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iA Financial Corporation Inc.

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

July 30, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for iA Financial Corporation Inc. ("iA Financial Corporation" or the "Company") is dated July 30, 2020. iA Financial Corporation became the parent company of Industrial Alliance Insurance and Financial Services Inc. ("iA Insurance") as of January 1, 2019, as a result of a plan of arrangement. This Management's Discussion and Analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019. It should also be read with the Management's Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2019. The Rolling Nine Quarters Financial Information Package may contain additional data that complements the information in this Management's Discussion and Analysis.

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HIGHLIGHTS¹

Profitability						
	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Net income attributed to common shareholders (in millions)	\$182.7	\$181.4	1%	\$221.8	\$332.5	(33%)
Weighted average number of common shares (diluted) (in millions)	107.1	107.2	—	107.2	107.6	—
Earnings per common share (EPS) (diluted)	\$1.71	\$1.69	1%	\$2.07	\$3.09	(33%)
Core earnings per common share (EPS) (diluted)	\$1.57	\$1.61	(2%)	\$2.98	\$2.89	3%
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019		
Return on common shareholders' equity (ROE) ²	10.5%	10.7%	12.9%	12.6%		
Core return on common shareholders' equity (ROE) ²	12.4%	12.7%	12.6%	12.1%		

The Company ended the second quarter of 2020 with net income to common shareholders of \$182.7 million versus \$181.4 million in 2019 (+1%), and diluted earnings per common share (EPS) of \$1.71 versus \$1.69 in 2019 (+1%). These results were therefore up slightly year over year.

Return on common shareholders' equity (ROE) was 10.5% at June 30, 2020 versus 12.6% at June 30, 2019. ROE is calculated on a trailing-twelve-month basis. The decrease in this ratio is explained by the first quarter 2020 result, which was heavily impacted by the effects of the pandemic.

Diluted core EPS of \$1.57 for the second quarter compares with \$1.61 for the same period in 2019. Core ROE of 12.4% at June 30, 2020 compares with 12.1% a year earlier.

Business growth – Premiums and deposits totalled nearly \$2.7 billion for the quarter, up from second quarter 2019 (+5%). Total assets under management and administration were up 3% during the quarter, even with the sale of iA Investment Counsel Inc., amounting to \$181.0 billion at June 30, 2020. In Canada, second quarter sales were particularly good for Individual Insurance (+10%), segregated funds (+10%), Employee Plans (+\$18.8 million) and iAAH (+11%). Gross mutual fund sales were up 4% year over year at \$504.6 million, and net sales were positive for the first time since first quarter 2018 with inflows of \$49.9 million. Segregated funds recorded strong net inflows totalling \$417.0 million. In the U.S., Individual Insurance sales were up year over year (+33%), while Dealer Services sales were impacted by the negative effects of the pandemic like in Canada, albeit to a lesser extent (-7%).

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

COVID-19 pandemic and macroeconomic changes – Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. How long it will last, the effectiveness of government measures to slow its spread and the impact of those measures on the economy all remain uncertain. As a result, we cannot accurately predict the total bearing the pandemic will have on the Company's financial results for 2020, but the impact could be material. Consequently, in May, the Company withdrew the 2020 financial guidance provided to the markets on February 13, 2020. The Company intends to re-establish its annual guidance once the situation has stabilized. Despite the short-term negative impacts of the pandemic on its results, the Company remains financially solid, as demonstrated by its above-target solvency ratio, sound debt ratio, adequate liquidity and well-positioned reserves. The Company's business continuity protocol has continued, as discussed when the first quarter results were released on May 7, 2020. This protocol aims to ensure clients a quality of service that is similar to or better than before the pandemic and enable employees and advisors to continue all their activities, supported by secure processes.

Financial position – The solvency ratio was 124% at June 30, 2020, compared with 137% at the end of the previous quarter and 127% a year earlier. The Company's target range is 110% to 116%. The decrease in the second quarter is essentially explained by the May completion of the IAS Parent Holdings acquisition, which reduced the solvency ratio by 17 percentage points. The Company's debt ratio at June 30, 2020 was 25.6%.

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

² Trailing twelve months.

Book value – The book value per common share was \$53.23 at June 30, 2020, up 2% from the last quarter and 7% over twelve months.

Dividend – The Board of Directors approved a quarterly dividend of \$0.4850 per common share payable in the third quarter of 2020.

Acquisition of a U.S. group of companies – As announced on December 4, 2019, the Company confirmed on May 22 the completion of its acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries. IAS is one of the largest independent providers of solutions in the U.S. vehicle warranty market with over 35 years of history. It provides a comprehensive portfolio of vehicle warranties and related software and services sold through one of the industry's broadest and most diverse distribution networks. With this acquisition, the Company becomes one of the largest vehicle warranty platforms in the U.S.

Considering the negative impacts of the current pandemic and the resulting uncertainty, it is difficult to accurately predict the short-term contribution of this acquisition to the Company's earnings. Based on the latest projections, the Company estimates that the contribution could be lower than expected for the second half of 2020 and in 2021. Excluding acquisition and integration costs, the Company nonetheless expects IAS's contribution to earnings to be positive starting in 2020.

Sales and operating profit from IAS are not included in the Company's results for the second quarter. Consequently, expected profit on in-force takes into consideration that the second quarter operating profit from IAS will be included in the Company's third quarter results. Nonetheless, acquisition and integration costs amounting to \$0.06 EPS were recorded in the second quarter, compared with expected costs of \$0.05 EPS.

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

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

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

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

Normal Course Issuer Bid – The Company did not redeem or cancel any shares in the second quarter of 2020, as redemptions are on hold for the moment in accordance with regulators' instructions.

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.

BUSINESS GROWTH

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

Net Premiums, Premium Equivalents and Deposits ^{3,4}						
(In millions of dollars)	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Individual Insurance	393.5	391.3	2.2	791.0	779.1	11.9
Individual Wealth Management	1,278.8	1,128.6	150.2	3,049.8	2,395.0	654.8
Group Insurance	393.3	447.4	(54.1)	854.6	884.5	(29.9)
Group Savings and Retirement	358.2	351.3	6.9	1,010.2	1,020.8	(10.6)
US Operations	187.6	163.5	24.1	366.5	314.7	51.8
General Insurance ⁵	75.5	77.3	(1.8)	160.0	152.4	7.6
Total	2,686.9	2,559.4	127.5	6,232.1	5,546.5	685.6

Premiums and deposits totalled nearly \$2.7 billion in the second quarter, an increase of 5% year over year, mainly due to the contribution of the Individual Wealth and US Operations business lines. For the year to date, premiums and deposits surpassed \$6.2 billion for an increase of 12% year over year. Like for the quarter, this increase is mainly due to the performance of the Individual Wealth business line, followed by US Operations.

