

# SUSTAINABLE GROWTH



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

**Management's Discussion and Analysis for the Second Quarter of 2019**

August 1, 2019



## 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 August 1, 2019. iA Financial Corporation Inc. ("iA Financial Corporation") became the parent company of iA Insurance on January 1, 2019, pursuant to a plan of arrangement (the "arrangement"). This Management's Discussion and Analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018. It should also be read with the Management's Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2018. The Rolling Nine Quarters Financial Information Package may contain additional data that complements the information in this Management's Discussion and Analysis.

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## HIGHLIGHTS<sup>1</sup>

**Profitability** – In the second quarter of 2019, iA Insurance recorded net income attributed to its sole common shareholder, iA Financial Corporation, of \$181.2 million, an increase of \$22.1 million over \$159.1 million a year earlier. This growth is mainly explained by increased revenues, essentially in net premiums and investment income.

**Business growth** – Total assets under management and administration grew 3% during the quarter to reach \$186.4 billion at June 30, 2019, an increase of 5% over \$177.3 billion a year earlier. Premiums and deposits totalled nearly \$2.6 billion for the quarter, up from second quarter 2018 (+4%). In Canada, second quarter sales were particularly good for segregated funds, the Special Markets Solutions division and iA Auto and Home. Individual Insurance sales improved and were up slightly year over year, while mutual funds recorded net outflows. In US Operations, sales continued to be strong in both Individual Insurance and Dealer Services.

**Financial position** – The solvency ratio was 125% at June 30, 2019, compared with 123% at the the end of the previous quarter and 122% a year earlier. This is above the minimum required by regulatory authorities as well as the Company's target range of 110% to 116%.

**Debenture redemption** – On May 16, 2019, iA Insurance redeemed its 2.80% subordinated debentures due May 16, 2024, with a nominal value of \$250 million.

**Dividend** – iA Insurance paid a dividend of \$0.8289 per common share in the second quarter to its sole common shareholder, iA Financial Corporation, for a total of \$90 million. In addition, the Board of Directors authorized a dividend totalling \$81 million to be paid by iA Insurance to its sole shareholder, iA Financial Corporation, in the third quarter.

**Litigation** – The Company 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 in September 2018. Subsequent to this application, the government of Saskatchewan published new regulations limiting the amount of premiums an insurer may receive or accept for deposit in life insurance policy side accounts. These regulations are consistent with the position taken by the Company. On March 15, 2019, the Saskatchewan Court of Queen's Bench dismissed, in its entirety, the application commenced by Ituna against the Company. Ituna indicated on April 15 that it would appeal the decision. The Company has always maintained that the position taken by Ituna was legally unfounded. The Company will respond to the appeal with the same conviction.

**Board of Directors** – The Company's annual meeting was held on Thursday, May 9, 2019. During the meeting, two new directors, Monique Mercier and Benoit Daignault, were elected to replace those not seeking another term. In addition, on July 9, 2019, the Company announced the appointment of Ginette Maillé to the board.

**Credit rating** – On July 22, 2019, the Standard & Poor's rating agency raised the issuer credit and financial strength ratings of iA Insurance from A+ to AA-, citing operational performance, consistent profitability in various business lines and solid risk management.

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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 13 *Segmented Information* in the Company's unaudited interim condensed consolidated financial statements.

