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

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

May 7, 2020



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for Industrial Alliance Insurance and Financial Services Inc. ("iA Insurance" or the "Company") is dated May 7, 2020. iA Financial Corporation Inc. ("iA Financial Corporation") became the parent company of iA Insurance on January 1, 2019, as a result of a plan of arrangement (the "arrangement"). This Management's Discussion and Analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 and 2019. It should also be read with the Management's Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2019. The Rolling Nine Quarters Financial Information Package may contain additional data that complements the information in this Management's Discussion and Analysis.

### TABLE OF CONTENTS

<b>HIGHLIGHTS</b> .....	3
<b>ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS</b> .....	4
<b>INVESTMENTS</b> .....	6
<b>FINANCIAL POSITION</b> .....	7
<b>DECLARATION OF DIVIDEND</b> .....	8
<b>RISK UPDATE</b> .....	9
<b>NOTICE AND GENERAL INFORMATION</b> .....	10
<b>CONSOLIDATED INCOME STATEMENTS</b> .....	12
<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b> .....	13
<b>SEGMENTED INFORMATION</b> .....	14

## HIGHLIGHTS<sup>1</sup>

**Profitability** – In the first quarter of 2020, iA Insurance recorded net income attributed to its sole common shareholder, iA Financial Corporation, of \$40.6 million, compared to \$151.3 million a year earlier. This decrease, related to the impacts of the COVID-19 pandemic and the resulting macroeconomic changes, is mainly explained by losses related to the segregated fund hedging program, the negative impact of markets on universal life insurance policies, the goodwill impairment related to PPI Management Inc. (PPI) and, to a lesser extent, the increase in the provision for car loan credit losses.

**Business growth** – Premiums and deposits totalled more than \$3.5 billion for the quarter, up from first quarter 2019 (+19%). Total assets under management and administration were down 7% during the quarter to \$175.7 billion at March 31, 2020, a decrease of 3% year over year. In Canada, first quarter sales were particularly good for segregated funds, Employee Plans and iA Auto and Home. Sales in Individual Insurance were up 10% year over year. Gross sales of mutual funds were significantly up at \$693.0 million (+27%), and net sales were positive until the pandemic struck in March. In the U.S., sales remained strong in both divisions, particularly in Individual Insurance (+53%).

**Financial position** – The solvency ratio was 116% at March 31, 2020, compared with 126% at the end of the previous quarter and 123% a year earlier. This is above the minimum required by regulatory authorities and at the top of the Company's target range of 110% to 116%.

### COVID-19 pandemic and macroeconomic changes

Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. How long it will last, the effectiveness of government measures to slow its spread and the impact of those measures on the economy all remain uncertain. As a result, at the moment we cannot accurately predict the bearing the pandemic will have on the Company's financial results for 2020, but the impact could be material. Despite the short-term negative impacts of the pandemic on its results, the Company remains financially solid, as demonstrated by its solvency ratio at the top of the target range as well as its sound debt ratio, adequate liquidity and well-positioned reserves.

**Dividend** – In the first quarter of 2020, iA Insurance paid two separate dividends totalling \$671.0 million to its sole common shareholder, iA Financial Corporation. No dividend will be paid in the second quarter to the sole common shareholder, iA Financial Corporation.

**PPI Management Inc. (PPI) goodwill adjustment** – In the first quarter, the Company recognized a goodwill impairment of \$24.0 million on a non-taxable basis (-\$0.22 EPS). This adjustment mainly stems from the COVID-19 pandemic and is explained by an increase in the risk premium used in the projection discount rate and a temporary decrease in projected future revenues.

**Merger** – As announced in the fall of 2019, the merger of The Excellence Life Insurance Company with Industrial Alliance Insurance and Financial Services took effect on January 1, 2020. This merger provides increased operational efficiency and was transparent for existing clients.

**Sale of iA Investment Counsel** – On March 2, 2020, the Company announced an agreement for the sale of iA Investment Counsel Inc. to CWB Financial Group. This sale reflects iA Financial Group's decision to focus on serving the wealth management needs of high-net-worth Canadians exclusively through its expanding network of independent, entrepreneur-owned investment advisory practices. The transaction is expected to close in the second quarter.

