

# SUSTAINABLE GROWTH



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

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

November 6, 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 November 6, 2019. iA Financial Corporation Inc. ("iA Financial Corporation") became the parent company of iA Insurance on January 1, 2019, as a result of a plan of arrangement (the "arrangement"). This Management's Discussion and Analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 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 third quarter of 2019, iA Insurance recorded net income attributed to its sole common shareholder, iA Financial Corporation, of \$183.4 million, an increase of \$18.5 million over \$164.9 million a year earlier. This growth is mainly explained by increased revenues, essentially in net premiums and investment income.

**Business growth** – Premiums and deposits totalled more than \$2.7 billion for the quarter, up from third quarter 2018 (+15 %). Total assets under management and administration grew 1% during the quarter to reach \$186.5 billion at September 30, 2019, an increase of 5% over \$177.0 billion a year earlier. In Canada, third quarter sales were particularly good for segregated funds, Group Insurance, Group Savings and Retirement and iA Auto and Home. In Individual Insurance, total premium sales for the quarter were down year over year (-5%), while minimum premium sales were up (+5%). Gross sales of mutual funds totalled \$465.2 million (+5%) with net outflows of \$127.9 million. In US Operations, sales continued to be strong in both Individual Insurance and Dealer Services.

**Financial position** – The solvency ratio was 126% at September 30, 2019, compared with 125% at the the end of the previous quarter and 119% a year earlier. This is above the minimum required by regulatory authorities as well as the Company's target range of 112% to 116%.

**Dividend** – iA Insurance paid a dividend of \$0.7460 per common share in the third quarter to its sole common shareholder, iA Financial Corporation, for a total of \$81 million. The Board of Directors of iA Insurance also approved a dividend of \$300 million to its sole common shareholder, iA Financial Corporation.

**PPI Management Inc. (PPI) purchase price and goodwill adjustments** – During the third quarter, the Company concluded the final settlement of the PPI acquisition price. The contingent consideration was settled for less than initially planned. At the same time, the financial projections of the subsidiary were reviewed, which led to a goodwill impairment. These two items resulted in a negative net impact on third quarter results of \$8.5 million on a non-taxable basis, or \$0.08 EPS.

**Excellence** – On September 25, 2019, iA Financial Group announced the merger of Excellence Life Insurance Company and the Company. Subject to regulatory approval, the merger will take effect on January 1, 2020. This merger will ensure the synergy of both companies' operations and improve operational efficiency, and will have little to no direct impact on jobs.

**Annual actuarial assumption review** – The annual review of actuarial assumptions has begun and will be finalized in the coming weeks. The final results will be reported on February 13, 2020, with the fourth quarter 2019 results disclosure. The Company believes the total impact of this review on fourth quarter 2019 results will be immaterial.

**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 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 iA Insurance. On March 15, 2019, the Saskatchewan Court of Queen's Bench dismissed, in its entirety, the application commenced by Ituna against iA Insurance. Ituna indicated on April 15 that it would appeal the decision. This appeal will be heard in mid-January 2020. iA Insurance has always maintained that the position taken by Ituna was legally unfounded and will respond to the appeal with the same conviction.

