unearned premiums, Due to reinsurers, Other insurance contract liabilities* and *Fair value of purchased business in force* that were presented in *Other liabilities* are no longer presented separately. These items are henceforth included, for each portfolio, as *Insurance contract assets, Insurance contract liabilities, Reinsurance contract assets* or *Reinsurance contract liabilities*;
- recognized any resulting net difference directly in equity.

The Company has applied two different approaches to measure the contracts at the transition date: the full retrospective approach and the fair value approach.

#### a) Full Retrospective Approach

On transition to IFRS 17, the Company has applied the full retrospective approach, unless impracticable. The full retrospective approach has been applied to all groups of insurance contracts and reinsurance contracts evaluated under the premium allocation approach and to direct participating insurance contracts issued on or after January 1, 2020.

For most groups of contracts, the full retrospective approach was impracticable, since reasonable and supportable information to apply this approach was not available without undue cost or effort. Indeed, the historical data to be used in the calculation of insurance contract liabilities at the date of initial recognition have not been collected in accordance with the requirements of the new standard, which are more granular than before, and due to technological and system limitations. Moreover, the full retrospective approach requires the use of significant accounting estimates and management's assumptions consistent with the information that would have been available on the date of initial recognition, which could not be made without the use of hindsight.

#### b) Fair Value Approach

Consequently, the Company has applied the fair value approach to most groups of contracts, i.e., almost all insurance contracts and reinsurance contracts issued before January 1, 2022, including groups of insurance contracts with direct participation features to which the risk mitigation option was applied. In determining fair value, the Company has applied the requirements of IFRS 13 *Fair Value Measurement*, except for the demand deposit floor requirement. Management exercises its judgment and uses estimations to determine the fair value. The contractual service margin (or the loss component) of the liability for remaining coverage at the transition date is the difference between the fair value of the group of insurance contracts and the fulfilment cash flows of the group measured at that date.

The Company used the appraisal value approach to calculate the fair value of the insurance contracts and reinsurance contracts at the transition date. This valuation technique, a common method applied across the Canadian industry, establishes the price that a prospective buyer is willing to pay to purchase a block of business acquired as part of a transfer or in a business combination. The fair value obtained with this approach represents the amount of assets that would be required to take over the obligations of these contracts, and thus takes into account the fulfilment cash flows plus the compensation required by this prospective buyer to assume these liabilities.

The calculation of the fair value involves assumptions to represent what a market participant would use to value the insurance contracts. Those assumptions were added to the ones used in measuring the fulfilment cash flows. Mainly, fulfilment cash flows were adjusted to include a reasonable level of operating expenses not related to insurance service that a market participant would expect to incur, as well as an expected compensation, based on the capital requirements, for taking the risks inherent with the insurance contracts. Also, initial market interest rates have been used, but adjusted for their evolution over time for future reinvestment in order to consider the reinvestment risk a market participant would have to face.

For the application of the fair value approach, the Company has used reasonable and supportable information available at the transition date in order to identify any discretionary cash flows for insurance contracts without direct participation features.

The discount rate for groups of contracts applying the fair value approach was determined at the transition date and also corresponds to the discount rate at initial recognition for these groups of insurance contracts.

At transition, for groups of contracts under the fair value approach, the Company has aggregated contracts issued more than one year apart in the same group as reliable information to aggregate contracts issued within one year was not available.

#### Impact of the Adoption of IFRS 9

Before the adoption of IFRS 9, the Company was applying IAS 39 *Financial Instruments*. The IFRS 9 requirements related to classification and measurement, as well as those related to impairment, have been applied retrospectively through adjustments to the Financial Position Statement amounts. The Company has elected to apply the classification overlay to restate its comparative information, as permitted by an amendment to IFRS 17. The impacts of IFRS 9 adoption were recognized through adjustments to *Retained earnings and accumulated other comprehensive income*, resulting in an increase of \$236 of the shareholders' equity as at January 1, 2022 and a subsequent increase of \$7 of the shareholders' equity as at January 1, 2023.

The nature and main impacts of the changes in accounting policies are summarized below. More detailed information regarding accounting policy choices is described in Note 2 "Material Accounting Policy Information".

#### Classification Overlay

The classification overlay has been applied to all financial assets, including derecognized assets in the comparative period. The Company applied impairment requirements of IFRS 9 for the comparative period. The change of classification as at January 1, 2022 has been applied using the projected classification on January 1, 2023. No further change of classification for financial assets has been made as at January 1, 2023.

#### Classification and Measurement of Financial Instruments

Financial assets can be classified into three categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. An entity can make the irrevocable election at initial recognition to designate a financial instrument at fair value through profit or loss. The classification is generally based on the business model in which a financial asset is managed along with its contractual cash flow characteristics. IFRS 9 eliminates the previous categories of held to maturity, loans and receivables and available for sale.

The Company has established that short-term investments, bonds and mortgages are managed and their performance is evaluated on a fair value basis, therefore they must be classified at fair value through profit or loss. For cash, car loans and other loans, the objective is to collect the contractual cash flows only, so they must be classified at amortized cost.

### Hedge Accounting

At the transition date as at January 1, 2022, the Company ended the following fair value hedge accounting relationships: interest rate risk hedging for financial assets classified as available for sale, and currency rate risk hedging for financial assets classified as available for sale. It also ended the following cash flow hedge relationship: currency rate risk hedging on financial assets denominated in foreign currency. The hedge accounting relationship that the Company terminated was accounted for the same way as the reclassification of the financial asset accounted for previously as available for sale.

At the date of first application as at January 1, 2023, the Company ended its fair value hedge accounting relationship on interest rate risk on financial liabilities classified as financial liabilities at amortized cost. The balance was reclassified against the balance of the financial liabilities.

### Effect of Initial Application

#### Classification of Financial Instruments

The following table presents the classifications and carrying amounts of financial assets as previously established in accordance with IAS 39, as well as the new classifications and new carrying amounts established in accordance with IFRS 9, where applicable:

(in millions of dollars)	January 1, 2022			
	Carrying value under		Classification under	
	IAS 39	IFRS 9	IAS 39	IFRS 9
<b>Financial assets</b>				
Cash	\$ 1,268	\$ 1,268	Loans and receivables	Amortized cost
Short-term investments	199	199	Held for trading	At fair value through profit or loss
Bonds	24,929	24,929	Designated at fair value through profit or loss	At fair value through profit or loss
Bonds	4,156	4,156	Available for sale	At fair value through profit or loss
Bonds	255	255	Held to maturity	At fair value through profit or loss
Bonds	2,886	3,148	Loans and receivables	At fair value through profit or loss
Stocks	3,357	3,357	Designated at fair value through profit or loss	At fair value through profit or loss
Stocks	412	385	Available for sale	At fair value through profit or loss
Mortgages	89	89	Designated at fair value through profit or loss	At fair value through profit or loss
Mortgages	1,805	1,877	Loans and receivables	At fair value through profit or loss
Car loans and other loans <sup>1</sup>	1,056	1,904	Loans and receivables	Amortized cost
Derivative financial instruments	917	917	Held for trading	At fair value through profit or loss
Other invested assets – Notes receivable	18	18	Loans and receivables	Amortized cost
Other assets – Securities purchased under reverse repurchase agreements	—	—	Loans and receivables	At fair value through profit or loss
<b>Total</b>	<b>\$ 41,347</b>	<b>\$ 42,502</b>		

<sup>1</sup> As at January 1, 2022, of the \$1,040 originally reported in *Policy loans* under IAS 39 as at December 31, 2021, an amount of \$858 has been reclassified in *Car loans and other loans* and an amount of \$182 has been reclassified in *Insurance contract liabilities (assets)*.

Other invested assets shown in the Statement of Financial Position also include investments in associates and joint ventures.

(in millions of dollars)	January 1, 2023			
	Carrying value under		Classification under	
	IAS 39	IFRS 9	IAS 39	IFRS 9
<b>Financial liabilities</b>				
Other liabilities – Securitization liabilities	\$ 453	\$ 443	At amortized cost	Designated at fair value through profit or loss
Other liabilities – Securities sold under repurchase agreements	—	—	At amortized cost	Designated at fair value through profit or loss
Other liabilities – Short-selling securities	956	956	Held for trading	At fair value through profit or loss
<b>Total</b>	<b>\$ 1,409</b>	<b>\$ 1,399</b>		

The financial assets included in *Other assets* and the financial liabilities included in *Other liabilities* that are not mentioned in the tables above were respectively classified under IAS 39 as loans and receivables and at amortized cost, and are classified at amortized cost under IFRS 9. There is no change in classification for debentures, investment contract liabilities and deposits, and investment contract liabilities related to segregated funds.

**Impairment of Financial Instruments**

IFRS 9 replaces the incurred loss model of IAS 39 with a forward-looking expected credit loss model. The new impairment model applies to financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income. Impaired financial instruments classified as available for sale, held to maturity or loans and receivables under IAS 39 and now classified at fair value through profit or loss under IFRS 9 have impairment reflected through their change of fair value and, as a result, are no longer impaired through a loss allowance.

The following table presents the reconciliation of the allowance for credit losses established in accordance with IAS 39 with the one established in accordance with IFRS 9:

(in millions of dollars)	January 1, 2022		
	Allowance for credit losses under IAS 39	Impairment adjustment	Allowance for credit losses under IFRS 9
<b>Financial assets</b>			
Car loans and other loans	\$ (28)	\$ (10)	\$ (38)
<b>Total</b>	<b>\$ (28)</b>	<b>\$ (10)</b>	<b>\$ (38)</b>

**Reconciliation of the Carrying Value under IFRS 9**

The following table presents the reconciliation of the carrying value from IAS 39 to IFRS 9 by type of financial assets and by classification:

(in millions of dollars)		Bonds – Available for sale	Bonds – Held to maturity	Bonds – Loans and receivables	Stocks – Available for sale	Mortgages – Loans and receivables
<b>Under IAS 39</b>	Balance as at December 31, 2021	\$ 4,156	\$ 255	\$ 2,886	\$ 412	\$ 1,805
IFRS 9 adjustments	Measurement	—	—	262	(27) <sup>1</sup>	72
<b>At fair value through profit or loss under IFRS 9</b>	Balance as at January 1, 2022	4,156	255	3,148	385	1,877
	Change in carrying value	(461)	(153)	(330)	(25)	(363)
<b>At fair value through profit or loss under IFRS 9</b>	<b>Balance as at January 1, 2023</b>	<b>\$ 3,695</b>	<b>\$ 102</b>	<b>\$ 2,818</b>	<b>\$ 360</b>	<b>\$ 1,514</b>

<sup>1</sup> The amount of \$27 relates to embedded derivatives that are no longer separated from the host contract since transition to IFRS 9. This is a reclassification between financial assets and financial liabilities with no effect on retained earnings at transition.

Financial instruments classified as held for trading or designated at fair value through profit or loss under IAS 39 are now classified at fair value through profit or loss. There is no change in carrying amounts for those instruments.

Financial instruments classified as loans and receivables under IAS 39 and subsequently classified at amortized cost under IFRS 9 have no change in carrying amount other than the calculated impairment.

Financial liabilities classified at amortized cost under IAS 39 and subsequently designated at fair value through profit or loss under IFRS 9 have a \$10 decrease in carrying amount. The change comes from the difference between the amortized cost value and the fair value of the instruments on January 1, 2023.

**Impact on Retained Earnings and Accumulated Other Comprehensive Income**

All adjustments related to measurement and impairment are presented in the opening *Retained earnings and accumulated other comprehensive income* due to the retrospective application to January 1, 2022 and to January 1, 2023.

The following table presents the reconciliation of the opening *Retained earnings and accumulated other comprehensive income*:

(in millions of dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance as at December 31, 2021	\$ 3,628	\$ 75	\$ 3,703
<b>Impact of adopting IFRS 17 excluding the participating policyholders' accounts</b>	(225)	—	(225)
<b>Impact of adopting IFRS 9</b>			
Adjustments related to classification and measurement	410	(76)	334
Adjustments related to impairment	(10)	—	(10)
Other	—	(3)	(3)
Income tax adjustments	(104)	19	(85)
	296	(60)	236
<b>Balance as at January 1, 2022</b>	<b>3,699</b>	<b>15</b>	<b>3,714</b>
Balance as at December 31, 2022	<b>3,864</b>	<b>56</b>	<b>3,920</b>
<b>Impact of adopting IFRS 9</b>			
Adjustments related to classification and measurement	<b>10</b>	—	<b>10</b>
Income tax adjustments	<b>(3)</b>	—	<b>(3)</b>
	<b>7</b>	—	<b>7</b>
<b>Balance as at January 1, 2023</b>	<b>\$ 3,871</b>	<b>\$ 56</b>	<b>\$ 3,927</b>

## 5 › Invested Assets and Net Investment Income

## a) Carrying Value and Fair Value

(in millions of dollars)	As at September 30, 2023				
	At fair value through profit or loss	At amortized cost	Other	Total	Fair value
<b>Cash and short-term investments</b>	\$ 200	\$ 654	\$ —	\$ 854	\$ 854
<b>Bonds</b>					
Governments	8,032	—	—	8,032	
Municipalities	735	—	—	735	
Corporate and other	17,716	—	—	17,716	
	26,483	—	—	26,483	26,483
<b>Stocks</b>					
Common	2,341	—	—	2,341	
Preferred	329	—	—	329	
Stock indexes	276	—	—	276	
Investment fund units	853	—	—	853	
	3,799	—	—	3,799	3,799
<b>Loans</b>					
<b>Mortgages</b>					
Insured mortgages					
Multi-residential	1,021	—	—	1,021	
Non-residential	2	—	—	2	
	1,023	—	—	1,023	
Conventional mortgages					
Multi-residential	210	—	—	210	
Non-residential	237	—	—	237	
	447	—	—	447	
	1,470	—	—	1,470	
Car loans	—	1,367	—	1,367	
Other loans	—	880	—	880	
	1,470	2,247	—	3,717	3,711
<b>Derivative financial instruments</b>	1,357	—	—	1,357	1,357
<b>Other invested assets</b>	—	40	482	522	522
<b>Investment properties</b>	—	—	1,668	1,668	1,701
<b>Total investments</b>	\$ 33,309	\$ 2,941	\$ 2,150	\$ 38,400	\$ 38,427

(in millions of dollars)	As at December 31, 2022				
	At fair value through profit or loss	At amortized cost	Other	Total	Fair value
<b>Cash and short-term investments</b>	\$ 229	\$ 992	\$ —	\$ 1,221	\$ 1,221
<b>Bonds</b>					
Governments	8,269	—	—	8,269	
Municipalities	627	—	—	627	
Corporate and other	17,153	—	—	17,153	
	26,049	—	—	26,049	26,049
<b>Stocks</b>					
Common	2,461	—	—	2,461	
Preferred	365	—	—	365	
Stock indexes	289	—	—	289	
Investment fund units	793	—	—	793	
	3,908	—	—	3,908	3,908
<b>Loans</b>					
<b>Mortgages</b>					
Insured mortgages					
Multi-residential	1,107	—	—	1,107	
Non-residential	3	—	—	3	
	1,110	—	—	1,110	
Conventional mortgages					
Multi-residential	220	—	—	220	
Non-residential	262	—	—	262	
	482	—	—	482	
	1,592	—	—	1,592	
Car loans	—	1,184	—	1,184	
Other loans	—	928	—	928	
	1,592	2,112	—	3,704	3,730
<b>Derivative financial instruments</b>	988	—	—	988	988
<b>Other invested assets</b>	—	20	489	509	509
<b>Investment properties</b>	—	—	1,804	1,804	1,837
<b>Total investments</b>	\$ 32,766	\$ 3,124	\$ 2,293	\$ 38,183	\$ 38,242

Other invested assets are made up of notes receivable and investments in associates and joint ventures. Notes receivable are classified at amortized cost. Investments in associates and joint ventures, accounted for using the equity method, are presented in the *Other* column.

