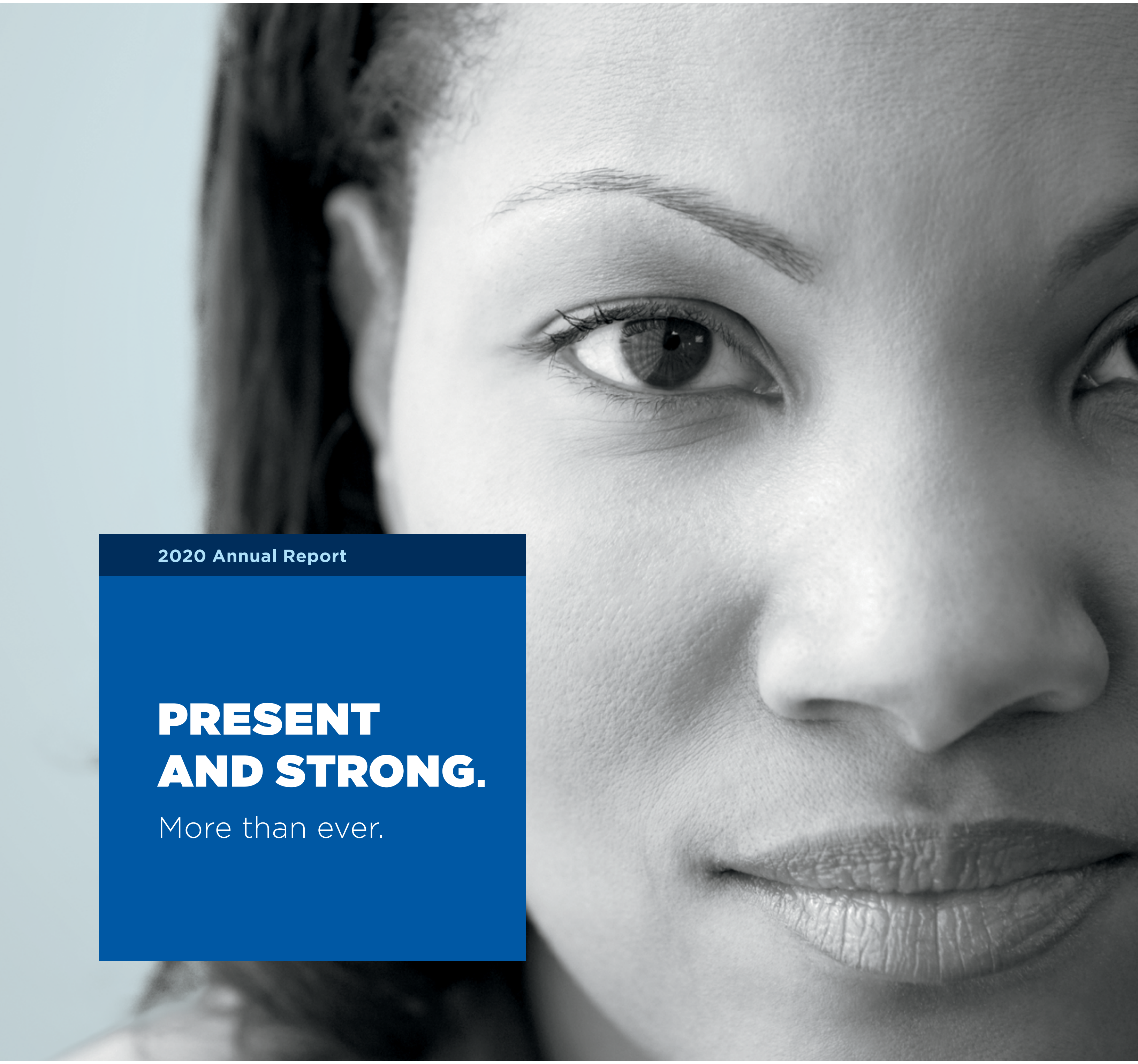

2020 Annual Report

PRESENT AND STRONG.

More than ever.

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 an important Canadian public company and is listed on the Toronto Stock Exchange under the ticker symbols IAG (common shares) and IAF (preferred shares).

iA Financial Group serves over four million clients and employs more than 7,700 people.

OUR PURPOSE

For our clients to be confident and secure about their future.

OUR MISSION

To ensure the financial wellbeing of our clients by offering them personal insurance coverage and investment solutions to help them achieve their personal goals.

OUR VALUES

— Teamwork
— High-performance environment
— Continuous improvement
— Respect for individuals and distributors
— Service oriented

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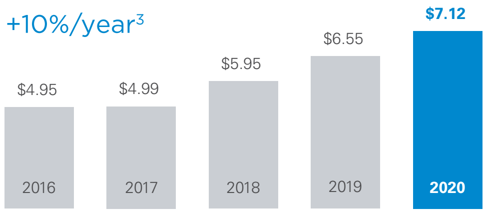
FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

EPS

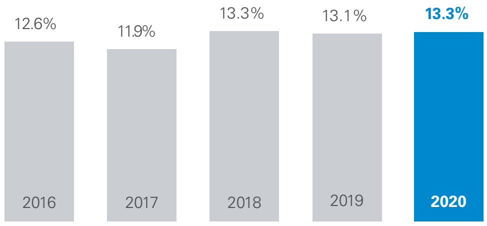
Core[1] earnings per common share (diluted)

+10%/year[3]



ROE

Core[1] return on common shareholders' equity (trailing 12 months)

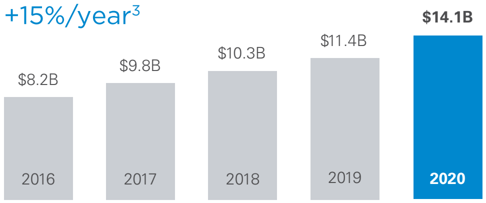


BUSINESS GROWTH

Premiums and deposits

Net premiums, premium equivalents and deposits

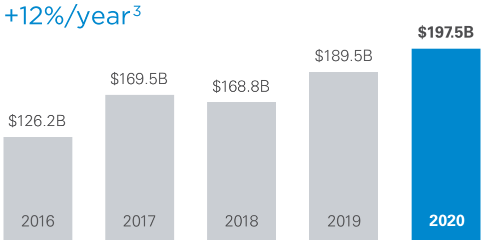
+15%/year[3]



AUM/AUA[2]

Assets under management and administration

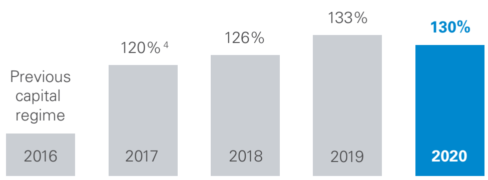
+12%/year[3]



FINANCIAL STRENGTH

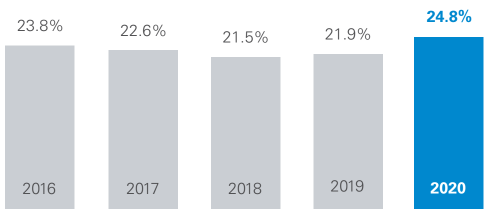
Solvency ratio[2]

Above 110%–116% target



Debt ratio[2]

Debentures and preferred shares/capital structure

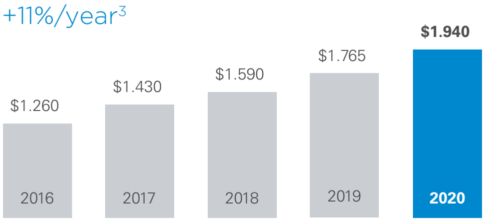


VALUE CREATION

Dividend

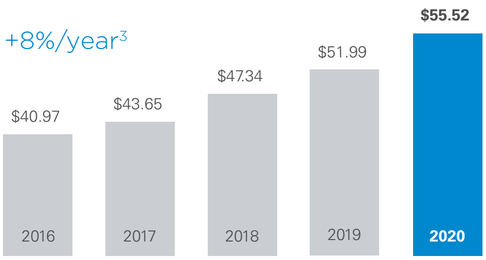
Dividend paid per common share

+11%/year[3]



Book value per common share[2]

+8%/year[3]



[1] Based on the core earnings definition updated in 2021 which represents a non-IFRS financial measure. For additional information see "Non-IFRS Financial Measures" in our 2020 Management's Discussion and Analysis.

[2] As at December 31. [3] Four-year compound annual growth rate. [4] As at January 1, 2018.

BUILDING FOR THE LONG TERM

Our strategic plan for the coming years is based on four axes: growth, client experience, employee experience and operating efficiency. Each of these strategic axes has its own ambition. ESG is another important area of development for us, referring to environmental, social and governance considerations. This area is discussed further on pages 4 and 5.

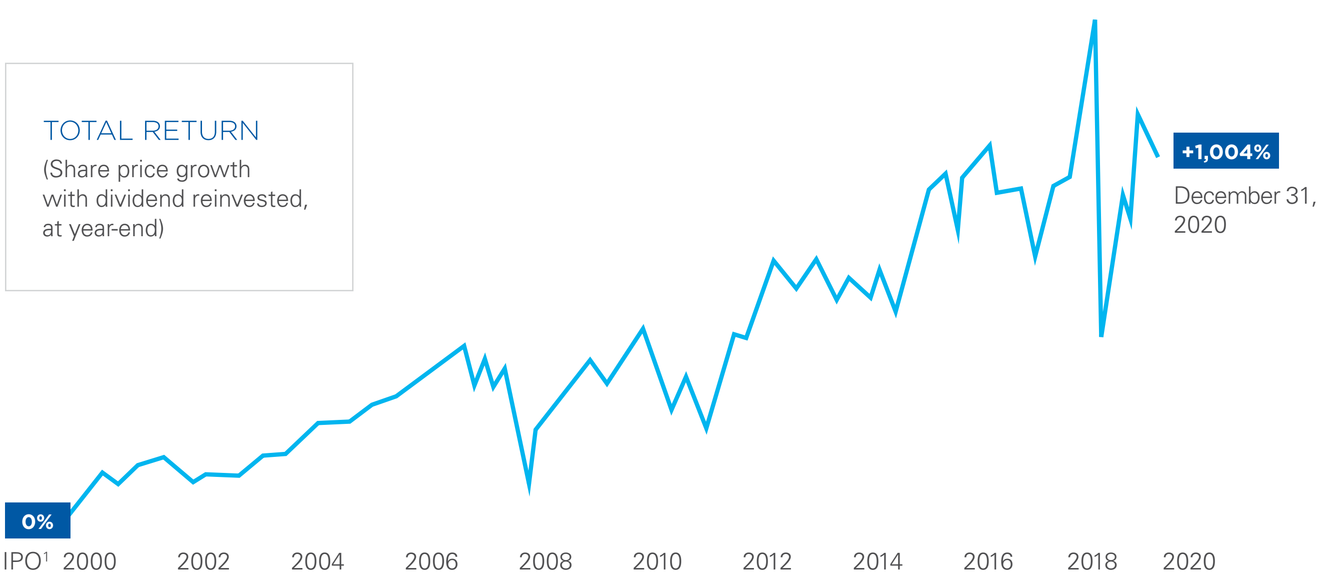
OUR STRATEGIC AXES	OUR AMBITION
Growth	To be a North American financial institution operating in sectors deemed strategically important where we can be the leader in the mass/mid markets
Client experience	To be the company that best meets client expectations, in partnership with our distributors
Employee experience	To be an employer of choice that offers a rewarding career
Operating efficiency	To optimize our operations through technology, processes and skills development
ESG	To contribute to sustainable growth and wellbeing for our clients, employees, partners, investors and communities

STRONG VALUE CREATION FOR SHAREHOLDERS

The increase in the Company's common share price since early 2000 reflects both the soundness of our strategy and the scale of our growth. An investment of $100 at the time of the Company's IPO, combined with reinvestments of dividends paid, would have increased in value to $1,104 at December 31, 2020.

TOTAL RETURN

(Share price growth with dividend reinvested, at year-end)



[1] February 3, 2000, when iA became a public company.

DIVERSIFIED BUSINESS MIX

driven by a shared purpose, strong vision and high ambition

iA Financial Group

Our growth strategy is supported by a diversified business model that benefits from synergies between business segments. Our business segments can be grouped into three strategic categories that each play a different role in contributing to a common goal.

Businesses providing a solid foundation with consistent growth

— Individual Insurance (Canada)
— Individual Wealth Management
— Dealer Services (Canada)

Businesses targeted for strong expansion

— Retail Distribution (Insurance and Wealth)
— Individual Insurance (US)
— Dealer Services (US)

Businesses that support overall strategy and growth of other businesses

— Group Insurance, Savings and Retirement
— Special Markets
— iA Auto and Home

GUIDING TO SOLID GROWTH

With our resilient business model, sustained ability to generate earnings, strong business growth and continued financial strength, the Company looks to the future with confidence.

Our main financial objectives for the coming years:

Grow core EPS by at least **10%** on average per year

+

Generate core return on common shareholders' equity (ROE) of **12.5%** to **14%** and increase this target to **13%** to **15%** by 2023

SUSTAINABLE DEVELOPMENT

Our eight guidelines

The iA Financial Group *Sustainable Development Policy* sets out the eight following guidelines:

1. Ensure the financial wellbeing of our clients
2. Effectively manage risks
3. Follow high standards of governance
4. Actively contribute to our communities
5. Manage environmental impact
6. Create a rewarding work environment centred around diversity and inclusion
7. Practice responsible sourcing
8. Incorporate ESG factors in our investment processes

Commitment to reduce our GHG emissions

iA Financial Group is committed to reducing our greenhouse gas (GHG) emissions by **20%** per employee by 2025. This ambitious commitment demonstrates the importance we place on reducing our environmental footprint.

In December 2019, we had announced our commitment to offset our residual GHG emissions through the purchase of carbon credits and become carbon neutral as of 2020, which is now in place.

Adherence to the United Nations' Sustainable Development Goals

In 2015, the member countries of the United Nations adopted 17 sustainable development goals (SDGs) to protect the planet and promote prosperity for all by 2030.

iA Financial Group adheres to these goals, and we have identified five of the SDGs that are aligned with our company mission and to which we can make a significant contribution.

These five SDGs are:

1. Good health and wellbeing
2. Decent work and economic growth
3. Reduced inequalities within and among countries
4. Sustainable cities and communities
5. Climate action

Signatory of the Principles for Responsible Investment (PRI)

As a signatory of the United Nations-supported Principles for Responsible Investment (PRI), iA Financial Group is committed to:

- Incorporating ESG factors in our investment processes
- Being active owners by voting in accordance with our ESG values
- Encouraging the companies in which we invest to operate responsibly and appropriately disclose their ESG initiatives
- Promoting adoption of the PRI
- Working with industry members to improve ESG practices
- Reporting on our ESG activities and progress in implementing the PRI

Diversity and inclusion

At iA Financial Group, we support and celebrate diversity. We strive to provide and be recognized as an inclusive workplace for all regardless of gender, ethnic background, religion, disability and sexual orientation.

These are our targets for the representation of women in iA Financial Group senior management:

- Achieve gender equity in iA Financial Group senior management between **40% and 60**% for both women and men by 2025
- Now and in the future, between **40% and 60%** of iA Financial Group senior management appointments will go to women

Globally recognized ESG disclosure framework

During 2020, we took an important step in our sustainability strategy by selecting a framework to guide our ESG disclosure. The framework we have selected is the Sustainability Accounting Standards Board (SASB) framework.

Adopting this robust, recognized framework will enable us to identify, measure, manage and better communicate to our various stakeholders relevant sustainability information.

Sustainability Report

For all of our initiatives and achievements, refer to our *Sustainability Report* available at ia.ca, under *About iA*, in the *Sustainable development* section.

Jacques Martin
B.Comm., LL.B., MBA, IDP-C

Chair of the Board

MESSAGE FROM THE CHAIR OF THE BOARD

Since the beginning of the pandemic, the Board of Directors has strongly supported the management and staff of iA Financial Group in their ongoing efforts to mitigate the devastating effects of this unprecedented crisis. Numerous initiatives and measures have been put in place to support our employees, clients and communities.

On behalf of iA Financial Group, I would like to offer our deepest condolences to all those who have lost a loved one during the pandemic.

Despite this difficult context, it is clear that we are all capable of achieving our best when we work together. That is what iA Financial Group has done.

It would be unrealistic, of course, to take stock of 2020 without mentioning the COVID-19 pandemic, which has led every individual and organization to discover, more than ever before, the strength of their resilience and the importance of uniting their resources.

Eloquent results

The Board finds that the results for 2020 eloquently show the resilience and soundness of the Company's business model.

The increase in sales was quite significant in almost every sector. This great success is based on the scope and diversity of our distribution networks, the wide range and relevance of the products we offer, the effectiveness of the digital tools available to our representatives, clients and employees, and the dedication and professionalism of our team.

In addition, iA Financial Group completed the largest acquisition in our history, that of U.S. company IAS Parent Holdings, Inc. and its subsidiaries, enabling us to become one of the largest vehicle warranty platforms in the United States.

The Company finished 2020 with net income attributed to common shareholders of $611.2 million and maintained a strong solvency ratio above our target, despite the significant capital deployment related to the acquisition of IAS.

The President and Chief Executive Officer's Report on the following pages discusses the strategic initiatives and achievements that have allowed the Company to continue generating outstanding growth for its numerous stakeholders.

Continued progress in sustainable development

The Board eagerly supports the Company's objective of reducing its greenhouse gas (GHG) emissions by 20% per employee by 2025. Sustainable development constitutes a true commitment for Board members, management and the Company's employees.

At our 2019 Annual Meeting, shareholders asked us to consider incorporating environmental, social and governance (ESG) criteria in executive compensation.

We are pleased to confirm that an ESG component came into effect on January 1, 2021 in the variable compensation of senior executives, that is, in the calculation of the annual bonus paid to them. This ESG component is the Net Promoter Score (NPS), a unit of measurement that takes into account client satisfaction and is perfectly aligned with the Company's core values.

About the Board

In 2020, the Board welcomed new director Mario Albert, who has extensive experience in the financial and information technology industries. Mr. Albert worked at the Autorité des marchés financiers (AMF) as Superintendent, Distribution and President and CEO thereafter. He has also held several senior management positions in private, public and parapublic organizations in Quebec throughout his career.

As at December 31, 2020, the two Boards of Directors, whose composition is the same, had 13 members, 12 of whom were independent directors. In addition, women make up 42% of the Boards' independent membership.

During 2020, two directors informed us of their decision not to seek another term. They are Agathe Côté and Claude Lamoureux. Ms. Côté has contributed her knowledge of economics and finance to advance the work of the Board's investment and audit committees. Mr. Lamoureux's extensive experience in the financial field has been a major asset for the Board and for the investment and governance and ethics committees. On behalf of myself and the Board, I thank Ms. Côté and Mr. Lamoureux for their dedication and valuable contribution to the Board's activities.

Two new director nominees will be proposed for election by shareholders and participating policyholders at the Annual Meeting to be held Thursday, May 6, 2021. They are Suzanne Rancourt and William F. Chinery.

Suzanne Rancourt is a corporate director with over 30 years of consulting and management experience in the financial and information technology sectors. From 2006 to 2016, she was Vice-President, Enterprise Risks and Internal Audit at CGI.

Ms. Rancourt holds a bachelor's degree in Business Administration from Université du Québec à Montréal and an ICD.D designation from the Institute of Corporate Directors. She is a Chartered Professional Accountant (CPA, CGA). She also sits on the boards of directors of WSP Global Inc. and the Institute of Corporate Directors (ICD Québec).

William F. Chinery is a corporate director. Mr. Chinery was Managing Director and CEO of BlackRock Asset Management Canada until early 2013.

He is currently a member of the board of the Ontario Teachers' Pension Plan and chair of its investment committee. He is also a member of the investment committee of GreenSky Capital Inc. Mr. Chinery is a Fellow of the Society of Actuaries and the Canadian Institute of Actuaries. He holds an honours degree in Mathematics from the University of Waterloo and an ICD.D designation from the Institute of Corporate Directors.

The Board of Directors met eleven times in 2020 and its various committees held a total of seventeen meetings. The participation rate was 93% in Board meetings and in Board committee meetings.

Note that due to the pandemic, our Annual Meeting in May 2021, like last year's, will be held virtually. Rest assured that every measure has been planned to preserve shareholders' voting and interaction rights during the event.

With everything that has been achieved and put in place in 2020, and with its proven business model, iA Financial Group is well positioned to grow its earnings and create value for its shareholders in 2021.

On behalf of the Board, I would like to congratulate and thank the executive team and all Company employees, who are the driving force behind iA Financial Group and who work hard every day to ensure its success.

I would also like to thank all of the Company's clients, shareholders and policyholders for their trust and support.

Jacques Martin

Jacques Martin
Chair of the Board

Denis Ricard
B.Sc., FSA, FCIA

President and
Chief Executive Officer

PRESIDENT AND CHIEF EXECUTIVE OFFICER'S REPORT

At iA Financial Group, it goes without saying that our priority at all times has been protecting the health and wellbeing of our employees, distributors and clients, and supporting our communities. For details on our actions and initiatives since the beginning of the pandemic, please see "Highlights of the Company's Actions and Initiatives Related to the Pandemic" in our Management's Discussion and Analysis.

Four main strategic axes

Our resilient business model, including the strength of our distribution networks and sound risk management, has enabled iA Financial Group to fully support its purpose—to assure that our millions of clients feel confident and secure about their future—while continuing to generate growth.