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

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

**ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS**

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

<b>Consolidated Income Statements</b>			
<b>(In millions of dollars)</b>	<b>First quarter</b>		
	<b>2020</b>	<b>2019</b>	<b>Variation</b>
Revenues			
Net premiums	2,746.1	2,354.8	391.3
Investment income	(857.5)	2,162.0	(3,019.5)
Other revenues	437.8	410.4	27.4
Total	2,326.4	4,927.2	(2,600.8)
Less: policy benefits and expenses	2,280.4	4,719.0	(2,438.6)
Income before income taxes	46.0	208.2	(162.2)
Less: income taxes	(1.5)	50.5	(52.0)
Net income	47.5	157.7	(110.2)
Less: net income attributed to participating policyholders	1.3	0.7	0.6
Net income attributed to shareholders	46.2	157.0	(110.8)
Less: preferred share dividends	5.6	5.7	(0.1)
Net income attributed to common shareholders	40.6	151.3	(110.7)

**Revenues**

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

<b>Revenues by Line of Business</b>							
<b>(In millions of dollars)</b>	<b>First quarter</b>						
	<b>Individual Insurance</b>	<b>Individual Wealth Management</b>	<b>Group Insurance</b>	<b>Group Savings and Retirement</b>	<b>US Operations</b>	<b>Other</b>	<b>Total</b>
Net premiums	397.5	1,078.0	414.9	633.0	138.2	84.5	2,746.1
<i>Variation vs. 2019</i>	9.7	357.9	18.2	(27.3)	23.4	9.4	391.3
Investment income	(1,246.5)	327.0	18.6	(48.2)	54.0	37.6	(857.5)
<i>Variation vs. 2019</i>	(3,073.0)	302.2	(47.0)	(202.2)	2.2	(1.7)	(3,019.5)
Other revenues	29.4	375.8	18.6	26.8	32.2	(45.0)	437.8
<i>Variation vs. 2019</i>	0.4	21.7	4.2	2.3	14.7	(15.9)	27.4
Total	(819.6)	1,780.8	452.0	611.6	224.4	77.2	2,326.4
<i>Variation vs. 2019</i>	(3,062.9)	681.8	(24.8)	(227.2)	40.4	(8.2)	(2,600.8)

*Net premiums* – The \$391.3 million increase over the first quarter of 2019 is mainly explained by an increase in net segregated fund premiums due to sales growth and an increase in guaranteed investment certificate (GIC) sales in Individual Wealth Management.

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

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

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

*Investment income* – The \$3,019.5 million decrease in investment income compared to first quarter 2019 is largely due to the decrease in the fair value of bond investments, equity investments and derivatives, mainly caused by variations in exchange rates, interest rates, issuer spreads and market performance. These factors had a greater impact on the fair value of investments due to the extreme volatility of financial markets in March. The decrease in investment income is mitigated by an increase in interest income versus 2019, mostly explained by an increase in the notional value of the portfolio, an increase in foreign revenues due to a higher exchange rate, and an increase in dividend income.

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

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

*Other revenues* – Other revenues represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company’s brokerage subsidiaries and assets managed for third parties. Other revenues increased \$27.4 million in the first quarter of 2020 versus first quarter 2019, essentially due to business growth in Individual Wealth Management.

### Policy Benefits and Expenses

Policy benefits and expenses decreased by \$2,438.6 million in the first quarter compared to the same period last year. This decrease is explained by:

- A decrease in insurance contract liabilities, essentially due to unfavourable market impact. The variation in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the variation in net policy premiums and benefits, net transfers to segregated funds and variations in the provisions for future policy benefits due to assumption changes.

The decrease in policy benefits and expenses was mitigated by:

- An increase in net benefits reflecting the normal course of business. Net benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.
- An increase in net transfers to segregated funds compared to 2019 in Individual Wealth Management and Group Savings and Retirement.

### Income Taxes

For the first quarter of 2020, the Company recorded an income tax recovery of \$1.5 million, compared to an income tax expense of \$50.5 million in 2019. These amounts represent the Company’s tax expense net of adjustments for prior years, if applicable.