The fair value of investment properties includes the carrying value of investment properties accounted for at fair value and the fair value of linearization of rents accounted for in *Other Assets*.

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

The Company holds interests ranging from 25% to 50% as at September 30, 2023 and as at December 31, 2022. The carrying value of these investments as at September 30, 2023 is \$482 (\$489 as at December 31, 2022). The share of net income and comprehensive income for the nine months ended September 30, 2023 amounts to \$6 (\$27 for the nine months ended September 30, 2022).

## c) Net Investment Income

(in millions of dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
<b>Interest and other investment income</b>				
Interest	\$ 394	\$ 323	\$ 1,132	\$ 910
Dividends	25	96	156	253
Derivative financial instruments	16	3	73	(2)
Net rental income	21	21	64	63
Provision for credit losses	(12)	(19)	(39)	(38)
Other income and expenses	(2)	77	(9)	132
	442	501	1,377	1,318
<b>Change in fair value of investments</b>				
Cash and short-term investments	—	2	8	2
Bonds	(2,092)	(435)	(1,559)	(7,363)
Stocks	14	(109)	64	(536)
Loans	(7)	(15)	(10)	(115)
Derivative financial instruments	(875)	369	(234)	(1,614)
Investment properties	(106)	(58)	(154)	(72)
Other	43	(76)	37	(65)
	(3,023)	(322)	(1,848)	(9,763)
<b>Total net investment income</b>	<b>\$ (2,581)</b>	<b>\$ 179</b>	<b>\$ (471)</b>	<b>\$ (8,445)</b>

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

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

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

**Financial Assets**

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

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

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

*Loans* – The fair value of mortgages and car loans is estimated by discounting the cash flows with the interest rates currently prevailing on the market for comparable loans and adjusted for credit risk and terms. Other loans are carried at amortized cost. They are guaranteed and may be repaid at any time. The fair value of other loans approximates their carrying value due to their nature.

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

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



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

*Other Assets* – The fair value of securities purchased under reverse repurchase agreements is measured at the consideration paid plus accrued interest. The fair value of other assets is approximately the same as the carrying value due to their short-term nature.

#### **Investment Properties**

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

#### **Financial Liabilities**

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

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

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

The fair value of securities sold under repurchase agreements is measured at the consideration received plus accrued interest.

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

As at September 30, 2023, the fair value of the mortgage debt is \$3 (\$3 as at December 31, 2022). It is secured by an investment property with a carrying value of \$52 (\$42 as at December 31, 2022), bearing interest of 2.370% and maturing on September 27, 2028. The interest expense on the mortgage debt is less than \$1 (less than \$1 for the nine months ended September 30, 2022).

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

*Investment Contract Liabilities and Deposits and Investment Contract Liabilities Related to Segregated Funds* – The fair value of these investment contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. The fair value of demand deposits for which maturity is not determined is assumed to be their carrying value. The estimated fair value of fixed-rate term deposits is determined by discounting contractual cash flows at current interest rates offered on the market for deposits with similar terms and risks.

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

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

Level 1 – Valuation based on quoted prices in active markets (unadjusted) for identical assets or liabilities. Stocks traded on the market, among other things, are classified in Level 1.

Level 2 – Valuation model based on inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly or indirectly. Most bonds, short-term investments and certain derivative financial instruments are classified in Level 2.

Level 3 – Valuation model based on valuation techniques that use significant unobservable market parameters and that reflect management's best estimates. Most private placements are classified in Level 3.

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

## Assets

(in millions of dollars)	As at September 30, 2023			
	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
<b>Cash and short-term investments</b>	\$ —	\$ 200	\$ —	\$ 200
<b>Bonds</b>				
Governments	—	7,939	93	8,032
Municipalities	—	735	—	735
Corporate and other	—	14,880	2,836	17,716
	—	23,554	2,929	26,483
<b>Stocks</b>	1,505	222	2,072	3,799
<b>Mortgages</b>	—	1,470	—	1,470
<b>Derivative financial instruments</b>	111	1,246	—	1,357
<b>Investment properties</b>	—	—	1,668	1,668
<b>General fund investments recognized at fair value</b>	1,616	26,692	6,669	34,977
<b>Other assets</b>	—	10	—	10
<b>Segregated funds financial instruments and investment properties</b>	30,180	7,985	829	38,994
<b>Total financial assets at fair value</b>	\$ 31,796	\$ 34,687	\$ 7,498	\$ 73,981
	As at December 31, 2022 <sup>1</sup>			
(in millions of dollars)	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
<b>Cash and short-term investments</b>	\$ —	\$ 229	\$ —	\$ 229
<b>Bonds</b>				
Governments	—	8,169	100	8,269
Municipalities	—	627	—	627
Corporate and other	—	14,477	2,676	17,153
	—	23,273	2,776	26,049
<b>Stocks</b>	1,508	233	2,167	3,908
<b>Mortgages</b>	—	1,592	—	1,592
<b>Derivative financial instruments</b>	37	950	1	988
<b>Investment properties</b>	—	—	1,804	1,804
<b>General fund investments recognized at fair value</b>	1,545	26,277	6,748	34,570
<b>Segregated funds financial instruments and investment properties</b>	28,157	8,117	802	37,076
<b>Total financial assets at fair value</b>	\$ 29,702	\$ 34,394	\$ 7,550	\$ 71,646

<sup>1</sup> During the nine months ended September 30, 2023, the Company modified the presentation of fair value hierarchy information to upgrade according to practices observed on the market. Data for the year ended December 31, 2022 have been reclassified to comply with the current period's presentation. An amount of \$2,118 of governments bonds (presented in governments bonds designated at fair value through profit or loss and in available for sale as well as in segregated funds financial instruments and investment properties) has therefore been reclassified from Level 1 to Level 2 as at December 31, 2022. In addition, the Company modified the presentation of an amount of \$25 as at December 31, 2022 from corporate bonds to mortgages to comply with their contractual nature and the current period's presentation. This adjustment modified Levels 2 and 3 by the same amount. The reclassifications had no impact on the net income of the Company.

There were no transfers from Level 1 to Level 2 during the nine months ended September 30, 2023 (none for the year ended December 31, 2022).

There were no transfers from Level 2 to Level 1 during the nine months ended September 30, 2023 (none for the year ended December 31, 2022).

There were no transfers from Level 2 to Level 3 during the nine months ended September 30, 2023 (\$23 for the year ended December 31, 2022). Transfers for the year ended December 31, 2022 were related to segregated funds financial instruments for \$15 and bonds for \$8. The fair value of segregated funds financial instruments and bonds was measured at the quoted market price obtained through brokers. However, their price had remained unchanged for more than 30 days which, according to the Company's internal policy, resulted in a transfer.

Transfers from Level 3 to Level 2 during the nine months ended September 30, 2023 amount to \$12 (\$8 for the year ended December 31, 2022). These transfers were related to bonds. The fair value of these bonds was measured at the quoted market price obtained through brokers who estimate the fair value of these financial instruments and was based on a price obtained less than 30 days prior.

There were no transfers from Level 1 to Level 3 during the nine months ended September 30, 2023 (\$2 for the year ended December 31, 2022). Transfers for the year ended December 31, 2022 were related to segregated funds financial instruments. The fair value of these instruments was measured at the quoted market price obtained through brokers. However, the price of these financial instruments had remained unchanged for more than 30 days which, according to the Company's internal policy, resulted in a transfer.

There were no transfers from Level 3 to Level 1 during the nine months ended September 30, 2023 (none for the year ended December 31, 2022).

During the nine months ended September 30, 2023 and during the year ended December 31, 2022, the Company made Level 3 transfers from owner-occupied properties to investment properties in relation to a change in use of the properties. The fair value of the properties at the transfer dates was assessed at \$14 (\$53 for the year ended December 31, 2022). The revaluation adjustments of \$3 before tax (\$3 after tax) have been recorded in the Comprehensive Income Statement in *Revaluation surplus related to transfers to investment properties* (\$26 before tax (\$22 after tax) for the year ended December 31, 2022).

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

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

**Nine months ended September 30, 2023**

(in millions of dollars)	Balance as at December 31, 2022	Realized and unrealized gains (losses) included in net income	Purchases	Sales and settlements	Transfers into (out of) Level 3 and reclassifications	Balance as at September 30, 2023	Total unrealized gains (losses) included in net income on investments still held
<b>Bonds</b>	\$ 2,776	\$ (163)	\$ 441	\$ (113)	\$ (12)	\$ 2,929	\$ (167)
<b>Stocks</b>	2,167	(75)	143	(163)	—	2,072	(22)
<b>Derivative financial instruments</b>	1	(1)	—	—	—	—	—
<b>Investment properties</b>	1,804	(154)	42	(38)	14	1,668	(154)
<b>General fund investments recognized at fair value</b>	6,748	(393)	626	(314)	2	6,669	(343)
<b>Segregated funds financial instruments and investment properties</b>	802	9	76	(58)	—	829	4
<b>Total</b>	<b>\$ 7,550</b>	<b>\$ (384)</b>	<b>\$ 702</b>	<b>\$ (372)</b>	<b>\$ 2</b>	<b>\$ 7,498</b>	<b>\$ (339)</b>

Year ended December 31, 2022

(in millions of dollars)	Balance as at January 1, 2022	Realized and unrealized gains (losses) included in net income	Purchases	Sales and settlements	Transfers into (out of) Level 3 and reclassifications	Balance as at December 31, 2022	Total unrealized gains (losses) included in net income on investments still held
<b>Bonds</b>	\$ 3,048	\$ (556)	\$ 690	\$ (406)	\$ —	\$ 2,776	\$ (556)
<b>Stocks</b>	1,830	166	276	(105)	—	2,167	168
<b>Derivative financial instruments</b>	3	(2)	—	—	—	1	(2)
<b>Investment properties</b>	1,870	(139)	23	(3)	53	1,804	(139)
<b>General fund investments recognized at fair value</b>	6,751	(531)	989	(514)	53	6,748	(529)
<b>Segregated funds financial instruments and investment properties</b>	508	46	258	(27)	17	802	39
<b>Total</b>	\$ 7,259	\$ (485)	\$ 1,247	\$ (541)	\$ 70	\$ 7,550	\$ (490)

For the nine months ended September 30, 2023, an amount of \$42 (\$23 for the year ended December 31, 2022) presented in *Purchases* for investment properties corresponds to capitalizations to *Investment properties* and an amount of \$14 (\$53 for the year ended December 31, 2022) presented in *Transfers into (out of) Level 3 and reclassifications* corresponds to reclassifications of fixed assets to *Investment properties*. Also, *Sales and settlements* for investment properties do not include any transfers to fixed assets (none for the year ended December 31, 2022).

*Realized and unrealized gains (losses) included in net income* and *Total unrealized gains (losses) included in net income on investments still held* are presented in *Net investment income* in the Income Statement, except for those related to segregated funds net assets, which are presented in *Investment income (expenses) from segregated funds net assets* in the Income Statement.

#### Valuation for Level 3 Assets

The main unobservable input used in valuation of bonds as at September 30, 2023 corresponds to credit and liquidity risk premiums ranging from 0.80% to 8.29% (1.31% to 3.09% as at December 31, 2022). The credit and liquidity risk premiums are the difference between the expected yield of an asset and the risk-free rate of return. The difference is called a spread and represents an extra compensation for the risk of default of the borrower and the lack of active markets to sell the financial assets. If all other factors remain constant, a decrease (increase) in credit and liquidity risk premiums will lead to an increase (decrease) in fair value of bonds.

The main unobservable input used in valuation of stocks as at September 30, 2023 corresponds to the net asset value provided by the general partner of the limited partnership investments or the manager of the funds, and the range is 100% of the net asset value of the shares owned by the Company. The net asset value is the estimated fair value of the asset minus the fair value of the liability divided by the number of shares outstanding of a fund or a limited partnership. The financial statements from which the net asset value is collected by the Company are audited annually.