With determination, we stayed the course in 2020 on our four main strategic axes:

GROWTH: I would like to highlight the strong organic growth in the vast majority of iA Financial Group's business segments. In addition, we completed the largest acquisition in our history by acquiring U.S. company IAS Parent Holdings, Inc. and its subsidiaries, a major vehicle warranty group. We now own one of the largest vehicle warranty platforms in North America.

CLIENT EXPERIENCE: In 2020, we made significant strides in advancing our client experience, with the continued development of our 360 client view as well as our contact centre infrastructure. We also continued our efforts to harmonize and further implement Net Promoter Score (NPS) measures in order to reflect the experience of all our clients.

EMPLOYEE EXPERIENCE: iA Financial Group is a leader in promoting internal mobility. We want our people to develop their talents by taking on challenges and getting out of their comfort zone. Combined with a strong culture of feedback and recognition, this is the cornerstone of our succession planning at all levels. In addition, in 2020 we launched a major diversity and inclusion initiative. We fully recognize the importance of promoting diversity and inclusion and their contribution to innovation and growth.

PRESENT AND STRONG. MORE THAN EVER.

More than ever, indeed, the theme of this annual report encapsulates iA Financial Group's resilience and our support for our clients, employees and communities in 2020, a year that will go down in history.

Together, we have faced a daunting pandemic and overcome enormous challenges in a powerful demonstration of what human beings can achieve through ingenuity and joining forces. The record-breaking development of COVID-19 vaccines is a prime example.

Our thoughts go out to those who have lost loved ones or fallen ill to the disease. They are also with those working on the front lines in our health networks or otherwise providing support to people. Their solidarity reminds us that life stands above all else.

OPERATING EFFICIENCY: This axis is supported by continued major investments in information technology and a strong Lean management philosophy. These have enabled us to maintain and even improve our operating efficiency, despite the pandemic and the shift to telework for the vast majority of our employees.

Sustainable development in environmental, social and governance concerns is another important component of our strategy.

With our digital transformation and the gradual rollout of our client and employee experiences, which began a few years ago, we are already well positioned in what is known as the "experience economy." Our forward-looking approach aims to deliver memorable, personalized and, most importantly, relevant experiences to millions of people, be they clients, partners or employees.

Continued growth

In 2020, sales growth was very strong in almost every segment despite the pandemic. Compared to 2019, Canadian sales were up 19% in Individual Insurance, 29% in Individual Wealth Management, 177% in Group Insurance Employee Plans and 49% in Group Savings and Retirement. Sales at iA Auto and Home were up 13%. In the United States, sales grew 28% in Individual Insurance and 60% in Dealer Services.

Total premiums and deposits increased 24% in 2020 compared to 2019, totalling close to $14.1 billion. Assets under management and administration grew 4% to $197.5 billion at December 31, 2020.

This great success is based on the scope and diversity of our distribution networks, the wide range and relevance of the products we offer, and the effectiveness of the digital tools available to our representatives, clients and employees.

Profitability and financial strength

Net income attributed to common shareholders amounted to $611.2 million in 2020 compared to $687.4 million the year before. Diluted earnings per common share (EPS) was $5.70 for the year in 2020, compared to $6.40 a year earlier.

Throughout 2020, we maintained a solvency ratio well above our target range of 110% to 116%, a testimony to the peace of mind we wish to provide for our clients.

At December 31, 2020, the solvency ratio was 130%, despite the substantial deployment of close to $1 billion for the acquisition of IAS Parent Holdings, Inc. and its subsidiaries.

Sustainable development

In sustainable development, we have taken very meaningful steps in the past few years.

In April 2019, iA Financial Group became a signatory of the United Nations-supported Principles for Responsible Investment (PRI), and in December 2019, the Company made a commitment to become carbon neutral as of 2020, which is now a reality.

In 2020, we made a commitment to reduce our greenhouse gas (GHG) emissions by 20% per employee by 2025. This is an ambitious commitment, demonstrating the importance we place on reducing our environmental footprint and contributing to the enormous global effort to provide a better world for future generations.

We have also adopted a globally recognized disclosure framework and metrics that will allow us to assess our progress in various areas related to environmental, social and governance (ESG) criteria.

In addition, we have selected five of the United Nations' Sustainable Development Goals (SDGs) and defined ways in which we can actively contribute to their achievement in the coming years.

2021 with confidence

Supported by these solid foundations, we look to 2021 with confidence in our strategy and in our strong ability to create value for all of our stakeholders.

More than ever, we are determined to maintain solid business growth, continually protect our strong financial position, continue building on the strength of our distribution, meet our clients' high expectations and achieve our ambitions.

Our main financial objectives in the short and medium term are:

- Grow core EPS by at least 10% on average per year during the coming years. The target range for this measure, as disclosed on February 11, is $7.60 to $8.20 for 2021.
- Increase the target for core return on common shareholders' equity (ROE) to 13% to 15% by 2023, with the target range for 2021 being 12.5% to 14.0%.

In closing, I would like to warmly thank and congratulate our employees, who, with courage and determination, have shown continued dedication and unfailing professionalism throughout the year.

Denis Ricard

President and Chief Executive Officer

EXECUTIVE COMMITTEE

Denis Ricard
B.Sc., FSA, FCIA
President and
Chief Executive Officer

Alain Bergeron
BBA, M.Sc., CFA, CMT
Executive Vice-President
and Chief Investment Officer

François Blais
B.Sc., FCIA, FCAS
Executive Vice-President
Dealer Services and
Special Risks

Jean-François Boulet
BA, Fellow CHRP
Executive Vice-President
Client and Employee
Experience

Éric Jobin
B.Sc., FSA, FCIA
Executive Vice-President
Group Benefits and
Retirement Solutions

Renée Laflamme
BBA, FCPA, FCA, CFA
Executive Vice-President
Individual Insurance,
Savings and Retirement

Pierre Miron
B.A.Sc.
Executive Vice-President
Information Technology
and Investment Operations

Sean O'Brien
Business Diploma
Executive Vice-President
Wealth Management

Jacques Potvin
B.Sc., FSA, FCIA
Executive Vice-President,
CFO and Chief Actuary

Lilia Sham
B.Sc., M.Sc., FSA, FCIA,
MAAA
Executive Vice-President
Corporate Strategy
and Development

Michael L. Stickney
B.Sc., FSA, MBA, MAAA
Executive Vice-President
and Chief Growth Officer

BOARD OF DIRECTORS

▼◆
Jacques Martin
B.Comm., LL.B., MBA, IDP-C
- Chair of the Board since 2018
- Board member since 2011
- Corporate Director

Mario Albert
BA, MA
- Board member since 2020
- Strategic Advisor

●▲
Agathe Côté
B.Sc.Econ., M.Sc.Econ., ICD.D
- Board member since 2016
- Corporate Director

●◆
Benoit Daignault
BBA, CFA
- Board member since 2019
- Corporate Director

◆
Nicolas Darveau-Garneau
B.Math., MBA
- Board member since 2018
- Chief Strategist at Google Search

●◆
Emma K. Griffin
BA (Oxon), MA (Oxon)
- Board member since 2016
- Corporate Director

●▼
Claude Lamoureux
BA, B.Comm., FSA, ICD.D, F.ICD
- Board member since 2010
- Corporate Director

▲
Ginette Maillé
BBA, CPA, CA, ICD.D
- Board member since 2019
- Vice-President, Finance and Administration and Chief Financial Officer, Aéroports de Montréal

▲▼
Monique Mercier
LL.B., M.Phil., Ad.E.
- Board member since 2019
- Corporate Director

▲▼
Danielle G. Morin
B.Sc., ICD.D
- Board member since 2014
- Corporate Director

▲◆
Marc Poulin
B.Sc., MBA
- Board member since 2018
- Corporate Director

Denis Ricard
B.Sc., FSA, FCIA
- Board member since 2018
- President and Chief Executive Officer of iA Financial Group
- Actuary

▼
Louis Têtu
B.Eng.
- Board member since 2016
- President, Chief Executive Officer of Coveo Solutions Inc., an artificial intelligence customer experience software company

Jennifer Dibblee
B.Sc., B.C.L., LL.B.
Corporate Secretary

Joshua R. Pedelty
J.D., BA, CLU
Assistant Corporate Secretary

- ● Investment Committee
- ▲ Audit Committee
- ▼ Governance and Ethics Committee
- ◆ Human Resources and Compensation Committee

2020 MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended December 31, 2020, as published on February 11, 2021

Notice

Legal Constitution and General Information

iA Financial Corporation Inc. (“iA Financial Corporation” or the “Company”) is a stock company constituted on February 20, 2018 under the *Business Corporations Act* (Quebec). At the time of its constitution, it was a wholly-owned subsidiary of Industrial Alliance Insurance and Financial Services Inc. (“iA Insurance”) and had no business operations. On January 1, 2019, the plan of arrangement previously approved by the shareholders of iA Insurance and endorsed by the court was completed and put into place. Consequently, on January 1, 2019, a certificate of arrangement was issued by the Quebec Enterprise Registrar, and iA Financial Corporation became the parent company of the iA group, holding all common shares of iA Insurance. Until December 31, 2018, iA Insurance was the parent company of the iA group. Upon completion of the arrangement, iA Insurance’s issued and outstanding preferred shares and debentures remained issued by iA Insurance and were guaranteed by iA Financial Corporation in accordance with the terms of the arrangement.

iA Financial Corporation is a “successor issuer” of iA Insurance as defined in securities regulations with respect to the common shares previously issued by iA Insurance. The comparative figures prior to 2019 presented in this Management’s Discussion and Analysis are therefore the same as those of iA Insurance.

iA Financial Corporation is not regulated under the *Insurers Act* (Quebec). However, iA Financial Corporation will maintain the ability to supply capital, if it considers it necessary, to iA Insurance so that the latter meets the capital adequacy requirements of the *Insurers Act* (Quebec). Pursuant to an undertaking, iA Financial Corporation will disclose its capital position on a quarterly basis. A copy of the undertaking (to which the Autorité des marchés financiers is an intervening party) was filed under the SEDAR profiles of iA Financial Corporation and iA Insurance at sedar.com.

iA Financial Corporation is governed by the *Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the “1999 Private Bill”), as amended by the *Act to amend the Act respecting Industrial-Alliance Life Insurance Company* (Quebec) (the “2018 Private Bill,” collectively with the 1999 Private Bill, the “Private Bill”). The 1999 Private Bill was enacted by the Quebec National Assembly on November 26, 1999, and its amendment, the 2018 Private Bill, was enacted on June 15, 2018. The Private Bill prohibits any person and his/her affiliates from acquiring, either directly or indirectly, voting shares of iA Financial Corporation if the acquisition results in the person and his/her affiliates holding 10% or more of the voting rights related to the shares. The Private Bill further provides that in the event that an acquisition is made in contravention of the foregoing, an individual on behalf of whom the shares are acquired cannot exercise the voting rights attached to the aggregate of his/her shares for as long as they are in contravention of this provision. In addition, under this Private Bill, iA Financial Corporation must directly or indirectly hold 100% of the common shares of iA Insurance.

Unless otherwise indicated, all information presented in this Management’s Discussion and Analysis is established as at December 31, 2020, or for the year ended on that date.

Unless otherwise indicated, all amounts that appear in this Management’s Discussion and Analysis are denominated in Canadian dollars. The financial information is presented in accordance with International Financial Reporting Standards (IFRS), as they apply to life insurance companies in Canada, and with the accounting requirements prescribed by the regulatory authorities.

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

This Management’s Discussion and Analysis is dated February 11, 2021.

Non-IFRS Financial Measures

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 (loss) and financial measures based on core earnings (loss), including core EPS and core ROE, are non-IFRS financial measures used to better understand the capacity of the Company to generate sustainable earnings. Core earnings (loss) remove from reported earnings (loss) the impacts of the following items that create volatility in the Company's results under IFRS, or that are not representative of its underlying operating performance:

Core earnings definition prior to 2021:
(a) specific items, including but not limited to year-end assumption changes and unusual income tax gains and losses;
(b) 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;
(c) 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.

Core earnings definition as of 2021:
(a) market-related impacts that differ from management's best estimate assumptions, which include impacts of returns on equity markets and changes in interest rates related to (i) management fees collected on assets under management or administration (MERs), (ii) universal life policies, (iii) the level of assets backing long-term liabilities, and (iv) the dynamic hedging program for segregated fund guarantees;
(b) assumption changes and management actions;
(c) gains or losses on acquisition or disposition of a business, including acquisition, integration and restructuring costs;
(d) amortization of acquisition-related finite life intangible assets;
(e) non-core pension expense, that represents the difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets and the IFRS prescribed pension plan discount rate.;
(f) specified items which management believes are not representative of the performance of the Company, including (i) material legal settlements and provisions, (ii) unusual income tax gains and losses, (iii) material impairment charges related to goodwill and intangible assets, and (iv) other specified unusual gains and losses.

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 "Profitability" section of this report.

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," "could," "should," "would," "suspect," "expect," "anticipate," "intend," "plan," "believe," "estimate," and "continue" (or the negative thereof), as well as words such as "objective," "goal," "guidance," and "forecast" 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 such as 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.

Potential impacts of the COVID-19 pandemic – Since March 2020, the COVID-19 pandemic has had major, unprecedented implications for both society and the economy. The overall impact of the COVID-19 pandemic is still uncertain and depends on many factors, such as the progression of the virus, the emergence of new variants, the duration of the pandemic, potential treatments and therapies, the availability of vaccines, the effectiveness of government measures to slow the virus's spread and the impact of those measures on the economy. As a result, we cannot accurately predict the total bearing the pandemic will have, but the impact on iA Financial Corporation's business and financial results could be material. However, despite the short-term negative impacts of the pandemic on its results, iA Financial Corporation remains financially solid. In addition, iA Financial Corporation's business continuity protocol has continued, ensuring that the quality of service clients receive is similar to or better than before the pandemic and enabling employees and advisors to continue to work safely and securely.

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 this Management's Discussion and Analysis, the "Management of Risks Associated with Financial Instruments" note to the audited consolidated financial statements for the year ended December 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 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 Company can be found on the SEDAR website at sedar.com, as well as in the annual information forms for iA Financial Corporation and for iA Insurance, which can be found on the iA Financial Group website or the SEDAR website.

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Highlights

In a year marked by the pandemic and its many impacts on society and the financial markets, the Company's priority has been protecting the health and wellbeing of its employees, distributors and clients, and supporting the community. In this context, the Company's 2020 results demonstrate the resiliency and soundness of its business model.

Sales growth was very strong in nearly all business units. This excellent performance was due in part to the scope and diversity of the Company's distribution networks, the range and relevance of its products, and the effectiveness of the digital tools available to representatives, clients and employees. In addition, the Company completed the largest acquisition in its history with the purchase of U.S. company IAS Parent Holdings, Inc. and its subsidiaries, creating one of the largest vehicle warranty platforms in the United States.

The Company finished 2020 with net income attributed to common shareholders of $611.2 million and maintained a strong solvency ratio above its target despite the significant capital deployment for the IAS acquisition. Organic capital generation was good, the investment portfolio remained of the highest quality and book value per share increased by 7%.

Moreover, in addition to the annual actuarial assumption review, additional risk management initiatives were put in place that included the signing of new reinsurance agreements and additional protections in the reserves to counter the potential impacts of the pandemic. Overall, these actions had no material impact on 2020 results.

Profitability

Net income attributed to common shareholders amounted to $611.2 million in 2020 compared to $687.4 million the year before. Diluted EPS was $5.70, compared to $6.40 a year earlier. Refer to the "Profitability" section of this Management's Discussion and Analysis for more information on the Company's profitability in 2020.

Business Growth

Premiums and deposits of nearly $14.1 billion were up 24% compared to 2019. Despite the pandemic, sales growth was excellent, particularly in Individual Insurance, Individual Wealth Management, Group Insurance Employee Plans, Group Savings and Retirement, US Operations and at iA Auto and Home. Refer to the sections that follow for more information on business growth by line of business.

Profitability

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Net income attributed to common shareholders	611.2	687.4	(11%)
Earnings per common share (EPS) (diluted) (in dollars)	5.70	6.40	(11%)

Assets Under Management and Administration

	As at December 31		
(In millions of dollars unless otherwise indicated)	2020	2019	Variation
Assets under management	101,655.9	100,241.8	1%
Assets under administration	95,830.1	89,245.8	7%
Total	**197,486.0**	**189,487.6**	**4%**

Premiums and Deposits[1]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Individual Insurance	1,624.8	1,586.5	2%
Individual Wealth Management	6,417.7	4,975.0	29%
Group Insurance	1,743.5	1,788.2	(2%)
Group Savings and Retirement	3,056.2	2,046.5	49%
US Operations	896.1	651.1	38%
General Insurance	340.2	314.2	8%
Total	**14,078.5**	**11,361.5**	**24%**

Sales by Line of Business[2]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Individual Insurance			
Minimum premiums	202.4	176.4	15%
Excess premiums	20.8	11.1	87%
Total	223.2	187.5	19%
Individual Wealth Management			
General fund	836.1	545.8	53%
Segregated funds	3,079.6	2,365.5	30%
Mutual funds	2,502.0	2,063.7	21%
Total	6,417.7	4,975.0	29%
Group Insurance			
Employee Plans	136.2	49.1	177%
Dealer Services[3]	971.6	1,020.3	(5%)
Special Markets	205.4	273.9	(25%)
Total	1,313.2	1,343.3	(2%)
Group Savings and Retirement	3,082.9	2,073.6	49%
US Operations			
Individual Insurance ($US)	127.2	99.2	28%
Dealer Services ($US)	719.0	449.2	60%
iA Auto and Home	395.0	351.0	13%

1 Premiums and deposits include all premiums collected by the Company for its insurance and annuity activities (and posted to the Company's general fund), all amounts collected for segregated funds (which are also considered to be premiums), deposits from the Group Insurance and Group Savings and Retirement sectors and mutual fund deposits.
2 Refer to the sections on the Company's different business lines for a definition of sales.
3 Includes creditor insurance, P&C products and car loan originations.

Financial Strength

At December 31, 2020, the Company had capital of nearly $8.0 billion and a solvency ratio[4] of 130% compared to 133% a year earlier, despite the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries. The resulting decrease in the solvency ratio was offset by good organic capital generation, the subordinated debenture issuance and the impact of the additional risk management initiatives and year-end actuarial assumption review. The Company's solvency ratio remained above the 110% to 116% target range throughout 2020. We expect that good organic capital generation will continue in 2021 and that the Company will maintain a solvency ratio within or above the target range of 110% to 116% at all times.

The coverage ratio,[4] which is calculated by dividing the earnings for the last twelve months (before taxes and financing expenses) by the financing expenses, finished the year at 11.7x, compared to 16.6x in 2019. This decrease is mainly explained by the $400 million subordinated debenture issuance in February 2020. The debt ratio including debentures and preferred shares was 24.8% at December 31, 2020, an increase from December 31, 2019, also mainly explained by the subordinated debenture issuance in February 2020. Lastly, in accordance with regulators' instructions to suspend common share buybacks due to the pandemic, the Company's Normal Course Issuer Bid program was not renewed.

For detailed comments on financial strength, refer to the "Financial Position" section of this Management's Discussion and Analysis.

Dividends

In February 2020, the Company increased its quarterly dividend per common share from $0.4500 to $0.4850. As a result, the dividend for 2020 totalled $1.9400 per common share, compared to $1.7650 per common share in 2019, an increase of 10%. The dividend payout ratio was 34% for the year, which is near the top of the 25% to 35% target range given as guidance at the beginning of 2020. Note that regulators have given instructions not to raise dividends to common shareholders due to the pandemic. As such, the dividend has not been increased since February 13, 2020, and the quarterly dividend announced in the fourth quarter 2020 results disclosure remains $0.4850 per common share, payable in the first quarter of 2021.

Quality of Investments

The Company's investment portfolio continued to be of excellent quality in 2020, in spite of the pandemic environment. At December 31, 2020, as presented in the table to the right, the proportion of net impaired investments remained relatively low at 0.07% of total investments, despite a slight increase owing to provisions taken on assets due to the impact of the pandemic. In addition, bonds rated BB and lower accounted for just 0.99% of the bond portfolio and the occupancy rate of the real estate portfolio remained relatively stable at 95.0%. No mortgage delinquency is recorded as at December 31, 2020, primarily due to the 2020 sale of the residential mortgage portfolio, which is therefore no longer a part of the investment portfolio. For detailed comments on investments, refer to the "Investments" section of this Management's Discussion and Analysis.

Sensitivity Analysis[5]

The analysis of the Company's sensitivity to macroeconomic changes was updated at the end of 2020. The main results of the analysis are shown in the table to the right and explained under "Market Risk" in the "Risk Management" section of this Management's Discussion and Analysis.