<b>Consolidated Income Statements</b>						
<b>(In millions of dollars)</b>	<b>Second quarter</b>			<b>Year-to-date at June 30</b>		
	<b>2019</b>	<b>2018</b>	<b>Variation</b>	<b>2019</b>	<b>2018</b>	<b>Variation</b>
Revenues						
Net premiums	1,982.7	1,850.0	132.7	4,337.5	4,036.5	301.0
Investment income	1,671.3	484.9	1,186.4	3,833.3	435.5	3,397.8
Other revenues	424.5	437.8	(13.3)	834.9	872.8	(37.9)
Total	4,078.5	2,772.7	1,305.8	9,005.7	5,344.8	3,660.9
Less: policy benefits and expenses	3,837.8	2,547.5	1,290.3	8,556.8	4,941.3	3,615.5
Income before income taxes	240.7	225.2	15.5	448.9	403.5	45.4
Less: income taxes	53.9	59.4	(5.5)	104.4	94.2	10.2
Net income	186.8	165.8	21.0	344.5	309.3	35.2
Less: net income attributed to participating policyholders	(0.1)	0.6	(0.7)	0.6	1.1	(0.5)
Net income attributed to shareholders	186.9	165.2	21.7	343.9	308.2	35.7
Less: preferred share dividends	5.7	6.1	(0.4)	11.4	9.9	1.5
Net income attributed to common shareholders	181.2	159.1	22.1	332.5	298.3	34.2

**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>Second 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	391.3	642.7	413.1	338.7	119.6	77.3	1,982.7
<i>Variation vs. 2018</i>	<i>12.6</i>	<i>98.8</i>	<i>11.3</i>	<i>(17.7)</i>	<i>23.6</i>	<i>4.1</i>	<i>132.7</i>
Investment income	1,355.5	66.2	47.5	107.2	55.4	39.5	1,671.3
<i>Variation vs. 2018</i>	<i>944.2</i>	<i>82.7</i>	<i>22.3</i>	<i>71.2</i>	<i>61.8</i>	<i>4.2</i>	<i>1,186.4</i>
Other revenues	32.3	365.5	14.5	24.0	19.5	(31.3)	424.5
<i>Variation vs. 2018</i>	<i>(14.8)</i>	<i>3.4</i>	<i>(1.2)</i>	<i>2.1</i>	<i>2.4</i>	<i>(5.2)</i>	<i>(13.3)</i>
Total	1,779.1	1,074.4	475.1	469.9	194.5	85.5	4,078.5
<i>Variation vs. 2018</i>	<i>942.0</i>	<i>184.9</i>	<i>32.4</i>	<i>55.6</i>	<i>87.8</i>	<i>3.1</i>	<i>1,305.8</i>

*Net premiums* – The \$132.7 million increase over the second quarter of 2018 is mainly explained by:

- Premium growth in Individual Wealth Management, owing to increased premiums in segregated funds; and, to a lesser extent,
- Net premium growth in Individual Insurance, Group Insurance and US Operations.

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 \$1,186.4 million increase in investment income compared to second quarter 2018 is largely due to the increase in the fair value of bond investments and derivatives, mainly caused by variations in interest rates.

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 decreased \$13.3 million in the second quarter of 2019 versus second quarter 2018, essentially due to the harmonization of an accounting policy of one of the individual wealth subsidiaries with that used by the other entities of the group.

### Policy Benefits and Expenses

Policy benefits and expenses increased by \$1,290.3 million in the second quarter of 2019 compared to the same period in 2018. The main items contributing to this increase are as follows:

Increased expenses from:

- 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 policy benefits reflecting the normal course of business. Net policy benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

The increase in policy benefits and expenses was mitigated by a decrease in the following expenses:

- A positive variation in reinsurance assets in 2019 versus the previous year. This item is generally influenced by the same factors that influence the variation in insurance contract liabilities mentioned above.

### Income Taxes

For the second quarter of 2019, the Company recorded an income tax expense of \$53.9 million, compared to \$59.4 million in 2018. These amounts represent the Company’s tax expense net of adjustments for prior years.

### Net Income Attributed to Common Shareholders

Net income attributed to common shareholders totalled \$181.2 million for the second quarter of 2019, compared to \$159.1 million for the same period last year. The increase is primarily explained by the factors mentioned above.