Assets Under Management and Administration ⁴				
(In millions of dollars)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Assets under management				
General fund	51,499.5	47,811.4	45,279.6	43,432.1
Segregated funds	28,504.8	25,460.1	27,867.9	26,388.7
Mutual funds	10,048.7	9,908.7	11,594.2	11,431.0
Other	5,287.3	13,893.1	15,500.1	15,421.8
Subtotal	95,340.3	97,073.3	100,241.8	96,673.6
Assets under administration ⁶	85,682.6	78,653.6	89,245.8	87,566.7
Total	181,022.9	175,726.9	189,487.6	184,240.3

Assets under management and administration of \$181.0 billion were down 2% year over year, mainly due to the drop in equity markets during the first quarter and the sale of iA Investment Counsel Inc. Despite this sale, they were up 3% in the second quarter due to market growth.

³ Premiums and deposits include all premiums collected by the Company for its insurance and annuity activities (and posted to the general fund), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance, Group Savings and Retirement and US Operations sectors and mutual fund deposits.

⁴ This table presents non-IFRS measures.

⁵ Includes iAAH and some minor consolidation adjustments.

⁶ An adjustment to the Q2 2019 assets under administration figure was made in Q3 2019.

Sales Growth by Line of Business⁷						
(In millions of dollars, unless otherwise indicated)	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Individual Insurance						
Minimum premiums	43.5	43.1	1%	86.8	82.1	6%
Excess premiums	9.4	4.9	92%	11.3	7.1	59%
Total	52.9	48.0	10%	98.1	89.2	10%
Individual Wealth Management						
General fund	174.9	97.9	79%	380.6	207.1	84%
Segregated funds	599.3	544.8	10%	1,471.6	1,155.7	27%
Mutual funds	504.6	485.9	4%	1,197.6	1,032.2	16%
Total	1,278.8	1,128.6	13%	3,049.8	2,395.0	27%
Net sales (after redemptions and transfers)						
Segregated funds	417.0	106.2	310.8	840.8	251.4	589.4
Mutual funds	49.9	(136.8)	186.7	(49.3)	(225.3)	176.0
Group Insurance						
Employee Plans	22.9	4.1	459%	80.0	30.0	167%
Dealer Services						
Creditor Insurance	46.4	91.3	(49%)	105.3	156.1	(33%)
P&C Insurance	54.1	74.3	(27%)	116.1	126.9	(9%)
Car loan originations	89.0	104.5	(15%)	192.2	196.6	(2%)
Special Markets Solutions	44.9	61.1	(27%)	120.7	134.7	(10%)
Group Savings and Retirement	365.0	358.4	2%	1,023.9	1,033.9	(1%)
US Operations (\$US)						
Individual Insurance	32.9	24.7	33%	62.3	43.9	42%
Dealer Services – P&C Insurance ⁸	106.9	114.5	(7%)	224.1	224.2	–
General Insurance						
iAAH (auto and home insurance)	125.0	112.4	11%	198.9	178.6	11%

Individual Insurance in Canada – Second quarter sales totalled \$52.9 million, bringing total premiums up 10% year over year, both for the quarter and the year to date. Minimum premiums for the second quarter were up slightly year over year.

Individual Wealth Management – Guaranteed product (general fund) sales for the quarter were up significantly from last year at \$174.9 million (+79%). Gross segregated fund sales were up 10% year over year at \$599.3 million, and net sales were up significantly at \$417.0 million compared to \$106.2 million a year earlier. Note that in May, the Company ranked first in the industry in gross segregated fund sales for the first time ever. The Company also remains first in the industry for net segregated fund sales.

Gross mutual fund sales were up 4% year over year at \$504.6 million. Net sales recorded inflows of \$49.9 million and were therefore positive for the first time since first quarter 2018. This performance was supported by strong growth from the affiliate networks.

Group Insurance – Employee Plans – Second quarter sales totalled \$22.9 million, significantly up from \$4.1 million in the same quarter last year. Note that sales in this division vary considerably from one quarter to another based on the size of the contracts sold.

Group Insurance – Dealer Services – Total sales of \$189.5 million in the second quarter were down 30% year over year. By product, P&C sales (including extended warranties and replacement insurance) were down 27% from the previous year at \$54.1 million, while creditor insurance sales of \$46.4 million compared with \$91.3 million a year ago. Car loan originations of \$89.0 million were down 15% year over year. Note that dealerships were not operating at full capacity due to the pandemic. Nonetheless, strong growth was recorded in June compared to April and May, which is encouraging for the third quarter.

Group Insurance – Special Markets Solutions – Second quarter sales totalled \$44.9 million, compared to \$61.1 million a year earlier. A major portion of this decrease is explained by significantly lower sales in travel insurance.

⁷ Sales are not an IFRS measure.

⁸ Property and casualty insurance.

Group Savings and Retirement – Total second quarter sales amounted to \$365.0 million, up slightly from \$358.4 million a year earlier. Growth in accumulation product sales was offset by a decrease in insured annuity sales.

US Operations – Year over year, Individual Insurance sales grew by 33% in the second quarter to US\$32.9 million. Dealer Services sales were down 7% to US\$106.9 million. Like in Canada, dealership sales are being impacted by the collateral effects of the pandemic, albeit to a lesser extent. Sales from IAS are not included in the Company's second quarter results.

General Insurance (IAAH) – Direct written premiums grew by 11% year over year to \$125.0 million.

ANALYSIS ACCORDING TO SOURCES OF EARNINGS

Results According to Sources of Earnings ⁹						
(In millions of dollars)	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Operating profit						
Expected profit on in-force	176.9	194.4	(17.5)	363.1	368.9	(5.8)
Experience gains (losses)	42.6	15.6	27.0	(100.3)	31.8	(132.1)
Gain (strain) on sales	(9.6)	(1.3)	(8.3)	(20.1)	(7.4)	(12.7)
Changes in assumptions and management actions ¹⁰	—	—	—	(24.0)	—	(24.0)
Subtotal	209.9	208.7	1.2	218.7	393.3	(174.6)
Income on capital	30.8	32.4	(1.6)	65.1	55.0	10.1
Income taxes	(52.5)	(54.0)	1.5	(50.9)	(104.4)	53.5
Net income attributed to shareholders	188.2	187.1	1.1	232.9	343.9	(111.0)
Less: dividends on preferred shares issued by a subsidiary	5.5	5.7	(0.2)	11.1	11.4	(0.3)
Net income attributed to common shareholders	182.7	181.4	1.3	221.8	332.5	(110.7)

The analysis of profitability according to the sources of earnings presents the key variations between reported net income and the Company's expectation for the three-month period ended June 30, 2020. This data complements information presented in the section entitled "Analysis According to the Financial Statements" and provides additional information to better understand the Company's financial results. This analysis contains non-IFRS measures, which are explained in the "Non-IFRS Financial Information" section at the end of this document.