**Board of Directors** – On July 9, 2019, the Company announced the appointment of Ginette Maillé to the board.

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

## ANALYSIS ACCORDING TO THE FINANCIAL STATEMENTS

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

Consolidated Income Statements						
(In millions of dollars)	Third quarter			Year-to-date at September 30		
	2019	2018	Variation	2019	2018	Variation
Revenues						
Net premiums	2,189.5	1,836.0	353.5	6,527.0	5,872.5	654.5
Investment income	1,109.5	(295.0)	1,404.5	4,942.8	140.5	4,802.3
Other revenues	416.2	439.2	(23.0)	1,251.1	1,312.0	(60.9)
Total	3,715.2	1,980.2	1,735.0	12,720.9	7,325.0	5,395.9
Less: policy benefits and expenses	3,474.5	1,760.2	1,714.3	12,031.3	6,701.5	5,329.8
Income before income taxes	240.7	220.0	20.7	689.6	623.5	66.1
Less: income taxes	51.9	49.1	2.8	156.3	143.3	13.0
Net income	188.8	170.9	17.9	533.3	480.2	53.1
Less: net income attributed to participating policyholders	—	0.4	(0.4)	0.6	1.5	(0.9)
Net income attributed to shareholders	188.8	170.5	18.3	532.7	478.7	54.0
Less: preferred share dividends	5.4	5.6	(0.2)	16.8	15.5	1.3
Net income attributed to common shareholders	183.4	164.9	18.5	515.9	463.2	52.7

### Revenues

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

Revenues by Line of Business							
(In millions of dollars)	Third quarter						
	Individual Insurance	Individual Wealth Management	Group Insurance	Group Savings and Retirement	US Operations	Other	Total
Net premiums	397.5	738.4	418.1	428.5	127.5	79.5	2,189.5
Variation vs. 2018	13.0	185.9	2.3	125.2	21.9	5.2	353.5
Investment income	861.4	47.0	37.8	63.7	65.5	34.1	1,109.5
Variation vs. 2018	1,163.3	79.5	22.3	73.1	69.0	(2.7)	1,404.5
Other revenues	29.8	367.8	13.5	24.2	18.8	(37.9)	416.2
Variation vs. 2018	(17.7)	0.8	(1.9)	2.0	1.7	(7.9)	(23.0)
Total	1,288.7	1,153.2	469.4	516.4	211.8	75.7	3,715.2
Variation vs. 2018	1,158.6	266.2	22.7	200.3	92.6	(5.4)	1,735.0

*Net premiums* – The \$353.5 million increase over the third quarter of 2018 is mainly explained by:

- Increased net segregated fund premiums and guaranteed investment certificate sales in Individual Wealth Management.
- Net premium growth in Group Savings and Retirement due to major contracts.

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 \$1,404.5 million increase in investment income compared to third 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 \$23.0 million in the third quarter of 2019 versus third 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 \$1,714.3 million in the third quarter compared to the same period last year. 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 transfers to segregated funds compared to 2018 in Individual Wealth Management and Group Savings and Retirement.

The increase in policy benefits and expenses was mitigated by:

- 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 third quarter of 2019, the Company recorded an income tax expense of \$51.9 million, compared to \$49.1 million in 2018. These amounts represent the Company's tax expense net of adjustments for prior years, if applicable.

### Net Income Attributed to Common Shareholders

Net income attributed to the sole common shareholder, iA Financial Corporation, totalled \$183.4 million for the third quarter of 2019, compared to \$164.9 million for the same period last year. The increase is primarily explained by the factors mentioned in this section.

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
	T3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	3,715.2	4,078.5	4,927.2	2,587.4	1,980.2	2,772.7	2,572.1	3,680.2
Net income attributed to common shareholders	183.4	181.2	151.3	149.5	164.9	159.1	139.2	132.8
Earnings per common share								
Basic	\$1.69	\$1.67	\$1.39	\$1.37	\$1.50	\$1.45	\$1.30	\$1.25
Diluted	N/A	N/A	N/A	\$1.36	\$1.50	\$1.44	\$1.29	\$1.24

### Related Party Transactions

In April 2019, the Company entered into a financing agreement with iA Financial Corporation taking effect January 1, 2019, 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 17 of the Company's unaudited interim condensed consolidated financial statements.

### Accounting Policies and Main Accounting Estimates

The Company's third 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>September 30, 2019</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Book value of investments	39,351.1	37,920.5	34,578.9	33,994.0
Allocation of investments by asset class				
Bonds	69.6%	69.3%	68.3%	67.8%
Stocks	7.4%	7.4%	8.8%	9.8%
Mortgages and other loans	9.8%	10.0%	10.6%	10.2%
Investment properties	4.5%	4.6%	5.0%	4.2%
Policy loans	2.3%	2.4%	2.7%	2.7%
Cash and short-term investments	2.3%	2.1%	3.0%	3.5%
Other	4.1%	4.2%	1.6%	1.8%
Total	100.0%	100.0%	100.0%	100.0%

The total value of the investment portfolio amounted to \$39.4 billion at September 30, 2019, up from June 30, 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.