### Net Income Attributed to Common Shareholders

Net income attributed to the sole common shareholder, iA Financial Corporation, totalled \$40.6 million for the first quarter of 2020, compared to \$151.3 million for the same period last year. This decrease, related to the impacts of the COVID-19 pandemic and the resulting macroeconomic changes, is mainly explained by losses related to the segregated fund hedging program, the negative impact of markets on universal life insurance policies, the goodwill impairment related to PPI Management Inc. (PPI) and, to a lesser extent, the increase in the provision for car loan credit losses.

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

Selected Financial Data									
(In millions of dollars, unless otherwise indicated)	2020	2019				2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	2,326.4	2,541.4	3,715.2	4,078.5	4,927.2	2,587.4	1,980.2	2,772.7	2,572.1
Net income attributed to common shareholders	40.6	174.8	183.4	181.2	151.3	149.5	164.9	159.1	139.2
Earnings per common share									
Basic	\$0.37	\$1.61	\$1.69	\$1.67	\$1.39	\$1.37	\$1.50	\$1.45	\$1.30

### Related Party Transactions

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

### Liquidity

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

Given the volatility of the financial markets, the Company carries out simulations to measure its liquidity needs under various scenarios, some of which can be qualified as extreme. In addition, the various client support measures implemented in the business lines given the current COVID-19 pandemic were assessed in terms of impact on the Company's liquidity. In light of the simulations carried out, and given the quality of its investment portfolio, the Company believes its current level of liquidity is not an issue.

For more information on liquidity risk and how this risk is managed, refer to the "Risk Management" section of the *2019 Annual Report*.

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

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

### Accounting Policies and Main Accounting Estimates

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

The preparation of financial statements requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results could differ from management's best estimates. Management has exercised its judgment and made estimates and assumptions as outlined in Note 2 b) of the consolidated financial statements in the *2019 Annual Report*.

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

## INVESTMENTS

<b>Investment Mix</b>			
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2019</b>
Book value of investments	40,748.8	39,496.9	36,516.7
Allocation of investments by asset class			
Bonds	67.9%	68.8%	69.0%
Stocks	6.7%	7.7%	8.5%
Mortgages and other loans	9.4%	9.8%	10.1%
Investment properties	5.0%	5.3%	4.7%
Policy loans	2.3%	2.3%	2.6%
Cash and short-term investments	5.4%	2.5%	2.4%
Other	3.3%	3.6%	2.7%
Total	100.0%	100.0%	100.0%

The total value of the investment portfolio amounted to \$40.7 billion at March 31, 2020, up from December 31, 2019 despite the significant drop in financial markets in March. The proportion of readily marketable securities has been increased, ensuring sufficient liquidity to meet commitments during this period of uncertainty caused by the pandemic. The above table shows the main asset classes that make up the Company's investment portfolio and the allocation of investments, which has remained relatively stable since the previous quarter.

<b>Quality of Investments</b>			
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2019</b>
Gross impaired investments	5.3	21.4	24.2
Provisions for impaired investments	2.6	10.5	8.6
Net impaired investments	2.7	10.9	15.6
Net impaired investments as a % of total investments	0.01%	0.03%	0.04%
Bonds – Proportion rated BB or lower	0.75%	0.88%	0.92%

The indicators in the above table confirm the quality of the investment portfolio in the first quarter. The change in impaired investments is related to the disposal of an impaired private bond. In addition, during this period of market uncertainty due to COVID-19, the Company has continued to rigorously monitor its bond downgrade risk exposure. The decrease in the proportion of bonds rated BB or lower is mainly explained by the reimbursement of certain assets in this category during the quarter.

<b>Derivative Financial Instruments</b>			
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2019</b>
Total notional amount (\$B)	30.8	29.9	19.5
Company's credit risk			
AA - or higher	100%	100%	100%
A +	—	—	—
Positive fair value	911.9	1,003.4	657.1
Negative fair value	1,734.3	431.1	237.1

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

Derivative financial instruments are used as part of the Company's hedging program designed to alleviate the sensitivity of segregated fund guarantees to interest rate and stock market fluctuations. They are also used to hedge the Company's foreign exchange and interest rate risks and as part of investment strategies to reduce the Company's risk profile. Despite the success of this program since its implementation, it led to losses in the first quarter, mainly attributable to the extreme volatility on the markets in mid-March due to the COVID-19 pandemic.