Financial Strength

(As as December 31)	2020	2019
Solvency ratio	130%	133%
Debt ratio	24.8%	21.9%
Coverage ratio	**11.7x**	**16.6x**

Dividend

(To common shareholders)	2020	2019
Dividend	**$1.9400**	$1.7650

Investment Quality Indices

(As at December 31)	2020	2019
Net impaired investments ($M)	$31.1	$10.9
Net impaired investments as a % of total investments	0.07%	0.03%
Bonds - Proportion rated BB and lower	0.99%	0.87%
Mortgages - Delinquency rate	—	0.08%
Investment properties - Occupancy rate	95.0%	94.0%

Sensitivity Analysis[6]

	As at December 31	
(In millions of dollars, unless otherwise indicated)	2020	2019
Drop in the S&P/TSX index requiring a strengthening of the provisions for future policy benefits for stocks matched to long-term liabilities[6]	(27%)	(24%)
Drop in the S&P/TSX[6] index that would decrease the solvency ratio to 110%	(83%)	(91%)
Impact on net income of a sudden 10% drop in the stock markets (impact for a full year)	(34)	(31)
Impact on net income of a 10 basis point decrease in the initial reinvestment rate (IRR)	4	2
Impact on net income of a 10 basis point decrease in the ultimate reinvestment rate (URR)	(68)	(61)

Acquisitions, Dispositions and Structure of Businesses

On January 10, 2020, the Company acquired three Canadian companies specializing in vehicle warranties: WGI Service Plan Division Inc., WGI Manufacturing Inc. and Lubrico Warranty Inc. The goal of these acquisitions is to pursue strategic growth in order to become a major player in the Canadian automotive environment.

On May 22, 2020, the Company also concluded the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries (collectively "IAS"). IAS is one of the largest independent providers of solutions in the U.S. vehicle warranty market, with 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 the integration of IAS, the Company is creating one of the largest vehicle warranty platforms in the U.S.

4 The solvency and coverage ratios are not IFRS measures. Refer to the "Financial Position" section for more details.
5 The sensitivity analysis includes measures that have no IFRS equivalents.
6 Decrease compared to the actual index values at December 31 of the indicated years.

On June 1, 2020, the Company completed the sale of its iA Investment Counsel Inc. subsidiary to CWB Financial Group. The sale reflects the Company's decision to focus on serving the wealth management needs of high-net-worth Canadians exclusively through its expanding network of investment advisory practices.

For more information on the acquisitions and dispositions completed in 2020, refer to Note 4 of the Company's consolidated financial statements entitled *Acquisition and Disposal of Businesses*.

On January 1, 2020, iA Insurance and its subsidiary, The Excellence Life Insurance Company, merged in order to improve operational efficiency, with full transparency for existing clients.

Carbon neutrality

For many years, iA Financial Group has been committed to supporting the fight against climate change by proactively reducing its carbon footprint. In 2020, the Company became carbon neutral. While continuing its projects and initiatives aimed at reducing greenhouse gas (GHG) emissions at the source, the Company is now also committed to offsetting its GHG emissions through the purchase of carbon credits.

Litigation

iA Insurance is involved in litigation with a third party, Ituna Investment LP, 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.

Changes to Accounting Policies in 2020 and Future Changes in Accounting

The International Accounting Standards Board (IASB) issued a number of amendments and new standards that took effect on January 1, 2020. None of these amendments or standards had an impact on the Company's financial statements. For more information on these amendments and new standards, refer to Note 3 of the consolidated financial statements, entitled "Changes in Accounting Policies." Also, on June 25, 2020, the IASB published an amendment to IFRS 4 *Insurance Contracts* to extend the deferral approach until January 1, 2023. This approach provides an optional temporary exemption from applying IFRS 9 *Financial Instruments* until January 1, 2023 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 *Insurance Contracts*. Lastly, the Company is continuing its work related to the application of IFRS 17 *Insurance Contracts,* which is scheduled to take effect on January 1, 2023. The Company is currently evaluating the impact of this standard on its financial statements.

Outlook for 2021[7]

With everything that has been achieved and put in place in 2020, and with its proven business model, iA Financial Group is well positioned to grow its earnings and create value for its shareholders in 2021.

The balance sheet remains solid and the Company has the protection and resources it needs to adjust to financial market fluctuations. Among other things, the Company took advantage of the 2020 year-end actuarial assumption review to put additional protections in place in order to reduce potential mortality and policyholder behaviour experience losses in 2021 onwards arising from the pandemic.

iA Financial Group will hold a virtual Investor Day on March 10, 2021, during which management will discuss the Company's strategy and outlook for the coming years.

The main guidance targets for 2021 are presented in the table below.

EPS and ROE target growth is explained by:

- Adjustments to the definition of core earnings (see the "Profitability" section of this Management's Discussion and Analysis for more details)
- Organic growth, which refers to normal growth in expected profit on in-force
- Profitability improvement initiatives in all lines of business
- Acquisitions and technology improvements made in recent years
- Initiatives to fully leverage the Company's strong and diversified distribution networks

Lastly, the decrease in the new business strain target is confirmation of improvement in this metric over the past several years. The other guidance targets remain unchanged for 2021.

Market Guidance[8]

	2021	2020
Core earnings per common share[8]	**$7.60 to $8.20**	$6.30 to $6.90
Core return on common shareholders' equity[8]	**12.5% to 14.0%**	11.5% to 13.0%
Organic capital generation	**$275M to $325M**	$250M to $300M
Effective tax rate	**20% to 22%**	20% to 22%
Solvency ratio	**110% to 116%**	110% to 116%
New business strain	**2%** (quarterly range of -5% to 10%)	3% (quarterly range of -5% to 10%)
Dividend payout ratio	**25% to 35%** (midpoint)	25% to 35% (midpoint)

7 The Company's outlook for 2021 is based on numerous assumptions and is subject to multiple risks, as described in the "Risk Management" section of this Management's Discussion and Analysis. Also refer to the "Notice" section at the beginning of this document for information about forward-looking statements.

8 Guidance for EPS and ROE excludes non-core items as well as any potential impact of the year-end assumption review. Guidance for 2020 was based on the definition of core earnings used prior to 2021, and guidance for 2021 is based on the revised definition of core earnings in use as of 2021. Refer to the "Profitability" section of this Management's Discussion and Analysis for an explanation of core earnings.

Highlights of the Company's Actions and Initiatives Related to the Pandemic

iA Financial Group's resilient business model, including the strength of its distribution networks and its sound risk management practices, has helped mitigate the impacts of the COVID-19 pandemic. As a result, the Company has been fully able to continue generating growth while ensuring the financial wellbeing of its clients.

The Company's solid financial results at December 31, 2020 demonstrate the soundness of its choices, particularly in terms of technology, and its strategic vision. Despite the pandemic, these factors have allowed the Company to successfully continue its growth.

From the first signs of the pandemic, management prioritized the health and safety of employees and distributors, along with business continuity. iA Financial Group adjusted quickly and efficiently, implementing telework for the vast majority of employees and using high-performance digital tools that were already in place.

Profitability, Growth and Financial Strength

The pandemic has brought about significant changes in the distribution of financial products. The Company and its distribution networks have managed to adapt quickly to the new reality, in particular thanks to its digital tools available to distributors and clients. Business growth was excellent in 2020, as demonstrated by the Company's strong results versus 2019. iA Financial Group's largest business line, individual life insurance, posted a 19% year-over-year increase in sales. Meanwhile, individual wealth management recorded net inflows of more than $2 billion in 2020, almost eight times higher than in 2019. These results are mainly attributable to three factors: the strength and diversification of the Company's distribution networks, the excellent performance of its digital tools, and the wide range of products offered.

Sales were also excellent in most other business units, for the same reasons. They were more difficult in certain segments, however, including Special Markets, due to lower travel insurance sales, and Dealer Services, due to the impact of lockdown measures on auto sales.

The Company's financial results remained largely on track in 2020. The iA Auto and Home subsidiary stood out in this regard, as did several other business units in the group. The biggest negative impact of the pandemic occurred in March when the stock markets experienced extreme volatility. This historic volatility affected the results of the hedging program for segregated fund guarantees. Nonetheless, the program succeeded in its goal of providing protection, as the negative impact on the Company's results would have been much greater without it. The investment portfolio also held up well during this period of extreme volatility, demonstrating its superior quality and excellent asset diversification.

In terms of solvency, despite the impacts of the pandemic and the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries, the Company's solvency ratio was 130% at the end of 2020. Added to this is the Company's distinctive protection against market fluctuations, which is equivalent to an additional ten percentage points. This favourable result is mainly due to the Company's strong capacity for organic capital generation and the positive impact of its additional risk management initiatives.

Lastly, the Company took advantage of its year-end actuarial assumption review to strengthen the reserves. Moreover, additional risk management initiatives were put in place that included the signing of new reinsurance treaties and additional protections in the reserves to absorb potential negative impacts that may result from the pandemic in the coming years.

Client Relief Measures and Community Support

Since the beginning of the pandemic, iA Financial Group has been committed to contributing tirelessly and in every possible way to the immense social efforts being made to counter its effects.

The Company put various relief measures in place to support clients experiencing financial hardship as a direct result of the pandemic. These measures benefitted clients in all segments: life, critical illness, disability and personal accident insurance; individual savings and retirement; group insurance; auto and home insurance; residential mortgages; and car loans.

Since March 2020, iA Financial Group has also been committed to the fight against COVID-19 and its unprecedented effects on our communities. The Company increased donations in the areas of health and community services, specifically targeting organizations with urgent needs due to the pandemic.

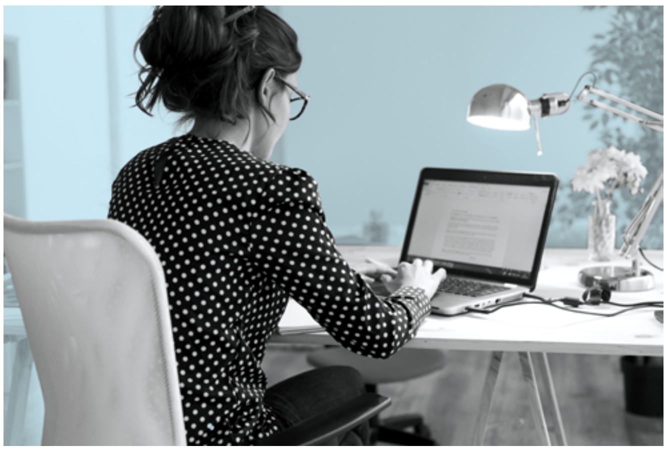
In 2020, a total of nearly $2.5 million was donated to fight the COVID-19 crisis, including donations to the COVID-19 emergency funds of various hospital and health research centre foundations, as well as to food banks in several Canadian provinces.

Employee Health and Wellbeing

iA Financial Group has spared no effort to ensure the health and safety of its employees and to try to reduce the spread of the virus in the community. In mid-March 2020, the Company quickly took steps to enable telework for almost all employees and to ensure the safety of its offices for those required to work onsite for business continuity purposes.

The Company also offered its employees various support measures, including allowances for Internet fees and the purchase of telework equipment, as well as five additional paid wellness days.

These measures were in addition to the services already available to employees, including access to telemedicine, a stress management and wellness program, and an employee and family assistance program.



Beyond the Pandemic

While it remains to be seen when the pandemic will end, vaccinations underway around the world are finally providing a light at the end of the tunnel.

With everything achieved and put in place in 2020, and with its tested and proven business model, iA Financial Group is well positioned to grow and create value for its shareholders and other stakeholders in 2021 and beyond.

Those elements that have enabled the Company to achieve strong sales growth in 2020 remain in place. In addition, increased IT investments will keep the Company at the leading edge of digital solutions for its clients, distributors and employees.

With its high solvency ratio and the strengthening of its actuarial reserves in 2020, the Company has solid foundations to support its growth. In its reserves, the Company has distinctive protection against market fluctuations, as well as additional protections which will be used to respond to temporary pandemic or post-pandemic uncertainties by absorbing unfavourable mortality or lapse experience.

As a result, the Company is well positioned to take advantage of post-pandemic opportunities while remaining resilient and committed to the wellbeing of its clients, employees and communities.

Analysis by business segment

Lines of business

Canada

1 INDIVIDUAL INSURANCE

2 INDIVIDUAL WEALTH MANAGEMENT

3 GROUP SAVINGS AND RETIREMENT

4 GROUP INSURANCE

Divisions
- Employee Plans
- Dealer Services
- Special Markets

United States

5 U.S. OPERATIONS

Divisions
- Individual Insurance
- Dealer Services

Subsidiary – Quebec

iA AUTO AND HOME

Individual Insurance

The Individual Insurance sector offers a wide range of insurance products through an extensive distribution network.

From a historical standpoint, 2020 was a year unlike any other. In addition to making extra efforts to deploy digital tools in response to the new reality, the Company also launched two new insurance products:

- An enhanced version of yearly renewable term (YRT) universal life insurance offering exceptional flexibility and high accumulation potential for clients.
- A permanent participating (PAR) life insurance product for clients seeking insurance protection combined with growth, stability and diversification for their investment portfolio. This type of product represents approximately half of the Canadian life insurance market.

Already a leader in instant acceptance at the point of sale thanks to its EVO tool, the Company again demonstrated its capacity for innovation by further simplifying the purchase of up to $2 million in coverage for clients age 50 and under.

In addition, the sector has continued its efforts to ensure a superior advisor and client experience by enhancing online sales tools for representatives. The illustration tool for life and critical illness products, for example, has been redesigned to provide a modernized, simplified experience adapted to the current reality of advisors and clients.

Business Growth

(In millions of dollars unless otherwise indicated)	2020	2019	Variation
Sales[9]			
Minimum premiums[10]	202.4	176.4	15%
Excess premiums[10]	20.8	11.1	87%
Total	**223.2**	**187.5**	**19%**
Net premiums	1,624.8	1,586.5	2%

Total sales amounted to $223.2 million in 2020, a significant increase of 19% compared to 2019. The success of the new YRT and PAR products launched during the year largely contributed to this growth. Because these products allow for the deposit of additional sums, there was also a sizable increase of 87% in excess premiums in 2020 versus 2019.

Net premiums were up 2% in 2020 at $1,624.8 million. Note that premiums are a key long-term profitability driver for the sector.

In terms of the Company's performance in the industry, according to the Canadian data published by LIMRA for the first nine months of the year, iA Financial Group ranked:

- First for life insurance products, with the highest premium sales and annual sales growth.
- First for the number of individual insurance policies sold (life, critical illness and disability combined), with a market share of over 20%, and fourth for sales, with a market share of over 10%.
- First for critical illness insurance sales, with a market share of 25%.
- Third for disability product sales, with a market share of 9%.

The sales mix shifted in 2020. The pandemic and economic environment made growth more difficult for disability insurance products, therefore the weight of these products in the new business portfolio declined.

In addition, the Company's Career Network performed very well in 2020.

Business Focus

- Capitalizing on the strength and diversity of our distribution networks
- Building and optimizing the advisor and client digital experience

Products and Services

- Life insurance (universal, permanent and term)
- Critical illness insurance
- Short and long-term disability insurance
- Mortgage insurance
- Accidental death and dismemberment (AD&D) insurance
- Creditor insurance (life and disability)
- Travel insurance

Manufacturers and Subsidiaries

- iA Insurance
- PPI Management Inc.
- Invisor Insurance Services
- Michel Rhéaume et associés

Distribution Affiliates and Networks

- Career Network (iA) (2,060 advisors)
- Managing General Agents Network (14,625 representatives)
- National Accounts Network (630 representatives)
- PPI Management Inc. (5,000 representatives)
- Michel Rhéaume et associés

[9] Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Insurance sector, sales are defined as first-year annualized premiums. The net premiums presented in the consolidated financial statements include fund entries on both in-force contracts and new business written during the period, less premiums ceded to reinsurers.

[10] Minimum premiums are the portion of the premium used to cover the insurance risks under an individual insurance contract and are an important way to measure the sector's performance. Excess premiums include all deposits to accumulation funds available under universal life policies, as well as contributions to the additional deposit option for the participating life insurance product.

Individual Wealth Management

In the Individual Wealth Management sector, the Company offers a broad range of savings and retirement products. iA Financial Group is a Canadian leader in the development and distribution of segregated funds. IA Clarington Investments, a Company subsidiary, offers a full line of mutual funds and is one of the largest investment management firms in the country.

Clients can invest in the sector's products through registered retirement savings plans (RRSPs), registered education savings plans (RESPs), tax-free savings accounts (TFSAs), registered retirement income funds (RRIFs) and non-registered plans.

The sector also has three distribution affiliates working in mutual fund and securities brokerage: FundEX Investments, iA Private Wealth[11] and Investia Financial Services.

Business Focus

- Developing innovative solutions for the retirement market
- Continuing to advance by offering more digital tools to advisors and clients

Products and Services

- Segregated funds
- Mutual funds
- Securities
- Life and fixed-term annuities
- Registered savings and disbursement plans (RRSPs, RESPs, TFSAs and RRIFs)
- Investment advice
- Private wealth management

Manufacturers and Subsidiaries

- iA Insurance
- iA Clarington
- FundEX Investments
- iA Private Wealth
- Investia Financial Services
- iA Trust
- iA Investment Management
- Invisor Investment Management
- Forstrong Global Asset Management

Distribution Affiliates and Networks

- Career Network (iA) (2,060 advisors)
- Managing General Agents Network (14,625 representatives)
- National Accounts Network (630 representatives)
- PPI Management Inc. (5,000 representatives)
- Distribution affiliates (FundEX, iA Private Wealth and Investia) (2,120 advisors)

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Gross sales[12]			
General fund	836.1	545.8	53%
Segregated funds	3,079.6	2,365.5	30%
Mutual funds	2,502.0	2,063.7	21%
Total	**6,417.7**	**4,975.0**	**29%**
Net sales			
Segregated funds	1,763.9	662.8	166%
Mutual funds	243.5	(407.6)	NM*
Total	**2,007.4**	**255.2**	**687%**

* Not meaningful

Despite the many impacts of the pandemic, business growth was excellent in this sector.

Gross sales of over $6.4 billion were up 29% from 2019. By product category, sales were up 53% for guaranteed return products (found in iA Insurance's general fund), reflecting the Company's competitive position and the popularity of the high interest savings account launched in June 2019. This product offers clients the simplicity of having all their investments (segregated funds, guaranteed interest funds and high interest savings account) combined under one contract.

Gross segregated fund sales reached a record high, up 30% from 2019. This is explained in part by the success of the Company's distribution strategy. The Company continued to rank first in Canada for net segregated fund sales and third in terms of assets.[13]

Gross mutual fund sales totalled over $2.5 billion due to strong growth of 21% versus 2019. Net inflows totalled $243.5 million.

Total assets amounted to nearly $128.3 billion at December 31, 2020, up 5% from the end of the previous year, mainly due to market growth and net fund entries of over $2 billion. Growth in assets under management, which is reliant on gross sales, in-force business persistency and the return on assets, is the key long-term profitability driver for the sector.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Funds under management			
General fund	2,121.7	1,807.5	17%
Segregated funds	19,240.2	16,391.9	17%
Mutual funds	11,393.1	11,594.2	(2%)
Other[14]	995.3	4,509.0	(78%)
Subtotal	33,750.3	34,302.6	(2%)
Funds under administration[15]	94,534.2	88,142.1	7%
Total	**128,284.5**	**122,444.7**	5%

11 As of January 18, 2021, iA Private Wealth is the new brand replacing iA Securities and HollisWealth.

12 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Individual Wealth Management sector, total sales (or gross sales) for general fund and segregated fund products correspond to the net premiums presented in the consolidated financial statements. Sales for mutual funds are defined as deposits.

13 Source: Investor Economics

14 The *Other* category of funds under management includes assets from the Company's private wealth management activities.

15 Includes assets related to affiliated dealers.

Group Insurance

Employee Plans

The Employee Plans division offers a broad range of group benefits products for companies and organizations. The division has over 600 employees, has signed agreements with some 1,000 groups, and serves over 525,000 plan members.

To help manage plans more effectively and promote the health and wellness of plan members, the division offers a number of services and technology tools for plan administrators, members and benefits advisors. These include a disability management program, a drug management program (PharmAssist) and a health and wellness program (Well-Balanced) now offering telemedicine. Offered through My Client Space and the iA Mobile app, these services and tools provide clients with a continually evolving, omnichannel experience.

In the context of the current pandemic, financial relief measures have been put in place to support plan administrators and members. The deployment of telemedicine and mental health coaching solutions has also been accelerated in order to promote greater accessibility to healthcare. In addition, a preventive opioid management program has been set up to minimize the risks of addiction and overdose.

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales[16]	136.2	49.1	177%
Premiums	1,028.2	985.7	4%
Premium equivalents[17]	63.5	70.9	(10%)
Investment contracts[18]	77.0	78.8	(2%)
Total	**1,168.7**	**1,135.4**	**3%**

Total premiums, premium equivalents and investment contract deposits reached $1,168.7 million in 2020, up 3% from 2019.

Premium growth was driven by strong growth in sales, which were up 177% compared to 2019. This growth was nonetheless slowed by the relief measures put in place due to the pandemic, in particular a temporary reduction in rates for certain coverages.

Looking at sales by region, the majority of sales came from Quebec in 2020, as was the case in 2019.

For the first nine months of the year, for groups with 100 to 4,999 employees, the market closest to the division's target market, iA Financial Group ranked fifth with 9% of market sales.[19]

Business Focus

- Accelerating profitable growth
- Enhancing client experience (for plan administrators and members) through simplified processes
- Maximizing efficiency gains by taking advantage of greater synergy between business units
- Strengthening digital tools for global benefits management

Products and Services

- Life and health, accidental death and dismemberment (AD&D), dental care, short and long-term disability, critical illness and home care insurance
- Voluntary benefits (life, AD&D and critical illness)
- Out-of-Canada medical insurance

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

16 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Employee Plans division, sales are defined as first-year annualized premiums, including premium equivalents (Administrative Services Only). The net premiums presented in the consolidated financial statements are net of reinsurance and include fund entries on both in-force contracts and new business written during the period. Net premiums for the Employee Plans division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Dealer Services and Special Markets.