The main unobservable inputs used in the valuation of the investment properties as at September 30, 2023 are the discount rate, which is between 5.75% and 8.75% (5.00% and 8.25% as at December 31, 2022) and the terminal capitalization rate, which is between 5.00% and 7.50% (4.25% and 7.25% as at December 31, 2022). The discount rate is based on market activity by type of building and by location and reflects the expected rate of return to be realized on investments over the next 10 years. The terminal capitalization rate is based on market activity by type of building and by location and reflects the expected rate of return to be realized on investments over the remaining life after the 10-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

#### Fair Value Disclosed in the Notes

The Company classifies and measures certain financial instruments at amortized cost. The fair value of these financial instruments is disclosed in the notes. The following table shows the hierarchy level of such fair values:

(in millions of dollars)	As at September 30, 2023			Total
	Level 1	Level 2	Level 3	
<b>Classified at amortized cost</b>				
Car loans and other loans	\$ —	\$ 2,241	\$ —	\$ 2,241
<b>Total of assets whose fair value is disclosed in the notes</b>	\$ —	\$ 2,241	\$ —	\$ 2,241

(in millions of dollars)	As at December 31, 2022			Total
	Level 1	Level 2	Level 3	
<b>Classified at amortized cost</b>				
Car loans and other loans	\$ —	\$ 2,138	\$ —	\$ 2,138
<b>Total of assets whose fair value is disclosed in the notes</b>	<b>\$ —</b>	<b>\$ 2,138</b>	<b>\$ —</b>	<b>\$ 2,138</b>

**Financial Liabilities**

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

(in millions of dollars)	As at September 30, 2023			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Other liabilities</b>				
Short-selling securities	\$ 743	\$ 239	\$ —	\$ 982
Securitization liabilities	—	362	—	362
<b>Derivative financial instruments</b>	<b>31</b>	<b>1,515</b>	<b>—</b>	<b>1,546</b>
<b>Total of liabilities classified at fair value through profit or loss</b>	<b>\$ 774</b>	<b>\$ 2,116</b>	<b>\$ —</b>	<b>\$ 2,890</b>
<b>Classified at amortized cost</b>				
<b>Other liabilities</b>				
Mortgage debt	\$ —	\$ 3	\$ —	\$ 3
<b>Debentures</b>	<b>—</b>	<b>4</b>	<b>—</b>	<b>4</b>
<b>Total of liabilities classified at amortized cost</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 7</b>

(in millions of dollars)	As at December 31, 2022			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Other liabilities</b>				
Short-selling securities	\$ 734	\$ 222	\$ —	\$ 956
<b>Derivative financial instruments</b>	<b>6</b>	<b>1,459</b>	<b>—</b>	<b>1,465</b>
<b>Total of liabilities classified at fair value through profit or loss</b>	<b>\$ 740</b>	<b>\$ 1,681</b>	<b>\$ —</b>	<b>\$ 2,421</b>
<b>Classified at amortized cost</b>				
<b>Other liabilities</b>				
Securitization liabilities	\$ —	\$ 443	\$ —	\$ 443
Mortgage debt	—	3	—	3
<b>Debentures</b>	<b>—</b>	<b>397</b>	<b>—</b>	<b>397</b>
<b>Investment contract liabilities and deposits</b>	<b>—</b>	<b>4,259</b>	<b>—</b>	<b>4,259</b>
<b>Investment contract liabilities related to segregated funds</b>	<b>—</b>	<b>10,433</b>	<b>—</b>	<b>10,433</b>
<b>Total of liabilities classified at amortized cost</b>	<b>\$ —</b>	<b>\$ 15,535</b>	<b>\$ —</b>	<b>\$ 15,535</b>

(in millions of dollars)	As at January 1, 2022			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
<b>Other liabilities</b>				
Short-selling securities	\$ 94	\$ 168	\$ —	\$ 262
<b>Derivative financial instruments</b>	79	415	—	494
<b>Total of liabilities classified at fair value through profit or loss</b>	<b>\$ 173</b>	<b>\$ 583</b>	<b>\$ —</b>	<b>\$ 756</b>
<b>Classified at amortized cost</b>				
<b>Other liabilities</b>				
Securitization liabilities	\$ —	\$ 780	\$ —	\$ 780
Mortgage debt	—	71	—	71
<b>Debentures</b>	—	666	—	666
<b>Investment contract liabilities and deposits</b>	—	4,026	—	4,026
<b>Investment contract liabilities related to segregated funds</b>	—	10,885	—	10,885
<b>Total of liabilities classified at amortized cost</b>	<b>\$ —</b>	<b>\$ 16,428</b>	<b>\$ —</b>	<b>\$ 16,428</b>

## 7 › Management of Financial Risks Associated with Financial Instruments and Insurance Contracts

Effective risk management rests on identifying, assessing, measuring, understanding, managing, monitoring and communicating the risks to which the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to review annually, or more frequently when deemed relevant. More information regarding the principles, responsibilities, key measures and management practices of the Company's risk management of financial instruments is provided in the shaded portion of the "Risk Management" section of the 2022 Management's Discussion and Analysis on pages 27 to 37 as well as in the shaded portion of the "Risk Management – Update" section of the Management's Discussion and Analysis for the Third Quarter of 2023 regarding some changes to how the Company manages or measures its market risk. The shaded information in these pages is considered an integral part of these financial statements.

### a) Market Risk

Market risk represents the risk that the fair value or future cash flows of an insurance contract or a financial instrument will fluctuate due to variations in market risk factors. This category includes, among other things, interest rate and credit spread risk, equity risk and exchange rate risk.

#### *Interest Rate and Credit Spread Risk*

One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits, whose maturity date may be uncertain and potentially a long time in the future, such as death benefits and annuity payments. Interest rate and credit spread risk is the risk of financial loss associated with fluctuations in interest rates or credit spreads. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows, which could impact financial instruments and insurance contracts.

The Company manages interest rate and credit spread risk through risk management and investment policies which are updated periodically. To properly manage the interest rate and credit spread risk and fund availability, the Company maintains an asset portfolio that closely replicates its liabilities until they expire as well as their risk profiles. Assets are chosen based on amount, cash flow and return in order to correspond to the characteristics of the replicated liabilities. The Company also uses derivative financial instruments as complementary management tools. The accounting policies for derivative financial instruments used for replication correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for replication purposes will have an impact on the financial position of the Company and on its ability to honour its obligations. This impact will be partly offset by a variation of the replicated liabilities, based on their own characteristics. The Company's insurance contract liabilities (assets) primarily encompass insurance products and annuities which are very long-term commitments. The Company favours an investment strategy that aims to achieve a balance between optimizing after-tax return and capital protection since it is impossible to apply a complete replication strategy due to a lack of availability of fixed income securities for such maturities. Residual interest rate risk is consistent with internal risk management and investment policies.

Some insurance contracts issued by the Company contain interest rate guarantees, for which the Company hedges its more volatile exposure using derivative financial instruments. The Company does not have a significant concentration of interest rate risk arising from these guarantees.

#### *Ultimate Discount Rate Risk*

The Company estimates interest rates beyond 30 years since these data are not observable on the market. To establish a discount rate curve, an ultimate discount rate is set and a grading methodology is applied between the last point of the observable data and the ultimate discount rate. An ultimate discount rate represents the sum of two assumptions: an ultimate risk-free rate and an ultimate illiquidity premium. Both assumptions may change from time to time and such variations have an effect on the net income of the Company.

### Equity Risk

Equity risk represents the risk of financial loss resulting from a change in equity market values. The Company is exposed to this risk in various ways as part of its regular operations, through: a) the income on assets held in the general fund; b) the effects on insurance contract liabilities (assets) of Universal Life policy funds and of segregated fund products; and c) net revenues on assets under management and on assets under administration.

#### a) i) Market Risk Immediate Sensitivities

##### Interest Rate and Credit Spread Immediate Sensitivities

An analysis of the Company's sensitivity to an immediate change in risk-free interest rates as well as corporate bond and provincial government bond credit spreads is presented below. Each sensitivity assumes that all other assumptions remain unchanged. Considering that the Company manages these risks by looking jointly at financial instruments and insurance contracts, it analyzes and discloses its sensitivities on a net basis. The impact on equity includes the impact of net income and of remeasurement of post-employment benefits. The impact on contractual service margin is before tax.

The following tables present the immediate impact of an immediate parallel shift (rounded to the nearest 25 million dollars) of:

#### Interest rates

(in millions of dollars)	As at September 30, 2023		As at December 31, 2022	
	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase
<b>Net income</b>	\$ 50	\$ (75)	\$ 25	\$ (50)
<b>Equity</b>	75	(75)	25	(50)
<b>Contractual service margin</b>	(25)	25	(25)	25

#### Corporate bond credit spreads

(in millions of dollars)	As at September 30, 2023		As at December 31, 2022	
	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase
<b>Net income</b>	\$ 25	\$ (50)	\$ —	\$ —
<b>Equity</b>	50	(50)	—	(25)
<b>Contractual service margin</b>	—	—	—	—

#### Provincial government bond credit spreads

(in millions of dollars)	As at September 30, 2023		As at December 31, 2022	
	50 basis point decrease	50 basis point increase	50 basis point decrease	50 basis point increase
<b>Net income</b>	\$ —	\$ —	\$ (25)	\$ —
<b>Equity</b>	—	—	(25)	—
<b>Contractual service margin</b>	(75)	75	(100)	75

Interest rate, corporate bond credit spread and provincial government bond credit spread sensitivities as at December 31, 2022 are not fully representative of the September 30, 2023 risk profile as the transition of the Company's invested asset portfolio for asset-liability management purposes under IFRS 17 and IFRS 9 was not fully completed until 2023.

##### Ultimate Discount Rate Immediate Sensitivities

An analysis of the Company's sensitivity to an immediate change in the ultimate discount rate assumption used to establish insurance contract liabilities (assets) is presented below. Each sensitivity assumes that all other assumptions remain unchanged. The impact on contractual service margin is before tax.

The following table presents the immediate impact of an immediate change in the ultimate discount rate assumption (rounded to the nearest 10 million dollars):

(in millions of dollars)	As at September 30, 2023		As at December 31, 2022	
	10 basis point decrease	10 basis point increase	10 basis point decrease	10 basis point increase
<b>Net income</b>	\$ (50)	\$ 50	\$ (50)	\$ 60
<b>Equity</b>	(50)	50	(50)	60
<b>Contractual service margin</b>	—	—	—	—

*Public Equity Immediate Sensitivities*

An analysis of the Company's sensitivity to an immediate change in public equity market values is presented below and assumes that all other assumptions remain unchanged. Considering that the Company manages this risk by looking jointly at financial instruments and insurance contracts, it analyzes and discloses its sensitivity on a net basis. Preferred shares are excluded from the scope of these sensitivities' analysis. The impact on equity includes the impact of net income and of remeasurement of post-employment benefits. The impact on contractual service margin is before tax.

The following tables present the immediate impact of an immediate change in public equity market values (rounded to the nearest 25 million dollars):

(in millions of dollars)	As at September 30, 2023			
	25% decrease	10% decrease	10% increase	25% increase
<b>Net income</b>	\$ (125)	\$ (75)	\$ 75	\$ 175
<b>Equity</b>	(125)	(75)	75	175
<b>Contractual service margin</b>	(450)	(200)	150	400

(in millions of dollars)	As at December 31, 2022			
	25% decrease	10% decrease	10% increase	25% increase
<b>Net income</b>	\$ (75)	\$ (25)	\$ 25	\$ 75
<b>Equity</b>	(75)	(25)	25	75
<b>Contractual service margin</b>	(425)	(175)	200	500

In order to measure its public equity sensitivity, the Company examined the impact of a 10% market variance at the end of the period, believing that this kind of variance was reasonable in the current market environment. A 25% market change is also disclosed to provide a wider range of potential impacts due to significant changes in public equity market levels.

*Private Non-Fixed Income Asset Immediate Sensitivities*

An analysis of the Company's sensitivity to an immediate change in private non-fixed income asset market values is presented below and assumes that all other assumptions remain unchanged. These impacts are only on financial instruments as insurance contracts are insensitive to these market values. Private non-fixed income assets include private equity, investment property and infrastructure. The impact on equity includes the impact of net income and of remeasurement of post-employment benefits. The impact on contractual service margin is before tax.

The following table presents the immediate impact of an immediate change in private non-fixed income asset market values on private equity, investment property and infrastructure (rounded to the nearest 25 million dollars):

(in millions of dollars)	As at September 30, 2023		As at December 31, 2022	
	10% decrease	10% increase	10% decrease	10% increase
<b>Net income</b>	\$ (300)	\$ 300	\$ (300)	\$ 300
<b>Equity</b>	(300)	300	(300)	300
<b>Contractual service margin</b>	—	—	—	—

**b) Credit Risk**

Credit risk represents the risk of financial loss arising from a deterioration in credit quality or failure of a counterparty to meet its commitments when due.

This risk originates mainly from credit granted in the form of loans and corporate bonds, but also from exposure to derivative financial instruments and to reinsurers that share our policyholder commitments. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates and joint ventures.

The Company has adopted a reinsurance risk management policy as mentioned in Note 10 "Management of Insurance Risk" which avoids the concentration of risk. Amounts recoverable from reinsurers are estimated in a consistent manner with the underlying insurance contract liabilities (assets) and in accordance with the reinsurance contracts. Although the Company has reinsurance agreements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's reinsurance agreements are diversified such that the Company is not dependent on a single reinsurer or any single reinsurance contract.



**b) i) Credit Quality Indicators****Bonds by Investment Grade**

(in millions of dollars)	As at September 30, 2023	As at December 31, 2022
AAA	\$ 2,198	\$ 2,234
AA	7,263	7,657
A	10,326	9,727
BBB	6,526	6,196
BB and lower	170	235
<b>Total</b>	<b>\$ 26,483</b>	<b>\$ 26,049</b>

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of \$1,892 as at September 30, 2023 (\$1,837 as at December 31, 2022).

**Loans**

(in millions of dollars)	As at September 30, 2023	As at December 31, 2022
Insured mortgages	\$ 1,023	\$ 1,110
Conventional mortgages	447	482
Car loans and other loans	2,247	2,112
<b>Total</b>	<b>\$ 3,717</b>	<b>\$ 3,704</b>

The credit quality of loans is assessed internally, on a regular basis, when the review of the portfolio is carried out.

**b) ii) Allowance for Credit Losses**

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

*Watch list* – The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the borrower require monitoring.

*List of borrowers on the monitor list* – The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the borrower require increased monitoring. A loan is moved from the watch list to the list of borrowers on the monitor list when changes in facts and circumstances of the borrower increase the likelihood that the loan will suffer a loss-generating event in the near future.

*List of impaired loans* – The collection of current and future contractual payments of principal and interest is no longer assured. Loans classified at amortized cost are presented net of an allowance for credit losses.

**Significant Increase in Credit Risk**

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, the Company bases its assessment on the change in default risk over the expected life of the financial instrument, which requires important judgment. To this end, the Company compares the probability of default of the financial instrument at the reporting date with the probability of default at the date of initial recognition. In making this assessment, the Company considers quantitative and qualitative information as well as information about future economic conditions to the extent that it affects the assessment of the financial instrument's probability of default.

Regardless of the outcome of the above assessment, all financial instruments that are 30 days or more past due are generally considered to have experienced a significant increase in credit risk and they are migrated to Stage 2, even if the other criteria do not indicate that a significant increase in credit risk has occurred.

### Main Macroeconomic Factors

The following table shows the macroeconomic factors used to estimate the allowance for credit losses on loans. For each scenario, namely, the base scenario, optimistic scenario and pessimistic scenario, the average values of the macroeconomic factors over the next 12 months (used for Stage 1 allowance for credit losses calculations) and over the remaining forecast period (used for Stage 2 allowance for credit losses calculations) are presented below.