Expected profit on in-force – The expected profit on in-force represents the portion of income expected to come from policies in force at the beginning of the period based on management's best-estimate assumptions when the 2020 budget was prepared. Expected profit for the wealth lines is updated quarterly to reflect changes in the stock markets and net fund entries.

For the second quarter of 2020, expected profit on in-force was down year over year (-9% or -\$17.5 million). The decrease is essentially due to two items: 1) the usual quarterly update mentioned above that reflected the market drop in the first quarter of 2020; and 2) a decrease for US Operations due to the impact of IAS acquisition and integration costs. Without this impact, growth in expected profit for the US Operations sector would have been 5%.

Experience gains (losses) versus expected profit – Experience gains or losses represent the difference between reported income and the income that would have been reported if all assumptions made at the start of the period had materialized. Experience gains and losses include market impact, policyholder experience and certain specific items.

⁹ This table contains measures that have no IFRS equivalents. See "Non-IFRS Financial Information" at the end of this document for more information.

¹⁰ Q1 2020: PPI goodwill impairment.

In the second quarter of 2020, the Company recorded a net experience gain of \$42.6 million, or \$28.0 million after tax (+\$0.25 EPS), due to the following:

- *Individual Insurance* – Experience was favourable in the second quarter with a gain of \$14.6 million after tax (+\$0.13 EPS), resulting mainly from the positive market impact on universal life insurance policies (+\$0.13 EPS). In addition, mortality and morbidity were unfavourable due to the pandemic (-\$0.03 EPS), policyholder (lapse) experience was favourable (+\$0.02 EPS), expenses were lower than expected (+\$0.02 EPS), and commission income for the PPI subsidiary was lower than expected (-\$0.01 EPS).
- *Individual Wealth Management* – Experience for this business line was favourable in the second quarter (after-tax gain of \$4.1 million or +\$0.04 EPS). Gains were generated by the sale of iA Investment Counsel Inc. (+\$0.08 EPS), the positive market impact on investment fund income (MERs) (+\$0.04 EPS) and favourable longevity in single-premium annuities potentially due to the pandemic (+\$0.01 EPS). At the same time, the segregated fund hedging program generated a loss of \$0.07 EPS due to high market volatility stemming from the pandemic, mainly in April, and distribution affiliate income was below expectations (-\$0.02 EPS).
- *Group Insurance* – This business line recorded an after-tax gain of \$6.5 million for the quarter (+\$0.05 EPS). Experience in Employee Plans was in line with expectations, with the net positive impact of lockdown measures (related to the pandemic) being offset by slightly unfavourable mortality. In Dealer Services, experience was favourable owing to lower P&C claims due to the pandemic (+\$0.04 EPS), and results were in line with expectations for car loans. Lastly, in Special Markets Solutions, experience was slightly favourable for various benefits as a result of the pandemic (+\$0.01 EPS).
- *Group Savings and Retirement* – This business line reported an after-tax gain of \$3.0 million (+\$0.03 EPS) due to higher income on assets under administration for accumulation products (+\$0.02 EPS), as well as favourable longevity and lower expenses (+\$0.01 EPS).
- *US Operations* – Experience in this business line was consistent with expectations for the quarter (slight after-tax loss of \$0.2 million). In Individual Insurance, experience was in line with expectations as the impacts of the pandemic cancelled each other out. In particular, the negative impact of mortality was offset by an equivalent positive impact from policyholder behaviour (lapse). In Dealer Services, operating expenses were lower than expected (+\$0.01 EPS), while IAS acquisition and integration costs were slightly higher than expected (-\$0.01 EPS). Operating profit from IAS is not included in the Company's second quarter results.

Strain in Individual Insurance and US Operations – Strain on new business amounted to \$9.8 million pre-tax, or 10% of sales for the quarter. This is less favourable than expected (-\$0.05 EPS) for two reasons. First, like last quarter, the strain calculation again includes the first quarter drop in interest rates. Second, the sales mix was unfavourable, which was unrelated to the pandemic.

Income on capital – Net income earned on the Company's surplus funds, which includes income from iA Auto and Home (iAAH), was \$30.8 million before tax for the second quarter, representing a gain of \$0.02 EPS versus management expectations. This is explained in part by experience at iAAH, which was once again much more favourable than expected (+\$0.07 EPS) due to lower claims, mainly in auto insurance. Positive experience generated by lower claims due to the pandemic was completely offset by significant premium refunds paid to clients. Therefore, the net experience gain at iAAH is unrelated to the pandemic. In addition, a provision for default was recorded for a corporate bond in the aerospace sector, which was therefore related to the pandemic (-\$0.04 EPS), and investment income on capital was slightly lower than expected (-\$0.01 EPS). Lastly, the February debenture issuance had a positive impact on income (+\$0.02 EPS), but this was offset by higher financing expenses due to this same issuance (-\$0.02 EPS).

Income taxes – Income taxes amounted to \$52.5 million in the second quarter for an effective tax rate of 21.8%. The effective tax rate was pushed up by the impact of the experience gains mentioned above. At the same time, it was pushed down by other tax-related items that had a total net positive impact of \$0.04 EPS, the largest of which was the true-up for the 2019 tax period.

Core Earnings Per Common Share

Core earnings per common share is a non-IFRS measure that represents management's view of the Company's capacity to generate sustainable earnings. See "Non-IFRS Financial Information" at the end of this Management's Discussion and Analysis for more information and an explanation of the adjustments applied in the Company's core EPS calculation.

Diluted core EPS for the second quarter of 2020 was \$1.57, compared to \$1.61 a year earlier. The table below reconciles the Company's reported and core EPS on a diluted basis. Several items were adjusted in the core EPS calculation for the quarter, notably the gain on the sale of iA Investment Counsel, the acquisition and integration costs related to recent acquisitions and the impact of macroeconomic changes.