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)	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	4,078.5	4,927.2	2,587.4	1,980.2	2,772.7	2,572.1	3,680.2	1,622.8
Net income attributed to common shareholders	181.2	151.3	149.5	164.9	159.1	139.2	132.8	144.9
Earnings per common share								
Basic	\$1.67	\$1.39	\$1.37	\$1.50	\$1.45	\$1.30	\$1.25	\$1.36
Diluted	\$1.67	\$1.39	\$1.36	\$1.50	\$1.44	\$1.29	\$1.24	\$1.35

### Related Party Transactions

The Company has entered into 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 good 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 light of these simulations, 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 *2018 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 16 of the Company's unaudited interim condensed consolidated financial statements.

### Accounting Policies and Main Accounting Estimates

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

The preparation of financial statements requires management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results could differ from management's best estimates. Management has exercised its judgment and made estimates and assumptions as outlined in Note 2 b) of the consolidated financial statements in the *2018 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>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Book value of investments	37,920.5	36,516.7	34,578.9	34,805.4
Allocation of investments by asset class				
Bonds	69.3%	69.0%	68.3%	69.8%
Stocks	7.4%	8.5%	8.8%	9.7%
Mortgages and other loans	10.0%	10.1%	10.6%	9.6%
Investment properties	4.6%	4.7%	5.0%	3.9%
Policy loans	2.4%	2.6%	2.7%	2.7%
Cash and short-term investments	2.1%	2.4%	3.0%	2.4%
Other	4.2%	2.7%	1.6%	1.9%
Total	100.0%	100.0%	100.0%	100.0%

The total value of the investment portfolio amounted to \$37.9 billion at June 30, 2019, up from March 31, 2019. 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. The implementation of an investment strategy during the quarter to reduce income sensitivity to macroeconomic fluctuations explains the variation in *Stocks* and *Other* during the period.

<b>Quality of Investments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Gross impaired investments	23.9	24.2	24.5	24.7
Provisions for impaired investments	11.1	8.6	8.6	6.1
Net impaired investments	12.8	15.6	15.9	18.6
Net impaired investments as a % of total investments	0.03%	0.04%	0.05%	0.05%
Bonds – Proportion rated BB or lower	0.86%	0.92%	0.78%	0.81%

The indices in the above table confirm the quality of the investment portfolio in the second quarter.

<b>Derivative Financial Instruments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Total notional amount (\$B)	25.0	19.5	17.4	15.0
Company's credit risk				
AA - or higher	100%	100%	100%	100%
A +	—	—	—	—
Positive fair value	1,205.2	657.1	224.9	360.9
Negative fair value	262.0	237.1	429.2	265.5

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, as well as forward agreements and futures contracts.

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

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

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

## FINANCIAL POSITION

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

<b>Capital</b>				
<b>(In millions of dollars)</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Equity				
Common shares	1,655.5	1,655.5	1,655.5	1,669.9
Preferred shares	525.0	525.0	525.0	525.0
Contributed surplus	—	—	22.8	20.9
Retained earnings <sup>2,3</sup>	3,449.2	3,396.1	3,447.0	3,304.9
Accumulated other comprehensive income	91.7	84.8	22.5	29.1
Subtotal	5,721.4	5,661.4	5,672.8	5,549.8
Debentures	651.5	901.5	901.4	1,000.8
Participating policyholders' accounts	45.6	45.7	45.3	42.1
Total	6,418.5	6,608.6	6,619.5	6,592.7

<sup>2</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings as at January 1, 2017 by \$58 million.

<sup>3</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

The Company's capital totalled \$6,418.5 million at June 30, 2019, compared with \$6,608.6 million at March 31, 2019 and \$6,592.7 million at June 30, 2018. The decrease during the second quarter is essentially explained by the subordinated debenture redemption in May, partially offset by the increase in retained earnings.