17 Premium equivalents are income from administrative services only (ASO) contracts.

18 Premiums from Hold Harmless Agreements

19 Source: LIMRA

Group Insurance

Dealer Services

Dealer Services distributes creditor insurance products (life, disability, loss of employment and critical illness), car loan financing, and property and casualty (P&C) products. P&C products include extended warranties, replacement insurance, guaranteed asset protection and a full range of ancillary products.

The division has more than 600 employees, insures over 725,000 individuals and over one million vehicles, and has more than 40,000 car loans outstanding. Its products are offered through a Canada-wide direct distribution network of nearly 6,700 automobile and other motor vehicle dealers. Distributors demand one-stop shopping for their aftermarket needs and iA Financial Group is one of the few companies that can provide it.

Business Focus

- Signing new dealer groups
- Exploiting our connections within iA group to develop new businesses
- Partnering with original equipment manufacturers
- Improving dealer experience through new digital initiatives
- Adapting our products and distribution practices for an enhanced client experience

Products and Services

- Creditor insurance
- P&C products
- Car loans

Manufacturers and Subsidiaries

- iA Insurance
- SAL Marketing Inc.
- National Warranties MRWV Limited
- Industrial Alliance Pacific General Insurance Corporation
- WGI Service Plan Division Inc.
- Lubrico Warranty Inc.
- iA Auto Finance
- iA Advantages Damage Insurance

Distribution Affiliates and Networks

- Direct distribution through automobile and other motor vehicle dealers (6,700 dealers)
- Original equipment manufacturers (OEM)
- Preferred partnerships

Business Growth

Dealer Services sales totaled $971.6 million in 2020. The division continues to expand its presence across Canada by signing deals with large dealership groups and car manufacturers, and by developing new products.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales[20]			
Creditor[21]	260.7	328.7	(21%)
P&C	270.5	253.4	7%
Car loans	440.4	438.2	1%
Total	**971.6**	**1,020.3**	**(5%)**

Creditor Insurance

Creditor insurance sales decreased from 2019, totalling $260.7 million. This variation was partly caused by declining Canadian light vehicle sales, which were down 5.1%[22] compared to 2019, as well as restrictions and shutdowns in some provinces amid the pandemic.

P&C Products

P&C sales were up 7% from 2019 to reach $270.5 million despite declining Canadian light vehicle sales. New acquisitions at the beginning of the year and consumers' affinity for P&C products were the major drivers of sales growth.

Car Loans

Car loan originations were up 1% from 2019 to reach $440.4 million. Restrictions and shutdowns in some provinces amid the pandemic led to a smaller non-prime loan market. Although the market was smaller, market share improved over the prior year due to increased penetration within the distribution network.

[20] Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. Creditor insurance sales are defined as premiums before reinsurance and cancellations. P&C sales are defined as direct written premiums (before reinsurance). Net premiums for the Dealer Services division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Employee Plans and Special Markets. Car loan sales are defined as loan originations from the car loans business.
[21] Includes all creditor insurance business sold by the Company.
[22] Source: DesRosiers Automotive Consultants Inc., December 2020 year-to-date information.

Group Insurance

Special Markets

Special Markets specializes in niche insurance markets that are underserved by traditional group insurance carriers. The division primarily offers accidental death & dismemberment (AD&D) insurance, critical illness insurance and other specialized insurance products to employers and associations, as well as travel medical and health insurance through distribution partners and term life insurance to alumni associations and other affinity groups.

Special Markets has contracts with over 4,000 groups and associations.

Business Focus

- Achieving position as best provider of AD&D in Canada
- Accelerating sales growth of critical illness block
- Strengthening position as best-in-class provider of voluntary products (AD&D, CI and Life)
- Partnering with large Canadian Third Party Administrators as their preferred partner for specialty products
- Enhancing digital platform for clients and employees

Products and Services

- Accidental death & dismemberment (AD&D) insurance, critical illness insurance, disability insurance and other specialized products
- Travel medical and health insurance
- Term life insurance

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Distribution partners
- Specialized insurance brokers

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Sales (gross premiums)[23]	205.4	273.9	(25%)
Net sales[24]	187.4	256.2	(27%)

Special Markets sales decreased by 25% in 2020 to $205.4 million. This was primarily driven by the individual travel business, which was adversely impacted by the COVID-19 pandemic. The division maintained strong sales in life, AD&D, critical illness and health insurance products, similar to 2019 results.

Net sales, defined as gross premiums net of reinsurance, experienced a similar decrease of 27% in 2020.

Efforts to maintain a competitive edge in the special risks market continued throughout 2020. The division pursued its development of product enhancements and entered into a partnership to offer voluntary products on a digital platform.

[23] Sales are not an IFRS measure. Sales (gross premiums) are before reinsurance.

[24] Net sales in Special Markets are equivalent to net premiums (IFRS measure). Net premiums for this division are included in the net premiums for the Group Insurance sector, along with those of the other two divisions, Employee Plans and Dealer Services.

Group Savings and Retirement

The Group Savings and Retirement sector offers a wide range of products and services adapted to the needs of companies and their employees. The products offered can be broken down into two categories: accumulation products (savings products, such as defined contribution or defined benefit plans, and institutional money management services) and disbursement products (essentially insured annuities).

Products are marketed Canada-wide through specialized brokers and actuarial consulting firms.

The Group Savings and Retirement sector has approximately 200 employees, has signed agreements with nearly 12,000 groups and serves close to 430,000 plan members and 60,000 annuitants.

The sector's actions to improve competitiveness in 2020 included the redesign of the ATTITUDE life cycle portfolios, which now provide more room for direct alternative investments.

Also, given the pandemic and the fluctuations in financial markets, several initiatives have been implemented to keep plan administrators and members abreast of economic issues.

Lastly, in order to better serve the Prairies region and strengthen its presence from coast to coast, the sector has opened a sales office in Winnipeg.

Business Focus

- Accelerating profitable growth
- Enhancing client experience (for plan administrators and members) through simplified processes
- Maximizing efficiency gains by taking advantage of greater synergy between business units
- Strengthening digital tools for global benefits management

Products and Services

- Capital accumulation products
- Disbursement products (insured annuities)

Manufacturers and Subsidiaries

- iA Insurance

Distribution Affiliates and Networks

- Specialized brokers
- Actuarial consulting firms

Business Growth

Group Savings and Retirement posted strong sales in 2020, ending the year with premiums up 49% over 2019.

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Premiums (sales)[25]			
Accumulation Products			
Recurring premiums	1,160.3	1,057.3	10%
Transfers	1,177.2	342.7	244%
Premium equivalents	38.0	46.0	(17%)
Subtotal	2,375.5	1,446.0	64%
Insured Annuities	707.4	627.6	13%
Total	**3,082.9**	**2,073.6**	**49%**
New plan sales[26]	**1,902.2**	**1,249.2**	**52%**

Accumulation Products

Recurring premiums for accumulation products represent sustainable business development and are a key part of the sector's strategy. They correspond to regular member contributions collected from in-force group clients. Recurring premiums were up 10% in 2020. New plan sales, which accelerate contribution growth, grew significantly in 2020.

Accumulation Products – Net Fund Entries[27]

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Entries	2,327.0	1,050.1	122%
Disbursements	1,567.4	755.8	107%
Net entries	**759.6**	**294.3**	**158%**

Insured Annuities

In the insured annuities segment, the year ended with $707.4 million in sales, up 13% compared to 2019.

Funds Under Management

(In millions of dollars, unless otherwise indicated)	As at December 31 2020	2019	Variation
Accumulation Products	14,226.4	12,573.5	13%
Insured Annuities	4,758.4	3,929.2	21%
Total	**18,984.8**	**16,502.7**	**15%**

Funds under management totalled nearly $19 billion at year-end, an increase of 15%. Growth was driven by new sales of accumulation products and insured annuities, as well as positive market impact. Growth in assets under management is a key long-term profitability driver for the sector.

25 Sales are not an IFRS measure. Sales are defined as fund entries on new business written during the period. They measure the Company's ability to generate new business. In the Group Savings and Retirement sector, sales include gross premiums (before reinsurance) and premium equivalents, or deposits. The net premiums presented in the consolidated financial statements are after reinsurance and exclude premium equivalents.

26 New plan sales are measured by the sum of first-year annualized premiums (which correspond to the total of the initial asset transfer and recurring first-year annualized premiums) plus insured annuities. The prior year figures have been revised due to the new definition of sales.

27 Net fund entries are not an IFRS measure. In the Group Savings and Retirement sector, net fund entries are a useful measure because they provide a more detailed understanding of the source of growth in assets under management. The change in assets under management is important because it determines the management fees recorded in the consolidated financial statements under *Other revenues*.

US Operations

Individual Insurance

iA American Life Insurance Company and four other downline subsidiaries are located in Waco, Texas, and represent the base for iA Financial Group's U.S. life insurance operations.

The iA American group of companies markets their life insurance products through independent marketing organizations, or IMOs, and collectively these organizations have over 18,000 independent agents under contract with the group.

These companies operate primarily in the simplified issue marketplace with final expense life insurance and mortgage protection / family protection term life representing almost 80% of new business sales. They also offer universal life and other specialty life products in the government and worksite markets. They have the ability to customize products for larger marketing organizations and this flexibility has played a key role in their success.

Digital enhancements to improve and simplify the sales process from both the agent and client perspectives have been an important component in the companies' ability to compete. A point-of-sale underwriting decision engine for final expense products was introduced in early 2019. This platform simplifies and greatly accelerates the sales process and the majority of final expense product sales are made using this technology.

Business Growth

(In millions of US dollars, unless otherwise indicated)	2020	2019	Variation
Sales[28]	127.2	99.2	28%
Premiums	344.4	305.3	13%

U.S. life insurance sales ended the year at US$127.2 million, a 28% increase over the previous year. The increase in sales resulted from several top IMOs having high growth rates in conjunction with significant contributions from newly contracted sales organizations. Sales in 2020 were also very positively influenced by the companies' ability to quickly react to the COVID-19 pandemic by providing remote selling capabilities to their agents.

The number of policies issued in 2020 increased 29% over the previous year and that resulted in a significant contribution to total premiums collected. Total premiums grew to US$344.4 million in 2020, representing a 13% increase over 2019.

The U.S. sales mix by product is relatively consistent and varied only slightly in 2020. The percentage of whole life insurance sales increased from 75% in 2019 to 76% in 2020, due primarily to the increase in final expense business.

The sales mix by market has shifted somewhat based on the growth in the final expense line of business. Final expense sales as a percentage of total sales increased from 61% in 2019 to 67% in 2020, due primarily to the continued enhancements related to the final expense underwriting process along with high growth rates for several IMOs that focus on that line of business.

Business Focus

- Increasing distribution
- Enhancing agent and client experience through digital
- Continuing to automate the underwriting process

Products and Services

- Life (universal, permanent and term)
- Critical illness
- Short-term disability
- Accidental death
- Annuities
- Group life

Manufacturers and Subsidiaries

- iA American Life Insurance Company
- American-Amicable Life Insurance Company of Texas
- Occidental Life Insurance Company of North Carolina
- Pioneer American Insurance Company
- Pioneer Security Life Insurance Company

Distribution Affiliates and Networks

- Independent marketing organizations (18,600 agents)

[28] Sales are not an IFRS measure. In the Individual Insurance division of the US Operations sector, sales are defined as first-year annualized premiums. The premiums presented in the consolidated financial statements include premium entries on both in-force contracts and new business written during the period.

US Operations

Dealer Services

In May 2020, iA Financial Group concluded the acquisition of Innovative Aftermarket Systems (IAS), which expanded the Company's presence in the United States within the Dealer Services business and complements the Company's existing Dealer Services operations in the U.S with respect to product suite, distribution networks, and geographic scope. In early 2021, the companies will re-brand to iA American Warranty Group.

iA American Warranty Group and its affiliates distribute casualty products that include extended warranties, a full range of ancillary products covering additional vehicle components, and additional products such as training, income development, and marketing services to help dealerships improve their bottom line. The company benefits from vertical integration of insurance, administration and reinsurance services and is one of only a handful of full service providers in the United States. Products are sold through a network of general agents, automobile dealers, finance companies and third party administrators.

Aftermarket contracts are a combination of many different products, providing coverage for a wide range of risks associated with vehicle ownership.

The division employs over 600 people and administers products for more than 7,000 dealerships throughout the U.S. Products are often customized for larger producers and this flexibility has played a key role in the success of iA American Warranty Group.

Business Growth

Sales production was strong and totalled US$719.0 million in 2020, which represents a 60% increase over 2019 sales.

(In millions of US dollars, unless otherwise indicated)	2020	2019	Variation
Sales[29]	719.0	449.2	60%

With the acquisition of IAS, U.S. Dealer Services operations market delineation increased strongly in affiliate versus non-affiliate sales. Both distribution channels saw their sales increase in 2020.

Sales by Market	%
Affiliate producers	66
Non-affiliate producers	34
Total	100

Business Focus

- Increasing distribution
- Enhancing the client experience
- Integration of IAS
- Maximizing synergies between IAS and existing businesses

Products and Services

- Extended warranties
- Guaranteed asset protection
- Ancillary vehicle protection
- Training services
- Marketing services

Manufacturers and Subsidiaries

- Dealers Assurance Company
- Dealers Alliance Company
- iA American Warranty Corp.
- iA American Warranty, L.P. (formerly IAS)
- First Automotive Service Corporation
- Dealer Wizard, LLC

Distribution Affiliates and Networks

- General agents
- Direct sales (auto dealers and finance companies)
- Third party administrators
- Direct to consumer

29 Sales are not an IFRS measure. In the Dealer Services division of the US Operations sector, sales are defined as direct written premiums (before reinsurance) and premium equivalents.

Auto and Home Insurance

iA Auto and Home Insurance (iAAH) is a Company subsidiary that markets auto and home insurance products in the province of Quebec.

One advantage that sets iAAH apart is the referral of clients by the Company's distribution networks, providing a business development opportunity that is unique in the industry. A significant portion of its clients are referred by Career Network advisors and the Dealer Services division. iAAH also operates through a subsidiary, Prysm General Insurance, that creates strategic partnerships allowing preferred distributors to offer the subsidiary's products.

Since the beginning of the pandemic, iAAH has been fully committed to countering the pandemic's many negative effects on employees, clients and partners. To this end, numerous measures have been put in place for clients, including rebates on car insurance premiums and more flexible payment options.

Business Growth

(In millions of dollars, unless otherwise indicated)	2020	2019	Variation
Direct written premiums[30]	395.0	351.0	13%

Direct written premiums totalled $395.0 million in 2020, up 13% from the previous year. Premium growth was strong in 2020, mainly due to improved client retention. This improvement is the result of better competitive positioning and reflects a high level of customer satisfaction. The five-year compound annual growth rate for iAAH's business volume is 10%.

Combined Ratio

(%)	2020	2019	2018	2017	2016
Combined ratio	78.7	93.1	95.8	103.9	105.5

The combined ratio, which represents the sum of the expense ratio and the claims ratio, improved from 2019. Claims ratio improvement was due in part to actions taken with regard to pricing and underwriting, as well as modified client behaviour due to the pandemic. The combined ratio was below 100% for the third time since 2015.

Business Focus

- Reshaping client experience through digital
- Developing new partnerships
- Maximizing synergies with the Dealer Services division and other Company business units

Products and Services

- Auto and home insurance

Manufacturers and Subsidiaries

- iA Auto and Home Insurance
- Prysm General Insurance

Distribution Affiliates and Networks

- Referrals from iA networks
- Preferred partner distribution
- Direct sales from advertising

30 Direct written premiums are not an IFRS measure.

Profitability

Highlights

In spite of the difficult pandemic context, the Company's 2020 results were solid and demonstrated the resiliency and soundness of its business model.

The Company ended the year with net income attributed to common shareholders of $611.2 million, compared to $687.4 million in 2019. Diluted earnings per common share (EPS) was $5.70 in 2020, compared to $6.40 in 2019, and return on common shareholders' equity (ROE) was 10.6% for the year.

Moreover, in addition to the annual actuarial assumption review, additional risk management initiatives were put in place that included the signing of new reinsurance agreements and additional protections in the reserves to counter the potential impacts of the pandemic. Overall, these actions had almost no impact on 2020 results, generating a net gain equivalent to $0.04 EPS.

Profitability

(In millions of dollars, unless otherwise indicated)	2020	2019	2018	2017	2016
Income attributed to shareholders	633.5	709.5	633.7	531.4	553.7
Less: preferred share dividends	22.3	22.1	21.0	15.9	16.5
Net income attributed to common shareholders	**611.2**	**687.4**	**612.7**	**515.5**	**537.2**
Earnings per common share (EPS)					
Basic	$5.71	$6.43	$5.62	$4.84	$5.22
Diluted	$5.70	$6.40	$5.59	$4.81	$5.19
Return on common shareholders' equity (ROE)[31]	10.6%	12.9%	12.5%	11.4%	13.2%

Analysis According to Sources of Earnings

The profitability analysis according to sources of earnings below discusses the main items that had an impact on the financial results for the year in comparison with management's expectations. The measures presented in this analysis are not IFRS measures. They supplement the information presented in the "Analysis According to the Financial Statements" section below and provide additional indicators for evaluating financial performance.

Expected profit on in-force – Expected profit on in-force reflects the best estimates determined by management when the 2020 budget was prepared at the end of 2019. However, expected profit for the savings sectors is updated quarterly to reflect changes in the stock markets and net fund entries. In addition, expected profit on in-force for US Operations was adjusted in 2020 to take into account the actual date of the IAS acquisition.

Expected profit on in-force amounted to $800.9 million in 2020, a year-over-year increase of $32.3 million, or 4%, before tax. The increase is mainly explained by expected organic growth and the contribution of the IAS acquisition in US Operations. Expected profit growth was slowed during the year by the quarterly updates mentioned above, however, due to the negative impact of the equity markets.

Experience gains (losses) compared to expected profit – Experience gains or losses represent the difference between the expected profit on in-force and the realized profit. Gains or losses occur when actual results differ from those derived from the assumptions used to calculate expected profit.

The Company ended the year with experience losses of $97.1 million before tax, compared to gains of $25.5 million in 2019.

The 2020 result is mostly explained by a loss of $90.7 million before tax generated by the negative impact of high market volatility on the dynamic hedging program. The main goal of this program is to reduce the sensitivity of net income to market drops with respect to the capital guarantees offered on certain segregated funds. Despite the recorded loss, the program achieved its goal of providing protection. At its highest point in March, when the Canadian stock market (based on the S&P/TSX Index) was in sharp decline, the economic value of the hedged guarantees increased by $575 million, and this amount was essentially offset by the change in value of the hedging assets.

The paragraphs that follow provide details on the 2020 results for each line of business.

- *Individual Insurance* **–** An experience gain of $10.1 million before tax was recorded in 2020, compared to a gain of $19.3 million in 2019. The gain in 2020 was mainly generated by favourable morbidity and positive market impact, while mortality was slightly unfavourable due to the pandemic.
- *Individual Wealth Management* **–** A negative variance of $86.5 million before tax was recorded in 2020, compared to a positive variance of $6.5 million in 2019. The 2020 result was mainly generated by the hedging program loss mentioned above. Note that there was a gain on the sale of iA Investment Counsel Inc.
- *Group Insurance* **–** An experience loss of $8.6 million before tax was recorded in 2020, compared to a loss of $16.7 million in 2019. This loss is essentially explained by the $9.0 million before-tax increase of the provision for losses on car loans in the first quarter due to the pandemic. Most of this amount was still provisioned as at December 31, 2020. Aside from this item, the results in all three divisions (Employee Plans, Special Markets and Dealer Services) were near expectations.

31 ROE is not an IFRS measure.

- *Group Savings and Retirement* **–** A favourable variance of $4.9 million before tax was recorded in 2020, compared to a favourable variance of $10.1 million in 2019. The positive result in 2020 is mostly due to favourable longevity experience.
- *US Operations* **–** An experience loss of $17.0 million before tax was recorded in 2020, compared to a gain of $6.3 million the year before. This result was essentially due to unfavourable mortality in the Individual Insurance division, largely stemming from the COVID-19 pandemic. Moreover, the Dealer Services division performed close to expectations, which were adjusted at the time of the second quarter 2020 results disclosure.

Gain (strain) on sales – In the Individual Insurance sector and the Individual Insurance division of the US Operations sector, new business strain was $27.3 million before tax in 2020, compared to $8.5 million the previous year. The strain expressed as a percentage of sales (measured in terms of first-year annualized premiums) was 7% in 2020 versus 3% a year earlier. Strain in 2020 was therefore slightly less favourable than in 2019, mainly due to the first quarter decrease in interest rates.

Strain is a charge incurred by an insurance company mainly resulting from the expense of issuing new policies. Certain products have features that make them more strain-intensive than others, such as products with long-term guarantees. If experience remains in line with expectations in the years after a policy is issued, profits realized will cover the strain incurred at the time of issue.

Assumption changes, risk management initiatives and management actions – At the end of each quarter, the Company ensures the adequacy of its provisions given the existing economic environment. It also updates all its valuation assumptions at the end of each year to take into account the most recent developments in the economic and financial environment as well as its own experience and that of the industry in terms of mortality, morbidity, lapse rates, unit costs and other factors.

In 2020, the usual adjustment of actuarial assumptions used to calculate the net insurance contract liabilities was influenced by the positive impact of the economic assumption adjustments, which led to improved portfolio performance and matching as well as policy liability modelling refinements. In addition, the Company increased reserves due to the revision of mortality and lapse assumptions. For more details, refer to Note 14 to the financial statements, entitled "Insurance Contract Liabilities and Investment Contract Liabilities."