Reported EPS and Core EPS Reconciliation						
(On a diluted basis)	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Reported EPS	\$1.71	\$1.69	1%	\$2.07	\$3.09	(33%)
Adjusted for:						
Specific items:						
Unusual income tax gains and losses	—	(\$0.04)		—	(\$0.04)	
Sale of iA Investment Counsel	(\$0.08)	—		(\$0.08)	—	
Acquisition and integration costs	\$0.06	—		\$0.06	—	
PPI goodwill impairment	—	—		\$0.22	—	
Market-related gains and losses	(\$0.10)	(\$0.03)		\$0.70	(\$0.18)	
Experience gains and losses in excess of \$0.04 EPS						
Policyholder experience	(\$0.01)	(\$0.02)		\$0.09	—	
Strain on sales	\$0.01	—		\$0.01	—	
Income on capital (excluding iAAH)	\$0.01	—		\$0.01	—	
iA Auto and Home experience	(\$0.03)	—		(\$0.10)	—	
Usual income tax gain and loss	—	\$0.01		—	\$0.02	
Core EPS	\$1.57	\$1.61	(2%)	\$2.98	\$2.89	3%

ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS

The following analysis should be read in conjunction with Note 17 “Segmented Information” in the Company’s unaudited interim condensed consolidated financial statements.

Consolidated Income Statements						
(In millions of dollars)	Second quarter			Year-to-date at June 30		
	2020	2019	Variation	2020	2019	Variation
Revenues						
Net premiums	2,113.4	1,982.7	130.7	4,868.5	4,337.5	531.0
Investment income	4,155.0	1,671.5	2,483.5	3,298.0	3,833.3	(535.3)
Other revenues	415.7	424.5	(8.8)	855.8	834.9	20.9
Total	6,684.1	4,078.7	2,605.4	9,022.3	9,005.7	16.6
Less: policy benefits and expenses	6,437.2	3,837.8	2,599.4	8,731.3	8,556.8	174.5
Income before income taxes	246.9	240.9	6.0	291.0	448.9	(157.9)
Less: income taxes	52.0	53.9	(1.9)	50.1	104.4	(54.3)
Net income	194.9	187.0	7.9	240.9	344.5	(103.6)
Less: net income attributed to participating policyholders	6.7	(0.1)	6.8	8.0	0.6	7.4
Net income attributed to shareholders	188.2	187.1	1.1	232.9	343.9	(111.0)
Less: preferred share dividends issued by a subsidiary	5.5	5.7	(0.2)	11.1	11.4	(0.3)
Net income attributed to common shareholders	182.7	181.4	1.3	221.8	332.5	(110.7)

Revenues

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

Revenues by Line of Business							
(In millions of dollars)	Second quarter						
	Individual Insurance	Individual Wealth Management	Group Insurance	Group Savings and Retirement	US Operations	Other	Total
Net premiums	393.5	774.2	365.7	354.2	150.3	75.5	2,113.4
<i>Variation vs. 2019</i>	2.2	131.5	(47.4)	15.5	30.7	(1.8)	130.7
Investment income	3,727.5	(71.8)	91.0	276.9	91.9	39.5	4,155.0
<i>Variation vs. 2019</i>	2,372.0	(138.1)	43.5	169.6	36.5	—	2,483.5
Other revenues	27.8	370.0	9.5	24.9	34.5	(51.0)	415.7
<i>Variation vs. 2019</i>	(4.5)	4.5	(5.0)	0.9	15.0	(19.7)	(8.8)
Total	4,148.8	1,072.4	466.2	656.0	276.7	64.0	6,684.1
<i>Variation vs. 2019</i>	2,369.7	(2.1)	(8.9)	186.0	82.2	(21.5)	2,605.4

Net premiums – The \$130.7 million increase over the second quarter of 2019 is mainly explained by an increase in segregated fund premiums and an increase in guaranteed investment certificate (GIC) and high interest savings account sales in Individual Wealth Management and, to a lesser extent, growth in net premiums in US Operations. This increase was reduced by lower net premiums in Group Insurance associated with the pandemic.

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

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

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

Investment income – The \$2,483.5 million increase in investment income compared to second quarter 2019 is largely due to the increase in the fair value of bond investments, equity investments and derivatives, mainly caused by variations in exchange rates, interest rates, issuer spreads and market performance.

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

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

Other revenues – Other revenues generally represent fees earned from the management of segregated funds and mutual funds, income from administrative services only (ASO) contracts, and fee income from the Company’s brokerage subsidiaries and assets managed for third parties. The gain realized on the disposal of iA Investment Counsel Inc. in the second quarter is also included under this item for the Individual Wealth Management sector. The decrease in other revenues in the second quarter of 2020 versus second quarter 2019 is largely due to the impact of the current economic environment on certain sectors.

Policy Benefits and Expenses

Policy benefits and expenses increased by \$2,599.4 million in the second quarter compared to the same period last year. This increase is explained by:

- An increase in insurance contract liabilities. The variation in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the variation in net policy premiums and benefits, net transfers to segregated funds and variations in the provisions for future policy benefits due to assumption changes.
- An increase in net transfers to segregated funds compared to 2019 mainly in the Individual Wealth Management sector.

The increase in policy benefits and expenses was mitigated by:

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

Income Taxes

For the second quarter of 2020, the Company recorded an income tax expense of \$52.0 million, compared to \$53.9 million in 2019. These amounts represent the Company's tax expense net of adjustments for prior years, if applicable.

Net Income Attributed to Common Shareholders

Net income attributed to common shareholders totalled \$182.7 million for the second quarter of 2020, compared to \$181.4 million for the same period last year.

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

Selected Financial Data									
(In millions of dollars, unless otherwise indicated)	2020		2019				2018 ¹¹		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	6,684.1	2,338.2	2,543.9	3,715.5	4,078.7	4,927.0	2,587.4	1,980.2	2,772.7
Net income attributed to common shareholders	182.7	39.1	171.2	183.7	181.4	151.1	149.5	164.9	159.1
Earnings per common share									
Basic	\$1.71	\$0.37	\$1.60	\$1.73	\$1.70	\$1.41	\$1.37	\$1.50	\$1.45
Diluted	\$1.71	\$0.36	\$1.59	\$1.72	\$1.69	\$1.40	\$1.36	\$1.50	\$1.44

Related Party Transactions

There are no material related party transactions outside the normal course of business to report for the second quarter of 2020.

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 iA Financial Group 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 20 of the Company's unaudited interim condensed consolidated financial statements.

Accounting Policies and Main Accounting Estimates

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

¹¹ iA Financial Corporation became the successor issuer and the financial results of iA Insurance for the year ended December 31, 2018 constitute the financial results of iA Financial Corporation. The comparative data for 2018 presented herein is therefore the same as the data for iA Insurance.

The preparation of financial statements requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results could differ from management's best estimates. Management has exercised its judgment and made estimates and assumptions as outlined in Note 2 b) of the consolidated financial statements in the iA Financial Group 2019 Annual Report and in Note 2 "Impacts of COVID-19 Pandemic" of the unaudited interim condensed consolidated financial statements.

More information on new accounting standards used and changes in accounting policies is presented in Note 3 "Changes in Accounting Policies" of the unaudited interim condensed consolidated financial statements.