<b>Solvency<sup>4,5,6</sup></b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Available capital, surplus allowance and eligible deposits	8,425.9	8,695.5	8,514.5	8,557.9
Base solvency buffer	6,718.8	7,047.5	6,755.2	7,041.6
Solvency ratio	125%	123%	126%	122%

iA Insurance ended the second quarter of 2019 with a solvency ratio of 125%, compared to 122% a year earlier and 123% at the end of the previous quarter. The variation from the ratio at March 31, 2019 is due to the net impact of the following items: organic capital generation, which includes the contribution of earnings net of dividends paid to shareholders (+1 percentage point); the impact of investment strategies to reduce macroeconomic risks (+6 percentage points); the impact of the subordinated debenture redemption and the Normal Course Issuer Bid (-4 percentage points); and the dividend paid to iA Financial Corporation (-1 percentage point). The Company's solvency ratio target range is 110% to 116%.

## DECLARATION OF DIVIDEND

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

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

<b>Declaration of Dividend</b>				
	<b>Amount</b>	<b>Payment date</b>	<b>Closing date</b>	
Class A Preferred Share – Series B	\$0.2875	September 30, 2019	August 30, 2019	Non-cumulative dividend
Class A Preferred Share – Series G	\$0.2360625	September 30, 2019	August 30, 2019	Non-cumulative dividend
Class A Preferred Share – Series I	\$0.3000	September 30, 2019	August 30, 2019	Non-cumulative dividend

In addition, the Board of Directors authorized a dividend totalling \$81 million to be paid by iA Insurance to its sole shareholder, iA Financial Corporation, in the third quarter.

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.

## 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, 2019, 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

<sup>4</sup> In the fourth quarter of 2018, the Company made an adjustment to the estimates used to establish income taxes payable in prior periods by decreasing the retained earnings as at January 1, 2017 by \$58 million.

<sup>5</sup> In Q3-2018, a retroactive adjustment was made following the application of IFRS-15 on January 1, 2018.

<sup>6</sup> This table uses non-IFRS measures to assess the Company's ability to meet regulatory capital requirements.



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. 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 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 2018 and in the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 31, 2018, and elsewhere in iA Insurance's filings with Canadian securities regulators, 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 second quarter results on Thursday, August 1, 2019 at 4:30 p.m. (ET). The toll-free dial-in number is 1-800-909-7944. A replay of the conference call will be available for a one-week period, starting at 7:00 p.m. on Thursday, August 1, 2019. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21925449. A webcast of the conference call (listen-only mode) will also be available on the iA Financial Group website at [ia.ca](http://ia.ca).

**About iA Financial Group**

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

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	
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Revenues</b>				
<b>Premiums</b>				
Gross premiums	2,186	2,066	4,727	4,420
Premiums ceded	(203)	(216)	(389)	(384)
Net premiums	1,983	1,850	4,338	4,036
<b>Investment income</b>				
Interest and other investment income	328	325	654	650
Change in fair value of investments	1,343	160	3,179	(214)
	1,671	485	3,833	436
Other revenues	425	438	835	873
	4,079	2,773	9,006	5,345
<b>Policy benefits and expenses</b>				
Gross benefits and claims on contracts	1,442	1,346	2,936	2,739
Ceded benefits and claims on contracts	(125)	(145)	(242)	(257)
Net transfer to segregated funds	196	171	420	486
Increase in insurance contract liabilities	1,550	351	3,900	301
Increase in investment contract liabilities	7	2	21	3
Decrease (increase) in reinsurance assets	(41)	33	(80)	99
	3,029	1,758	6,955	3,371
Commissions	410	411	795	820
General expenses	353	332	714	656
Premium and other taxes	32	31	64	62
Financing charges	14	16	29	33
	3,838	2,548	8,557	4,942
<b>Income before income taxes</b>	241	225	449	403
Income taxes	54	59	104	94
<b>Net income</b>	187	166	345	309
Net income attributed to participating policyholders	—	1	1	1
<b>Net income attributed to shareholders</b>	187	165	344	308
Dividends attributed to preferred shares	6	6	12	10
<b>Net income attributed to common shareholders</b>	181	159	332	298
<b>Earnings per common share (in dollars)</b>				
Basic	1.67	1.45	3.06	2.75
Diluted	N/A	1.44	N/A	2.73