	As at September 30, 2023					
	Base scenario		Optimistic scenario		Pessimistic scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Unemployment rate	5.9%	6.2%	5.3%	5.5%	6.8%	6.5%
Real GDP growth rate	1.0%	1.9%	1.8%	2.9%	0.1%	1.4%
Bank of Canada overnight rate	4.1%	3.0%	2.8%	1.5%	4.9%	4.0%

An increase in the unemployment rate or the Bank of Canada overnight rate will generally lead to a higher allowance for credit losses, whereas an increase in real GDP growth rate will generally lead to a lower allowance for credit losses.

As indicated in the IFRS 7 standard, the Company has not presented the information on the main macroeconomic factors used to estimate the allowance for credit losses on loans as at December 31, 2022, considering this information does not need to be presented for periods before the date of the initial application of IFRS 9.

### Sensitivity Analysis of Allowance for Credit Losses on Non-Impaired Car Loans

The following table shows a comparison of the Company's allowance for credit losses on non-impaired car loans (Stage 1 and Stage 2) based on the probability weightings of three scenarios with allowance for credit losses resulting from simulations of each scenario weighted at 100%:

	As at September 30, 2023
(in millions of dollars)	Allowance for credit losses on non-impaired car loans
Balance as at September 30, 2023	\$ 57
Scenarios	
100% base	57
100% optimistic	52
100% pessimistic	62

As indicated in the IFRS 7 standard, the Company has not presented the sensitivity analysis of the allowance for credit losses on non-impaired car loans as at December 31, 2022, considering this information does not need to be presented for periods before the date of the initial application of IFRS 9.

### Allowance for Credit Losses by Stage

The following table presents the gross carrying value and the allowance for credit losses by stage:

	As at September 30, 2023							
	Non-impaired				Impaired			
	Stage 1		Stage 2		Stage 3		Total	
(in millions of dollars)	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses
Car loans	\$ 1,244	\$ (44)	\$ 174	\$ (13)	\$ 14	\$ (8)	\$ 1,432	\$ (65)
Other loans	881	(1)	—	—	—	—	881	(1)

	As at December 31, 2022							
	Non-impaired				Impaired			
	Stage 1		Stage 2		Stage 3		Total	
(in millions of dollars)	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses	Gross carrying value	Allowance for credit losses
Car loans	\$ 1,080	\$ (40)	\$ 153	\$ (13)	\$ 12	\$ (8)	\$ 1,245	\$ (61)
Other loans	929	(1)	—	—	—	—	929	(1)

The following table presents the reconciliation of the allowance for credit losses for car loans:

(in millions of dollars)	As at September 30, 2023			
	Non-impaired		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	12 months	Lifetime	Lifetime	
<b>Allowance for credit losses as at December 31, 2022</b>	\$ 40	\$ 13	\$ 8	\$ 61
Transfers <sup>1</sup>				
In (out) Stage 1	11	(9)	(2)	—
In (out) Stage 2	(10)	12	(2)	—
In (out) Stage 3	—	(7)	7	—
Net remeasurement of allowance for credit losses <sup>2</sup>	(12)	5	32	25
Purchases and originations	20	—	—	20
Derecognition <sup>3</sup>	(5)	(1)	—	(6)
<b>Provision for credit losses</b>	<b>4</b>	<b>—</b>	<b>35</b>	<b>39</b>
Write-offs	—	—	(40)	(40)
Recoveries	—	—	5	5
<b>Allowance for credit losses as at September 30, 2023</b>	<b>\$ 44</b>	<b>\$ 13</b>	<b>\$ 8</b>	<b>\$ 65</b>

<sup>1</sup> Stage transfers deemed to have taken place at the beginning of the quarter in which the transfers occurred.

<sup>2</sup> Includes the net remeasurement of allowance for credit losses (after transfers) attributable mainly to changes in volume and in credit quality of existing car loans as well as to changes in risk parameters and model assumptions.

<sup>3</sup> Reversals of allowance for credit losses arising from full or partial repayments (excluding write-offs and disposals).

(in millions of dollars)	As at December 31, 2022			
	Non-impaired		Impaired	
	Stage 1	Stage 2	Stage 3	Total
	12 months	Lifetime	Lifetime	
<b>Allowance for credit losses as at January 1, 2022</b>	\$ 30	\$ 3	\$ 4	\$ 37
Transfers <sup>1</sup>				
In (out) Stage 1	11	(9)	(2)	—
In (out) Stage 2	(12)	14	(2)	—
In (out) Stage 3	—	(7)	7	—
Net remeasurement of allowance for credit losses <sup>2</sup>	—	13	39	52
Purchases and originations	17	—	—	17
Derecognition <sup>3</sup>	(6)	(1)	—	(7)
<b>Provision for credit losses</b>	<b>10</b>	<b>10</b>	<b>42</b>	<b>62</b>
Write-offs	—	—	(47)	(47)
Recoveries	—	—	9	9
<b>Allowance for credit losses as at December 31, 2022</b>	<b>\$ 40</b>	<b>\$ 13</b>	<b>\$ 8</b>	<b>\$ 61</b>

<sup>1</sup> Stage transfers deemed to have taken place at the beginning of the quarter in which the transfers occurred.

<sup>2</sup> Includes the net remeasurement of allowance for credit losses (after transfers) attributable mainly to changes in volume and in credit quality of existing car loans as well as to changes in risk parameters and model assumptions.

<sup>3</sup> Reversals of allowance for credit losses arising from full or partial repayments (excluding write-offs and disposals).

Considering their nature, *Other loans* have a negligible allowance for credit losses due to their low credit risk.

The following table presents the gross carrying value and the allowance for credit losses related to car loans by stage:

(in millions of dollars)	As at September 30, 2023			
	Non-impaired		Impaired	
	Stage 1	Stage 2	Stage 3	Total
<b>Car loans<sup>1</sup></b>				
Low risk <sup>2</sup>	\$ 1,194	\$ 163	\$ —	\$ 1,357
Medium risk <sup>2</sup>	47	10	—	57
High risk <sup>2</sup>	3	1	—	4
Impaired	—	—	14	14
<b>Gross carrying value</b>	<b>1,244</b>	<b>174</b>	<b>14</b>	<b>1,432</b>
Allowance for credit losses	44	13	8	65
<b>Carrying value</b>	<b>\$ 1,200</b>	<b>\$ 161</b>	<b>\$ 6</b>	<b>\$ 1,367</b>

<sup>1</sup> The credit risk rating is reflective of a nonprime lender's risk perception.

<sup>2</sup> Low risk is considered near prime, medium risk is nonprime and high risk is subprime.

As indicated in the IFRS 7 standard, the Company has not presented the information on the gross carrying value and the allowance for credit losses by stage as at December 31, 2022, considering this information does not need to be presented for periods before the date of the initial application of IFRS 9.

#### Maximum Exposure to Credit Risk on Impaired Car Loans

The Company mitigates credit risk by registering a security interest/lien on the underlying car being financed. As at September 30, 2023, the maximum exposure to credit risk of impaired car loans is \$14 and the expected collateral value is 40% of this amount.

As indicated in the IFRS 7 standard, the Company has not presented the information on the maximum exposure to credit risk of impaired car loans, the percentage of exposure covered by guarantees and the main type of collateral held as at December 31, 2022, considering this information does not need to be presented for periods before the transition date to IFRS 9.

#### Foreclosed Properties

During the nine months ended September 30, 2023, the Company did not take possession of any properties it held as collateral on mortgages (none for the year ended December 31, 2022). Foreclosed properties that the Company still held at the end of the period are presented as real estate held for resale in *Other assets*.

## 8 › Derivative Financial Instruments

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

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments that have a positive value should the counterparty default. The maximum credit risk of derivative financial instruments as at September 30, 2023 is \$1,341 (\$972 as at December 31, 2022). The Company's exposure at the end of each reporting period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

(in millions of dollars)	As at September 30, 2023					
	Notional amount			Total	Fair value	
	Less than 1 year	1 to 5 years	Over 5 years		Positive	Negative
<b>Equity contracts</b>						
Swap contracts	\$ 647	\$ 221	\$ 67	\$ 935	\$ 6	\$ (33)
Futures contracts	461	—	—	461	15	—
Options	5,963	—	—	5,963	200	(63)
<b>Currency contracts</b>						
Swap contracts	36	254	5,623	5,913	190	(112)
Forward contracts	7,032	—	—	7,032	24	(71)
Options	294	81	—	375	4	(4)
<b>Interest rate contracts</b>						
Swap contracts	553	4,901	9,251	14,705	917	(650)
Futures contracts	88	—	—	88	—	(1)
Forward contracts	8,240	200	—	8,440	—	(612)
<b>Other derivative contracts</b>						
	2	2	—	4	1	—
<b>Total</b>	<b>\$ 23,316</b>	<b>\$ 5,659</b>	<b>\$ 14,941</b>	<b>\$ 43,916</b>	<b>\$ 1,357</b>	<b>\$ (1,546)</b>

As at December 31, 2022						
(in millions of dollars)	Notional amount			Total	Fair value	
	Less than 1 year	1 to 5 years	Over 5 years		Positive	Negative
<b>Equity contracts</b>						
Swap contracts	\$ 945	\$ —	\$ 80	\$ 1,025	\$ 16	\$ (23)
Futures contracts	455	—	—	455	15	—
Options	1,499	—	—	1,499	28	(7)
<b>Currency contracts</b>						
Swap contracts	142	197	5,342	5,681	235	(138)
Forward contracts	5,163	456	—	5,619	38	(27)
Options	254	38	—	292	6	(6)
<b>Interest rate contracts</b>						
Swap contracts	434	4,407	8,901	13,742	603	(750)
Futures contracts	2	—	—	2	—	—
Forward contracts	8,618	698	—	9,316	46	(514)
<b>Other derivative contracts<sup>1</sup></b>	<b>1</b>	<b>3</b>	<b>—</b>	<b>4</b>	<b>1</b>	<b>—</b>
<b>Total</b>	<b>\$ 17,513</b>	<b>\$ 5,799</b>	<b>\$ 14,323</b>	<b>\$ 37,635</b>	<b>\$ 988</b>	<b>\$ (1,465)</b>

<sup>1</sup> Embedded derivatives are not separated from the host contract since transition to IFRS 9. Embedded derivatives had a negative value of \$4 on December 31, 2022.

As at September 30, 2023			
(in millions of dollars)	Notional amount	Fair value	
		Positive	Negative
Derivative financial instruments not designated as hedge accounting	\$ 41,790	\$ 1,357	\$ (1,517)
Net investment hedge	2,126	—	(29)
<b>Total of derivative financial instruments</b>	<b>\$ 43,916</b>	<b>\$ 1,357</b>	<b>\$ (1,546)</b>

As at December 31, 2022			
(in millions of dollars)	Notional amount	Fair value	
		Positive	Negative
Derivative financial instruments not designated as hedge accounting	\$ 35,244	\$ 975	\$ (1,456)
Net investment hedge	2,103	11	—
Fair value hedges			
Interest risk	288	2	(9)
<b>Total of derivative financial instruments</b>	<b>\$ 37,635</b>	<b>\$ 988</b>	<b>\$ (1,465)</b>

The Company has elected, as permitted under IFRS 9, to continue applying the hedge accounting requirements of IAS 39 *Financial Instruments*.

At the transition date to IFRS 9, the Company ended certain hedging relationships, which did not have a significant impact on the Financial Statements. See Note 4 "Impact of IFRS 17 and IFRS 9 Adoption".

#### Net Investment Hedge

As at September 30, 2023, forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than 1 year (less than 1 year as at December 31, 2022) and an average CAD/USD exchange rate of 0.7400 (0.7382 as at December 31, 2022). The effective portion of changes in fair value is recorded in *Other comprehensive income*, as is the foreign currency translation of the net investment in a foreign operation. For the nine months ended September 30, 2023 and 2022, the Company did not recognize any ineffectiveness.

#### Fair Value Hedge

##### Interest Rate Risk Hedging

On January 1, 2023, the Company ended a fair value hedging relationship which aimed to reduce its exposure to changes in interest rates on financial liabilities at amortized cost. The Company used interest rate swap contracts that had maturities of less than 1 year to 6 years as at December 31, 2022. For the nine months ended September 30, 2022, the Company recognized a loss of \$9 on the hedging instruments and a gain of \$9 on the hedged items. Thus, the Company did not recognize any ineffectiveness.

## 9 › Segregated Funds Net Assets

Policyholders can select from a variety of segregated funds. Although the underlying assets are registered in the name of the Company and the segregated funds policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated funds policyholder bears the risk and rewards of the funds' investment performance. However, the Company offers guarantees on some contracts and is exposed to market risk as a result of these guarantees. The Company's exposure to financial loss from segregated fund products is limited to the value of these guarantees and the related liabilities are recorded in *Insurance contract liabilities*. For contracts that generate insurance risk, the amount due to policyholders that corresponds to the segregated funds net assets is recorded as *Insurance contract liabilities related to segregated funds*. For contracts that do not generate insurance risk, the amount due to policyholders that corresponds to the segregated funds net assets is recorded as *Investment contract liabilities related to segregated funds*.

The table below comprises the underlying items for insurance contracts with direct participation features related to segregated funds as well as those for investment contracts related to segregated funds, which is the segregated funds net assets, and shows the composition. The fair value of the underlying items for insurance contracts with direct participation features, which are calculated under the variable fee approach, is equivalent to the *Insurance contract liabilities related to segregated funds* in Note 11 "Insurance Contracts and Reinsurance Contracts", and the fair value of the underlying items for investment contracts related to segregated funds, which are accounted for at amortized cost, is equivalent to the *Investment contract liabilities related to segregated funds* in the Statement of Financial Position.

(in millions of dollars)	As at September 30, 2023	As at December 31, 2022
<b>Assets</b>		
Cash and short-term investments	\$ 1,011	\$ 1,583
Bonds	6,611	6,416
Stocks and investment funds	31,505	29,465
Mortgages	54	56
Investment properties	—	13
Derivative financial instruments	—	11
Other assets	305	168
	<b>39,486</b>	<b>37,712</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	364	378
<b>Net assets</b>	<b>\$ 39,122</b>	<b>\$ 37,334</b>

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

(in millions of dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Balance at beginning	\$ 40,016	\$ 35,625	\$ 37,334	\$ 39,577
Add:				
Amounts received from policyholders	1,564	1,326	4,847	5,317
Interest, dividends and other investment income	201	164	628	631
Change in fair value of investments	(1,151)	(333)	927	(6,179)
	<b>40,630</b>	<b>36,782</b>	<b>43,736</b>	<b>39,346</b>
Less:				
Amounts withdrawn by policyholders	1,312	1,137	4,047	3,347
Operating expenses	196	176	567	530
	<b>1,508</b>	<b>1,313</b>	<b>4,614</b>	<b>3,877</b>
<b>Balance at end</b>	<b>\$ 39,122</b>	<b>\$ 35,469</b>	<b>\$ 39,122</b>	<b>\$ 35,469</b>

## 10 › Management of Insurance Risk

Insurance risk is the risk of financial loss arising from higher claims than anticipated during product design and pricing. It may arise at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when calculating the *Net insurance contract liabilities (assets)*.