In addition to the usual adjustment of these actuarial assumptions, extra protections were added to the actuarial reserves at the end of 2020 due to the temporary uncertainty created by the current pandemic. The goal of these protections is to reduce potential experience losses in 2021 and subsequent years for mortality and policyholder behaviour resulting from the direct and indirect impacts of the pandemic.

Lastly, the 2020 risk management initiatives were rounded out with the Company taking advantage of a highly competitive reinsurance environment to sign new reinsurance treaties.

Altogether, these items had a positive net impact on operating profit of $5.6 million before tax, or $0.04 EPS.

Regarding other management actions, a charge was recorded in the first quarter due to the PPI Management goodwill impairment generated by the anticipated economic impact of the pandemic on the subsidiary's future revenues.

Income on capital – Income on capital represents the income derived from investments in which the Company's capital is invested, minus any expenses incurred to generate this income. The Company also includes financing expenses from debentures, amortization of intangible assets related to acquisitions and the results of the iA Auto and Home (iAAH) subsidiary in this item.

Income on capital amounted to $105.6 million before tax in 2020, compared to $122.1 million the previous year. The decrease for the year is partly explained by the impact of the IAS acquisition in the U.S., which included the deployment of about $1 billion and an increase in amortization expenses for intangible assets. Also of note were an IT asset writedown, an increase in the asset default provision and, on the positive side, a strong contribution from the iA Auto and Home subsidiary. Earnings from this subsidiary in 2020 were almost triple those realized in 2019.

Income taxes – Income taxes represent the value of amounts payable under the tax laws and include tax payable and deferred income taxes. A life insurer's investment income taxes and premium taxes are not included in these amounts. They are considered to be an expense for the purpose of calculating the operating profit. Income taxes amounted to $130.0 million in 2020, for an effective tax rate of 17.0%.

Core Earnings

Financial measures based on core earnings are non-IFRS financial measures used to better understand the capacity of the Company to generate sustainable earnings.

Core earnings remove from reported earnings the impacts of items that create volatility in the Company's results under IFRS, or that, in management's view, are not representative of its operating performance.

As of 2021, a new definition of core earnings will be used. The table below presents the six adjustments applied to reported earnings per share (EPS) in the calculation of core EPS.

In particular, these adjustments include market-related impacts, changes in actuarial assumptions, impacts from acquisitions, and non-core pension expense, that represents the difference between the asset return (interest income on plan assets) calculated using the expected return on plan assets and the IFRS prescribed pension plan discount rate.

Based on the new definition established for 2021, core EPS in 2020 grew 9% compared to 2019.

Reported EPS and Core EPS Reconciliation Based on 2021 Definition of Core Earnings

	2020	2019
Earnings per common share (EPS, diluted)	**$5.70**	$6.40
Adjustments:		
Market-related impacts that differ from management's best estimate assumptions	**$0.49**	($0.38)
Assumption changes and management actions	**($0.04)**	($0.02)
Gains or losses on acquisition or disposition of a business, including acquisition, integration and restructuring costs	**($0.01)**	($0.13)
Amortization of acquisition-related finite life intangible assets	**$0.42**	$0.25
Non-core pension expense	**$0.19**	$0.11
Other specified unusual gains and losses	**$0.37**	$0.32
Core EPS	**$7.12**	$6.55

Reconciliation of Certain Non-IFRS Measures with IFRS Measures

The following table reconciles the operating profit and income taxes indicated in the above table with IFRS measures.

Reconciliation of Sources of Earnings with IFRS Measures

(In millions of dollars)	2020	2019
Components of earnings before taxes:		
Operating profit (according to sources of earnings)	657.9	779.1
Income on capital (according to sources of earnings)	105.6	122.1
Income attributable to participating contracts and other items	(1.2)	(14.2)
Earnings before taxes according to the financial statements	**762.3**	**887.0**
Income taxes:		
On operating profit and on income on capital	(130.0)	(191.7)
Amount for participating contracts and other items	—	4.1
Income taxes according to financial statements	(130.0)	(187.6)
Net income according to financial statements	**632.3**	**699.4**

Analysis According to the Financial Statements

Annual Results

The following table presents the Company's financial results according to the financial statements for the years ended December 31, 2020, 2019 and 2018.

Consolidated Income Statement

(In millions of dollars)	2020	2019	2018
Revenues			
Net premiums	11,196.1	8,944.0	7,849.3
Investment income	4,668.3	4,641.6	310.8
Other revenues	1,775.1	1,679.5	1,752.3
Total	**17,639.5**	**15,265.1**	**9,912.4**
Policy benefits and expenses			
Net policy benefits	5,290.1	5,392.2	4,870.0
Net transfers to segregated funds	2,872.3	916.5	821.1
Increase (decrease) in insurance contract liabilities	5,760.1	4,773.1	216.0
Increase (decrease) in investment contract liabilities	34.0	27.1	9.2
Decrease (increase) in reinsurance assets	(737.5)	(44.2)	76.2
Commissions	1,788.3	1,653.8	1,582.2
General expenses	1,667.9	1,471.9	1,328.8
Premium and other taxes	128.7	128.2	126.9
Financing charges	73.3	59.5	63.0
Total	**16,877.2**	**14,378.1**	**9,093.4**
Income before income taxes	762.3	887.0	819.0
Less: income taxes	130.0	187.6	181.0
Net income	632.3	699.4	638.0
Less: net income attributed to participating policyholders	(1.2)	(10.1)	4.3
Net income attributed to shareholders	633.5	709.5	633.7
Less: preferred share dividends	22.3	22.1	21.0
Net income attributed to common shareholders	**611.2**	**687.4**	**612.7**

Net Income Attributed to Common Shareholders

The 11% decrease in net income attributed to common shareholders between 2020 and 2019 is mainly due to losses generated by the hedging program for segregated fund guarantees, which was negatively impacted by extreme market volatility. The change in net income attributed to common shareholders is also explained by the items mentioned below.

Revenues

Revenues, whose three components are presented in the above table, totalled more than $17.6 billion in 2020, an increase of nearly 16% compared to 2019. This increase is mainly due to an increase in net premiums, which grew by $2.3 billion, or 25%, compared to the previous year. Growth was observed in almost all sectors, mainly stemming from individual and group savings products such as segregated funds, guaranteed investment certificates, insured annuity contracts and accumulation contracts. The acquisition of IAS Parent Holdings, Inc. in the second quarter of 2020 also contributed to the increase in net premiums for US Operations. The business acquisitions made in 2020 also contributed to the increase in other revenues.

The following table provides more details regarding the composition of revenues by sector.

Revenues by Sector

(In millions of dollars)	Ind. Ins.	Ind. Wealth Mgmt	Grp Ins.	Grp Sav. and Rtmt	US Oper.	Other	Total
	Year ended December 31, 2020						
Net premiums	1,624.8	3,915.7	1,603.0	3,018.2	694.2	340.2	11,196.1
Var. vs. 2019	*38.3*	*1,004.4*	*(35.5)*	*1,017.7*	*201.2*	*26.0*	*2,252.1*
Invest. income	3,592.5	148.5	194.1	387.1	192.1	154.0	4,668.3
Var. vs. 2019	*(175.0)*	*91.8*	*22.0*	*55.5*	*30.6*	*1.8*	*26.7*
Other revenues	117.5	1,501.4	72.1	105.1	176.0	(197.0)	1,775.1
Var. vs. 2019	*(3.0)*	*38.6*	*17.6*	*7.6*	*72.6*	*(37.8)*	*95.6*
Total	5,334.8	5,565.6	1,869.2	3,510.4	1,062.3	297.2	17,639.5
Var. vs. 2019	*(139.7)*	*1,134.8*	*4.1*	*1,080.8*	*304.4*	*(10.0)*	*2,374.4*

Policy Benefits and Expenses

Policy benefits and expenses were up nearly $2.5 billion from the previous year. The main items contributing to this increase are as follows:

- An increase in net transfers to segregated funds compared to 2019, as premiums grew and benefits declined ($2.0 billion).
- An increase in insurance contract liabilities compared to 2019 ($987.0 million), explained in part by the addition of extra protections due to the uncertainty created by the current pandemic. The variation in this liability during a given period reflects a number of factors, including the variation in the fair value and the return on assets matched to the provisions for future policy benefits, the variation in net policy premiums and benefits, net transfers to segregated funds and variations in the provisions for future policy benefits due to assumption changes.

The following items also contributed to the increase in policy benefits and expenses, but to a lesser extent:

- An increase in commissions compared to the previous year, which primarily stems from growth of the in-force block of business as well as business acquisitions ($134.5 million). Commissions correspond to the compensation of financial advisors for new sales and certain in-force contracts.
- An increase in general expenses, mainly due to business growth and acquisitions ($196.0 million).

The increase in policy benefits and expenses was reduced by the following:

- A larger credit related to reinsurance assets in 2020 compared to 2019 ($693.3 million), partly due to the profit generated by signing new reinsurance agreements. This item is generally influenced by the same factors that influence the variation in insurance contract liabilities, but to a lesser extent.
- A decrease in net policy benefits, mostly in Individual Wealth Management ($102.1 million). Net policy benefits include benefits paid due to death, disability, illness, claims or contract terminations, as well as annuity payments.

Income Taxes

The consolidated financial statements indicate an income tax expense of $130.0 million in 2020, compared to $187.6 million in 2019. These amounts represent the Company's tax expense net of all adjustments for prior years. The variation in 2020 resulted from a decrease in income before income taxes and an increase in tax-exempt investment income.

Quarterly Results

Below is a summary of the Company's quarterly results, taken from the financial statements for the last eight quarters. The analysis in this section focuses primarily on the Company's results for the fourth quarter of 2020. Generally speaking, the terminology used in this section is the same terminology used in the financial statements.

Net premiums

Net premiums amounted to $3.1 billion in the fourth quarter, a year-over-year increase of 27%. This variation is mainly explained by significant net premium growth in the Individual Wealth Management and Group Savings and Retirement sectors.

Stock market variations, the level of premiums invested in segregated funds and the signing of new agreements with large groups in the group business lines, among other things, contribute to the fluctuation of premiums from one quarter to another.

Net premiums include the amounts invested by insureds in the Company's segregated funds, but exclude those invested by clients in mutual funds.

Investment Income

In the fourth quarter of 2020, investment income was up $1,276.3 million from the same quarter in 2019. This was primarily due to an increase in the fair value of bond investments and derivative financial instruments resulting from the variation in interest rates.

Investment income fluctuates in large part based on the fair value of investments, which is influenced by 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 for the fourth quarter were up $35.5 million, or 8%, year over year. This variation came mainly from the Individual Wealth Management business line and from business acquisitions.

Net Income Attributed to Common Shareholders[32]

	Individual Insurance		Individual Wealth Management		Group Insurance		Group Savings and Retirement		US Operations		Total	
(In millions of dollars)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Sources of earnings:												
Expected profit on in-force	361.7	350.9	238.9	227.7	89.9	108.1	22.3	26.1	88.1	55.8	800.9	768.6
Experience gains (losses)	10.1	19.3	(86.5)	6.5	(8.6)	(16.7)	4.9	10.1	(17.0)	6.3	(97.1)	25.5
Gain (strain) on sales	(16.1)	—	—	—	—	—	(0.2)	(0.9)	(11.2)	(8.5)	(27.5)	(9.4)
Changes in assumptions	(19.6)	(6.1)	(1.3)	(1.0)	(4.7)	(6.7)	11.6	5.9	(4.4)	2.3	(18.4)	(5.6)
Operating profit	336.1	364.1	151.1	233.2	76.6	84.7	38.6	41.2	55.5	55.9	657.9	779.1
Income on capital	82.0	92.6	15.3	2.8	1.1	5.9	4.6	3.1	2.6	17.7	105.6	122.1
Income taxes	(67.1)	(79.5)	(42.1)	(61.2)	(15.2)	(23.6)	(8.6)	(11.8)	3.0	(15.6)	(130.0)	(191.7)
Net income attributed to shareholders	351.0	377.2	124.3	174.8	62.5	67.0	34.6	32.5	61.1	58.0	633.5	709.5
Less: preferred share dividends	16.4	17.7	3.3	2.5	1.6	1.4	1.0	0.5	—	—	22.3	22.1
Net income attributed to common shareholders	**334.6**	**359.5**	**121.0**	**172.3**	**60.9**	**65.6**	**33.6**	**32.0**	**61.1**	**58.0**	**611.2**	**687.4**

Quarterly Results

	2020				2019			
(In millions of dollars, unless otherwise indicated)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Net premiums	3,080.0	3,247.6	2,113.4	2,755.1	2,417.0	2,189.5	1,982.7	2,354.8
Investment income	974.8	395.5	4,155.0	(857.0)	(301.5)	1,109.8	1,671.5	2,161.8
Other revenues	463.9	455.4	415.7	440.1	428.4	416.2	424.5	410.4
Total	**4,518.7**	**4,098.5**	**6,684.1**	**2,338.2**	**2,543.9**	**3,715.5**	**4,078.7**	**4,927.0**
Income before income taxes	203.8	267.5	246.9	44.1	197.1	241.0	240.9	208.0
Income taxes	31.4	48.5	52.0	(1.9)	31.3	51.9	53.9	50.5
Net income	172.4	219.0	194.9	46.0	165.8	189.1	187.0	157.5
Less: net income attributed to participating policyholders	(5.2)	(4.0)	6.7	1.3	(10.7)	—	(0.1)	0.7
Net income attributed to shareholders	177.6	223.0	188.2	44.7	176.5	189.1	187.1	156.8
Less: preferred share dividends	5.7	5.5	5.5	5.6	5.3	5.4	5.7	5.7
Net income attributed to common shareholders	**171.9**	**217.5**	**182.7**	**39.1**	**171.2**	**183.7**	**181.4**	**151.1**
Earnings per common share								
Basic	$1.61	$2.03	$1.71	$0.37	$1.60	$1.73	$1.70	$1.41
Diluted	$1.60	$2.03	$1.71	$0.36	$1.59	$1.72	$1.69	$1.40
Net transfers to segregated funds	1,038.2	622.2	523.5	688.4	234.6	261.9	195.5	224.5
Increase (decrease) in insurance contract liabilities	1,494.4	949.5	4,018.5	(702.3)	(283.0)	1,156.0	1,550.0	2,350.1
Increase (decrease) in investment contract liabilities	8.5	3.5	20.6	1.4	(1.0)	6.7	7.5	13.9
Total general fund assets	53,661.5	52,705.8	51,499.5	47,811.4	45,279.6	45,458.8	43,432.1	42,530.9
Segregated funds net assets	32,804.0	30,119.0	28,504.8	25,460.1	27,867.9	26,976.4	26,388.7	25,759.5

[32] The operating profit and income taxes presented in this table are not defined by IFRS. Operating profit is an important additional tool to help investors better understand the source of shareholder value creation. A reconciliation between non-IFRS and IFRS financial measures is presented below. Comments for each line of business are presented in other sections of this Management's Discussion and Analysis that describe each sector's activities in detail.

Financial Position

Capitalization and Solvency

Capitalization

iA Financial Corporation's capital structure can be divided into three categories: equity, debentures, and participating policyholders' accounts. At December 31, 2020, the Company's capital exceeded $7.9 billion, a year-over-year increase of 11%, with equity and participating policyholders' accounts accounting for 82% of total capital.

The increase in 2020 is mainly due to the contribution of retained earnings resulting from profits realized during the year, net of dividends paid to common shareholders, and, to a lesser extent, the debenture issuance mentioned later in this section.

Capital Structure

	As at December 31				
(In millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Equity					
Common shares	1,674.5	1,666.5	1,655.5	1,520.9	1,498.8
Preferred shares[33]	525.0	525.0	525.0	375.0	375.0
Retained earnings[34,35]	4,170.5	3,823.5	3,440.0	3,072.8	2,793.2
Contributed surplus	18.8	17.5	22.8	19.5	18.5
AOCI[36]	82.5	55.6	22.5	48.9	40.1
Subtotal	6,471.3	6,088.1	5,665.8	5,037.1	4,725.6
Debentures[33]	1,448.7	1,049.7	901.4	996.3	995.3
Participating policyholders' accounts[35]	40.7	41.9	52.3	41.0	39.0
Total	**7,960.7**	**7,179.7**	**6,619.5**	**6,074.4**	**5,759.9**

Financial Leverage and Coverage Ratio

The debt ratio measured as debentures over the capital structure was 18.2% at December 31, 2020. With the preferred shares added to the debentures, the ratio was 24.8%. The increase in these ratios is essentially due to the issuance of $400 million in subordinated debentures in February 2020.

At December 31, 2020, the coverage ratio was 11.7x, compared to 16.6x at December 31, 2019. In 2020, the ratio decreased mainly due to the February issuance of $400 million in subordinated debentures. The coverage ratio represents the Company's earnings for the last twelve months before interest and income tax expenses divided by its interest and dividend expenses.

Debt Ratios and Coverage Ratio

	As at December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Debt ratios					
Debentures/capital structure	18.2%	14.6%	13.6%	16.4%	17.3%
Debentures and preferred shares/capital structure	24.8%	21.9%	21.5%	22.6%	23.8%
Coverage ratio (number of times)[37]	11.7x	16.6x	14.6x	13.3x	12.8x

Solvency

When iA Financial Corporation was created as a holding company, it committed to following the Capital Adequacy Requirements for Life and Health Insurance (CARLI) Guideline issued by the Autorité des marchés financiers (AMF). The Company had a solvency ratio of 130% at December 31, 2020, compared to 133% at December 31, 2019, a decrease of just three percentage points despite the deployment of about $1 billion for the acquisition of U.S. company IAS Parent Holdings, Inc. and its subsidiaries. The decrease in the ratio that resulted from this acquisition was offset by good organic capital generation, the subordinated debenture issuance and the impact of the risk management initiatives and year-end actuarial assumption review. The ratio at year's end remained well above the 110% to 116% guidance range.

At the end of 2020, the Autorité des marchés financiers du Québec published a revised Capital Adequacy Requirements for Life and Health Insurance (CARLI) Guideline effective January 1, 2021. As a result, the total solvency ratio remains unchanged, iA Financial Corporation's core ratio will gradually decrease by a few percentage points over a period of five quarters and there is an immediate downward impact on the potential capital for deployment. Nonetheless, the Company's ratios remain above regulatory requirements and these changes have no impact on the Company's ability to generate earnings.

For 2021, good organic capital generation is expected to continue and the Company intends to maintain a solvency ratio within or above the target range of 110% to 116% for iA Financial Corporation, as mentioned in the "Highlights" section at the beginning of this document. The target range for the iA Insurance subsidiary is also 110% to 116%.

	As at December 31	
(In millions of dollars, unless otherwise indicated)	**2020**	**2019**
Available capital	4,368.0	4,809.1
Surplus allowance and eligible deposits	5,054.6	4,461.8
Base solvency buffer	7,267.3	6,980.2
Solvency ratio[38]	**130%**	**133%**

33 Items considered as long-term debt and included in the debt ratio calculation.
34 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.
35 In the fourth quarter of 2019, an adjustment retroactive to January 1, 2018 was made transferring $7 million from retained earnings to participating policyholders' accounts.
36 AOCI: Accumulated other comprehensive income.
37 Calculated by dividing earnings for the past twelve months (before interest and taxes) by the sum of interest, preferred share dividends and preferred share redemption premiums (if applicable).
38 This measure, which has no IFRS equivalent, is established in accordance with regulatory requirements.

Equity and Financing

Redemption and Issue of Financial Instruments
In February 2020, iA Financial Corporation issued $400 million in 2.400% fixed/floating subordinated debentures. No subordinated debentures were redeemed in 2020.

Debentures
The Company had four series of debentures on its balance sheet at December 31, 2020, with a total book value of $1,448.7 million. These four series, which are detailed in the table later in this section, were classified as financial liabilities at amortized cost. The debentures represent direct unsecured obligations of the Company that are subordinate to those of the Company's policyholders and other creditors. In 2020, the financing expense, made up of interest and the amortization of issuance costs, amounted to $41.6 million, versus $26.5 million in 2019.

Outstanding Common Shares
The Company has only one class of common shares and all common shares contain a single voting right. In addition, no shareholder may acquire, directly or indirectly, 10% or more of the voting shares of iA Financial Corporation, and iA Financial Corporation must directly or indirectly hold 100% of the common shares of iA Insurance. iA Financial Corporation's common shares are traded on the Toronto Stock Exchange under the ticker symbol IAG. (See the "Notice" at the beginning of this Management's Discussion and Analysis for more information about the legal constitution of iA Financial Group.)

The number of issued and outstanding common shares at December 31, 2020 was 107,063,827, an increase of 97,628 compared to December 31, 2019. This slight increase is essentially due to the exercise of options under the Stock Option Plan for executives. Otherwise, there were no common share issuances in 2020 and very few share redemptions under the Normal Course Issuer Bid, as redemptions have been suspended by regulators due to the pandemic. For this same reason, the Normal Course Issuer Bid expiring on November 11, 2020 was not renewed.

Common Shares

(In millions)	As at December 31 2020	2019	2018	2017	2016
Number of common shares outstanding	107.1	107.0	108.6	106.8	106.2

Stock Price and Market Capitalization
Industrial Alliance became a stock company in February 2000. The Company's stock began trading on the Toronto Stock Exchange on February 3, 2000, at a price of $7.875, taking into account the two-for-one split of the Company's common shares, which took place on May 16, 2005. The Company's stock closed the year at $55.18 in 2020, with market capitalization exceeding $5.9 billion.