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of dollars)	As at June 30 2019 (unaudited) \$	As at December 31 2018 \$
<b>Assets</b>		
Cash and short-term investments	806	1,046
Bonds	26,292	23,592
Stocks	2,810	3,055
Mortgages and other loans	3,796	3,661
Derivative financial instruments	1,205	225
Policy loans	907	951
Other invested assets	376	329
Investment properties	1,729	1,720
Total investments	37,921	34,579
Other assets	2,233	2,172
Reinsurance assets	1,059	1,001
Fixed assets	402	277
Deferred income tax assets	29	26
Intangible assets	1,092	1,071
Goodwill	629	633
General fund assets	43,365	39,759
Segregated funds net assets	26,389	23,781
<b>Total assets</b>	<b>69,754</b>	<b>63,540</b>
<b>Liabilities</b>		
Insurance contract liabilities	29,790	25,940
Investment contract liabilities	618	630
Derivative financial instruments	262	429
Other liabilities	6,006	5,875
Deferred income tax liabilities	271	266
Debentures	651	901
General fund liabilities	37,598	34,041
Segregated funds liabilities	26,389	23,781
<b>Total liabilities</b>	<b>63,987</b>	<b>57,822</b>
<b>Equity</b>		
Share capital and contributed surplus	2,180	2,203
Retained earnings and accumulated other comprehensive income	3,541	3,470
Participating policyholders' accounts	46	45
	5,767	5,718
<b>Total liabilities and equity</b>	<b>69,754</b>	<b>63,540</b>

## SEGMENTED INFORMATION

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

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

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

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

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

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

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

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

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

### Segmented Income Statements

(in millions of Canadian dollars)

Quarter ended June 30, 2019

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

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

	Quarter ended June 30, 2018						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$	\$	
<b>Revenues</b>							
Net premiums	379	544	402	356	96	73	1,850
Investment income	411	(16)	25	36	(6)	35	485
Other revenues	47	362	16	22	17	(26)	438
	837	890	443	414	107	82	2,773
<b>Operating expenses</b>							
Gross benefits and claims on contracts	199	433	286	292	102	34	1,346
Ceded benefits and claims on contracts	(64)	—	(18)	(6)	(65)	8	(145)
Net transfer to segregated funds	—	68	—	103	—	—	171
Increase (decrease) in insurance contract liabilities	399	22	(11)	(6)	(50)	(3)	351
Increase in investment contract liabilities	—	—	2	—	—	—	2
Decrease (increase) in reinsurance assets	(8)	—	(2)	2	35	6	33
Commissions, general and other expenses	209	313	154	22	68	8	774
Financing charges	5	—	4	—	1	6	16
	740	836	415	407	91	59	2,548
Income before income taxes and allocation of other activities	97	54	28	7	16	23	225
Allocation of other activities	17	3	1	—	2	(23)	—
Income before income taxes	114	57	29	7	18	—	225
Income taxes	24	19	10	2	4	—	59
<b>Net income</b>	90	38	19	5	14	—	166
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	89	38	19	5	14	—	165

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

(in millions of Canadian dollars)

Six months ended June 30, 2019

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

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

(in millions of Canadian dollars)