<b>Quality of Investments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Gross impaired investments	24.0	23.9	24.5	24.6
Provisions for impaired investments	11.1	11.1	8.6	6.0
Net impaired investments	12.9	12.8	15.9	18.6
Net impaired investments as a % of total investments	0.03%	0.03%	0.05%	0.05%
Bonds – Proportion rated BB or lower	0.83%	0.86%	0.78%	0.82%

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

<b>Derivative Financial Instruments</b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Total notional amount (\$B)	26.6	25.0	17.4	15.7
Company's credit risk				
AA - or higher	100%	100%	100%	100%
A +	—	—	—	—
Positive fair value	1,208.0	1,205.2	224.9	295.4
Negative fair value	387.7	262.0	429.2	278.0

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, 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>September 30, 2019</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Equity				
Common shares	1,655.5	1,655.5	1,655.5	1,671.6
Preferred shares	525.0	525.0	525.0	525.0
Contributed surplus	—	—	22.8	21.5
Retained earnings <sup>2,3</sup>	3,543.5	3,449.2	3,447.0	3,426.1
Accumulated other comprehensive income	89.5	91.7	22.5	(1.3)
Subtotal	5,813.5	5,721.4	5,672.8	5,642.9
Debentures	651.5	651.5	901.4	901.0
Participating policyholders' accounts	45.6	45.6	45.3	42.5
Total	6,510.6	6,418.5	6,619.5	6,586.4

<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 \$6,510.6 million at September 30, 2019, compared with \$6,418.5 million at June 30, 2019 and \$6,586.4 million at September 30, 2018. The increase during the third quarter is essentially explained by the increase in retained earnings.

<b>Solvency<sup>4,5,6</sup></b>				
<b>(In millions of dollars, unless otherwise indicated)</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Available capital, surplus allowance and eligible deposits	8,613.8	8,425.9	8,514.5	8,275.4
Base solvency buffer	6,858.3	6,718.8	6,755.2	6,964.0
Solvency ratio	126%	125%	126%	119%

iA Insurance ended the third quarter of 2019 with a solvency ratio of 126%, compared to 119% a year earlier and 125% at the the end of the previous quarter. The variation from the ratio at June 30, 2019 is the result of organic capital generation, which includes the contribution of earnings net of dividends paid to shareholders (+1 percentage point). The Company's solvency ratio target range is 112% 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	December 31, 2019	November 29, 2019	Non-cumulative dividend
Class A Preferred Share – Series G	\$0.2360625	December 31, 2019	November 29, 2019	Non-cumulative dividend
Class A Preferred Share – Series I	\$0.3000	December 31, 2019	November 29, 2019	Non-cumulative dividend

The Board of Directors of iA Insurance also approved a dividend of \$300 million to its sole common shareholder, iA Financial Corporation.

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

## 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 September 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 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

<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.



determined in accordance with IFRS. The Company strongly encourages investors to review its financial statements and other publicly-filed reports in their entirety and not to rely on any single financial measure.