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

The Company has put controls and processes in place at each of these stages to ensure appropriate management of insurance risk.

### Insurance Risk

*Policyholder Behaviour* – Risk of unfavourable variability in the level, trend or volatility of lapse rates or premium payment pattern compared to assumptions.

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

*Morbidity* – Risk of unfavourable variability in the level, trend or volatility which represents an increase in occurrence rates or a decrease in termination rates for disability or illness insurance claims.

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

*Other Insurance Risks* – The Company is also exposed to other insurance risks, which do not have a significant impact on the Company's financial statements.

Every year, the appointed actuary values the policy liabilities for the Company's financial statements prepared in accordance with IFRS. He also ensures that the valuation conforms to accepted actuarial practice in Canada and that the Company's financial statements fairly present the results of the valuation.

### Sensitivity Analysis

The significant assumptions used in the valuation of insurance contracts are policyholder behaviour, mortality, morbidity and expenses. The following December 31, 2022 sensitivity analysis, updated to consider the application of the IFRS 17 and IFRS 9 standards, shows the immediate impact on net income and equity as well as on the contractual service margin of a reasonably possible permanent deterioration in these assumptions, which have the greatest impact on the estimates of future cash flows with all other assumptions unchanged. This analysis presents the sensitivities both before and after risk mitigation by reinsurance contracts. An improvement of the same percentage in those assumptions would have a similar impact, but in the opposite direction.

The following table presents the immediate sensitivities of significant assumptions used for the valuation of insurance contract liabilities (assets), gross and net of reinsurance. These sensitivities are adjusted to reflect the adjustability of products, when applicable, and are rounded to the nearest 5 million dollars.

(in millions of dollars)	As at December 31, 2022			
	Net income and Equity		Contractual service margin	
	Gross	Net	Gross	Net
<b>Policyholder behaviour</b>				
Impact of 10% deterioration	\$ 30	\$ 30	\$ (535)	\$ (570)
<b>Mortality</b>				
Impact of 2% deterioration for insurance products	(15)	(25)	(270)	(90)
Impact of 2% deterioration for annuity products	5	5	(35)	(30)
<b>Morbidity</b>				
Impact of 5% deterioration	(25)	(25)	(90)	(50)
<b>Expenses</b>				
Impact of 5% deterioration	—	—	(100)	(100)

The 10% deterioration of policyholder behaviour assumption is expressed assuming 90% of the expected lapse rates for lapse-supported products and 110% of the expected lapse rates for other products.

The 2% deterioration of mortality assumption related to insurance products is expressed assuming 102% of expected mortality rates for products where an increase in mortality rates increases insurance contract liabilities (assets), while the one related to annuity products is expressed assuming 98% of expected mortality rates for products where a decrease in mortality rates increases insurance contract liabilities (assets).

The 5% deterioration of morbidity assumption 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.

The 5% deterioration of expenses assumption is expressed assuming 105% of expected expenses for servicing and maintaining in-force policies.





## b) Roll-Forward of Net Insurance Contract Liabilities (Assets) by Remaining Coverage and Incurred Claims

As at September 30, 2023

	Liabilities for remaining coverage		Liabilities for incurred claims			Total
	Excluding loss component	Loss component	Contracts not under the PAA	Contracts under the PAA		
				Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
(in millions of dollars)						
Balance at beginning						
Insurance contract liabilities	\$ 26,469	\$ 232	\$ 2,197	\$ 207	\$ 9	\$ 29,114
Insurance contract assets	(272)	3	54	—	—	(215)
Insurance contract liabilities related to segregated funds	26,901	—	—	—	—	26,901
<b>Net insurance contract liabilities (assets) at beginning</b>	<b>53,098</b>	<b>235</b>	<b>2,251</b>	<b>207</b>	<b>9</b>	<b>55,800</b>
<b>Insurance service result</b>						
Insurance revenue						
Contracts under the fair value transition approach	(1,969)	—	—	—	—	(1,969)
Other contracts	(1,983)	—	—	—	—	(1,983)
	(3,952)	—	—	—	—	(3,952)
Insurance service expenses						
Incurred claims and other insurance service expenses	—	(52)	2,166	769	7	2,890
Amortization of insurance acquisition cash flows	320	—	—	—	—	320
Losses and reversal of losses on onerous contracts	—	40	—	—	—	40
Changes to liabilities for incurred claims	—	—	(29)	11	(6)	(24)
	320	(12)	2,137	780	1	3,226
Finance expenses (income) from insurance contracts	324	9	9	(1)	—	341
<b>Amounts recognized in net income</b>	<b>(3,308)</b>	<b>(3)</b>	<b>2,146</b>	<b>779</b>	<b>1</b>	<b>(385)</b>
Investment components and premium refunds	(3,382)	—	3,382	—	—	—
Effect of change in exchange rates	(5)	—	—	—	—	(5)
	(3,387)	—	3,382	—	—	(5)
Cash flows						
Premiums received, net of premium refunds	8,859	—	—	—	—	8,859
Claims and other insurance service expenses paid, including investment components	—	—	(5,477)	(762)	—	(6,239)
Insurance acquisition cash flows	(1,256)	—	—	—	—	(1,256)
	7,603	—	(5,477)	(762)	—	1,364
<b>Net insurance contract liabilities (assets) at end</b>	<b>54,006</b>	<b>232</b>	<b>2,302</b>	<b>224</b>	<b>10</b>	<b>56,774</b>
Balance at end						
Insurance contract liabilities	26,075	229	2,247	224	10	28,785
Insurance contract assets	(257)	3	55	—	—	(199)
Insurance contract liabilities related to segregated funds	28,188	—	—	—	—	28,188
<b>Net insurance contract liabilities (assets) at end</b>	<b>\$ 54,006</b>	<b>\$ 232</b>	<b>\$ 2,302</b>	<b>\$ 224</b>	<b>\$ 10</b>	<b>\$ 56,774</b>

As at December 31, 2022

	Liabilities for remaining coverage		Liabilities for incurred claims			Total
	Excluding loss component	Loss component	Contracts not under the PAA	Contracts under the PAA		
				Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
(in millions of dollars)						
Balance at beginning						
Insurance contract liabilities	\$ 34,261	\$ 4	\$ 2,231	\$ 129	\$ 6	\$ 36,631
Insurance contract assets	(188)	—	65	—	—	(123)
Insurance contract liabilities related to segregated funds	28,692	—	—	—	—	28,692
<b>Net insurance contract liabilities (assets) at beginning</b>	<b>62,765</b>	<b>4</b>	<b>2,296</b>	<b>129</b>	<b>6</b>	<b>65,200</b>
<b>Insurance service result</b>						
Insurance revenue						
Contracts under the fair value transition approach	(3,193)	—	—	—	—	(3,193)
Other contracts	(1,679)	—	—	—	—	(1,679)
	(4,872)	—	—	—	—	(4,872)
Insurance service expenses						
Incurred claims and other insurance service expenses	—	(11)	2,643	872	7	3,511
Amortization of insurance acquisition cash flows	240	—	—	—	—	240
Losses and reversal of losses on onerous contracts	—	240	—	—	—	240
Changes to liabilities for incurred claims	—	—	(96)	(1)	(4)	(101)
	240	229	2,547	871	3	3,890
Finance expenses (income) from insurance contracts	(11,351)	1	(89)	(2)	—	(11,441)
<b>Amounts recognized in net income</b>	<b>(15,983)</b>	<b>230</b>	<b>2,458</b>	<b>869</b>	<b>3</b>	<b>(12,423)</b>
Investment components and premium refunds	(3,409)	—	3,409	—	—	—
Effect of change in exchange rates	176	1	9	2	—	188
	(3,233)	1	3,418	2	—	188
Cash flows						
Premiums received, net of premium refunds	11,198	—	—	—	—	11,198
Claims and other insurance service expenses paid, including investment components	—	—	(5,921)	(793)	—	(6,714)
Insurance acquisition cash flows	(1,649)	—	—	—	—	(1,649)
	9,549	—	(5,921)	(793)	—	2,835
<b>Net insurance contract liabilities (assets) at end</b>	<b>53,098</b>	<b>235</b>	<b>2,251</b>	<b>207</b>	<b>9</b>	<b>55,800</b>
Balance at end						
Insurance contract liabilities	26,469	232	2,197	207	9	29,114
Insurance contract assets	(272)	3	54	—	—	(215)
Insurance contract liabilities related to segregated funds	26,901	—	—	—	—	26,901
<b>Net insurance contract liabilities (assets) at end</b>	<b>\$ 53,098</b>	<b>\$ 235</b>	<b>\$ 2,251</b>	<b>\$ 207</b>	<b>\$ 9</b>	<b>\$ 55,800</b>

**c) Roll-Forward of Net Insurance Contract Liabilities (Assets) by Measurement Component**

The following tables disclose the reconciliation by measurement component for insurance contracts not measured under the PAA:

As at September 30, 2023						
	Estimates of present value of future cash flows	Risk adjustment for non- financial risk	Contractual service margin			Total
			Contracts under the fair value transition approach	Other contracts	Total contractual service margin	
(in millions of dollars)						
Balance at beginning						
Insurance contract liabilities	\$ 19,538	\$ 2,973	\$ 4,708	\$ 496	\$ 5,204	\$ 27,715
Insurance contract assets	(324)	27	5	77	82	(215)
Insurance contract liabilities related to segregated funds	26,901	—	—	—	—	26,901
<b>Net insurance contract liabilities (assets) at beginning</b>	<b>46,115</b>	<b>3,000</b>	<b>4,713</b>	<b>573</b>	<b>5,286</b>	<b>54,401</b>
<b>Insurance service result</b>						
Changes that relate to current services						
Contractual service margin recognized for services provided	—	—	(331)	(103)	(434)	(434)
Change in risk adjustment for non-financial risk for risk expired	—	(225)	—	—	—	(225)
Experience adjustments	71	—	—	—	—	71
Changes that relate to future services						
Contracts initially recognized in the period	(662)	255	—	446	446	39
Changes in estimates that adjust the contractual service margin	(231)	(7)	260	(22)	238	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	—	—	—	—	—	—
Changes that relate to past services						
Changes to liabilities for incurred claims	(29)	—	—	—	—	(29)
	(851)	23	(71)	321	250	(578)
Finance expenses (income) from insurance contracts	396	(73)	(51)	16	(35)	288
<b>Amounts recognized in net income</b>	<b>(455)</b>	<b>(50)</b>	<b>(122)</b>	<b>337</b>	<b>215</b>	<b>(290)</b>
Effect of change in exchange rates	(2)	—	(1)	—	(1)	(3)
Cash flows	1,122	—	—	—	—	1,122
<b>Net insurance contract liabilities (assets) at end</b>	<b>46,780</b>	<b>2,950</b>	<b>4,590</b>	<b>910</b>	<b>5,500</b>	<b>55,230</b>
Balance at end						
Insurance contract liabilities	18,931	2,923	4,578	809	5,387	27,241
Insurance contract assets	(339)	27	12	101	113	(199)
Insurance contract liabilities related to segregated funds	28,188	—	—	—	—	28,188
<b>Net insurance contract liabilities (assets) at end</b>	<b>\$ 46,780</b>	<b>\$ 2,950</b>	<b>\$ 4,590</b>	<b>\$ 910</b>	<b>\$ 5,500</b>	<b>\$ 55,230</b>

	As at December 31, 2022					
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin			Total
			Contracts under the fair value transition approach	Other contracts	Total contractual service margin	
(in millions of dollars)						
<b>Balance at beginning</b>						
Insurance contract liabilities	\$ 26,404	\$ 3,579	\$ 5,559	\$ —	\$ 5,559	\$ 35,542
Insurance contract assets	(197)	32	8	34	42	(123)
Insurance contract liabilities related to segregated funds	28,692	—	—	—	—	28,692
<b>Net insurance contract liabilities (assets) at beginning</b>	<b>54,899</b>	<b>3,611</b>	<b>5,567</b>	<b>34</b>	<b>5,601</b>	<b>64,111</b>
<b>Insurance service result</b>						
Changes that relate to current services						
Contractual service margin recognized for services provided	—	—	(473)	(54)	(527)	(527)
Change in risk adjustment for non-financial risk for risk expired	—	(286)	—	—	—	(286)
Experience adjustments	(64)	—	—	—	—	(64)
Changes that relate to future services						
Contracts initially recognized in the year	(967)	323	—	696	696	52
Changes in estimates that adjust the contractual service margin	46	389	(321)	(114)	(435)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	552	(366)	—	—	—	186
Changes that relate to past services						
Changes to liabilities for incurred claims	(102)	6	—	—	—	(96)
	(535)	66	(794)	528	(266)	(735)
Finance expenses (income) from insurance contracts	(10,711)	(693)	(94)	9	(85)	(11,489)
<b>Amounts recognized in net income</b>	<b>(11,246)</b>	<b>(627)</b>	<b>(888)</b>	<b>537</b>	<b>(351)</b>	<b>(12,224)</b>
Effect of change in exchange rates	61	16	34	2	36	113
Cash flows	2,401	—	—	—	—	2,401
<b>Net insurance contract liabilities (assets) at end</b>	<b>46,115</b>	<b>3,000</b>	<b>4,713</b>	<b>573</b>	<b>5,286</b>	<b>54,401</b>
Balance at end						
Insurance contract liabilities	19,538	2,973	4,708	496	5,204	27,715
Insurance contract assets	(324)	27	5	77	82	(215)
Insurance contract liabilities related to segregated funds	26,901	—	—	—	—	26,901
<b>Net insurance contract liabilities (assets) at end</b>	<b>\$ 46,115</b>	<b>\$ 3,000</b>	<b>\$ 4,713</b>	<b>\$ 573</b>	<b>\$ 5,286</b>	<b>\$ 54,401</b>