INVESTMENTS

Investment Mix				
(In millions of dollars, unless otherwise indicated)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Book value of investments	43,308.0	41,561.2	39,919.2	37,987.9
Allocation of investments by asset class				
Bonds	69.1%	66.7%	68.8%	69.1%
Stocks	6.8%	6.6%	7.6%	7.4%
Mortgages and other loans	8.7%	9.2%	9.7%	10.0%
Investment properties	4.6%	4.9%	5.2%	4.6%
Policy loans	2.2%	2.2%	2.3%	2.4%
Cash and short-term investments	3.4%	7.2%	2.8%	2.3%
Other	5.2%	3.2%	3.6%	4.2%
Total	100.0%	100.0%	100.0%	100.0%

The total value of the investment portfolio amounted to nearly \$43.3 billion at June 30, 2020, up from March 31, 2020 due to the market recovery in the second quarter. Note that market volatility was fairly high given the economic uncertainty created by the pandemic. The above table shows the main asset classes that make up the Company's investment portfolio. Readily marketable securities have decreased compared to the previous quarter as they were used to fund the recent U.S. acquisition completed in May. Liquidity remains sufficient to meet commitments as the pandemic continues.

Quality of Investments				
(In millions of dollars, unless otherwise indicated)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Gross impaired investments	44.5	5.5	21.5	23.9
Provisions for impaired investments	8.1	2.8	10.5	11.1
Net impaired investments	36.4	2.7	10.9	12.8
Net impaired investments as a % of total investments	0.08%	0.01%	0.03%	0.03%
Bonds – Proportion rated BB or lower	0.83%	0.75%	0.87%	0.86%
Mortgages – Proportion of securitized and insured loans ¹²	34.9%	38.0%	37.8%	38.1%
– Proportion of insured loans	38.3%	34.3%	36.0%	37.4%
– Delinquency rate	0.01%	0.06%	0.08%	0.10%
Investment properties – Occupancy rate	96.0%	95.0%	94.0%	96.0%
Car loans – Average credit loss rate (non-prime) ¹³	5.0%	5.5%	5.4%	5.3%

The indicators in the above table confirm the quality of the investment portfolio in the second quarter. The change in impaired investments is the result of a corporate bond for which a provision was taken. Given the pandemic environment, the Company continued to strictly monitor its bond downgrade risk exposure. The average credit loss rate on car loans was down, primarily due to client relief measures and changes in consumers' shopping and payment habits since the start of the pandemic. The credit loss provision for car loans was increased to offset this unusual temporary decrease in the average loss rate. The average credit loss rate is expected to increase gradually since losses from clients affected by the pandemic should emerge in late 2020 and early 2021.

¹² A marginal portion of the securitized and insured loans may be uninsured at the end of the quarter.

¹³ Represents the non-prime credit losses for the last twelve months divided by the average finance receivables over the same period.

Derivative Financial Instruments				
(In millions of dollars, unless otherwise indicated)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Total notional amount (\$B)	31.9	31.8	29.9	25.0
Company's credit risk				
AA - or higher	100%	100%	100%	100%
A +	—	—	—	—
Positive fair value	1,711.5	911.9	1,003.4	1,205.2
Negative fair value	858.9	1,755.9	454.8	262.0

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

Derivative financial instruments are used as part of the Company's hedging program designed to alleviate the sensitivity of segregated fund guarantees to interest rate and stock market fluctuations. They are also used to hedge the Company's foreign exchange and interest rate risks and as part of investment strategies to reduce the Company's risk profile.

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

For more information, refer to Note 4 and Note 7 of the Company's unaudited interim condensed consolidated financial statements.

FINANCIAL POSITION

Capitalization				
(In millions of dollars)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Equity				
Common shares	1,671.9	1,671.9	1,666.5	1,632.3
Preferred shares issued by a subsidiary	525.0	525.0	525.0	525.0
Contributed surplus	18.1	17.2	17.5	22.5
Retained earnings	3,884.1	3,878.4	3,823.5	3,534.5
Accumulated other comprehensive income	121.5	27.5	55.6	91.7
Subtotal	6,220.6	6,120.0	6,088.1	5,806.0
Debentures	1,448.1	1,447.9	1,049.7	651.5
Participating policyholders' accounts	50.0	43.3	41.9	52.6
Total	7,718.7	7,611.2	7,179.7	6,510.1

The Company's capital amounted to more than \$7.7 billion at June 30, 2020, up \$107.5 million from March 31, 2020. This increase stems mainly from the increase in accumulated other comprehensive income due to the decrease in interest rate and credit spreads during the second quarter. Note that the increase in retained earnings generated by the net earnings contribution was largely cancelled out by the negative impact of the pension plan revaluation.

Solvency¹⁴				
(In millions of dollars, unless otherwise indicated)	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Available capital				
Tier 1	2,620.2	3,136.3	3,212.7	3,028.1
Tier 2	1,521.4	1,954.0	1,596.4	1,201.2
Surplus allowance and eligible deposits	4,845.6	4,432.9	4,461.8	4,294.1
Total	8,987.2	9,523.2	9,270.9	8,523.4
Base solvency buffer	7,267.9	6,972.1	6,980.2	6,720.0
Solvency ratio	124%	137%	133%	127%

The Company ended the second quarter of 2020 with a solvency ratio of 124%. The negative variation of 13 percentage points versus March 31, 2020 is the net result of the following items: the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries (-17 percentage points), the impact of macroeconomic changes (+2.0 percentage points), organic capital generation (+1.0 percentage point), and the sale of iA Investment Counsel Inc. (+1.0 percentage point). The Company's solvency ratio target range is 110% to 116%.

In the second quarter, the Company organically generated approximately \$70 million in additional capital.

Financial Leverage				
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Debt ratio				
Debentures/capital	18.8%	19.0%	14.6%	10.0%
Debentures + preferred shares issued by a subsidiary/capital	25.6%	25.9%	21.9%	18.1%
Coverage ratio ¹⁵	12.4x	13.3x	16.6x	15.9x

The debt ratios decreased just slightly during the second quarter due to the variation in the Company's total capital. The decrease in the coverage ratio at June 30, 2020 reflects the increase in financing costs over the past twelve months.

Book Value per Common Share and Market Capitalization				
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
Book value per common share	\$53.23	\$52.29	\$51.99	\$49.63
Number of common shares outstanding	107,008,827	107,008,827	106,966,199	106,421,099
Value per share at close	\$45.46	\$44.24	\$71.33	\$53.34
Market capitalization	\$4,864,621,275	\$4,734,070,506	\$7,629,898,975	\$5,676,501,421

Book value per common share was \$53.23 at June 30, 2020, up 2% from March 31, 2020 and 7% over the last twelve months.