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

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

## **FINANCIAL POSITION**

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

<b>Capital</b>			
<b>(In millions of dollars)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2019</b>
Equity			
Common shares	1,655.5	1,655.5	1,655.5
Preferred shares	525.0	525.0	525.0
Contributed surplus	—	—	—
Retained earnings	2,900.5	3,460.1	3,389.1
Accumulated other comprehensive income	(30.5)	76.4	84.8
Subtotal	5,050.5	5,717.0	5,654.4
Debentures	652.5	652.0	901.5
Participating policyholders' accounts	43.3	41.9	52.7
<b>Total</b>	<b>5,746.3</b>	<b>6,410.9</b>	<b>6,608.6</b>

The Company's capital totalled \$5,746.3 million at March 31, 2020, compared with \$6,410.9 million at December 31, 2019 and \$6,608.6 million at March 31, 2019. The decrease during the first quarter is essentially explained by the decrease in retained earnings.

<b>Solvency<sup>2</sup></b>			
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2019</b>
Available capital, surplus allowance and eligible deposits	8,077.4	8,766.6	8,695.5
Base solvency buffer	6,941.5	6,971.9	7,047.5
Solvency ratio	116%	126%	123%

iA Insurance ended the first quarter of 2020 with a solvency ratio of 116%, compared to 126% at the the end of the previous quarter and 123% a year earlier. The negative variation of ten percentage points versus December 31, 2019 is the net result of the following items: losses related to the segregated fund hedging program (-1.0 percentage point), organic capital generation (+0.5 percentage points), deployment of capital into higher-yielding assets (-0.5 percentage points), macroeconomic changes related to interest rates and financial markets (+3.0 percentage points), macroeconomic changes related to credit spreads (-2.0 percentage points) and the dividend paid to iA Insurance's sole common shareholder, iA Financial Corporation (-10.0 percentage points). The Company's solvency ratio target range is 110% to 116%.

## DECLARATION OF DIVIDEND

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

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

<b>Declaration of Dividend</b>				
	<b>Amount</b>	<b>Payment date</b>	<b>Closing date</b>	
Class A Preferred Share – Series B	\$0.2875	June 30, 2020	May 29, 2020	Non-cumulative dividend
Class A Preferred Share – Series G	\$0.2360625	June 30, 2020	May 29, 2020	Non-cumulative dividend
Class A Preferred Share – Series I	\$0.3000	June 30, 2020	May 29, 2020	Non-cumulative dividend

No dividend will be paid in the second quarter to iA Insurance's sole common shareholder, iA Financial Corporation.

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

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



## RISK UPDATE

No changes have been made to the Company's risk management and governance practices presented in the *2019 Annual Report* of iA Financial Corporation. This section evaluates the impact of the COVID-19 crisis on the Company's main risks.

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

### Business Continuity

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

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

### Data Security and Cyber Risk

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

### Insurance Risk

COVID-19 has temporarily increased uncertainty about claims volume due to policyholder behaviour, mortality, morbidity, longevity and general insurance claims. Although COVID-19 is expected to have a one-time impact over the next few quarters, as at March 31, 2020, no significant changes have been made to the actuarial assumptions for insurance risk used in the provisions for future policy benefits. The Company's sensitivity related to these assumptions is presented in the "Risk Management" section of the *2019 Annual Report* of iA Financial Corporation.

### Interest Rate Risk

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

<b>Variation in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations</b>		
<b>(In millions of dollars)</b>	<b>Q1-2020</b>	<b>2019</b>
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)	(1)	(6)
10 basis point decrease in the ultimate reinvestment rate (URR)	66	61

<b>Variation in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations</b>		
<b>(In millions of dollars)</b>	<b>Q1-2020</b>	<b>2019</b>
Interest rate risk		
25 basis point drop in interest rates	5	(6)

### Stock Market Risk

The Company estimates that a sudden 10% drop in the markets as at March 31, 2020 would have led to a \$26 million decrease in net income (\$31 million as at December 31, 2019) and a \$43 million decrease in other comprehensive income over a twelve-month period (\$48 million as at December 31, 2019).