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

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

### **Forward-Looking Statements**

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

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

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

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

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

### **Conference Call**

Management will hold a conference call to present iA Financial Group's third quarter results on Wednesday, November 6, 2019 at 2:00 p.m. (ET). The toll-free dial-in number is 1-800-908-8951. A replay of the conference call will be available for a one-week period, starting at 4:30 p.m. on Wednesday, November 6, 2019. To access the conference call replay, dial 1-800-558-5253 (toll-free) and enter access code 21930061. 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		Nine months ended	
	September 30	2018	September 30	2018
	2019	2018	2019	2018
	\$	\$	\$	\$
<b>Revenues</b>				
<b>Premiums</b>				
Gross premiums	2,404	2,035	7,131	6,455
Premiums ceded	(215)	(199)	(604)	(583)
Net premiums	2,189	1,836	6,527	5,872
<b>Investment income</b>				
Interest and other investment income	347	309	1,001	959
Change in fair value of investments	763	(604)	3,942	(818)
	1,110	(295)	4,943	141
Other revenues	416	439	1,251	1,312
	3,715	1,980	12,721	7,325
<b>Policy benefits and expenses</b>				
Gross benefits and claims on contracts	1,420	1,343	4,356	4,082
Ceded benefits and claims on contracts	(155)	(147)	(397)	(404)
Net transfer to segregated funds	262	114	682	600
Increase (decrease) in insurance contract liabilities	1,156	(346)	5,056	(45)
Increase (decrease) in investment contract liabilities	7	(2)	28	1
Decrease (increase) in reinsurance assets	(32)	9	(112)	108
	2,658	971	9,613	4,342
Commissions	425	421	1,220	1,241
General expenses	347	320	1,061	976
Premium and other taxes	31	33	95	95
Financing charges	13	15	42	48
	3,474	1,760	12,031	6,702
<b>Income before income taxes</b>	241	220	690	623
Income taxes	52	49	156	143
<b>Net income</b>	189	171	534	480
Net income attributed to participating policyholders	—	—	1	1
<b>Net income attributed to shareholders</b>	189	171	533	479
Dividends attributed to preferred shares	5	6	17	16
<b>Net income attributed to common shareholders</b>	184	165	516	463
<b>Earnings per common share (in dollars)</b>				
Basic	1.69	1.50	4.75	4.25
Diluted	N/A	1.50	N/A	4.23

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In millions of dollars)	As at September 30 2019 (unaudited) \$	As at December 31 2018 \$
<b>Assets</b>		
<b>Investments</b>		
Cash and short-term investments	901	1,046
Bonds	27,370	23,592
Stocks	2,920	3,055
Mortgages and other loans	3,853	3,661
Derivative financial instruments	1,208	225
Policy loans	905	951
Other invested assets	420	329
Investment properties	1,774	1,720
	<b>39,351</b>	<b>34,579</b>
Other assets	2,356	2,172
Reinsurance assets	1,112	1,001
Fixed assets	397	277
Deferred income tax assets	28	26
Intangible assets	1,099	1,071
Goodwill	607	633
General fund assets	44,950	39,759
Segregated funds net assets	26,976	23,781
<b>Total assets</b>	<b>71,926</b>	<b>63,540</b>
<b>Liabilities</b>		
Insurance contract liabilities	30,967	25,940
Investment contract liabilities	628	630
Derivative financial instruments	388	429
Other liabilities	6,182	5,875
Deferred income tax liabilities	275	266
Debentures	651	901
General fund liabilities	39,091	34,041
Liabilities related to segregated funds net assets	26,976	23,781
<b>Total liabilities</b>	<b>66,067</b>	<b>57,822</b>
<b>Equity</b>		
Share capital and contributed surplus	2,180	2,203
Retained earnings and accumulated other comprehensive income	3,633	3,470
Participating policyholders' accounts	46	45
	<b>5,859</b>	<b>5,718</b>
<b>Total liabilities and equity</b>	<b>71,926</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 September 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	398	738	418	428	127	80	2,189
Investment income	861	47	38	64	66	34	1,110
Other revenues	30	368	13	24	19	(38)	416
	1,289	1,153	469	516	212	76	3,715
<b>Operating expenses</b>							
Gross benefits and claims on contracts	206	487	271	306	153	(3)	1,420
Ceded benefits and claims on contracts	(73)	—	(14)	(8)	(105)	45	(155)
Net transfer to segregated funds	—	172	—	90	—	—	262
Increase (decrease) in insurance contract liabilities	855	105	27	92	81	(4)	1,156
Increase (decrease) in investment contract liabilities	—	—	7	—	—	—	7
Decrease (increase) in reinsurance assets	(11)	—	(1)	1	(25)	4	(32)
Commissions, general and other expenses	216	320	152	25	97	(7)	803
Financing charges	5	—	6	—	1	1	13
	1,198	1,084	448	506	202	36	3,474
Income before income taxes and allocation of other activities	91	69	21	10	10	40	241
Allocation of other activities	29	3	3	—	5	(40)	—
Income before income taxes	120	72	24	10	15	—	241
Income taxes	21	20	6	2	3	—	52
<b>Net income attributed to shareholders</b>	<b>99</b>	<b>52</b>	<b>18</b>	<b>8</b>	<b>12</b>	<b>—</b>	<b>189</b>