The number of common shares outstanding did not change during the quarter. No options were exercised under the stock option plan for senior managers. In addition, the Company did not redeem or cancel any outstanding common shares under its Normal Course Issuer Bid program, as redemptions are on hold for the moment in accordance with regulators' instructions. Under this program, the Company may redeem up to 5,335,397 common shares, representing approximately 5% of its common shares issued and outstanding as at November 1, 2019. The redemption purchases are made at market price at the time of purchase through the facilities of the Toronto Stock Exchange or an alternative Canadian trading system, in accordance with market rules and policies. The common shares redeemed are cancelled.

¹⁴ This table uses non-IFRS measures to assess the Company's ability to meet regulatory capital requirements.

¹⁵ Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, dividends on preferred shares issued by a subsidiary and redemption premiums on preferred shares issued by a subsidiary (if applicable).

The Company's market capitalization was close to \$4.9 billion at June 30, 2020, up 2.8% during the quarter due solely to the change in the Company's stock price, as the number of common shares did not change.

DECLARATION OF DIVIDEND

The Board of Directors of iA Financial Corporation approved a quarterly dividend of \$0.4850 per share on the Company's outstanding common shares, the same as that announced the previous quarter.

The Board of Directors of iA Insurance approved a quarterly dividend of \$0.2875 per Non-Cumulative Class A Preferred Share – Series B, \$0.2360625 per Non-Cumulative Class A Preferred Share – Series G, and \$0.3000 per Non-Cumulative Class A Preferred Share – Series I. In addition, as of today, iA Insurance has not declared any dividend to its sole common shareholder, iA Financial Corporation, for the third quarter.

Following are the amounts and dates of payment and closing of registers for the iA Financial Corporation common shares and iA Insurance preferred shares.

Declaration of Dividend				
	Amount	Payment date	Closing date	
Common share – iA Financial Corporation	\$0.4850	September 15, 2020	August 21, 2020	
Class A Preferred Share – Series B – iA Insurance	\$0.2875	September 30, 2020	August 28, 2020	Non-cumulative dividend
Class A Preferred Share – Series G – iA Insurance	\$0.2360625	September 30, 2020	August 28, 2020	Non-cumulative dividend
Class A Preferred Share – Series I – iA Insurance	\$0.3000	September 30, 2020	August 28, 2020	Non-cumulative dividend

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

Reinvestment of Dividends

Registered shareholders wishing to enrol in the Company's Dividend Reinvestment and Share Purchase Plan (DRIP) so as to be eligible to reinvest the next dividend payable on September 15, 2020 must ensure that the duly completed form is delivered to Computershare no later than 4:00 p.m. on August 14, 2020. Enrolment information is provided on iA Financial Group's website at ia.ca under *About iA*, in the *Investor Relations/Dividends* section. Common shares issued under the Company's DRIP will be purchased on the secondary market and no discount will apply.

SENSITIVITY ANALYSIS

Sensitivity Analysis ¹⁶				
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019
S&P/TSX Closing Value	15,515 points	13,379 points	17,063 points	16,382 points
Solvency ratio	124%	137%	133%	127%
Impact of a drop in the stock markets (S&P/TSX Index) ¹⁷				
Decrease in index requiring a strengthening of provisions for future policy benefits for stocks matched to long-term liabilities	(20%)	(13%)	(24%)	(25%)
Index trigger threshold	12,500 points	11,700 points	13,000 points	12,300 points
Net income impact due to provision strengthening for each 1% S&P/TSX additional decrease below this level	(\$20M)	(\$18M)	N/A	N/A
Decrease in index that reduces the solvency ratio to 110%	(61%)	(87%)	(91%)	(74%)
Index trigger threshold	6,000 points	1,800 points	1,500 points	4,200 points
Impact on net income of a sudden 10% drop in the stock markets (over one year)	(\$30M)	(\$26M)	(\$31M)	(\$32M)
Impact on net income attributed to common shareholders of a hypothetical 10 bps decrease in interest rates				
Drop in initial reinvestment rate (IRR)	\$3M	—	\$2M	(\$12M)
Drop in ultimate reinvestment rate (URR)	(\$69M)	(\$66M)	(\$61M)	(\$64M)

¹⁶ The sensitivity analysis is based on non-IFRS measures.

¹⁷ The S&P/TSX Index is a proxy that can move differently from our equity portfolio, which includes international public and private equities.

Caution related to sensitivities

The sensitivities presented above are estimates of the impact on the financial statements of sudden changes in interest rates and equity values. Actual results can differ significantly from these estimates for a variety of reasons such as the interaction between these factors, changes in business mix, changes in actuarial and investment assumptions, changes in investment strategies, actual experience differing from assumptions, the effective tax rate, market factors and limitations of our internal models. Therefore, these sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions indicated above. Given the nature of these calculations, we cannot provide assurance that the actual impact on net income and the solvency ratio will be as outlined.

Capital sensitivities to equity market – Equity market variation represents an immediate change in public and private equity investments (excluding infrastructure investments) at quarter-end. These sensitivities include the use of the Company's stock market protection to prevent an impact on net income and the impact of rebalancing equity hedges for the Company's dynamic hedging program. They exclude any subsequent action on the Company's investment portfolio.

NOTICE AND GENERAL INFORMATION**Internal Control Over Financial Reporting**

No changes were made to the Company's internal control over financial reporting during the interim period ended June 30, 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 Financial Corporation reports its financial results and statements in accordance with International Financial Reporting Standards (IFRS). It also publishes certain financial measures that are not based on IFRS (non-IFRS). A financial measure is considered a non-IFRS measure for Canadian securities law purposes if it is presented other than in accordance with the generally accepted accounting principles used for the Company's audited financial statements. These non-IFRS financial measures are often accompanied by and reconciled with IFRS financial measures. For certain non-IFRS financial measures, there are no directly comparable amounts under IFRS. The Company believes that these non-IFRS financial measures provide additional information to better understand the Company's financial results and assess its growth and earnings potential, and that they facilitate comparison of the quarterly and full-year results of the Company's ongoing operations. Since non-IFRS financial measures do not have standardized definitions and meaning, they may differ from the non-IFRS financial measures used by other institutions and should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure.

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

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

Core earnings per common share is a non-IFRS measure used to better understand the capacity of the Company to generate sustainable earnings.

Management's estimate of core earnings per common share excludes: 1) specific items, including but not limited to year-end assumption changes and unusual income tax gains and losses; 2) gains and losses from macroeconomic variations related to universal life policies, the level of assets backing long-term liabilities, investment funds (MERS) and the dynamic hedging program for segregated fund guarantees; 3) gains and losses in excess of \$0.04 per share, on a quarterly basis, for strain on Individual Insurance sales, for policyholder experience by business segment (Individual Insurance, Individual Wealth Management, Group Insurance, Group Savings and Retirement, US Operations and iA Auto and Home Insurance), for usual income tax gains and losses and for investment income on capital.