Stock Price and Market Capitalization

(In millions of dollars, unless otherwise indicated)	As at December 31 2020	2019	2018	2017	2016
Stock price	$55.18	$71.33	$43.57	$59.82	$53.39
Market capitalization	5,907.8	7,629.9	4,730.6	6,386.2	5,670.3

Book Value per Common Share
The book value per common share was $55.52 at the end of 2020, up nearly 7% during the year. This increase stems mainly from the contribution of retained earnings net of dividends paid in 2020.

Book Value per Common Share

	As at December 31 2020	2019	2018	2017	2016
Book value per common share	$55.52	$51.99	$47.34	$43.65	$40.97

Preferred Shares
In 2020, the iA Insurance subsidiary paid $22.4 million in dividends to preferred shareholders with Class A Shares, Series B, G and I. iA Insurance's capital currently includes these three series of Class A Preferred Shares, as shown in the full-page table later in this section.

Dividends
In February 2020, the Company increased its quarterly dividend per common share from $0.4500 to $0.4850. As a result, the dividend for 2020 totalled $1.9400 per common share, compared to $1.7650 per common share in 2019, an increase of 10%. In total, the Company paid out $207.7 million in dividends to common shareholders in 2020. The dividend payout ratio for the year was 34% of the net income attributed to common shareholders, which is near the top of the 25% to 35% target range given as guidance at the beginning of 2020. Note that regulators have given instructions not to raise dividends to common shareholders due to the pandemic. As such, the dividend has not been increased since February 13, 2020, and, as shown below, the quarterly dividend announced in the fourth quarter 2020 results disclosure remains $0.4850 per common share, payable in the first quarter of 2021.

Dividends

	2020	2019	2018	2017	2016
Dividends paid per common share	$1.94	$1.77	$1.59	$1.43	$1.26
Dividend payout ratio	34%	27%	28%	30%	24%

Declaration of Fourth Quarter Dividends
Following are the amounts and dates of payment and closing of registers for common shares and the various categories of preferred shares.

In accordance with regulators' instructions not to increase dividends on common shares due to the COVID-19 pandemic, the Board of Directors has approved a quarterly dividend of $0.4850 per share, the same as that announced the previous quarter, on the outstanding common shares of iA Financial Corporation. This dividend is payable on March 15, 2021 to the shareholders of record at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has approved the payment of a dividend in the amount of $250.0 million to its sole common shareholder, iA Financial Corporation.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.2875 per non-cumulative Class A Preferred Share – Series B. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.2360625 per non-cumulative Class A Preferred Share – Series G. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

The Board of Directors of Industrial Alliance Insurance and Financial Services Inc. has declared the payment of a quarterly dividend of $0.3000 per non-cumulative Class A Preferred Share – Series I. The dividend is payable in cash on March 31, 2021, to the preferred shareholders of record as at February 26, 2021.

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

Stock Option Plan

In accordance with the Stock Option Plan adopted by the Board of Directors in 2001, the Human Resources and Compensation Committee granted 285,000 new share purchase options in 2020. These new options, which will expire in 2030, were granted at a weighted average exercise price of $73.93. The issue, net of the options exercised and cancelled during the year, brings the number of share purchase options outstanding to 1,964,983, or 1.84% of the number of issued and outstanding shares at December 31, 2020.

Dividend Reinvestment and Share Purchase Plan for Common Shareholders

The Dividend Reinvestment and Share Purchase Plan for Common Shareholders allows participants to have their dividends automatically reinvested in iA Financial Corporation common shares and to make cash purchases of additional iA Financial Corporation common shares. Shares issued under the plan are acquired on the secondary market.

Normal Course Issuer Bid

In accordance with regulators' instructions suspending common share redemptions due to the pandemic, the Company did not renew the Normal Course Issuer Bid that expired on November 11, 2020. In 2020, before the regulators' instructions were issued, the Company redeemed 86,872 common shares for a total cost of $4 million.

Preferred Shares and Debentures – iA Financial Corporation Inc.

Subordinated debentures issued on February 21, 2020 and maturing on February 21, 2030

Nominal value:	$400.0 million
Book value:	$398.2 million
Interest:	2.400% until February 21, 2025. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR (Canadian Dollar Offered Rate), plus 0.71%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after February 21, 2025, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.8 million.

Subordinated debentures issued on September 24, 2019 and maturing on September 24, 2031

Nominal value:	$400.0 million
Book value:	$398.0 million
Interest:	3.072% until September 24, 2026. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 1.31%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 24, 2026, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $2.0 million.

Preferred Shares and Debentures – Industrial Alliance Insurance and Financial Services Inc.

Class A Preferred Shares – Series B

Number:	5,000,000
Nominal value:	$125.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Fixed non-cumulative quarterly dividend of $0.2875 per preferred share
Voting rights:	No voting rights
Conversion:	Not convertible into common shares, convertible to Class A Preferred Shares.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the Autorité des marchés financiers (AMF), on or after March 31, 2011.

Class A Preferred Shares – Series G

Number:	10,000,000
Nominal value:	$250.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of $1.0750 in cash per preferred share until June 30, 2017. The annual rate was modified on June 30, 2017 to $0.94425 in cash per preferred share.
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Share – Series H on June 30, 2017 and on June 30 every 5 years thereafter.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on June 30, 2017 and on June 30 every 5 years thereafter.

Class A Preferred Shares – Series I

Number:	6,000,000
Nominal value:	$150.0 million
Book value:	Shares recognized at their acquisition value
Dividend:	Non-cumulative 5-year rate reset quarterly dividend at an initial annual rate of $1.20 in cash per preferred share until March 31, 2023. On March 31, 2023 and on March 31 every 5 years thereafter, the dividend rate will be adjusted to equal the sum of the then current 5-year Government of Canada bond yield plus 2.75%.
Voting rights:	No voting rights
Conversion:	Convertible at the option of the holder to Class A Preferred Shares – Series J on March 31, 2023 and on March 31 every 5 years thereafter.
Redemption:	Redeemable in whole or in part at the option of the Company, subject to approval by the AMF, on March 31, 2023 and on March 31 every 5 years thereafter.

Subordinated debentures issued on February 23, 2015 and maturing on February 23, 2027

Nominal value:	$250.0 million
Book value:	$249.7 million
Interest:	2.64% until February 23, 2022. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 1.08%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after February 23, 2022, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $0.3 million.

Subordinated debentures issued on September 16, 2016 and maturing on September 15, 2028

Nominal value:	$400.0 million
Book value:	$399.0 million
Interest:	3.30% until September 15, 2023. After that date, the interest rate will be a variable annual rate of return equal to the three-month CDOR, plus 2.14%, payable quarterly.
Redemption and repayment:	Redeemable by the Company on or after September 15, 2023, in whole or in part, subject to prior approval by the regulatory bodies. The book value of these debentures includes the transaction costs and the premium at issue for a total of $1.0 million.

More information about the features of the preferred shares and debentures can be found in the prospectus documents, which are available on the Company's website at ia.ca in the *Investor Relations* section under *About iA*.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported in a timely fashion to senior management, in particular the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary in order that appropriate decisions may be made regarding disclosure. These controls and procedures are also designed to ensure that the information is gathered, recorded, processed, condensed and reported within the time frames prescribed by the *Canadian Securities Act*.

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the controls and procedures for disclosing the Company's information. Following an evaluation carried out by these senior officers as at December 31, 2020, the Company's disclosure controls and procedures were deemed to be effective.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance that the Company's financial reporting is reliable and that, for the purposes of publishing its financial information, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company's President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Chief Actuary are responsible for establishing and maintaining the Company's internal control over financial reporting as defined in Multilateral Instrument 52-109 (*Certification of Disclosure in Issuers' Annual and Interim Filings*). As at December 31, 2020, they evaluated the effectiveness of the internal control over financial reporting using the framework and criteria established in the *Internal Control - Integrated Framework* report published by the Committee of Sponsoring Organizations of the Treadway Commission. Following this evaluation, they concluded that the internal control over financial reporting was effective. During the year, no changes had, or are reasonably likely to have had, a material impact on internal control over financial reporting.

Significant Accounting and Actuarial Policies

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

For more information on significant accounting policies, refer to Note 2 of the Company's consolidated financial statements.

The preparation of the financial statements requires that management make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, net income and additional information. Actual results may differ from management's estimates. The estimates and assumptions are revised periodically based on changes in relevant facts and circumstances. The changes are then accounted for in the period in which the revisions are made and in all subsequent periods affected by the revisions. The most significant estimates and judgments pertain to the classification of contracts and the determination of policy liabilities.

Other Items

Related Party Transactions

The value of the related party transactions is presented in Note 28 of the Company's consolidated financial statements.

Guarantees, Commitments and Contingencies

In the normal course of business, the Company frequently signs various types of contracts or agreements which, in certain cases, can be considered to be guarantees, commitments or contingencies.

As at December 31, 2020, the Company's contractual obligations and commitments were as follows:

Contractual Obligations – Payments Due by Period

	As at December 31, 2020			
(In millions of dollars)	**Total**	**Less than 1 year**	**1 year to 5 years**	**More than 5 years**
Debentures	1,448.7	—	—	1,448.7
Lease liabilities	140.5	22.0	66.5	52.0
Purchasing commitments	317.5	68.7	248.8	—
Other long-term commitments	5,548.2	3,837.9	1,166.3	544.0
Total of contractual obligations	**7,454.9**	**3,928.6**	**1,481.6**	**2,044.7**

For more information on commitments to third parties, investment commitments and the Company's lines of credit, refer to Note 29 of the consolidated financial statements.

Credit Ratings

The Company and its subsidiaries receive credit ratings from three independent rating agencies: Standard & Poor's, DBRS and A.M. Best. These ratings, presented in the table below, confirm the financial strength of the Company and its subsidiaries and their ability to meet their commitments to policyholders and creditors.

In 2020, the credit ratings assigned by Standard & Poor's and A.M. Best remained unchanged, with a stable outlook.

In December 2020, DBRS placed the principal credit ratings of iA Financial Corporation Inc. and Industrial Alliance Insurance and Financial Services Inc. under review with positive implications, citing the Company's significant efforts to improve its risk profile, in particular its sensitivity to interest rates and stock markets.

Credit Ratings

iA Financial Corporation Inc.

Agency	Type of evaluation	Rating
Standard & Poor's	Issuer Credit Rating	A
	Subordinated Debentures	A-
DBRS	Issuer Rating	A (low)
	Subordinated Debentures	BBB (high)

Industrial Alliance Insurance and Financial Services Inc.

Agency	Type of evaluation	Rating
Standard & Poor's	Issuer Credit Rating	AA-
	Financial Strength Rating	AA-
	Subordinated Debentures	A+
	Preferred Shares – Canadian scale	P-1 (Low)
	Preferred Shares – Global scale	A
DBRS	Financial Strength	A (high)
	Issuer Credit Rating	A (high)
	Subordinated Debentures	A
	Preferred Shares	Pfd-2 (high)
A.M. Best	Financial Strength	A+ (Superior)
	Issuer Credit Rating	aa-
	Subordinated Debentures	a
	Preferred Shares	a-

IA American Life Group Entities (IA American Life Insurance Company, American-Amicable Life Insurance Company of Texas, Pioneer Security Life Insurance Company, Pioneer American Insurance Company, Occidental Life Insurance Company of North Carolina)

Agency	Type of evaluation	Rating
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a

Industrial Alliance Pacific General Insurance Corporation

Agency	Type of evaluation	Rating
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a+

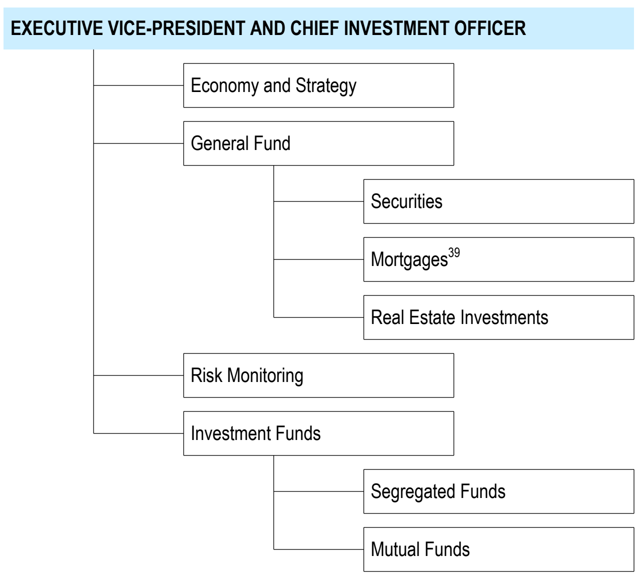
Dealers Assurance Company

Agency	Type of evaluation	Rating
A.M. Best	Financial Strength	A (Excellent)
	Issuer Credit Rating	a

Investments

Description of Sector

The Investments sector has two main functions: managing the assets in the Company's general fund and managing the investment funds offered to its clients. All of iA Financial Group's investment activities, including those associated with its US Operations, are combined under a single authority and share a common philosophy. The Investments management structure is illustrated below.



The general fund experts manage a diverse range of investments, including bonds, stocks, mortgages, real estate investments, short-term investments and derivatives.

The risk monitoring team is responsible for developing a global vision for the control and monitoring of the various investment risks (interest rate, stock market, foreign currency, credit, liquidity, etc.). In addition to quantifying the risks, the team helps develop strategies for managing these risks effectively.

Most of iA Financial Group's investment professionals work for iA Investment Management, where they look after asset allocation and securities selection for the general fund and for a number of segregated and mutual funds, in addition to overseeing all external managers.

Assets Under Management and Administration

At December 31, 2020, iA Financial Group had $197.5 billion in assets under management and administration, an increase of nearly $8.0 billion, or 4.2%, versus the previous year. Note that growth over the past year was slowed in the second quarter by the sale of iA Investment Counsel.

Assets Under Management and Administration

	As at December 31				
(In millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Assets under management					
General fund	53,661.5	45,279.6	39,759.5	37,789.4	35,223.8
Segregated funds	32,804.0	27,867.9	23,780.6	24,117.0	21,825.8
Mutual funds	11,393.1	11,594.2	10,832.8	11,723.2	10,937.5
Other	3,797.3	15,500.1	14,721.1	15,123.1	16,859.9
Subtotal	101,655.9	100,241.8	89,094.0	88,752.7	84,847.0
Assets under administration	95,830.1	89,245.8	79,677.5	80,787.1	41,387.2
Total	**197,486.0**	**189,487.6**	**168,771.5**	**169,539.8**	**126,234.2**

Assets under management, which are made up of amounts in the general fund, segregated funds and mutual funds, as well as certain assets managed for third parties (classified as *Other*), increased 1.4% compared to the previous year, amounting to $101.7 billion at December 31, 2020.

Assets under administration of $95.8 billion at December 31, 2020 increased 7.4% compared to the previous year. Assets under administration essentially include third-party assets that are administered through the mutual fund brokerage companies (primarily Investia Financial Services and FundEX Investments), the securities brokerage company (iA Private Wealth[40]) and the trust company (iA Trust).

General Fund

General Fund Investments

The Company takes a prudent, disciplined approach to investing and aims to achieve an optimal balance between risk and return. In addition to ensuring that its investments are well diversified among issuers and operating sectors, as well as geographically, the Company closely monitors its asset/liability matching and maintains a sufficient level of liquidity at all times. For more information about liquidity risk and how it is managed and about the asset/liability matching process and the measures used by the Company to reduce the risks associated with this process, refer to the "Risk Management" section of this Management's Discussion and Analysis.

The assets related to the Company's insurance and annuity operations are mainly invested in fixed-income securities, such as bonds, and to a lesser extent, in equity securities (stocks). The assets related to the Company's capital are invested in fixed-income securities and preferred shares.

[39] The Company withdrew from the residential mortgage market in 2020. The mortgage portfolio is now made up of multi-unit residential and non-residential loans.
[40] As of January 18, 2021, iA Private Wealth is the new brand replacing iA Securities and HollisWealth.

Composition of General Fund Investments

At the end of 2020, 71.1% of the Company's investments were invested in bonds and 6.2% in mortgages and other loans, for a total of 77.3% in fixed-income securities. The proportion of fixed-income securities has fluctuated between 77% and 79% over the last five years, while stocks have varied between 7% and 11%.

General Fund Investments

	As at December 31				
(In millions of dollars)	2020	2019	2018	2017	2016
Bonds	32,098.6	27,508.5	23,592.3	22,944.1	21,086.8
Mortgages and other loans	2,801.5	3,870.2	3,661.3	3,288.1	3,292.3
Stocks	3,285.7	3,023.5	3,054.8	3,467.0	3,083.0
Real estate	1,916.1	2,076.6	1,720.5	1,340.8	1,237.8
Other invested assets	5,045.2	3,440.4	2 550,0	2 781,9	2 391,0
Total	**45,147.1**	**39,919.2**	**34,578.9**	**33,821.9**	**31,090.9**

Investments by Asset Category

	As at December 31	
	2020	2019
Portfolio	**$45.1B**	**$39.9B**
Bonds	71.1%	68.8%
Mortgages and other loans	6.2%	9.7%
Stocks	7.3%	7.6%
Real estate	4.2%	5.2%
Other	11.2%	8.7%

Overall Quality of Investments

The overall quality of investments continued to be very good in 2020, despite the pandemic environment.

At December 31, 2020, net impaired investments totalled $31.1 million, compared to $10.9 million a year earlier. On a $45.1 billion portfolio, this represents just 0.07% of total investments (0.03% at December 31, 2019). This increase is related to a single bond that was impacted by the pandemic and for which a provision was taken.

Net Impaired Investments (Excluding Insured Loans)

	As at December 31				
(In millions of dollars)	2020	2019	2018	2017	2016
Bonds	30.8	10.1	12.8	15.1	16.9
Mortgages and other loans	0.3	0.8	3.1	8.3	6.5
Total	**31.1**	**10.9**	**15.9**	**23.4**	**23.4**

Net impaired investments are made up of bonds and conventional mortgages that are three or more months in arrears, as well as restructured loans and other loans in default, taking into account any specific provisions for losses set up in consideration of these assets.

Net Impaired Investments as a Percentage of Total Investments

	As at December 31				
(%)	2020	2019	2018	2017	2016
Net impaired investments	0.07	0.03	0.05	0.07	0.08

For the investment portfolio as a whole, unrealized losses on corporate fixed-income securities classified as *available for sale* amounted to $0.2 million at December 31, 2020 ($1.7 million at December 31, 2019).

Bond Portfolio

The quality of the Company's bond portfolio is very good, totalling $32.1 billion at December 31, 2020.

In accordance with the rules defined in the investment policies, the Company largely invests in bonds whose credit rating from a recognized rating agency is BBB low or higher at the time of acquisition. In the event no evaluation is available from a recognized rating agency, the Company uses an in-house method to evaluate the quality of the bonds in question.

The proportion of bonds rated A or higher made up 82.8% of the bond portfolio at the end of 2020, compared to 83.3% at the end of 2019. At December 31, 2020, bonds rated BB and lower (high-yield bonds) totalled $316.7 million (1.0% of the bond portfolio), compared to $238.0 million at December 31, 2019 (0.9% of the bond portfolio).

Bonds by Credit Rating

	As at December 31	
	2020	2019
Portfolio	**$32.1B**	**$27.5B**
AAA	6.0%	6.8%
AA	47.3%	47.6%
A	29.5%	28.9%
BBB	16.2%	15.8%
BB and lower	1.0%	0.9%

In addition to investing in bonds issued through public placements (government bonds and bonds of public corporations), the Company also invests in bonds issued through private placements. These bonds offer investment opportunities that are generally not available on the public market, and offer performance and risk features that are suitable for the operations of a life insurance company. They also provide greater access to information from issuers. However, bonds issued through private placements do not have the same level of liquidity and could be affected by changing credit conditions in the market. At December 31, 2020, private issue bonds totalled $5.4 billion, accounting for 16.8% of the bond portfolio ($4.7 billion or 17.3% of the portfolio at December 31, 2019).

Bond Portfolio

	As at December 31				
	2020	2019	2018	2017	2016
Book value of the portfolio ($M)	**32,098.6**	**27,508.5**	**23,592.3**	**22,944.1**	**21,086.8**
Distribution by category of issuer (%)					
Governments	47.4	49.7	50.7	52.0	51.4
Municipalities	4.8	4.8	5.1	5.0	4.4
Corporates – Public issues	31.1	28.2	26.3	26.1	26.2
Corporates – Private issues	16.7	17.3	17.9	16.9	18.0
Total	100.0	100.0	100.0	100.0	100.0

Mortgages and Other Loans Portfolio

The mortgages and other loans portfolio amounted to $2.8 billion at December 31, 2020, a decrease of nearly $1.1 billion from the end of 2019. This decrease is mainly explained by the third quarter sale of the residential mortgage portfolio, which is no longer part of the investment portfolio. At the end of 2020, 15% of the portfolio ($437 million) was securitized through the Canada Mortgage and Housing Corporation (CMHC) Canada Mortgage Bond (CMB) program.

The mortgage portfolio alone, made up of multi-unit residential and non-residential mortgages, totalled $1.9 billion and was of excellent quality at December 31, 2020, with a delinquency rate of nil. The delinquency rate data includes both insured and uninsured mortgages. During the year, a mortgage payment deferral plan was put in place due to the COVID-19 pandemic. In total, 0.1% of the portfolio was impacted by this plan.