Six months ended June 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	771	1,271	776	876	197	145	4,036
Investment income	276	8	46	62	(29)	73	436
Other revenues	79	734	30	45	34	(49)	873
	1,126	2,013	852	983	202	169	5,345
<b>Operating expenses</b>							
Gross benefits and claims on contracts	386	904	565	620	183	81	2,739
Ceded benefits and claims on contracts	(120)	—	(37)	(12)	(106)	18	(257)
Net transfer to segregated funds	—	292	—	194	—	—	486
Increase (decrease) in insurance contract liabilities	292	64	(25)	115	(134)	(11)	301
Increase in investment contract liabilities	—	—	3	—	—	—	3
Decrease (increase) in reinsurance assets	(7)	—	(4)	5	94	11	99
Commissions, general and other expenses	401	645	291	46	141	14	1,538
Financing charges	9	—	8	—	1	15	33
	961	1,905	801	968	179	128	4,942
Income before income taxes and allocation of other activities	165	108	51	15	23	41	403
Allocation of other activities	30	1	2	—	8	(41)	—
Income before income taxes	195	109	53	15	31	—	403
Income taxes	38	31	15	4	6	—	94
<b>Net Income</b>	157	78	38	11	25	—	309
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	156	78	38	11	25	—	308



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

(in millions of Canadian dollars)

Quarter ended June 30, 2019

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

(in millions of Canadian dollars)

Quarter ended June 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	471	99	450	38	190	48	1,296
Invested in segregated funds	—	445	—	325	—	—	770
Total	471	544	450	363	190	48	2,066
<b>Premiums ceded</b>							
Invested in general fund	(92)	—	(48)	(7)	(94)	25	(216)
<b>Net premiums</b>	379	544	402	356	96	73	1,850

(in millions of Canadian dollars)

Six months ended June 30, 2019

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

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

(in millions of Canadian dollars)

Six months ended June 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	948	208	868	218	350	94	2,686
Invested in segregated funds	—	1,063	—	671	—	—	1,734
<b>Total</b>	<b>948</b>	<b>1,271</b>	<b>868</b>	<b>889</b>	<b>350</b>	<b>94</b>	<b>4,420</b>
<b>Premiums ceded</b>							
Invested in general fund	(177)	—	(92)	(13)	(153)	51	(384)
<b>Net premiums</b>	<b>771</b>	<b>1,271</b>	<b>776</b>	<b>876</b>	<b>197</b>	<b>145</b>	<b>4,036</b>

**Segmented Assets and Liabilities**

(in millions of Canadian dollars)

As at June 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Invested assets	22,190	1,815	1,838	3,769	1,021	7,288	37,921
Segregated funds assets	—	15,432	—	10,957	—	—	26,389
Reinsurance assets	(668)	—	230	128	1,441	(72)	1,059
Other	126	825	—	—	33	3,401	4,385
<b>Total assets</b>	<b>21,648</b>	<b>18,072</b>	<b>2,068</b>	<b>14,854</b>	<b>2,495</b>	<b>10,617</b>	<b>69,754</b>
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	20,930	1,774	2,166	3,917	1,691	(70)	30,408
Segregated funds liabilities	—	15,432	—	10,957	—	—	26,389
Other	167	38	3	5	—	6,977	7,190
<b>Total liabilities</b>	<b>21,097</b>	<b>17,244</b>	<b>2,169</b>	<b>14,879</b>	<b>1,691</b>	<b>6,907</b>	<b>63,987</b>

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

	As at December 31, 2018						
	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
\$	\$	\$	\$	\$	\$	\$	
<b>Assets</b>							
Invested assets	19,056	1,823	1,869	3,349	926	7,556	34,579
Segregated funds assets	—	13,994	—	9,787	—	—	23,781
Reinsurance assets	(697)	—	236	131	1,317	14	1,001
Other	121	940	—	—	27	3,091	4,179
<b>Total assets</b>	<b>18,480</b>	<b>16,757</b>	<b>2,105</b>	<b>13,267</b>	<b>2,270</b>	<b>10,661</b>	<b>63,540</b>
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	17,787	1,643	2,148	3,452	1,602	(62)	26,570
Segregated funds liabilities	—	13,994	—	9,787	—	—	23,781
Other	287	59	6	3	—	7,116	7,471
<b>Total liabilities</b>	<b>18,074</b>	<b>15,696</b>	<b>2,154</b>	<b>13,242</b>	<b>1,602</b>	<b>7,054</b>	<b>57,822</b>