## d) Roll-Forward of Net Reinsurance Contract Assets (Liabilities) by Remaining Coverage and Incurred Claims

As at September 30, 2023

	Assets for remaining coverage		Assets for incurred claims			Total
	Excluding loss-recovery component	Loss-recovery component	Contracts not under the PAA	Contracts under the PAA		
				Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
(in millions of dollars)						
Balance at beginning						
Reinsurance contract assets	\$ 1,706	\$ 1	\$ 68	\$ 19	\$ 6	\$ 1,800
Reinsurance contract liabilities	(364)	82	49	—	—	(233)
<b>Net reinsurance contract assets (liabilities) at beginning</b>	<b>1,342</b>	<b>83</b>	<b>117</b>	<b>19</b>	<b>6</b>	<b>1,567</b>
<b>Net expenses from reinsurance contracts</b>						
Allocation of reinsurance premiums paid	(801)	—	—	—	—	(801)
Amounts recoverable from reinsurers	—	(7)	472	283	(1)	747
	(801)	(7)	472	283	(1)	(54)
Finance income (expenses) from reinsurance contracts	43	1	1	4	—	49
Effect of changes in non-performance risk of reinsurers	—	—	—	—	—	—
<b>Amounts recognized in net income</b>	<b>(758)</b>	<b>(6)</b>	<b>473</b>	<b>287</b>	<b>(1)</b>	<b>(5)</b>
Effect of change in exchange rates	(3)	—	—	1	—	(2)
Cash flows						
Premiums paid	888	—	—	—	—	888
Amounts received	—	—	(441)	(217)	—	(658)
	888	—	(441)	(217)	—	230
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>1,469</b>	<b>77</b>	<b>149</b>	<b>90</b>	<b>5</b>	<b>1,790</b>
Balance at end						
Reinsurance contract assets	1,789	2	95	90	5	1,981
Reinsurance contract liabilities	(320)	75	54	—	—	(191)
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>\$ 1,469</b>	<b>\$ 77</b>	<b>\$ 149</b>	<b>\$ 90</b>	<b>\$ 5</b>	<b>\$ 1,790</b>

As at December 31, 2022

	Assets for remaining coverage		Assets for incurred claims			Total
	Excluding loss-recovery component	Loss-recovery component	Contracts not under the PAA	Contracts under the PAA		
				Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
(in millions of dollars)						
Balance at beginning						
Reinsurance contract assets	\$ 1,579	\$ 1	\$ 56	\$ 45	\$ 6	\$ 1,687
Reinsurance contract liabilities	(220)	—	91	—	—	(129)
<b>Net reinsurance contract assets (liabilities) at beginning</b>	<b>1,359</b>	<b>1</b>	<b>147</b>	<b>45</b>	<b>6</b>	<b>1,558</b>
<b>Net expenses from reinsurance contracts</b>						
Allocation of reinsurance premiums paid	(1,138)	—	—	—	—	(1,138)
Amounts recoverable from reinsurers	—	82	525	312	(1)	918
	(1,138)	82	525	312	(1)	(220)
Finance income (expenses) from reinsurance contracts	(128)	—	(1)	2	1	(126)
Effect of changes in non-performance risk of reinsurers	(1)	—	—	—	—	(1)
<b>Amounts recognized in net income</b>	<b>(1,267)</b>	<b>82</b>	<b>524</b>	<b>314</b>	<b>—</b>	<b>(347)</b>
Effect of change in exchange rates	111	—	4	(9)	—	106
Cash flows						
Premiums paid	1,139	—	—	—	—	1,139
Amounts received	—	—	(558)	(331)	—	(889)
	1,139	—	(558)	(331)	—	250
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>1,342</b>	<b>83</b>	<b>117</b>	<b>19</b>	<b>6</b>	<b>1,567</b>
Balance at end						
Reinsurance contract assets	1,706	1	68	19	6	1,800
Reinsurance contract liabilities	(364)	82	49	—	—	(233)
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>\$ 1,342</b>	<b>\$ 83</b>	<b>\$ 117</b>	<b>\$ 19</b>	<b>\$ 6</b>	<b>\$ 1,567</b>



**e) Roll-Forward of Net Reinsurance Contract Assets (Liabilities) by Measurement Component**

The following tables disclose the reconciliation by measurement component for reinsurance contracts not measured under the PAA:

As at September 30, 2023						
	Estimates of present value of future cash flows	Risk adjustment for non- financial risk	Contractual service margin			Total
			Contracts under the fair value transition approach	Other contracts	Total contractual service margin	
(in millions of dollars)						
Balance at beginning						
Reinsurance contract assets	\$ 769	\$ 58	\$ 10	\$ (29)	\$ (19)	\$ 808
Reinsurance contract liabilities	(738)	774	(179)	(90)	(269)	(233)
<b>Net reinsurance contract assets (liabilities) at beginning</b>	<b>31</b>	<b>832</b>	<b>(169)</b>	<b>(119)</b>	<b>(288)</b>	<b>575</b>
<b>Net expenses from reinsurance contracts</b>						
Changes that relate to current services						
Contractual service margin recognized for services received	—	—	12	6	18	18
Change in risk adjustment for non-financial risk for risk expired	—	(46)	—	—	—	(46)
Experience adjustments	72	—	—	—	—	72
Changes that relate to future services						
Contracts initially recognized in the period	(32)	39	—	(6)	(6)	1
Changes in recoveries of losses on onerous underlying contracts that adjust the contractual service margin	—	—	(1)	(1)	(2)	(2)
Changes in estimates that adjust the contractual service margin	3	(5)	(9)	11	2	—
Changes in estimates that relate to losses and reversal of losses on onerous underlying contracts	(4)	(1)	—	—	—	(5)
Changes that relate to past services						
Changes to amounts recoverable on incurred claims	1	(1)	—	—	—	—
	40	(14)	2	10	12	38
Finance income (expenses) from reinsurance contracts	33	(26)	(1)	(4)	(5)	2
Effect of changes in non-performance risk of reinsurers	—	—	—	—	—	—
<b>Amounts recognized in net income</b>	<b>73</b>	<b>(40)</b>	<b>1</b>	<b>6</b>	<b>7</b>	<b>40</b>
Effect of change in exchange rates	(2)	—	—	—	—	(2)
Cash flows	33	—	—	—	—	33
	31	—	—	—	—	31
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>135</b>	<b>792</b>	<b>(168)</b>	<b>(113)</b>	<b>(281)</b>	<b>646</b>
Balance at end						
Reinsurance contract assets	788	59	16	(26)	(10)	837
Reinsurance contract liabilities	(653)	733	(184)	(87)	(271)	(191)
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>\$ 135</b>	<b>\$ 792</b>	<b>\$ (168)</b>	<b>\$ (113)</b>	<b>\$ (281)</b>	<b>\$ 646</b>

	As at December 31, 2022					
	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin			Total
			Contracts under the fair value transition approach	Other contracts	Total contractual service margin	
(in millions of dollars)						
<b>Balance at beginning</b>						
Reinsurance contract assets	\$ 865	\$ 39	\$ (25)	\$ —	\$ (25)	\$ 879
Reinsurance contract liabilities	(1,338)	1,090	119	—	119	(129)
<b>Net reinsurance contract assets (liabilities) at beginning</b>	<b>(473)</b>	<b>1,129</b>	<b>94</b>	<b>—</b>	<b>94</b>	<b>750</b>
<b>Net expenses from reinsurance contracts</b>						
Changes that relate to current services						
Contractual service margin recognized for services received	—	—	(3)	2	(1)	(1)
Change in risk adjustment for non-financial risk for risk expired	—	(58)	—	—	—	(58)
Experience adjustments	(103)	—	—	—	—	(103)
Changes that relate to future services						
Contracts initially recognized in the year	(56)	75	—	(16)	(16)	3
Changes in recoveries of losses on onerous underlying contracts that adjust the contractual service margin	—	—	(1)	(1)	(2)	(2)
Changes in estimates that adjust the contractual service margin	341	22	(261)	(102)	(363)	—
Changes in estimates that relate to losses and reversal of losses on onerous underlying contracts	191	(110)	—	—	—	81
Changes that relate to past services						
Changes to amounts recoverable on incurred claims	(2)	(1)	—	—	—	(3)
	371	(72)	(265)	(117)	(382)	(83)
Finance income (expenses) from reinsurance contracts	57	(227)	3	(1)	2	(168)
Effect of changes in non-performance risk of reinsurers	(1)	—	—	—	—	(1)
<b>Amounts recognized in net income</b>	<b>427</b>	<b>(299)</b>	<b>(262)</b>	<b>(118)</b>	<b>(380)</b>	<b>(252)</b>
Effect of change in exchange rates	54	2	(1)	(1)	(2)	54
Cash flows	23	—	—	—	—	23
	77	2	(1)	(1)	(2)	77
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>31</b>	<b>832</b>	<b>(169)</b>	<b>(119)</b>	<b>(288)</b>	<b>575</b>
<b>Balance at end</b>						
Reinsurance contract assets	769	58	10	(29)	(19)	808
Reinsurance contract liabilities	(738)	774	(179)	(90)	(269)	(233)
<b>Net reinsurance contract assets (liabilities) at end</b>	<b>\$ 31</b>	<b>\$ 832</b>	<b>\$ (169)</b>	<b>\$ (119)</b>	<b>\$ (288)</b>	<b>\$ 575</b>

**B) Insurance Revenue**

(in millions of dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
<b>Contracts not measured under the premium allocation approach</b>				
Changes in liabilities for remaining coverage				
Contractual service margin recognized for services provided	\$ 147	\$ 134	\$ 434	\$ 394
Change in risk adjustment for non-financial risk for risk expired	76	72	225	216
Expected incurred claims and other insurance service expenses	714	666	2,043	2,032
Recovery of insurance acquisition cash flows	83	41	222	78
	1,020	913	2,924	2,720
<b>Contracts measured under the premium allocation approach</b>				
	354	298	1,028	856
<b>Total insurance revenue</b>	<b>\$ 1,374</b>	<b>\$ 1,211</b>	<b>\$ 3,952</b>	<b>\$ 3,576</b>

**C) Effect of Contracts Initially Recognized**

The following tables present the effect on the measurement components arising from the initial recognition of insurance contracts and reinsurance contracts not measured under the PAA:

**a) Insurance Contracts**

(in millions of dollars)	Nine months ended September 30, 2023				
	Contracts issued		Contracts acquired		Total
	Non-Onerous	Onerous	Non-Onerous	Onerous	
Estimates of present value of future cash outflows					
Claims and other insurance service expenses payable	\$ 3,364	\$ 601	\$ —	\$ —	\$ 3,965
Insurance acquisition cash flows	991	116	—	—	1,107
	4,355	717	—	—	5,072
Estimates of present value of future cash inflows					
Risk adjustment for non-financial risk	(5,013)	(721)	—	—	(5,734)
Contractual service margin	212	43	—	—	255
	446	—	—	—	446
<b>Insurance contract liabilities on initial recognition</b>	<b>\$ —</b>	<b>\$ 39</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 39</b>

(in millions of dollars)	Year ended December 31, 2022				
	Contracts issued		Contracts acquired		Total
	Non-Onerous	Onerous	Non-Onerous	Onerous	
Estimates of present value of future cash outflows					
Claims and other insurance service expenses payable	\$ 4,265	\$ 848	\$ —	\$ —	\$ 5,113
Insurance acquisition cash flows	1,253	208	—	—	1,461
	5,518	1,056	—	—	6,574
Estimates of present value of future cash inflows					
Risk adjustment for non-financial risk	(6,502)	(1,039)	—	—	(7,541)
Contractual service margin	288	35	—	—	323
	696	—	—	—	696
<b>Insurance contract liabilities on initial recognition</b>	<b>\$ —</b>	<b>\$ 52</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 52</b>

**b) Reinsurance Contracts**

(in millions of dollars)	Nine months ended September 30, 2023		
	Contracts initiated	Contracts acquired	Total
Estimates of present value of future cash inflows	\$ 463	\$ —	\$ 463
Estimates of present value of future cash outflows	(495)	—	(495)
Risk adjustment for non-financial risk	39	—	39
Contractual service margin	(6)	—	(6)
<b>Reinsurance contract assets on initial recognition</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 1</b>

(in millions of dollars)	Year ended December 31, 2022		
	Contracts initiated	Contracts acquired	Total
Estimates of present value of future cash inflows	\$ 961	\$ —	\$ 961
Estimates of present value of future cash outflows	(1,017)	—	(1,017)
Risk adjustment for non-financial risk	75	—	75
Contractual service margin	(16)	—	(16)
<b>Reinsurance contract assets on initial recognition</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$ 3</b>

**D) Expected Recognition of the Contractual Service Margin in Net Income**

(in millions of dollars)	As at December 31, 2022				
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	Total
<b>Insurance contracts</b>	\$ 498	\$ 1,526	\$ 1,366	\$ 1,896	\$ 5,286
<b>Reinsurance contracts</b>	(22)	(67)	(80)	(119)	(288)

**E) Net Investment Result**

The following table presents sources of finance income and expenses for the general fund recognized in net income:

(in millions of dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
<b>Net investment income</b>				
Interest and other investment income	\$ 442	\$ 501	\$ 1,377	\$ 1,318
Change in fair value of investments	(3,023)	(322)	(1,848)	(9,763)
	(2,581)	179	(471)	(8,445)
<b>Finance income (expenses) from insurance contracts</b>				
Interest accreted	(393)	(238)	(1,097)	(588)
Effect of changes in interest rates and other financial assumptions	2,891	(9)	1,859	8,692
Changes in fair value of underlying items in insurance contracts with direct participation features	49	(5)	16	173
Effects of risk mitigation option	55	(4)	95	110
	2,602	(256)	873	8,387
<b>Finance income (expenses) from reinsurance contracts</b>				
Interest accreted	18	14	57	47
Effect of changes in interest rates and other financial assumptions	(46)	1	(8)	(57)
Effect of changes in non-performance risk of reinsurers	—	1	—	(1)
	(28)	16	49	(11)
<b>(Increase) decrease in investment contract liabilities and interest on deposits</b>	<b>(41)</b>	<b>(19)</b>	<b>(108)</b>	<b>(17)</b>
<b>Net investment result recognized in net income</b>	<b>\$ (48)</b>	<b>\$ (80)</b>	<b>\$ 343</b>	<b>\$ (86)</b>

The following table discloses the finance income (expenses) arising from insurance and investment contract liabilities related to segregated funds:

(in millions of dollars)	Quarters ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
<b>Finance income (expenses) related to segregated funds liabilities</b>				
Insurance contracts	\$ 665	\$ 131	\$ (1,214)	\$ 4,165
Investment contracts	285	38	(341)	1,383
<b>Total</b>	<b>\$ 950</b>	<b>\$ 169</b>	<b>\$ (1,555)</b>	<b>\$ 5,548</b>

## F) Important Judgments in the Measurement of Insurance Contracts and Reinsurance Contracts

Estimates and underlying assumptions made to measure insurance contracts and reinsurance contracts require important judgment. The methods and inputs used by the Company to establish the most important estimates and assumptions are described below.