The Company still has the leeway to absorb, without a significant impact on its provisions for future policy benefits related to individual insurance, a drop in the markets of 13% compared to their levels at March 31, 2020.

## NOTICE AND GENERAL INFORMATION

### Internal Control Over Financial Reporting

No changes were made to the Company's internal control over financial reporting during the interim period ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Non-IFRS Financial Information

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

Non-IFRS financial measures published by the Company include, but are not limited to: return on common shareholders' equity (ROE), sales, assets under management (AUM), assets under administration (AUA), capital and solvency ratio.

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

### Forward-Looking Statements

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

Although iA Insurance believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Factors that could cause actual results to differ materially from expectations include, but are not limited to: general business and economic conditions; level of competition and consolidation; changes in laws and regulations including tax laws; liquidity of iA Insurance including the availability of financing to meet existing financial commitments on their expected maturity dates when required; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by iA Insurance; insurance risks including mortality, morbidity, longevity and policyholder behaviour including the occurrence of natural or man-made disasters, pandemic diseases (such as the current COVID-19 pandemic) and acts of terrorism.

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of the Management's Discussion and Analysis for 2019, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2019, the "Risk Update" section of this Management's Discussion and Analysis, and elsewhere in iA Insurance's filings with Canadian Securities Administrators, which are available for review at [sedar.com](http://sedar.com).

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

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

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

#### **Conference Call**

Management will hold a conference call to present iA Financial Group's first quarter results on Thursday, May 7, 2020 at 11:30 a.m. (ET). The dial-in number is 416-981-9095 or 1-800-684-5526 (toll-free within North America). A replay of the conference call will be available for a one-week period, starting at 2:00 p.m. on Thursday, May 7, 2020. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21956188. A webcast of the conference call (listen-only mode) will also be available on the iA Financial Group website at [ia.ca](http://ia.ca).

#### **Annual Meeting**

iA Financial Corporation is holding its Annual Meeting virtually at 2:00 p.m. (ET) on Thursday, May 7, 2020, at the following web address: <https://www.icastpro.ca/fia200507a>. An audio webcast of the meeting as well as a copy of management's presentation will be available on the Company's website at [ia.ca](http://ia.ca) under *About iA*, in the *Investor Relations/Events and Presentations* section.

#### **Investor Day**

Due to the COVID-19 pandemic, the Investor Day scheduled for June 5, 2020 will be postponed to a later date yet to be confirmed.

#### **About iA Financial Group**

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

**CONSOLIDATED INCOME STATEMENTS**

(Unaudited, in millions of dollars, unless otherwise indicated)	Three months ended March 31	
	2020	2019
	\$	\$
<b>Revenues</b>		
<b>Premiums</b>		
Gross premiums	2,941	2,541
Premiums ceded	(195)	(186)
Net premiums	2,746	2,355
<b>Investment income</b>		
Interest and other investment income	439	326
Change in fair value of investments	(1,297)	1,836
	(858)	2,162
Other revenues	438	410
	2,326	4,927
<b>Policy benefits and expenses</b>		
Gross benefits and claims on contracts	1,610	1,494
Ceded benefits and claims on contracts	(134)	(117)
Net transfer to segregated funds	688	224
Increase (decrease) in insurance contract liabilities	(702)	2,350
Increase (decrease) in investment contract liabilities	1	14
Decrease (increase) in reinsurance assets	(75)	(39)
	1,388	3,926
Commissions	439	385
General expenses	407	361
Premium and other taxes	33	32
Financing charges	13	15
	2,280	4,719
<b>Income before income taxes</b>	46	208
Income taxes	(2)	50
<b>Net income</b>	48	158
Net income attributed to participating policyholders	1	1
<b>Net income attributed to shareholders</b>	47	157
Dividends attributed to preferred shares	6	6
<b>Net income attributed to common shareholders</b>	41	151
<b>Basic earnings per common share (in dollars)</b>	0.37	1.39