Delinquency Rate as a Percentage of Mortgages

	As at December 31				
(%)	2020	2019	2018	2017	2016
Delinquency rate	—	0.08	0.09	0.34	0.27

As shown in the table below, insured mortgages have represented approximately three-quarters of total mortgages in recent years (73.2% in 2020).

Mortgages and Other Loans Portfolio

	As at December 31				
(%)	2020	2019	2018	2017	2016
Book value of the portfolio ($M)					
Mortgages	1,891.5	3,076.2	2,999.4	2,718.5	2,776.5
Other loans – Car loans	910.0	794.0	661.9	569.6	515.8
Total	**2,801.5**	**3,870.2**	**3,661.3**	**3,288.1**	**3,292.3**
Distribution of mortgages by type of loan (%)					
Insured loans	**73.2**	73.8	76.4	78.1	77.1
Conventional loans	**26.8**	26.2	23.6	21.9	22.9
Total	**100.0**	100.0	100.0	100.0	100.0
Mortgage delinquency rate (%)	—	0.08	0.09	0.34	0.27

At December 31, 2020, the proportion of mortgages secured by multi-unit residential properties was 86.0% (91.6% at December 31, 2019, including residential properties). This number has been above 80% for several years.

Mortgages by Type of Property

	As at December 31	
	2020	2019
Portfolio	**$1.9B**	**$3.1B**
Residential	—	37.0%
Multi-unit residential	86.0%	54.6%
Non-residential	14.0%	8.4%

In addition to mortgages and other loans, the Company also manages assets for third parties. In total, the Company's portfolio of mortgages and other loans plus assets managed for third parties amounted to $5.1 billion at December 31, 2020 ($12.9 billion at December 31, 2019). This decrease in assets is explained in part by the sale of the residential mortgage portfolio as well as the transfer to a third-party administrator of a mortgage portfolio that was formerly administered by the Company.

Stock Portfolio

At December 31, 2020, investments in equity securities amounted to $3.3 billion, or 7.3% of the Company's total investments, compared to $3.0 billion or 7.6% a year earlier.

Investments in equity securities, as well as the Company's preferred shares, are used to match long-term insurance contract liabilities and to cover the commitments on certain Universal Life policies. The stock portfolio matched to very long-term commitments delivered a return of 12.9% in 2020, while the Company's preferred shares delivered a return of 9.5%. Private equities occupy an increasingly large part of the portfolio. This equity category offers opportunities in terms of diversification, returns and matching of very long-term commitments.

Stock Portfolio by Type of Matching

	As at December 31	
	2020	2019
Portfolio	**$3.3B**	**$3.0B**
Very long-term commitments	51.2%	49.7%
Universal Life policies	28.9%	29.4%
Capital (preferred shares)	19.9%	20.9%

The management strategy used for the stock portfolio aims to optimize return through investments in preferred shares, common shares, market indices and investment funds. The Company favours a policy of diversification by industrial sector and by issuer to limit its exposure to concentration risk and to participate in the growth of all primary economic sectors.

Stock Portfolio

	As at December 31				
	2020	2019	2018	2017	2016
Book value of the portfolio ($M)	**3,285.7**	**3,023.5**	**3,054.8**	**3,467.0**	**3,083.0**
Distribution by category of stock (%)					
Common shares and investment fund units	30.1	27.3	35.7	41.2	43.3
Preferred shares	22.5	18.5	16.3	18.3	19.7
Market indices	2.1	10.3	10.2	14.3	13.7
Private equities	45.3	43.9	37.8	26.2	23.3
Total	100.0	100.0	100.0	100.0	100.0

Real Estate Portfolio

The Company recognizes investment properties at fair value. The book value of investment properties decreased by $160.5 million in the past year to $1.9 billion at December 31, 2020. Changes in the book value are normally due to the net amount of acquisitions and dispositions, the change in the fair value of investment properties that were reappraised during the year and any capital expenses on the properties. Real estate investments made up 4.2% of total investments at December 31, 2020.

Despite the pandemic, the occupancy rate of investment properties increased slightly during the year (95.0% at December 31, 2020, compared to 94.0% at December 31, 2019). It continues to compare very favourably with that of commercial rental properties in large Canadian cities.

Office buildings account for nearly 87% of the Company's real estate investments.

Investment Properties

	As at December 31				
(In millions of dollars, unless otherwise indicated)	2020	2019	2018	2017	2016
Book value of the portfolio	**1,916.1**	**2,076.6**	**1,720.5**	**1,340.8**	**1,237.8**
Occupancy rate	95.0%	94.0%	95.0%	93.0%	90.2%

Investment Properties by Category of Property

	As at December 31	
	2020	2019
Portfolio	**$1.9B**	**$2.1B**
Office	85.9%	85.0%
Retail	9.8%	11.4%
Industrial	3.9%	3.2%
Multi-unit residential, land and other	0.4%	0.4%

Derivative Financial Instruments

The Company uses derivative financial instruments in the normal course of managing the risk arising from fluctuations in interest rates, equity markets, currencies and credit. These instruments are primarily made up of interest rate, equity and foreign exchange swaps, as well as options, futures and forward contracts.

Derivative financial instruments are used as part of the Company's hedging program. This program aims to alleviate the sensitivity of the capital guarantees on certain segregated fund products to interest rate and stock market fluctuations.

The Company also uses derivatives in the implementation of strategies to improve the matching of assets backing long-term life insurance liabilities and to hedge the risk associated with the Universal Life policy funds.

The Company uses derivative financial instruments to hedge its exposure to currency risk when investing in assets not denominated in the same currency as the liabilities backed by these assets.

The Company has an investment strategy that uses options to obtain synthetic stock market exposure while reducing its macroeconomic risk profile.

The table below presents certain values pertaining to the Company's financial instruments. For more information, refer to Note 8 of the Company's consolidated financial statements.

Derivative Financial Instruments – Fair Value and Exposure

	As at December 31	
(In millions of dollars)	2020	2019
Net fair value	1,083	548
Notional amount	32,318	29,905

Other Invested Assets

The *Other invested assets* category is made up of cash and cash equivalents, policy loans (most insurance contracts, except for term insurance contracts, allow policyholders to obtain a loan on the surrender value of their contracts), derivatives, short-term investments and other investments. These investments totalled $5.0 billion at December 31, 2020 ($3.4 billion at December 31, 2019).

Investment Funds
(Segregated Funds and Mutual Funds)

Investment Fund Assets

Investment fund assets for iA Financial Group totalled $44.2 billion at December 31, 2020 ($32.8 billion in segregated funds and $11.4 billion in mutual funds), up from the previous year. This increase is mainly explained by favourable markets, as well as positive segregated fund sales.

Segregated Fund and Mutual Fund Assets

	As at December 31				
(In billions of dollars)	2020	2019	2018	2017	2016
Segregated funds	32.8	27.9	23.8	24.1	21.8
Mutual funds	11.4	11.6	10.8	11.7	10.9

Range of Funds

iA Financial Group offers a broad, diverse range of investment funds. At December 31, 2020, the Company offered close to 200 funds to its clients, and over half of the assets in these funds were managed in-house.

The Company continued to redesign its segregated fund offering in 2020 to increase its diversity and complementarity while adjusting to client demand. In the Individual segregated fund segment, the Company added lower-risk funds to align with certain types of guarantees offered. Funds that meet environmental, social and governance (ESG) criteria were also added during the year. In addition, certain smaller or less popular funds were merged to keep the lineup to a reasonable number of funds.

On the mutual fund front, IA Clarington Investments also reviewed its fund lineup during the year. It added more depth to its fixed-income fund lineup, including the addition of a global fixed-income product. It also made changes to management responsibilities on certain funds and merged several lower-demand products.

Lastly, in the Group Savings and Retirement sector, the Company enhanced its lineup with several new funds, including a number of ESG funds covering both the fixed-income and Canadian and global equity markets.

iA Financial Group's Active Investment Funds

	As at December 31, 2020	
	Assets ($Billion)	**Distribution of assets**
Segregated funds	32.8	74%
Mutual funds	11.4	26%
Total	**44.2**	**100%**

Investment Fund Performance

While financial markets continued their good momentum at the beginning of the year, the longest bull market in history ended abruptly last March. Nonetheless, 2020 still proved to be a good year for investors. The massive, coordinated efforts of governments and central banks allowed for a rapid rebound of the markets. The combination of massive stimulus packages, cash injections by central banks and announcements of the beginning of the global vaccination campaign pushed at-risk assets to new highs at the end of the year.

Highlights for 2020 include the performance of the tech-heavy NASDAQ index, which posted an annual return of 43.6% (local currency). The S&P 500 Index, which represents the U.S. stock market, was also carried by technology heavyweights throughout the recovery, ending the year up 16.3% (local currency). The MSCI World and MSCI Emerging Markets indices rose 11.7% and 16.6% respectively, while the S&P/TSX, which represents the Canadian stock market, rose 5.6%. Even the bond market generated solid results as downward pressure on interest rates continued throughout the year, with the FTSE Canada Universe Bond Index posting a gain of 8.7% in 2020.

In this context, the returns on the vast majority of our funds were favourable for our clients. Compared to the competition, our funds posted above-average returns over many periods. The returns on all the Company's investment funds, as well as detailed financial information on these funds, are presented in the investment fund financial reports prepared by iA Financial Group.

Risk Management

The "Risk Management" section of the Management's Discussion and Analysis contains certain information required under IFRS 7 *Financial Instruments: Disclosures* of the International Financial Reporting Standards (IFRS) regarding the nature and scope of the risks arising from financial instruments. This information, which appears in the shaded sections, is an integral part of the audited consolidated financial statements for the period ended December 31, 2020, given that the standard permits cross-references between the Notes to the Financial Statements and the Management's Discussion and Analysis. Because of the references made to the financial statements, the terminology used in this section is generally aligned with what is found in the financial statements.

As a financial group, iA Financial Corporation assumes a variety of risks inherent in the development and diversification of its operations. As a result, its risk management approach is attuned to its business expansion strategy. The goal of the Company's risk management program is to generate maximum sustainable value for its clients, shareholders and employees, and for the community it serves. More specifically, the Company is committed to carrying out sound and prudent risk management through an approach that balances risk and return. This approach is aligned with the Company's strategic directions, takes risk into account in all decision-making and respects the Company's risk appetite and tolerance. It also ensures that the Company can meets its commitments to policyholders, creditors and regulatory bodies.

The Company's risk management program is supported by a strong code of conduct, a sound risk management culture and an effective framework. The Company maintains an overall vision and continuously demonstrates prudence in implementing its strategies and business decisions in order to protect its reputation and the Company's value. The Company also places particular emphasis on its capital adequacy by maintaining a solvency ratio higher than that required by the regulatory authorities.

Risk Management Principles and Responsibilities

The Company defines risk as the possibility of an event occurring that will have an impact on achieving its objectives. Sound, effective risk management rests on identifying, measuring, assessing, understanding, and communicating the risks the Company is exposed to in the course of its operations.

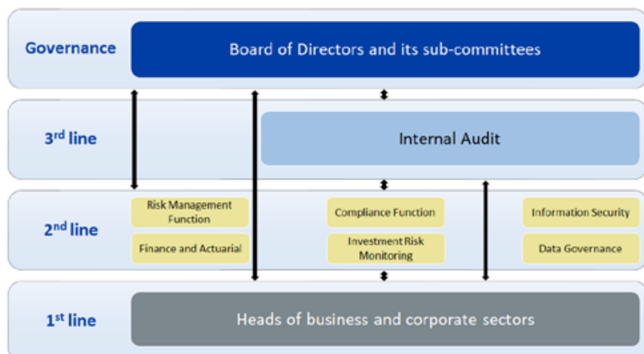
In accordance with this principle, the Company has implemented an enterprise risk management framework that is continually applied and taken into account in developing the Company's business strategies and in all of its operations.

The goal of the framework is to identify, measure, assess, understand, manage and monitor the risks the Company is exposed to in the course of its operations. The framework also defines the Company's risk appetite and tolerance, in other words, the amount of risk the Company wants and is willing to take in order to execute its business strategy and achieve its goals. Lastly, compliance with the framework helps ensure that pertinent information regarding risks is communicated and shared on a regular and timely basis with the various people involved in risk management.

The enterprise risk management framework therefore provides the Board of Directors with reasonable assurance that all required elements are in place within the Company to ensure effective risk management. Compliance with and application of the framework allow for a sound risk management culture to be maintained and promoted within the Company.

The framework is governed by a global policy designed to classify and define the risks the Company is exposed to, outline the risk management governance and organizational structure, including the roles and responsibilities of the various people involved in the risk management process, and identify the key steps in the process, particularly in terms of identifying, measuring, assessing, communicating and monitoring the risks.

The diagram that follows illustrates the responsibility levels with respect to enterprise risk management within the Company.



Supported by a strong risk culture, the Company's risk management approach includes a "three lines of defense" governance model. This approach breaks down the responsibilities according to those who take the risk, those who monitor it and those who provide an independent assessment of the overall process.

The first line of defense includes the President and Chief Executive Officer and the heads of the business and corporate sectors. They are responsible for selecting and executing the business strategies in keeping with the Company's defined risk appetite and tolerance and ensuring a good long-term balance between risk and return. They are also responsible for implementing policies and procedures and for identifying, communicating and managing risks that could prevent them from achieving the objectives identified in their respective areas of responsibility.

The second line of defense includes the risk management and compliance functions, respectively headed up by the Chief Risk Officer and the Chief Compliance Officer. Also included are the Finance and Actuarial, Investment Risk Monitoring, Data Governance and Information Security sectors. The second line of defense is responsible for coordinating the application and enforcement of the enterprise risk management framework within the Company and ensuring that appropriate policies and procedures are defined and effectively implemented by the first line of defense. To this end, it coordinates, guides and supports the first line of defense in the rigorous assessment of significant risks to which the Company is exposed. It works together with the first line to ensure prudent and disciplined management in protecting the Company's reputation and long-term sustainability. The first two lines of defense are also responsible for keeping the Board of Directors regularly informed about the Company's main risks and the steps taken to manage them.

The Chief Risk Officer and his team work closely with the other second line functions and with the first line to promote a culture of sound risk management across the organization. Based on a holistic view of the risks and considering the interrelationships that may exist between them, the Chief Risk Officer communicates any pertinent information to senior management and the Board of Directors.

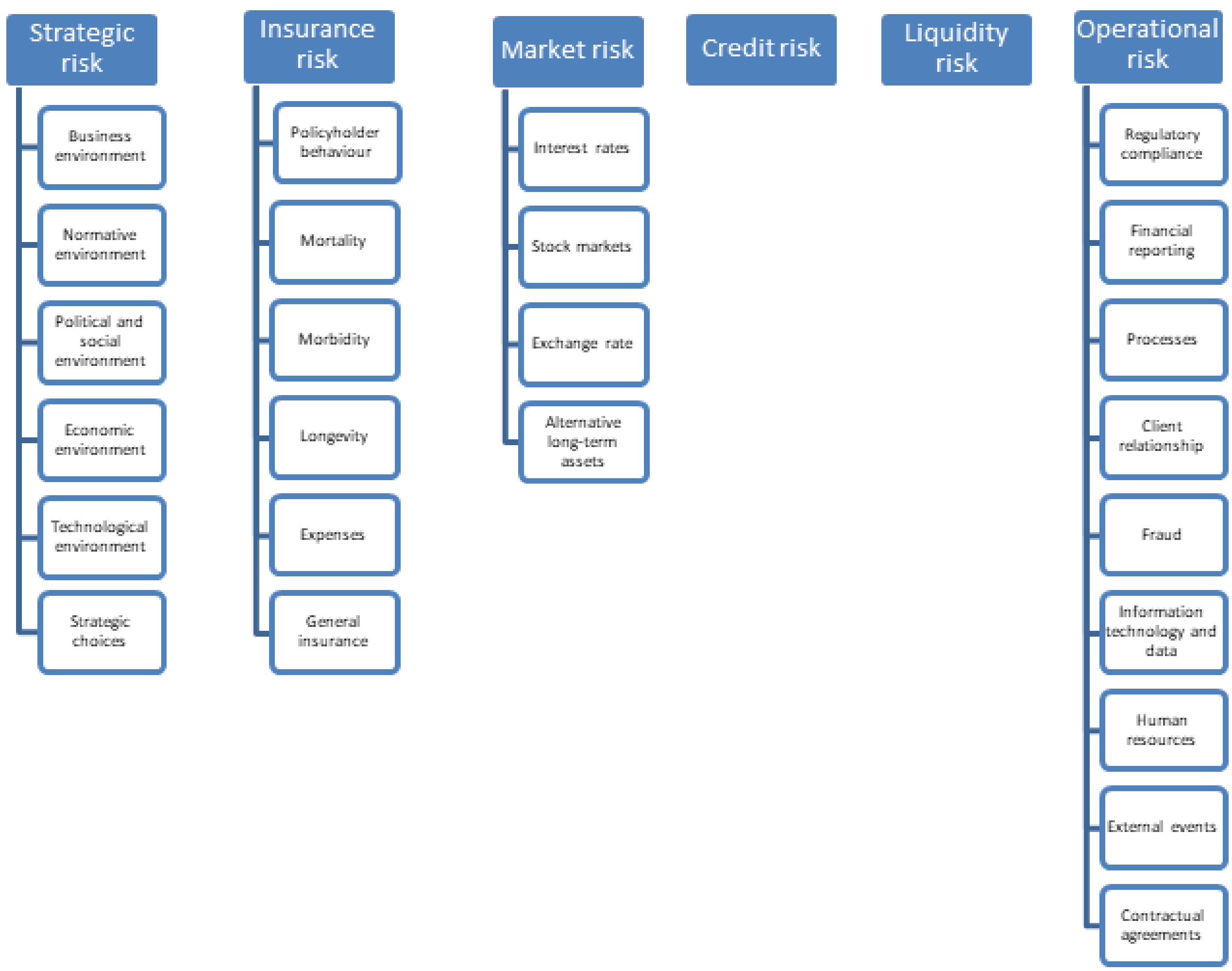
As the third line of defense, Internal Audit assesses the effectiveness of the enterprise risk management framework, recommends improvements to the people involved in the process and reports on the situation to the Board of Directors' Audit Committee.

The Board of Directors verifies and approves the global policy governing the enterprise risk management framework as well as any changes that are made to it. It also approves the overall level of risk the Company is willing to take as well as the tolerance thresholds it is willing to withstand in order to meet its business and growth objectives.

The enterprise risk management framework also applies to the Company's subsidiaries. A functional reporting relationship is established between the risk management and compliance functions and those responsible for risk management and compliance in the subsidiaries.

The boards of directors of the subsidiaries, which are made up of members renowned for their expertise in their respective fields as well as senior executives from the parent company, also play an important role in risk management oversight.

Risk Categories



The above diagram illustrates the categories of risk the Company is exposed to in the course of pursuing its strategic objectives. A summary of these risks and the processes for managing them is outlined in the following pages.

The Company is also exposed to reputation risk. This risk can arise from the occurrence of one or more risks that appear in the six categories outlined below. It may result from negligence or unauthorized actions by an employee or other individual affiliated with the Company, inappropriate behaviour by one of its representatives, or some other event that may, rightly or wrongly, have a negative impact on the public's perception of the Company and potentially lead to fewer clients, lost revenues or considerable litigation costs.

Each of these risk categories can include known or emerging risks. The way in which they are managed across the organization is adjusted accordingly.

Specific management strategies are used for each of the six risk categories. That said, the management of these risks is based on a common underlying element that transcends the organization: the risk management culture. This culture can be defined as the behaviours adopted by Company employees, who observe and apply the principles of the enterprise risk management framework to their job and their day-to-day activities. These behaviours are also governed by respect for ethics and transparency in decision-making. This culture and these behaviours make up the solid common foundation for the Company's risk management activities.

Strategic Risk

Strategic risk may arise from poor strategic decisions or not adapting well to changes in the business, normative, political, economic or technological environment.

Risk Associated with the Business Environment – The insurance and wealth management sectors are highly competitive. There is a risk that competitive pressures could lead to increased pressure on the business model and harm the Company's overall profitability. Changes in client needs and spending habits could also have an adverse effect on the Company's results if it doesn't adapt accordingly.

Risk Associated with the Normative Environment – Financial institutions are subject to a vast number of laws and regulations. As a result, legislative and regulatory changes could increase the amount of time and resources needed to ensure ongoing compliance. The Company is also exposed to risk related to changes in accounting and actuarial standards.

Risk Associated with the Political and Social Environment – Political events or decisions could have an adverse impact on the relevance of the Company's products or its profitability. This also includes risks associated with climate change. The Company is mainly exposed to transition risks (impacts of implementing a low carbon economic model) through its investment portfolio, but this risk appears to be negligible. Its exposure to the oil and gas sector, for example, represents about 3% of the total portfolio as at December 31, 2020. In addition, as a signatory of the United Nations-supported Principles for Responsible Investment (PRI), iA Investment Management analyzes environmental, social and governance (ESG) criteria as part of its investment process. The Company could also be exposed to physical risks (damage resulting directly from weather events) through its general insurance subsidiary, but this risk appears to be negligible. For more information on climate-related risk management, refer to the sustainability report.

Risk Associated with the Economic Environment – Changes in the economic environment like increased credit risk or a deterioration in financial market conditions that leads to increased volatility could increase pressure on the business model or adversely affect the Company's profitability, financial strength and access to capital.