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

Forward-Looking Statements

This Management's Discussion and Analysis may contain statements relating to strategies used by iA Financial Corporation or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "may", "will", "could", "should", "would", "suspect", "expect", "anticipate", "intend", "plan", "believe", "estimate", and "continue" (or the negative thereof), as well as words such as "objective" or "goal" or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. In this Management's Discussion and Analysis, forward-looking statements include, but are not limited to, information concerning possible or assumed future operating results. These statements are not historical facts; they represent only expectations, estimates and projections regarding future events and are subject to change, particularly in light of the ongoing and evolving COVID-19 pandemic, its effect on the global economy and its uncertain impact on our operations.

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

Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the "Risk Management" section of the Management's Discussion and Analysis for 2019, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2019, the "Risk Update" section of the Management's Discussion and Analysis for the period ended March 31, 2020, and elsewhere in iA Financial Corporation's filings with Canadian Securities Administrators, which are available for review at sedar.com.

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

Documents Related to the Financial Results

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

Conference Call

Management will hold a conference call to present iA Financial Group's second quarter results on Thursday, July 30, 2020 at 2:00 p.m. (ET). The dial-in number is 416-981-9010 or 1-877-211-4546 (toll-free within North America). A replay of the conference call will be available for a one-week period, starting at 4:30 p.m. on Thursday, July 30, 2020. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21964532. A webcast of the conference call (listen-only mode) will also be available on the iA Financial Group website at ia.ca.

About iA Financial Group

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

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

CONSOLIDATED INCOME STATEMENTS

(Unaudited, in millions of dollars, unless otherwise indicated)	Quarters ended June 30		Six months ended June 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenues				
Premiums				
Gross premiums	2,319	2,186	5,269	4,727
Premiums ceded	(206)	(203)	(401)	(389)
Net premiums	2,113	1,983	4,868	4,338
Investment income				
Interest and other investment income	308	328	751	654
Change in fair value of investments	3,847	1,343	2,547	3,179
	4,155	1,671	3,298	3,833
Other revenues	416	425	856	835
	6,684	4,079	9,022	9,006
Policy benefits and expenses				
Gross benefits and claims on contracts	1,220	1,442	2,833	2,936
Ceded benefits and claims on contracts	(137)	(125)	(271)	(242)
Net transfer to segregated funds	524	196	1,212	420
Increase (decrease) in insurance contract liabilities	4,018	1,550	3,316	3,900
Increase (decrease) in investment contract liabilities	21	7	22	21
Decrease (increase) in reinsurance assets	(19)	(41)	(94)	(80)
	5,627	3,029	7,018	6,955
Commissions	395	410	836	795
General expenses	369	353	781	714
Premium and other taxes	27	32	60	64
Financing charges	19	14	36	29
	6,437	3,838	8,731	8,557
Income before income taxes	247	241	291	449
Income taxes	52	54	50	104
Net income	195	187	241	345
Net income attributed to participating policyholders	7	—	8	1
Net income attributed to shareholders	188	187	233	344
Dividends attributed to preferred shares issued by a subsidiary	5	6	11	12
Net income attributed to common shareholders	183	181	222	332
Earnings per common share (in dollars)				
Basic	1.71	1.70	2.07	3.10
Diluted	1.71	1.69	2.07	3.09
Weighted average number of shares outstanding (in millions of units)				
Basic	107	107	107	107
Diluted	107	107	107	108
Dividends per common share (in dollars)	0.49	0.45	0.97	0.87

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions of dollars)	As at June 30 2020 (unaudited) \$	As at December 31 2019 \$
Assets		
Investments		
Cash and short-term investments	1,487	1,108
Bonds	29,964	27,508
Stocks	2,929	3,024
Mortgages and other loans	3,749	3,870
Derivative financial instruments	1,712	1,003
Policy loans	931	900
Other invested assets	547	429
Investment properties	1,989	2,077
	43,308	39,919
Other assets	3,471	2,193
Reinsurance assets	1,273	1,030
Fixed assets	403	394
Deferred income tax assets	64	28
Intangible assets	1,641	1,110
Goodwill	1,339	606
General fund assets	51,499	45,280
Segregated funds net assets	28,505	27,868
Total assets	80,004	73,148
Liabilities		
Insurance contract liabilities	34,178	30,665
Investment contract liabilities	654	630
Derivative financial instruments	859	455
Other liabilities	7,696	6,063
Deferred income tax liabilities	394	287
Debentures	1,448	1,050
General fund liabilities	45,229	39,150
Liabilities related to segregated funds net assets	28,505	27,868
Total liabilities	73,734	67,018
Equity		
Share capital and contributed surplus	1,690	1,684
Preferred shares issued by a subsidiary	525	525
Retained earnings and accumulated other comprehensive income	4,005	3,879
Participating policyholders' accounts	50	42
	6,270	6,130
Total liabilities and equity	80,004	73,148

SEGMENTED INFORMATION

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

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

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

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

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

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

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

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

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

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

(in millions of Canadian dollars)

Quarter ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Net premiums	394	774	366	354	150	75	2,113
Investment income	3,727	(72)	91	277	92	40	4,155
Other revenues	28	370	9	25	35	(51)	416
	4,149	1,072	466	656	277	64	6,684
Operating expenses							
Gross benefits and claims on contracts	198	339	279	272	132	—	1,220
Ceded benefits and claims on contracts	(64)	—	(18)	(7)	(77)	29	(137)
Net transfer to segregated funds	—	423	—	101	—	—	524
Increase (decrease) in insurance contract liabilities	3,732	(72)	22	254	81	1	4,018
Increase (decrease) in investment contract liabilities	—	—	21	—	—	—	21
Decrease (increase) in reinsurance assets	(27)	—	1	1	7	(1)	(19)
Commissions, general and other expenses	204	320	121	26	129	(9)	791
Financing charges	3	1	8	—	—	7	19
	4,046	1,011	434	647	272	27	6,437
Income before income taxes and allocation of other activities	103	61	32	9	5	37	247
Allocation of other activities	27	4	—	1	5	(37)	—
Income before income taxes	130	65	32	10	10	—	247
Income taxes	22	28	2	(2)	2	—	52
Net income	108	37	30	12	8	—	195
Net income attributed to participating policyholders	7	—	—	—	—	—	7
Net income attributed to shareholders	101	37	30	12	8	—	188

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

(in millions of Canadian dollars)