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

(in millions of Canadian dollars)

Quarter ended September 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
<b>Revenues</b>							
Net premiums	384	553	416	303	106	74	1,836
Investment income	(302)	(33)	16	(9)	(4)	37	(295)
Other revenues	48	367	15	22	17	(30)	439
	130	887	447	316	119	81	1,980
<b>Operating expenses</b>							
Gross benefits and claims on contracts	207	452	266	286	95	37	1,343
Ceded benefits and claims on contracts	(74)	—	(16)	(6)	(59)	8	(147)
Net transfer to segregated funds	—	68	—	46	—	—	114
Increase (decrease) in insurance contract liabilities	(299)	(6)	18	(39)	(13)	(7)	(346)
Increase (decrease) in investment contract liabilities	—	—	(2)	—	—	—	(2)
Decrease (increase) in reinsurance assets	—	—	(3)	(1)	9	4	9
Commissions, general and other expenses	211	308	151	23	78	3	774
Financing charges	5	—	5	—	(1)	6	15
	50	822	419	309	109	51	1,760
Income before income taxes and allocation of other activities	80	65	28	7	10	30	220
Allocation of other activities	23	5	1	—	1	(30)	—
Income before income taxes	103	70	29	7	11	—	220
Income taxes	18	19	8	2	2	—	49
<b>Net income attributed to shareholders</b>	<b>85</b>	<b>51</b>	<b>21</b>	<b>5</b>	<b>9</b>	<b>—</b>	<b>171</b>

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

(in millions of Canadian dollars)

Nine months ended September 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	1,177	2,101	1,228	1,427	362	232	6,527
Investment income	4,043	138	152	325	172	113	4,943
Other revenues	91	1,087	42	73	56	(98)	1,251
	5,311	3,326	1,422	1,825	590	247	12,721
<b>Operating expenses</b>							
Gross benefits and claims on contracts	624	1,521	855	926	351	79	4,356
Ceded benefits and claims on contracts	(181)	—	(43)	(21)	(216)	64	(397)
Net transfer to segregated funds	—	429	—	253	—	—	682
Increase (decrease) in insurance contract liabilities	3,997	232	40	557	243	(13)	5,056
Increase (decrease) in investment contract liabilities	—	—	28	—	—	—	28
Decrease (increase) in reinsurance assets	(40)	—	—	4	(89)	13	(112)
Commissions, general and other expenses	618	966	450	77	262	3	2,376
Financing charges	16	1	18	—	1	6	42
	5,034	3,149	1,348	1,796	552	152	12,031
Income before income taxes and allocation of other activities	277	177	74	29	38	95	690
Allocation of other activities	73	2	5	2	13	(95)	—
Income before income taxes	350	179	79	31	51	—	690
Income taxes	69	47	21	8	11	—	156
<b>Net income</b>	<b>281</b>	<b>132</b>	<b>58</b>	<b>23</b>	<b>40</b>	<b>—</b>	<b>534</b>
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	<b>280</b>	<b>132</b>	<b>58</b>	<b>23</b>	<b>40</b>	<b>—</b>	<b>533</b>

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

(in millions of Canadian dollars)