### a) Fulfilment Cash Flows

#### i) Estimate of Future Cash Flows

When estimating the future cash flows within the boundary of a contract, the Company determines the expected value of a range of scenarios that reflect the full range of possible outcomes. The assumptions take into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The methods used to establish the most significant assumptions when estimating future cash flows are described below. A sensitivity analysis is presented in Note 10 “Management of Insurance Risk” in the “Sensitivity Analysis” section.

##### *Policyholder Behaviour*

Policyholder behaviour relates to all the choices policyholders can make regarding their insurance contract. Among those choices, two are more significant in the valuation of the estimate of future cash flows, which are the expected proportion of policyholders who will lapse their contract in the future and the premium payment pattern when the policyholder has flexibility in that regard.

Lapse refers to the termination of the contract that occurs when the policyholder has stopped paying premiums or when the policyholder voluntarily surrenders their contract. Long-term lapse rate assumptions take into account the usually lower contract lapse rates with respect to lapse-supported products compared to other products. Expected lapse rate assumptions are generally based on the Company’s recent lapse experience and are adjusted to take into account industry experience where the Company’s experience is limited.

Since policyholders of Universal Life contracts have flexibility on the amount and timing of premium payments, the Company establishes assumptions with respect to premium payment patterns. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing), the type of product and the year of issue. The Company studies the premium payment pattern experience to come up with assumptions for such contracts. When this experience is not sufficiently representative, it is adjusted to take into account industry experience.

##### *Mortality and Morbidity*

Mortality represents the occurrence of death in a given population while morbidity represents the occurrence of accident or illness among insured risks. The Company uses several mortality and morbidity assumptions to capture the difference in the level of risk of the insureds. These assumptions are based on recent technical results of the Company. When those are not sufficiently representative, technical results of the industry are also used.

For individual life insurance contracts, the Company’s mortality experience has exhibited a declining trend over the past decades. The measurement of insurance contract liabilities relating to these contracts takes into account an improvement in future mortality rates. For individual and group annuity contracts, mortality improvement is also taken into account in the projection. For group life contracts, the expected future mortality experience is incorporated into the measurement of the insurance contracts, but no future mortality improvement is assumed. Finally, there is no improvement assumed in the morbidity assumptions that are used for individual and group life insurance contracts.

##### *Expenses*

Expenses incurred for the fulfilment of contracts include acquisition costs, costs of servicing and maintaining in-force policies, taxes and associated indirect expenses. Expense assumptions are calculated using the Company’s internal expense allocation studies and consider investments in improvement projects for which productivity gains are planned. Unit cost factors projected for the coming years vary according to the investments planned in improvement projects, the productivity gains they will generate (in excess of the project costs) and the inflation assumption, which is established consistently with the discount rate. Expenses incurred for the fulfilment of contracts that are not specific to a contract are allocated to groups of contracts based on a systematic and rational method, such as unit cost based allocation, for all costs that have similar characteristics. Taxes reflect assumptions for future premium taxes and other non-income related taxes and usually reflect current legislation unless a change is expected.

##### *Changes in Discretionary Cash Flows*

To determine how to identify changes in discretionary cash flows for certain contracts without direct participation features, the Company generally regards its commitment to be the implicit return in the estimates of the fulfilment cash flows on initial recognition, updated to reflect current financial risk assumptions.

#### ii) Discount Rates

The Company uses a hybrid of the bottom-up and top-down approaches to determine the discount rates used to adjust the estimates of future cash flows to reflect the time value of money and financial risk. Under this approach, the discount rates are determined as the risk-free yields adjusted by an illiquidity premium to reflect differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows.

The risk-free yields are derived using Government of Canada bonds for the first 30 years where data is sufficient to develop a curve. After 30 years, the method used is the one suggested by the Canadian Institute of Actuaries (CIA) which goes from the last observable point to an ultimate risk-free rate.

The illiquidity premium for the first 30 years is determined as the yield implicit in the fair value of a reference portfolio less the risk-free yields and adjusted for differences between the reference portfolio of assets and respective liability cash flows. The reference portfolio is made up of corporate and provincial bonds usually included in public bond indices. Since corporate bonds are less liquid than provincial bonds, the discount rate curves have different proportions in corporate and provincial bonds to reflect the liquidity of the contracts. The yield from the reference portfolio is adjusted to remove both expected and unexpected credit risk by using information from observed historical levels of default relating to the bonds included in the reference portfolio. Historical levels of default may be adjusted in the case of a particular credit event. After all the illiquidity premiums have been determined, a final adjustment is made to adjust for the difference between the Company's own assets and the reference portfolio. After 30 years, the illiquidity premium grades to an ultimate illiquidity premium determined using historical data, without exceeding the ultimate illiquidity premium recommended by the CIA.

During the quarter ended September 30, 2022, the Company improved the method it uses to translate observable data of bond prices in the market into an illiquidity premium curve. This improvement in methodology resulted in an expense recorded in *Finance income (expenses) from insurance contracts* for an amount of \$92.

The following table presents discount rates applied to discounting of future cash flows based on the liquidity characteristics of the insurance contracts:

	As at September 30, 2023					
	1 year	5 years	10 years	20 years	30 years	70 years
<b>Canadian products</b>						
Least illiquid curve	5.25%	4.72%	4.90%	5.09%	4.69%	4.35%
Most illiquid curve	6.47%	6.35%	6.55%	6.28%	6.05%	5.15%
<b>U.S. products</b>						
Least illiquid curve	6.18%	5.78%	5.93%	6.13%	5.72%	4.90%
Most illiquid curve	6.43%	6.03%	6.18%	6.38%	5.97%	5.15%
	As at December 31, 2022					
	1 year	5 years	10 years	20 years	30 years	70 years
<b>Canadian products</b>						
Least illiquid curve	4.33%	3.91%	4.19%	4.50%	4.29%	4.35%
Most illiquid curve	5.95%	5.48%	5.83%	5.83%	5.64%	5.15%
<b>U.S. products</b>						
Least illiquid curve	5.33%	5.08%	5.21%	5.42%	4.97%	4.90%
Most illiquid curve	5.58%	5.33%	5.46%	5.67%	5.22%	5.15%

Cash flows that have a non-linear relationship with the returns on any underlying financial items, caused by the presence of guarantees linked to financial markets (such as minimum interest rate guarantees or guarantees on segregated fund contracts), are adjusted for the effect of that variability using stochastic risk-neutral measurement techniques and discounted using the risk-free rates as adjusted for illiquidity.

### iii) Risk Adjustment for Non-Financial Risk

The Company determines the risk adjustment for non-financial risk using margins on assumptions. Therefore, the fulfilment cash flows are calculated with conservative assumptions and the difference between calculated fulfilment cash flows and the present value of the estimates of future cash flows corresponds to the risk adjustment for non-financial risk.

The margins are calibrated so that the total resulting risk adjustment for non-financial risk represents the compensation required by the Company for bearing the uncertainty related to non-financial risk. This compensation is defined by a confidence level on a net-of-reinsurance basis between 92.5% and 97.5% in 2023 and 2022 and reflects diversification benefits (by using a correlation matrix) between risks, products and entities of the group. Such a confidence level represents the probability that fulfilment cash flows, including the risk adjustment for non-financial risk, will be sufficient to fulfill the Company's obligations related to insurance contracts (after consideration for reinsurance), when considering non-financial risks only.

To determine the risk adjustment for non-financial risk for reinsurance contracts, the Company derives the amount of risk being transferred to the reinsurer as the difference between the risk adjustment for non-financial risk determined on a gross-of-reinsurance basis and the risk adjustment for non-financial risk determined on a net-of-reinsurance basis.

### b) Recognition of the Contractual Service Margin in the Income Statement

The coverage units establish the amount of the CSM of a group of contracts to be released in the Income Statement to reflect the insurance contract services provided in the period. The Company determines the number of coverage units by considering, for each contract, the quantity of the benefits provided and the expected coverage duration. The quantity of benefits of a contract is the amount insured over the duration of the contract, which is evaluated by considering the specific characteristics of each contract.

To determine the relative weighting of the benefits provided by insurance contracts that provide both insurance coverage and investment services, the Company considers the quantity of benefits for each service and their expected duration and uses the sum as coverage units. The quantity of benefits for investment services is based on the asset value managed under the contract for the benefit of the policyholder.

For reinsurance contracts, the number of coverage units reflects the benefits covered in the underlying contracts because the level of services provided depends on the number of underlying contracts in force and their benefits. The total coverage units for each group of contracts are reassessed at the end of each reporting period.

## 12 › Debentures

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

### Redemption

On September 15, 2023, the Company redeemed all of its \$400 subordinated debentures maturing September 15, 2028, bearing interest of 3.30% payable semi-annually until September 15, 2023. The subordinated debentures were redeemed at nominal value plus accrued and unpaid interest, for a total disbursement of \$407.

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

## 13 › Share Capital

The share capital issued by the Company is as follows:

(in millions of dollars, unless otherwise indicated)	As at September 30, 2023		As at December 31, 2022	
	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
<b>Common shares</b>				
Balance at beginning	113,575	\$ 1,755	108,575	\$ 1,655
Shares issued	—	—	5,000	100
Balance at end	113,575	1,755	113,575	1,755
<b>Preferred shares, Class A</b>				
Balance at beginning	11,000	275	21,000	525
Shares redeemed – Series G	—	—	(10,000)	(250)
Shares redeemed – Series I	(6,000)	(150)	—	—
Balance at end	5,000	125	11,000	275
<b>Total of share capital</b>		<b>\$ 1,880</b>		<b>\$ 2,030</b>

### Common shares

#### Issuance

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

### Preferred Shares, Class A

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

#### Redemption

On March 31, 2023, the Company redeemed all of the 6,000,000 Class A – Series I preferred shares at a price of 25 dollars per share for a cash amount of \$150.

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



## Dividends

	Quarters ended September 30				Nine months ended September 30			
	2023		2022		2023		2022	
(in millions of dollars, unless otherwise indicated)	Total	Per share (in dollars)	Total	Per share (in dollars)	Total	Per share (in dollars)	Total	Per share (in dollars)
<b>Common shares</b>	\$ —	\$ —	\$ 150	\$ 1.32	\$ 200	\$ 1.76	\$ 150	\$ 1.32
<b>Preferred shares</b>								
Class A – Series B	1	0.29	1	0.29	4	0.86	4	0.86
Class A – Series G	—	—	—	—	—	—	4	0.47
Class A – Series I	—	—	2	0.30	2	0.30	6	0.90
	1		3		6		14	
<b>Total</b>	\$ 1		\$ 153		\$ 206		\$ 164	

## Dividends Declared and Not Recognized on Common Shares

A dividend in the amount of \$200 was approved by the Board of Directors of the Company on November 7, 2023. This dividend was not recorded as a liability in these Financial Statements. This dividend will be paid, in whole or in part, in the fourth quarter of 2023.

## 14 › Accumulated Other Comprehensive Income

(in millions of dollars)	Bonds	Stocks	Investment properties	Currency translation	Hedging	Total
<b>Balance as at December 31, 2022</b>	\$ —	\$ —	\$ 22	\$ 161	\$ (127)	\$ 56
Revaluation surplus related to transfers to investment properties	—	—	3	—	—	3
Income taxes on revaluation surplus related to transfers to investment properties	—	—	—	—	—	—
Other	—	—	—	(2)	4	2
Income taxes on other	—	—	—	—	(1)	(1)
	—	—	3	(2)	3	4
<b>Balance as at September 30, 2023</b>	—	—	25	159	(124)	60
Balance as at December 31, 2021	43	19	—	29	(16)	75
Impact of adopting IFRS 9 (Note 4)	(43)	(19)	—	1	1	(60)
Balance as at January 1, 2022	—	—	—	30	(15)	15
Revaluation surplus related to transfers to investment properties	—	—	26	—	—	26
Income taxes on revaluation surplus related to transfers to investment properties	—	—	(4)	—	—	(4)
Other	—	—	—	131	(131)	—
Income taxes on other	—	—	—	—	19	19
	—	—	22	131	(112)	41
<b>Balance as at December 31, 2022</b>	—	—	22	161	(127)	56
Balance as at December 31, 2021	43	19	—	29	(16)	75
Impact of adopting IFRS 9 (Note 4)	(43)	(19)	—	1	1	(60)
Balance as at January 1, 2022	—	—	—	30	(15)	15
Other	—	—	—	155	(161)	(6)
Income taxes on other	—	—	—	—	23	23
	—	—	—	155	(138)	17
<b>Balance as at September 30, 2022</b>	\$ —	\$ —	\$ —	\$ 185	\$ (153)	\$ 32

## 15 > Capital Management

### Regulatory Requirements and Solvency Ratio

The Company manages its capital jointly with iA Financial Corporation.

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

An updated version of CARLI entered into force on January 1, 2023 applicable prospectively and gives new parameters for calculating the solvency ratio. In return, as at December 31, 2022, the solvency ratio was established according to the previous version of CARLI. The parameters affecting the solvency ratio that have been modified since the previous version are identified in parentheses.

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

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

Tier 1 capital contains more permanent equity items and is primarily composed of equity attributable to the common shareholder, preferred shares and the contractual service margin, excluding segregated fund products. Goodwill and other intangible assets are deducted from this category.

Tier 2 capital is notably composed of subordinated debentures.

The surplus allowance is the value of the risk adjustment for non-financial risk (the value of specific provisions for adverse deviations as at December 31, 2022) included in insurance contract liabilities, excluding segregated fund products.

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

The base solvency buffer is determined according to five risk categories, namely credit risk, market risk, insurance risk, segregated funds guarantee risk and operational risk. These risk components are calculated using various methods and consider the risks associated to asset and liability elements that are on and off the Statement of Financial Position. The base solvency buffer represents the sum of risk components minus some credits (for example, between-risk diversification and adjustable products) multiplied by a scalar of 1.00 (1.05 as at December 31, 2022).

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

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

As at September 30, 2023, the Company maintains a ratio that satisfies the regulatory requirements.

(in millions of dollars, unless otherwise indicated)	As at September 30, 2023
Available capital, surplus allowance and eligible deposits	\$ 10,021
Base solvency buffer	7,168
<b>Total ratio</b>	<b>140%</b>

As at December 31, 2022, the solvency ratio was 118% and the Company maintained a ratio that satisfied the regulatory requirements.