Quarter ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Net premiums	391	643	413	339	120	77	1,983
Investment income	1,356	66	48	107	54	40	1,671
Other revenues	32	365	15	24	20	(31)	425
	1,779	1,074	476	470	194	86	4,079
Operating expenses							
Gross benefits and claims on contracts	192	514	293	305	100	38	1,442
Ceded benefits and claims on contracts	(56)	—	(14)	(7)	(57)	9	(125)
Net transfer to segregated funds	—	110	—	86	—	—	196
Increase (decrease) in insurance contract liabilities	1,354	68	2	50	73	3	1,550
Increase (decrease) in investment contract liabilities	—	—	7	—	—	—	7
Decrease (increase) in reinsurance assets	(14)	—	(1)	—	(24)	(2)	(41)
Commissions, general and other expenses	202	323	153	26	86	5	795
Financing charges	6	1	6	—	—	1	14
	1,684	1,016	446	460	178	54	3,838
Income before income taxes and allocation of other activities	95	58	30	10	16	32	241
Allocation of other activities	25	1	1	1	4	(32)	—
Income before income taxes	120	59	31	11	20	—	241
Income taxes	23	14	9	3	5	—	54
Net income attributed to shareholders	97	45	22	8	15	—	187

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

(in millions of Canadian dollars)

Six months ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Net premiums	791	1,852	790	987	288	160	4,868
Investment income	2,481	255	107	229	146	80	3,298
Other revenues	57	746	30	52	67	(96)	856
	3,329	2,853	927	1,268	501	144	9,022
Operating expenses							
Gross benefits and claims on contracts	427	896	574	658	257	21	2,833
Ceded benefits and claims on contracts	(127)	—	(31)	(13)	(151)	51	(271)
Net transfer to segregated funds	—	848	—	364	—	—	1,212
Increase (decrease) in insurance contract liabilities	2,497	404	32	186	196	1	3,316
Increase (decrease) in investment contract liabilities	—	—	22	—	—	—	22
Decrease (increase) in reinsurance assets	(39)	—	4	2	(60)	(1)	(94)
Commissions, general and other expenses	448	671	272	54	242	(10)	1,677
Financing charges	8	1	16	—	—	11	36
	3,214	2,820	889	1,251	484	73	8,731
Income before income taxes and allocation of other activities	115	33	38	17	17	71	291
Allocation of other activities	52	6	1	2	10	(71)	—
Income before income taxes	167	39	39	19	27	—	291
Income taxes	19	25	1	(1)	6	—	50
Net income	148	14	38	20	21	—	241
Net income attributed to participating policyholders	8	—	—	—	—	—	8
Net income attributed to shareholders	140	14	38	20	21	—	233

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

(in millions of Canadian dollars)

Six months ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Revenues							
Net premiums	779	1,363	810	999	235	152	4,338
Investment income	3,182	91	114	261	106	79	3,833
Other revenues	61	719	29	49	37	(60)	835
	4,022	2,173	953	1,309	378	171	9,006
Operating expenses							
Gross benefits and claims on contracts	418	1,034	584	620	198	82	2,936
Ceded benefits and claims on contracts	(108)	—	(29)	(13)	(111)	19	(242)
Net transfer to segregated funds	—	257	—	163	—	—	420
Increase (decrease) in insurance contract liabilities	3,142	127	13	465	162	(9)	3,900
Increase (decrease) in investment contract liabilities	—	—	21	—	—	—	21
Decrease (increase) in reinsurance assets	(29)	—	1	3	(64)	9	(80)
Commissions, general and other expenses	402	646	298	52	165	10	1,573
Financing charges	11	1	12	—	—	5	29
	3,836	2,065	900	1,290	350	116	8,557
Income before income taxes and allocation of other activities	186	108	53	19	28	55	449
Allocation of other activities	44	(1)	2	2	8	(55)	—
Income before income taxes	230	107	55	21	36	—	449
Income taxes	48	27	15	6	8	—	104
Net income	182	80	40	15	28	—	345
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	181	80	40	15	28	—	344

Segmented Premiums

(in millions of Canadian dollars)

Quarter ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Gross premiums							
Invested in general fund	493	174	397	72	280	14	1,430
Invested in segregated funds	—	600	—	289	—	—	889
	493	774	397	361	280	14	2,319
Premiums ceded							
Invested in general fund	(99)	—	(31)	(7)	(130)	61	(206)
Net premiums	394	774	366	354	150	75	2,113

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

(in millions of Canadian dollars)

Quarter ended June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Gross premiums							
Invested in general fund	491	98	450	30	208	48	1,325
Invested in segregated funds	—	545	—	316	—	—	861
	491	643	450	346	208	48	2,186
Premiums ceded							
Invested in general fund	(100)	—	(37)	(7)	(88)	29	(203)
Net premiums	391	643	413	339	120	77	1,983

(in millions of Canadian dollars)

Six months ended June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
Gross premiums							
Invested in general fund	980	380	856	120	537	43	2,916
Invested in segregated funds	—	1,472	—	881	—	—	2,353
	980	1,852	856	1,001	537	43	5,269
Premiums ceded							
Invested in general fund	(189)	—	(66)	(14)	(249)	117	(401)
Net premiums	791	1,852	790	987	288	160	4,868

(in millions of Canadian dollars)

Six months ended June 30, 2019

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

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

(in millions of Canadian dollars)

As at June 30, 2020

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	
Assets							
Invested assets	25,684	2,453	2,006	4,176	1,355	7,634	43,308
Segregated funds net assets	—	16,755	—	11,750	—	—	28,505
Reinsurance assets	(664)	—	226	130	1,750	(169)	1,273
Other	110	1,143	—	—	68	5,597	6,918
Total assets	25,130	20,351	2,232	16,056	3,173	13,062	80,004
Liabilities							
Insurance contract liabilities and investment contract liabilities	23,975	2,257	2,329	4,328	2,038	(95)	34,832
Liabilities related to segregated funds net assets	—	16,755	—	11,750	—	—	28,505
Other	680	56	10	17	—	9,634	10,397
Total liabilities	24,655	19,068	2,339	16,095	2,038	9,539	73,734

(in millions of Canadian dollars)

As at December 31, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	
Assets							
Invested assets	23,113	1,880	1,881	3,998	1,058	7,989	39,919
Segregated funds net assets	—	16,392	—	11,476	—	—	27,868
Reinsurance assets	(702)	—	233	132	1,491	(124)	1,030
Other	121	866	—	—	38	3,306	4,331
Total assets	22,532	19,138	2,114	15,606	2,587	11,171	73,148
Liabilities							
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	—	7,466	7,855
Total liabilities	21,812	18,268	2,204	15,623	1,744	7,367	67,018