Nine months ended September 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>							
Net premiums	1,155	1,824	1,192	1,179	303	219	5,872
Investment income	(26)	(25)	62	53	(33)	110	141
Other revenues	127	1,101	45	67	51	(79)	1,312
	1,256	2,900	1,299	1,299	321	250	7,325
<b>Operating expenses</b>							
Gross benefits and claims on contracts	593	1,356	831	906	278	118	4,082
Ceded benefits and claims on contracts	(194)	—	(53)	(18)	(165)	26	(404)
Net transfer to segregated funds	—	360	—	240	—	—	600
Increase (decrease) in insurance contract liabilities	(7)	58	(7)	76	(147)	(18)	(45)
Increase (decrease) in investment contract liabilities	—	—	1	—	—	—	1
Decrease (increase) in reinsurance assets	(7)	—	(7)	4	103	15	108
Commissions, general and other expenses	612	953	442	69	219	17	2,312
Financing charges	14	—	13	—	—	21	48
	1,011	2,727	1,220	1,277	288	179	6,702
Income before income taxes and allocation of other activities	245	173	79	22	33	71	623
Allocation of other activities	53	6	3	—	9	(71)	—
Income before income taxes	298	179	82	22	42	—	623
Income taxes	56	50	23	6	8	—	143
<b>Net Income</b>	242	129	59	16	34	—	480
Net income attributed to participating policyholders	1	—	—	—	—	—	1
<b>Net income attributed to shareholders</b>	241	129	59	16	34	—	479



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

(in millions of Canadian dollars)

Quarter ended September 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	499	162	453	111	293	(15)	1,503
Invested in segregated funds	—	576	—	325	—	—	901
	499	738	453	436	293	(15)	2,404
<b>Premiums ceded</b>							
Invested in general fund	(101)	—	(35)	(8)	(166)	95	(215)
<b>Net premiums</b>	398	738	418	428	127	80	2,189

(in millions of Canadian dollars)

Quarter ended September 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	479	88	463	33	183	48	1,294
Invested in segregated funds	—	465	—	276	—	—	741
	479	553	463	309	183	48	2,035
<b>Premiums ceded</b>							
Invested in general fund	(95)	—	(47)	(6)	(77)	26	(199)
<b>Net premiums</b>	384	553	416	303	106	74	1,836

(in millions of Canadian dollars)

Nine months ended September 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	1,468	369	1,334	470	699	81	4,421
Invested in segregated funds	—	1,732	—	978	—	—	2,710
	1,468	2,101	1,334	1,448	699	81	7,131
<b>Premiums ceded</b>							
Invested in general fund	(291)	—	(106)	(21)	(337)	151	(604)
<b>Net premiums</b>	1,177	2,101	1,228	1,427	362	232	6,527

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

(in millions of Canadian dollars)

Nine months ended September 30, 2018

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Gross premiums</b>							
Invested in general fund	1,427	296	1,331	251	533	142	3,980
Invested in segregated funds	—	1,528	—	947	—	—	2,475
	1,427	1,824	1,331	1,198	533	142	6,455
<b>Premiums ceded</b>							
Invested in general fund	(272)	—	(139)	(19)	(230)	77	(583)
<b>Net premiums</b>	1,155	1,824	1,192	1,179	303	219	5,872

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

(in millions of Canadian dollars)

As at September 30, 2019

	Individual		Group				Total
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	
	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>							
Invested assets	23,099	1,871	2,142	3,828	1,093	7,318	39,351
Segregated funds assets	—	15,748	—	11,228	—	—	26,976
Reinsurance assets	(655)	—	232	127	1,511	(103)	1,112
Other	122	841	—	—	33	3,491	4,487
<b>Total assets</b>	22,566	18,460	2,374	15,183	2,637	10,706	71,926
<b>Liabilities</b>							
Insurance contract liabilities and investment contract liabilities	21,792	1,881	2,193	4,009	1,796	(76)	31,595
Segregated funds liabilities	—	15,748	—	11,228	—	—	26,976
Other	288	31	6	9	—	7,162	7,496
<b>Total liabilities</b>	22,080	17,660	2,199	15,246	1,796	7,086	66,067

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

(in millions of Canadian dollars)

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>