## 16 > Income Taxes

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

(in millions of dollars, unless otherwise indicated)	Quarters ended September 30				Nine months ended September 30			
	2023		2022		2023		2022	
Income before income taxes	\$ 94		\$ 40		\$ 726		\$ 294	
Income tax expense (recovery) at Canadian statutory tax rate	26	28%	11	26%	203	28%	77	26%
Increase (decrease) in income taxes due to:								
Differences in tax rates on income not subject to tax in Canada	(2)	(2)%	1	3%	(10)	(2)%	1	—%
Tax-exempt investment income	(12)	(13)%	(20)	(50)%	(39)	(5)%	(39)	(13)%
Non-deductible (non-taxable) portion of the change in fair value of investment properties	6	6%	2	6%	6	1%	1	—%
Adjustments related to prior years	3	3%	1	3%	(12)	(2)%	(31)	(10)%
Variation in tax rates	—	—%	—	—%	4	1%	—	—%
Other	(3)	(3)%	(1)	(3)%	(7)	(1)%	1	—%
<b>Income tax expense (recovery) and effective income tax rate</b>	<b>\$ 18</b>	<b>19%</b>	<b>\$ (6)</b>	<b>(15)%</b>	<b>\$ 145</b>	<b>20%</b>	<b>\$ 10</b>	<b>3%</b>

## 17 > Segmented Information

Until December 31, 2022, the Company's operating segments reported were Individual Insurance, Individual Wealth Management, Group Insurance, Group Savings and Retirement, US Operations and Other. As at January 1, 2023, the Company revised its segmented information to reflect the evolution of its organizational structure for decision making. Comparative figures have been adjusted to reflect these changes along with the effects of the adoption of IFRS 17 and IFRS 9 on January 1, 2022. Business units are grouped into reportable operating segments based on their similar economic characteristics.

The Company offers its products and services to retail customers, businesses and groups and primarily operates in Canada and in the United States. The Company's reportable operating segments are described below, according to their main products and services or to their specific characteristics:

*Insurance, Canada* – Life and health insurance products, auto and home insurance products, creditor insurance, replacement insurance and warranties, extended warranties and other ancillary products for dealer services, and specialized products for special markets.

*Wealth Management* – Products and services for savings plans, retirement funds and segregated funds, in addition to securities brokerage (including cross-border services), trust operations and mutual funds.

*US Operations* – Life insurance products and extended warranties relating to dealer services sold in the United States.

*Investment* – Investment and financing activities of the Company, except the investment activities of wealth distribution affiliates.

*Corporate* – All expenses that are not allocated to other operating segments, such as expenses for certain corporate functions.

Inter-segment transactions as well as some adjustments related to consolidation are shown in the *Consolidation adjustments* column. Inter-segment transactions consist primarily of activities carried out in the normal course of business for those operating segments and are subject to normal market conditions.

Considering the Company's total portfolio management strategy, most of the Company's investments are allocated to the Investment segment. When assessing segmented performance, management allocates *Finance income (expenses) from insurance contracts*, *Finance income (expenses) from reinsurance contracts* and nearly all (*Increase*) *decrease in investment contract liabilities and interest on deposits* to this operating segment.

The Company makes judgments and uses assumptions and methodologies to allocate operating expenses that are not directly attributable to an operating segment.

Asset and liability balances for insurance contracts and reinsurance contracts are presented by segment in Note 11 "Insurance Contracts and Reinsurance Contracts" under section A) a) "Carrying Amount of Portfolios of Insurance Contracts and Reinsurance Contracts".

### Segmented Results

(in millions of dollars)	Quarter ended September 30, 2023						Total
	Insurance, Canada	Wealth Management	US Operations	Investment	Corporate	Consolidation adjustments	
<b>Insurance service result</b>							
Insurance revenue	\$ 877	\$ 234	\$ 263	\$ —	\$ —	\$ —	\$ 1,374
Insurance service expenses and net expenses from reinsurance contracts	(752)	(164)	(228)	—	—	—	(1,144)
	125	70	35	—	—	—	230
<b>Net investment result</b>							
Net investment income	—	33	—	(2,606)	(2)	(6)	(2,581)
Finance income (expenses) from insurance and reinsurance contracts and change in investment contracts and interest on deposits	—	(6)	—	2,533	—	6	2,533
	—	27	—	(73)	(2)	—	(48)
Other revenues	39	304	12	7	—	(22)	340
Other expenses	(54)	(301)	(14)	(32)	(49)	22	(428)
<b>Income before income taxes</b>	110	100	33	(98)	(51)	—	94
Income tax (expense) recovery	(30)	(27)	(6)	31	14	—	(18)
<b>Net income</b>	80	73	27	(67)	(37)	—	76
Dividends on preferred shares	—	—	—	(1)	—	—	(1)
<b>Net income attributed to common shareholder</b>	\$ 80	\$ 73	\$ 27	\$ (68)	\$ (37)	\$ —	\$ 75

(in millions of dollars)	Quarter ended September 30, 2022 <sup>1</sup>						Total
	Insurance, Canada	Wealth Management	US Operations	Investment	Corporate	Consolidation adjustments	
<b>Insurance service result</b>							
Insurance revenue	\$ 784	\$ 197	\$ 230	\$ —	\$ —	\$ —	\$ 1,211
Insurance service expenses and net expenses from reinsurance contracts	(661)	(140)	(199)	—	—	—	(1,000)
	123	57	31	—	—	—	211
<b>Net investment result</b>							
Net investment income	—	17	—	162	—	—	179
Finance income (expenses) from insurance and reinsurance contracts and change in investment contracts and interest on deposits	—	(5)	—	(254)	—	—	(259)
	—	12	—	(92)	—	—	(80)
Other revenues	36	286	11	8	—	(23)	318
Other expenses	(57)	(275)	(13)	(37)	(50)	23	(409)
<b>Income before income taxes</b>	102	80	29	(121)	(50)	—	40
Income tax (expense) recovery	(28)	(21)	(7)	53	9	—	6
<b>Net income</b>	74	59	22	(68)	(41)	—	46
Dividends on preferred shares	—	—	—	(3)	—	—	(3)
<b>Net income attributed to common shareholder</b>	\$ 74	\$ 59	\$ 22	\$ (71)	\$ (41)	\$ —	\$ 43

<sup>1</sup> Presentation and figures have been adjusted to reflect changes in reportable operating segments and the effect of the adoption of IFRS 17 and IFRS 9 on January 1, 2022.

(in millions of dollars)	Nine months ended September 30, 2023						Total
	Insurance, Canada	Wealth Management	US Operations	Investment	Corporate	Consolidation adjustments	
<b>Insurance service result</b>							
Insurance revenue	\$ 2,580	\$ 676	\$ 696	\$ —	\$ —	\$ —	\$ 3,952
Insurance service expenses and net expenses from reinsurance contracts	(2,218)	(475)	(587)	—	—	—	(3,280)
	362	201	109	—	—	—	672
<b>Net investment result</b>							
Net investment income	—	87	—	(550)	(2)	(6)	(471)
Finance income (expenses) from insurance and reinsurance contracts and change in investment contracts and interest on deposits	—	(21)	—	829	—	6	814
	—	66	—	279	(2)	—	343
Other revenues	120	896	35	21	—	(65)	1,007
Other expenses	(162)	(876)	(44)	(111)	(168)	65	(1,296)
<b>Income before income taxes</b>	320	287	100	189	(170)	—	726
Income tax (expense) recovery	(86)	(84)	(22)	2	45	—	(145)
<b>Net income</b>	234	203	78	191	(125)	—	581
Dividends on preferred shares	—	—	—	(6)	—	—	(6)
<b>Net income attributed to common shareholder</b>	\$ 234	\$ 203	\$ 78	\$ 185	\$ (125)	\$ —	\$ 575

(in millions of dollars)	Nine months ended September 30, 2022 <sup>1</sup>						Total
	Insurance, Canada	Wealth Management	US Operations	Investment	Corporate	Consolidation adjustments	
<b>Insurance service result</b>							
Insurance revenue	\$ 2,298	\$ 595	\$ 683	\$ —	\$ —	\$ —	\$ 3,576
Insurance service expenses and net expenses from reinsurance contracts	(1,958)	(420)	(584)	—	—	—	(2,962)
	340	175	99	—	—	—	614
<b>Net investment result</b>							
Net investment income	—	30	—	(8,475)	—	—	(8,445)
Finance income (expenses) from insurance and reinsurance contracts and change in investment contracts and interest on deposits	—	(6)	—	8,365	—	—	8,359
	—	24	—	(110)	—	—	(86)
Other revenues	111	901	31	24	—	(70)	997
Other expenses	(154)	(867)	(38)	(115)	(127)	70	(1,231)
<b>Income before income taxes</b>	297	233	92	(201)	(127)	—	294
Income tax (expense) recovery	(79)	(61)	(17)	116	31	—	(10)
<b>Net income</b>	218	172	75	(85)	(96)	—	284
Dividends on preferred shares	—	—	—	(14)	—	—	(14)
<b>Net income attributed to common shareholder</b>	\$ 218	\$ 172	\$ 75	\$ (99)	\$ (96)	\$ —	\$ 270

<sup>1</sup> Presentation and figures have been adjusted to reflect changes in reportable operating segments and the effect of the adoption of IFRS 17 and IFRS 9 on January 1, 2022.

## 18 › Basic Earnings Per Common Share

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

(in millions of dollars, unless otherwise indicated)	Quarters ended September 30		Nine months ended September 30	
	2023	2022 <sup>1</sup>	2023	2022 <sup>1</sup>
Net income attributed to common shareholder	\$ 75	\$ 43	\$ 575	\$ 270
Weighted average number of outstanding shares (in millions of units)	114	114	114	111
Basic earnings per share (in dollars)	\$ 0.66	\$ 0.38	\$ 5.07	\$ 2.44

<sup>1</sup> The amounts for the quarter ended September 30, 2022 and for the nine months ended September 30, 2022 reflect the adoption of IFRS 17 and IFRS 9 on January 1, 2022, and consequently, the amounts are different from those previously published. For information on IFRS 17 and IFRS 9 adoption, refer to Notes 3 and 4 to these Financial Statements.

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

**19 › Post-Employment Benefits**

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

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

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

(in millions of dollars)	Quarters ended September 30			
	2023		2022	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	\$ 8	\$ —	\$ 18	\$ 1
Net interest	2	1	—	—
Components of the cost of defined benefits recognized in the net income	10	1	18	1
Remeasurement of net liabilities (assets) as defined benefits <sup>1</sup>				
Rate of return on assets (excluding amounts included in the net interest above)	112	—	(3)	—
Actuarial losses (gains) on financial assumption changes	(117)	(2)	25	(3)
Increase (decrease) of the asset ceiling on a capitalized benefit plan	(7)	—	—	—
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	(12)	(2)	22	(3)
<b>Total of defined benefit cost components</b>	<b>\$ (2)</b>	<b>\$ (1)</b>	<b>\$ 40</b>	<b>\$ (2)</b>

<sup>1</sup> Changes in financial assumptions and assumptions on rate of return on assets, which represent market-based assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

(in millions of dollars)	Nine months ended September 30			
	2023		2022	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost	\$ 27	\$ 1	\$ 47	\$ 2
Net interest	5	2	2	1
Administrative expense	1	—	1	—
Components of the cost of defined benefits recognized in the net income	33	3	50	3
Remeasurement of net liabilities (assets) as defined benefits <sup>1</sup>				
Rate of return on assets (excluding amounts included in the net interest above)	58	—	339	—
Actuarial losses (gains) on financial assumption changes	(58)	(1)	(428)	(11)
Increase (decrease) of the asset ceiling on a capitalized benefit plan	(1)	—	—	—
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	(1)	(1)	(89)	(11)
<b>Total of defined benefit cost components</b>	<b>\$ 32</b>	<b>\$ 2</b>	<b>\$ (39)</b>	<b>\$ (8)</b>

<sup>1</sup> Changes in financial assumptions and assumptions on rate of return on assets, which represent market-based assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

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

(in millions of dollars)	Quarters ended September 30			
	2023		2022	
	Pension plans	Other plans	Pension plans	Other plans
<b>Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income</b>				
Remeasurement of post-employment benefits	\$ (12)	\$ (2)	\$ 22	\$ (3)
Income taxes on remeasurement of post-employment benefits	3	1	(6)	1
<b>Total of other comprehensive income</b>	<b>\$ (9)</b>	<b>\$ (1)</b>	<b>\$ 16</b>	<b>\$ (2)</b>

(in millions of dollars)	Nine months ended September 30			
	2023		2022	
	Pension plans	Other plans	Pension plans	Other plans
<b>Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income</b>				
Remeasurement of post-employment benefits	\$ (1)	\$ (1)	\$ (89)	\$ (11)
Income taxes on remeasurement of post-employment benefits	—	1	23	3
<b>Total of other comprehensive income</b>	<b>\$ (1)</b>	<b>\$ —</b>	<b>\$ (66)</b>	<b>\$ (8)</b>

## 20 › Commitments

### Investment Commitments

In the normal course of the Company's business, various outstanding contractual commitments related to offers for commercial loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. There were \$1,109 (\$648 as at December 31, 2022) of outstanding commitments as at September 30, 2023, of which the estimated disbursements will be \$39 (\$22 as at December 31, 2022) in 30 days, \$289 (\$213 as at December 31, 2022) in 31 to 365 days and \$781 (\$413 as at December 31, 2022) in more than one year.

### Letters of Credit

In the normal course of operations, banks issue letters of credit on behalf of the Company. As at September 30, 2023, the balance of these letters is \$2 (\$2 as at December 31, 2022).

### Lines of Credit

As at September 30, 2023, the Company had operating lines of credit totalling \$69 (\$56 as at December 31, 2022). As at September 30, 2023 and as at December 31, 2022, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

## 21 › Event After the Reporting Period

### Commitment Relating to Acquisition of Businesses

On October 3, 2023, the Company entered into an agreement to acquire, through one of its subsidiaries, the American company Vericity, Inc. and its subsidiaries (collectively "Vericity"). The agreed purchase price is US \$170. Vericity comprises two entities servicing the middle-market life insurance space, with synergies in between and combining artificial intelligence and rich data analytics to deliver innovative proprietary technology: Fidelity Life, an insurance carrier, and eFinancial, a direct-to-consumer digital agency. The closing of the transaction, expected in the first half of 2024, is subject to usual regulatory approvals and may therefore not be executed.

## 22 › Comparative Figures

Due to the adoption of IFRS 17 and IFRS 9, comparative figures presented have been restated to reflect the new accounting policies as described in Notes 3 and 4. In addition to these changes, certain comparative figures have been reclassified to comply with the current period's presentation, without any impact on the net income of the Company.