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of dollars)	As at March 31 2020 (unaudited) \$	As at December 31 2019 \$
<b>Assets</b>		
<b>Investments</b>		
Cash and short-term investments	2,187	1,005
Bonds	27,708	27,189
Stocks	2,744	3,024
Mortgages and other loans	3,815	3,870
Derivative financial instruments	912	1,003
Policy loans	927	900
Other invested assets	434	429
Investment properties	2,022	2,077
	<b>40,749</b>	<b>39,497</b>
Other assets	2,673	2,147
Reinsurance assets	1,258	1,030
Fixed assets	398	394
Deferred income tax assets	64	24
Intangible assets	810	805
Goodwill	582	606
General fund assets	46,534	44,503
Segregated funds net assets	25,460	27,868
<b>Total assets</b>	<b>71,994</b>	<b>72,371</b>
<b>Liabilities</b>		
Insurance contract liabilities	30,175	30,665
Investment contract liabilities	632	630
Derivative financial instruments	1,734	431
Other liabilities	7,987	6,079
Deferred income tax liabilities	259	287
Debentures	653	652
General fund liabilities	41,440	38,744
Liabilities related to segregated funds net assets	25,460	27,868
<b>Total liabilities</b>	<b>66,900</b>	<b>66,612</b>
<b>Equity</b>		
Share capital and contributed surplus	2,180	2,180
Retained earnings and accumulated other comprehensive income	2,871	3,537
Participating policyholders' accounts	43	42
	<b>5,094</b>	<b>5,759</b>
<b>Total liabilities and equity</b>	<b>71,994</b>	<b>72,371</b>

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## SEGMENTED INFORMATION

The Company operates and manages its activities according to five main reportable operating segments, which reflect its company structure for decision making. Management uses judgment in the aggregation of business units into the Company's operating segments. Its products and services are offered to retail customers, businesses and groups. The Company primarily operates in Canada and the United States. The main products and services offered by each segment are the following:

*Individual Insurance* – Life, health, disability and mortgage insurance products.

*Individual Wealth Management* – Individual products and services for savings plans, retirement funds and segregated funds, in addition to securities brokerage, trust operations and mutual funds.

*Group Insurance* – Life, health, accidental death and dismemberment, dental care and short and long-term disability insurance products for employee plans; creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services; and specialized products for special markets.

*Group Savings and Retirement* – Group products and services for savings plans, retirement funds and segregated funds.

*US Operations* – Miscellaneous insurance products sold in the United States such as life insurance products and extended warranties relating to dealer services.

*Other* – Auto and home insurance products, services supporting the activities that have no link with key segments such as asset management and financing, Company capital and some adjustments related to consolidation.

The Company uses assumptions, judgments and methodologies to allocate general expenses that are not directly attributable to a business segment. The allocation of other activities is mainly performed according to a formula based on equity and is uniformly applied to each operating segment.

The other assets and other liabilities, except mainly for derivative financial instruments, are classified in their entirety in the *Other* column since they are used for the operational support of the Company's activities.

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

(in millions of Canadian dollars)

Three months ended March 31, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	397	1,078	415	633	138	85	2,746
Investment income	(1,246)	327	18	(48)	54	37	(858)
Other revenues	29	376	19	27	32	(45)	438
	(820)	1,781	452	612	224	77	2,326
<b>Operating expenses</b>							
Gross benefits and claims on contracts	229	557	292	386	125	21	1,610
Ceded benefits and claims on contracts	(63)	—	(13)	(6)	(74)	22	(134)
Net transfer to segregated funds	—	425	—	263	—	—	688
Increase (decrease) in insurance contract liabilities	(1,235)	476	10	(68)	115	—	(702)
Increase (decrease) in investment contract liabilities	—	—	1	—	—	—	1
Decrease (increase) in reinsurance assets	(12)	—	3	1	(67)	—	(75)
Commissions, general and other expenses	244	351	146	28	112	(2)	879
Financing charges	5	—	8	—	—	—	13
	(832)	1,809	447	604	211	41	2,280
Income before income taxes and allocation of other activities	12	(28)	5	8	13	36	46
Allocation of other activities	26	2	2	1	5	(36)	—
Income before income taxes	38	(26)	7	9	18	—	46
Income taxes	(3)	(3)	(1)	1	4	—	(2)
<b>Net income</b>	41	(23)	8	8	14	—	48
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	40	(23)	8	8	14	—	47

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

(in millions of Canadian dollars)

Three months ended March 31, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	388	720	397	660	115	75	2,355
Investment income	1,826	25	66	154	52	39	2,162
Other revenues	29	354	14	25	17	(29)	410
	2,243	1,099	477	839	184	85	4,927
<b>Operating expenses</b>							
Gross benefits and claims on contracts	226	520	291	315	98	44	1,494
Ceded benefits and claims on contracts	(52)	—	(15)	(6)	(54)	10	(117)
Net transfer to segregated funds	—	147	—	77	—	—	224
Increase (decrease) in insurance contract liabilities	1,788	59	11	415	89	(12)	2,350
Increase (decrease) in investment contract liabilities	—	—	14	—	—	—	14
Decrease (increase) in reinsurance assets	(15)	—	2	3	(40)	11	(39)
Commissions, general and other expenses	200	323	145	26	79	5	778
Financing charges	5	—	6	—	—	4	15
	2,152	1,049	454	830	172	62	4,719
Income before income taxes and allocation of other activities	91	50	23	9	12	23	208
Allocation of other activities	19	(2)	1	1	4	(23)	—
Income before income taxes	110	48	24	10	16	—	208
Income taxes	25	13	6	3	3	—	50
<b>Net income</b>	<b>85</b>	<b>35</b>	<b>18</b>	<b>7</b>	<b>13</b>	<b>—</b>	<b>158</b>
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	<b>84</b>	<b>35</b>	<b>18</b>	<b>7</b>	<b>13</b>	<b>—</b>	<b>157</b>



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

(in millions of Canadian dollars)

	Three months ended March 31, 2020						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$		
<b>Gross premiums</b>							
Invested in general fund	487	206	446	48	257	33	1,477
Invested in segregated funds	—	872	—	592	—	—	1,464
	487	1,078	446	640	257	33	2,941
<b>Premiums ceded</b>							
Invested in general fund	(90)	—	(31)	(7)	(119)	52	(195)
<b>Net premiums</b>	397	1,078	415	633	138	85	2,746

(in millions of Canadian dollars)

	Three months ended March 31, 2019						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$		
<b>Gross premiums</b>							
Invested in general fund	478	109	431	329	198	48	1,593
Invested in segregated funds	—	611	—	337	—	—	948
	478	720	431	666	198	48	2,541
<b>Premiums ceded</b>							
Invested in general fund	(90)	—	(34)	(6)	(83)	27	(186)
<b>Net premiums</b>	388	720	397	660	115	75	2,355

## SEGMENTED INFORMATION (Continued)

## Segmented Assets and Liabilities

(in millions of Canadian dollars)

As at March 31, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Invested assets	22,859	2,462	1,979	4,037	1,193	8,219	40,749
Segregated funds net assets	—	14,894	—	10,566	—	—	25,460
Reinsurance assets	(691)	—	226	131	1,731	(139)	1,258
Other	115	1,360	—	—	43	3,009	4,527
<b>Total assets</b>	<b>22,283</b>	<b>18,716</b>	<b>2,205</b>	<b>14,734</b>	<b>2,967</b>	<b>11,089</b>	<b>71,994</b>
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	20,233	2,324	2,236	4,073	2,040	(99)	30,807
Liabilities related to segregated funds net assets	—	14,894	—	10,566	—	—	25,460
Other	1,432	114	16	28	—	9,043	10,633
<b>Total liabilities</b>	<b>21,665</b>	<b>17,332</b>	<b>2,252</b>	<b>14,667</b>	<b>2,040</b>	<b>8,944</b>	<b>66,900</b>

(in millions of Canadian dollars)

As at December 31, 2019

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