Risk Associated with the Technological Environment – Not adapting well to changes in the technological environment could impact the integrity of our information systems and technology infrastructure or generally disrupt the Company's business plan.

In addition to continuous monitoring, senior management reassesses known and emerging strategic risks annually or more frequently, at their discretion and according to the circumstances. During the corporate and sector strategic planning exercises carried out across the organization, these risks are analyzed to determine their impact on the Company's strategy and, conversely, to identify whether additional strategies are needed to manage or mitigate the risks.

Senior management lays out the strategies and oversees their execution. This work is supported by various key processes.

- Strategic planning in compliance with defined risk tolerance levels and capital adequacy requirements
- Review of the strategies and risks that apply to the Company's main activities

Main Strategic and Emerging Risks

During the 2020 review of strategic and emerging risks, the identified risks were confirmed and the strategies in place for managing them were renewed.

Changes in Technology and the Client Relationship – The advent of new digital and software technologies coupled with shifts in demographics and client preferences has prompted the Company to make strategic choices in these areas. In this regard, the Company is pursuing its cutting-edge digital strategy, which focuses on the client and partner experience.

Risk Related to Changes in Economic Conditions – Operating in the financial sector, the Company relies in part on the economic and financial conditions of the markets in which it operates. In the complex, globalized environment that characterizes these markets, economic conditions can change suddenly and drastically. To protect itself from these unforeseen changes, the Company relies on a balanced business model and chooses strategies that allow it to shield itself while benefiting from the different economic conditions. This balanced strategy allows the Company to remain solvent and prosperous and to continue its long-term growth despite economic volatility.

Risk Related to the COVID-19 Pandemic – Since March 2020, the COVID-19 pandemic has impacted both society in general 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. The Company's business continuity protocol was deployed in March 2020, ensuring that the quality of service clients receive is similar to or better than before the pandemic and enabling employees and advisors to continue to work safely and securely.

Data Security and Cyber Risk – The Company pays particular attention to the risk of data theft and other cyber risks by continuously strengthening its cybersecurity risk management framework (see the description of this mechanism in the "Operational Risk" section).

Insurance Risk

Insurance risk is the risk of loss arising from higher claims than anticipated during product pricing and design. This category is associated with the following risk factors:

Policyholder Behaviour – Risk of decrease (increase) in lapse rates compared to assumptions for lapse-supported products (other products).

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

Morbidity – Risk of increase (decrease) in occurrence rates (termination rates) for disability or illness insurance claims.

Longevity – Risk of overestimation of the mortality rate in product pricing and design assumptions.

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

General Insurance – Risk of loss arising from higher claims than anticipated when designing and pricing general insurance products.

Insurance risk can occur at various stages of a product's life cycle, for example during product design and pricing, during underwriting or claims adjudication or when calculating the provisions for future policy benefits. The Company has put controls and processes in place at each of these stages to ensure appropriate management of these risks.

Product Design and Pricing – The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of profitability sensitivity according to various scenarios, documentation, and the accountability of the various people involved.

Underwriting and Claims Adjudication – The Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

Calculating Provisions for Future Policy Benefits – The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the Canadian Institute of Actuaries (or any other relevant body), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

The Company's Sensitivity to Certain Insurance Risks – The table below summarizes the impact on net income attributed to common shareholders of adverse deviations from assumptions for certain insurance risks.

Decrease in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations from the Assumptions

(In millions of dollars)	2020	2019
Insurance risk: adverse deviation of 5%		
Mortality rate[41]	179	205
Lapse rate[42]	181	167
Unit costs[43]	64	62
Morbidity rate[44]	65	59

Favourable variances from the assumptions would have the same impact, but in the opposite direction.

For more information on insurance risk management, refer to notes 13 and 14 of the Company's audited consolidated financial statements.

Market Risk

The Company is exposed to market risk, which is the risk that the fair value/future cash flows of an insurance contract/financial instrument will fluctuate due to variations in market risk factors. This category includes risk factors related to interest rates, stock markets, foreign currency and return on alternative long-term assets.

The Company has established investment policies that contain a variety of quantitative measures designed to limit the impact of these risks. The investment policies are reviewed annually and any modifications are submitted to the Board of Directors for approval. Policy management and compliance is monitored regularly and the results are reported to the Board of Directors' Investment Committee at least quarterly.

Interest Rate Risk – One of an insurer's fundamental activities is to invest client premiums for the purpose of paying future benefits. In some cases—for death benefits and annuity payments, for instance—the maturity date may be uncertain and potentially a long time in the future. Interest rate risk is the risk of loss associated with fluctuations in benchmark interest rates and/or rate spreads. It can occur if the asset cash flows cannot be reinvested at high enough interest rates compared to the interest rates on the corresponding liabilities, or if an asset needs to be liquidated in order to match the liability cash flows and a loss in market value of the liquidated asset occurs due to rising interest rates. This risk depends on asset allocation as well as external factors that have a bearing on the markets, the nature of the built-in product guarantees, and the policyholder options.

41 The adverse deviation is expressed assuming 105% of the expected mortality rates, adjusted to reflect the adjustability of certain products.
42 The adverse deviation is expressed assuming 95% of the expected lapse rates for lapse-supported products and 105% of the expected lapse rates for other products, adjusted to reflect the adjustability of certain products.
43 Adjusted to reflect the adjustability of certain products.
44 The adverse deviation is expressed assuming 95% of the expected termination rate when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is active, adjusted to reflect the adjustability of certain products.

To mitigate this risk, the Company has developed a strict matching process that takes into account the characteristics of the financial liabilities associated with each type of annuity and insurance product. Some of the important factors considered in the matching process include the structure of projected cash flows and the degree of certainty with regard to their maturity, the type of return (fixed or variable), the existence of options or guarantees inherent in the assets and liabilities, and the availability of appropriate assets in the marketplace. Some liabilities can be immunized to a very large degree against interest rate fluctuations because they can be backed by assets offering a similar cash flow structure.

Investment strategies are defined based on the characteristics of the financial liabilities associated with each product. To illustrate the application of these strategies, the liabilities are divided into three main categories, as presented below, based on the structure of the underlying financial commitments.

Net Liabilities According to Type of Matching

	As at December 31			
	2020		2019	
	$M	%	$M	%
Immunized liabilities				
On a cash flow basis	8,866	25%	7,500	25%
Universal Life policy accounts	1,664	5%	1,533	5%
Subtotal	10,530	30%	9,033	30%
Non-immunized liabilities	24,938	70%	21,294	70%
Total	**35,468**	**100%**	**30,327**	**100%**

1› Liabilities Immunized on a Cash Flow Basis

This category represents 25% of the policy liabilities and primarily reflects the commitments with regard to annuity and other insurance contracts with a maturity of less than thirty years.

The Company's main goal in this regard is to minimize its exposure to interest rate sensitivity. With this in mind, for liabilities immunized on a cash flow basis, the objective of the matching strategy is to minimize the volatility of the deviations that can occur between the returns realized on the assets and those expected for the liabilities. In terms of the liabilities, the expected returns include the interest rates credited to client contracts and the fluctuation margins set out in the actuarial valuation of the policy liabilities. To appropriately monitor matching, investments are segmented by blocks based on the cash flow structure of the liabilities, and these blocks are grouped together by line of business. A careful examination of these matching blocks is carried out once a month, and a number of techniques are used to assess the quality of the matching in order to guide the selection of investments.

To measure the sensitivity to interest rate fluctuations, the Company uses metrics recognized by immunization experts, such as duration and dispersion. The investment policies set out maximum spreads between the result of the measures applied to the assets and the corresponding result obtained for the liabilities. These results are provided to the Investment Committee on a quarterly basis.

The Company also carries out sensitivity analyses to assess the financial impact that would result from various types of fluctuations in the interest rate yield curve. These analyses are carried out using stochastic scenarios that are used to quantify the residual risks that may remain in the portfolios. Simulations based on predefined scenarios are also analyzed to measure the impact of specific fluctuations. The sensitivity analyses are also used to assess the behaviour of the future fluctuation margins projected in the actuarial valuation of the policy liabilities.

In addition, in order to minimize the reinvestment risk that can arise when the maturity of the assets does not match the maturity of the corresponding liabilities, the investment policies also require that an effort be made to ensure that the asset cash flows correspond to the liability cash flows. To this end, the policies set relative and absolute limits regarding the size of the cumulative net cash flows, both for all the matching blocks combined and for each individual block.

For this liability category, the use of a very strict immunization approach means that the impact on net income of a decrease or increase in interest rates would be negligible.

2› Immunized Liabilities Linked to Universal Life Policy Accounts

This category represents 5% of policy liabilities, and includes all liabilities linked to Universal Life policy accounts. The returns on these liabilities are determined on the basis of a market or portfolio index. For these liabilities, the matching is carried out using assets whose characteristics correspond to those of the liabilities, or to those of the benchmark index, so as to strictly reproduce the returns credited to the underlying accounts.

For accounts where the return varies based on an index, the impact on net income of a change in the stock markets applied to the assets would be negligible, since an equivalent change would be applied to the corresponding liabilities.

3› Non-Immunized Liabilities

This category corresponds to 70% of the Company's policy liabilities and primarily encompasses individual insurance products whose cash flows have a specific structure and for which a classic immunization strategy cannot be applied. Therefore, for this category, the Company advocates an investment management strategy designed to optimize the long-term returns on the assets by using the various types of leverage available to limit its exposure to reinvestment risk.

For this liability category, a widespread decrease in interest rates could have an adverse impact on annual net income to common shareholders, primarily due to the attendant increase in policy liabilities. If interest rates were to decrease, the reinvested cash flows would generate lower investment income for the total duration of the investment. A decrease in interest rates could lead to a downward adjustment of the initial reinvestment rate (IRR) assumption, and a prolonged decrease could lead to a decrease in the ultimate reinvestment rate (URR) assumption used to calculate the policy liabilities.

The Company uses high-quality assets, primarily made up of long term fixed income securities, equity securities (common and preferred shares, market indexes, market index options and investment fund units), and real estate. The asset class allocation aims to achieve an optimal return at maturity, taking into account capital requirements, expectations regarding the interest rate structure and performance of the stock markets. At the same time, the strategy takes into account the constraints imposed by the investment policies, particularly with regard to diversification of the portfolio.

The Company also uses various types of leverage, including an inter segment note program that allows cash flows to be exchanged among activity sectors and various derivative financial instruments to be used to reduce the reinvestment risk (IRR).

During the period ended December 31, 2020, derivative financial instruments were used as part of the Company's strategy to optimize returns. To mitigate its risk related to interest rate fluctuations on these non-liability backing assets and its mortgage securitization activities, the Company used hedge accounting through derivative instruments with a nominal value of $860 million in 2020 ($1,002 million in 2019). For more information, refer to notes 7 and 8 of the Company's consolidated financial statements as at December 31, 2020.

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

Decrease in Net Income Attributed to Common Shareholders Resulting from Adverse Deviations

(In millions of dollars)	2020	2019
Interest rate risk		
25 basis point decrease in the initial reinvestment rate (IRR)[45]	(10)	(6)
10 basis point decrease in the ultimate reinvestment rate (URR)	68	61

Decrease in Accumulated Other Comprehensive Income Resulting from Interest Rate Fluctuations

(In millions of dollars)	2020	2019
Interest rate risk		
25 basis point drop in interest rates[46]	11	6

Similar increases in the IRR, URR and interest rates would have the same impact as corresponding decreases, but in the opposite direction.

To test for market sensitivity, the Company uses an interest rate variance of 25 basis points for the IRR and 10 basis points for the URR because it believes these interest rate variances to be reasonable given market conditions as at December 31, 2020.

The impact of this variance in interest rates does not take into account the protection for the IRR in the actuarial reserves.

Stock Market Risk – Stock market risk represents the risk of loss resulting from a downturn in the stock markets. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) a strengthening of provisions for future policy benefits; and 4) the income on capital generated by the assets backing the Company's capital. For these items, the Company estimates that a sudden 10% drop in the markets as at December 31, 2020 would have led to a $34 million decrease in net income and a $51 million decrease in other comprehensive income over a twelve-month period. A 25% drop in the markets as at December 31, 2020 would have reduced net income by approximately $127 million, and other comprehensive income by $127 million over a twelve-month period.

If the markets were to drop more than 27% from their levels at December 31, 2020, all other things being equal, the Company would not have the leeway to absorb an additional drop in the markets without a significant impact on its provisions for future policy benefits related to individual insurance.

In addition to the impact on the Company's income, a stock market downturn could also have an impact on the Company's solvency ratio.

Sensitivity of the Solvency Ratio to Variances in the S&P/TSX Index (CARLI)

	2020	2019
Solvency ratio as at December 31	**130%**	133%
S&P/TSX index as at December 31	**17,433**	17,063
Level of S&P/TSX index for the solvency ratio to be at 110%	**2,900**	1,500
Level of S&P/TSX index for the solvency ratio to be at 100%	**N/A**	N/A

In order to measure its market sensitivity, the Company examined the impact of a 10% market variance at the end of 2020, believing that this kind of variance was reasonable in the current market environment. However, to take into account the possibility that a market variance of more than 10% could have an impact that is not linearly proportional, the Company also measured the impact of a 25% market variance.

Segregated funds expose the Company significantly to the risk of a stock market downturn. In order to mitigate some of the risk associated with this exposure, the Company has set up a dynamic hedging program, which is described a little later in this section.

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Some products may also offer a guarantee for partial withdrawals. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. In order to get an overview of its exposure to the risk associated with the segregated fund guarantees, the Company determines the net amount at risk, which is the amount by which the guaranteed minimum value exceeds the market value for all contracts in this situation at a given point in time. The net amount at risk does not constitute a payable benefit as such, since in reality, benefits that might have to be paid in the future will depend on various eventualities, including market performance and contract holder longevity and behaviour.

[45] These estimates do not take into account any compensatory measures to alleviate the impact of an interest rate decrease. The Company could reconsider the investment allocation for each asset class backing the very long-term commitments.

[46] Excluding any downward adjustment of the IRR or URR.

The following table provides information on the segregated fund assets under management in the Individual Wealth Management sector.

Individual Wealth Management
Segregated Fund Assets Under Management

(In millions of dollars)	2020	2019
Assets under management	19,240	16,392
Guaranteed minimum value	15,709	13,753
Value of assets underlying significant guarantees[47]	7,140	7,366
Value of assets underlying minimum guarantees[48]	12,100	9,026

All contracts with significant guarantees are covered under the hedging program. For some of these contracts issued before the hedging program was in place, the Company assumes 10% of the risk for the guarantees at maturity. There is limited risk for guarantees at death and minimum guarantees, so the Company has decided not to include them in its dynamic hedging program.

The dynamic hedging program involves short selling futures contracts on market indices traded on stock exchanges, as well as signing agreements for forward exchange contracts for currencies traded on stock exchanges, interest rate swaps and internal total-rate-of-return swaps for indices traded on stock exchanges. This program is used to hedge a good portion of the sensitivity of net income to the performance of the bond and equity funds and to the interest rate fluctuations arising from the segregated fund guarantees. In order for the Company's strategy to adequately cover the risks related to the hedged guarantees, a dynamic rebalancing of the hedging instruments is carried out based on changes in financial market conditions. Hence, the variations in the economic worth of the liabilities are largely offset by variations in assets held under the hedging program.

Under the dynamic hedging program, the value of the liabilities associated with the guarantees is updated several times per day to reflect differences between expected experience and actual results. In the process of calculating expected experience, the Company uses certain assumptions regarding policyholder longevity and future redemptions. The redemption assumption, however, has certain limitations. The timing and size of the withdrawals and fund transfers cannot be hedged using derivative financial instruments since these are factors decided by the contract holder, and adverse deviation from expected experience can alter the quality of the hedge.

The dynamic hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss on the income statement. The hedging program itself entails certain risks that may limit the program's effectiveness, in particular:

- The program is based on dynamic rebalancing of the derivative hedging instruments. A decrease in the liquidity of these instruments would have an adverse impact on the effectiveness of the program.
- The use of derivative hedging instruments entails a counterparty risk, which is mitigated by the presence of collateral agreements whose net settlement is carried out on a daily basis.
- There may be a favourable or unfavourable variance between the returns realized on the segregated funds and those realized on the hedge positions held to cover the guarantees associated with these funds.

In the first quarter of 2020, the program generated a significant experience loss, mainly due to macroeconomic changes, which can be broken down as follows:

- A loss related to market volatility risk caused by the extreme volatility in March 2020, when volatility levels were among the highest ever and significantly greater than the monthly levels recorded since the program began.
- A loss stemming from the program's basis risk (the difference over time between the return on the funds held by clients and the return on the hedging instruments in the program) and other items.

Nevertheless, the hedging program for segregated fund guarantees continues to be a robust, effective program whose cumulative impact on earnings is expected to be nil in the long term, despite quarterly fluctuations. At its highest point during the first quarter of 2020, the economic value of the hedged guarantees increased by $575 million. This amount was almost entirely offset by the change in value of assets under the hedging program. The program therefore performed as expected and achieved its objective.

In the last eight quarters, the quarterly effectiveness of our dynamic hedging program has fluctuated between 86% and 96% depending on the volatility of the financial markets. In addition, it has had an excellent effectiveness rate of 93% since it was implemented in October 2010.

In order to ensure sound management of the risk of a stock market downturn, the Company's investment policies define quantitative and qualitative limits for the use of equity securities. The target asset mix in the form of equity securities is designed to maximize the Company's returns and reduce the potential risk associated with guaranteed minimum returns under long-term commitments.

The investment policies allow the Company to use derivative financial instruments. The use of these instruments, however, must comply with the risk tolerance limits and the prudential requirements set out in the investment policies, including a minimum credit rating for the counterparty financial institution.

During the period ended December 31, 2020, derivative financial instruments were used as part of yield enhancement strategies. The use of market index options allows the Company to maintain exposure to stock markets for assets backing non-immunized liabilities while limiting potential losses. They were also used as part of the hedging program for segregated fund guarantees and to hedge the risk associated with Universal Life policy funds.

Foreign Currency Risk – Foreign currency risk represents the risk that the Company will have to assume losses due to exchange rates on foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposing itself to material currency risk. To this end, liabilities are generally matched with assets expressed in the same currency; otherwise, derivative financial instruments are used to reduce net currency exposure. As at December 31, 2020, the Company was not exposed to any material foreign currency risk.

[47] Represents the value of assets underlying guarantees at maturity with a significant level of risk, or withdrawal guarantees.
[48] Represents the value of assets for which the risk of the guarantees is limited and which the Company has decided not to include in the dynamic hedging program.

Risk Associated with the Return on Alternative Long-Term Assets – This is the risk of loss arising from fluctuations in the value of private equity, real estate, infrastructure, timberland and farmland.

To mitigate this risk, the Company's investment policies authorize prudent investments in the real estate market, private equity and infrastructure within certain clearly defined limits, both globally and by geographic region. Real estate investments are used to back long term commitments for certain lines of business, like Individual Insurance, and help ensure sound diversification of the Company's investments.

Credit Risk

Credit risk represents the risk of loss arising from a deterioration in credit quality (downgrading) or counterparty default. This risk originates mainly from credit granted in the form of loans, private placements and corporate bonds, but also from exposure to derivative financial instruments and to reinsurers that share our policyholder commitments.

The Company uses derivative products under its investment policies, including swaps, futures and options contracts. These contracts are not used for speculation purposes but for matching assets and liabilities and managing financial risk. They are primarily used to mitigate credit risk, as well as risks associated with fluctuations in interest rates, currencies and stock markets.

The derivative products used under the hedging program for segregated fund guarantees expose the Company to credit risk due to the presence of counterparties involved in the program. As indicated earlier, the counterparty financial institutions for derivative products must meet certain well-defined criteria, and collateral exchange agreements to offset daily variation margins have been reached with these institutions in accordance with industry norms and standards in order to minimize and control the credit risk.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. More information about concentration risk is presented in note 7 of the consolidated financial statements as at December 31, 2020.

The Company's investment policies aim to mitigate concentration risk by promoting the sound diversification of investments, limiting exposure to any one issuer and seeking a relatively high quality of issuers. They also impose limits by groups of related issuers, by activity sector and by geographic region. These limits depend on the credit quality of the issuers.

The Company also has a specific credit policy for private placements, commercial loans and personal loans that stipulates the assignment of internal credit ratings for investments that do not have a credit rating assigned by a recognized rating agency. The policy and procedures in place establish certain selection criteria and define the credit authorization limits based on the scope and degree of risk. In order to manage the credit risk associated with these investments, the Company may require collateral, particularly for real estate, residential or commercial mortgages.

Lastly, although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit risk associated with the amounts ceded to reinsurers. This risk category includes residual insurance risk, legal risk, counterparty risk and liquidity risk resulting from reinsurance operations. To limit this risk, the Company applies the processes and criteria prescribed in its reinsurance risk management policy, such as conducting due diligence on the selected reinsurers, limiting the concentration of risks and carrying out sensitivity testing.

Liquidity Risk

Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

This risk is managed through matching of assets with financial liabilities as well as strict cash flow management. Moreover, to maintain an appropriate level of liquidity, the Company ensures that it holds a good proportion of its assets in marketable securities.

The use of derivatives requires that securities be sent as collateral to clearing houses and derivative counterparties in order to mitigate the credit risk. Simulations are carried out to measure the liquidity needs that could arise due to interest rate and stock market turmoil in order to assess the liquidity that needs to be maintained to meet those requirements.

In addition to the requirements mentioned above, the Company needs to have additional liquidity available for possible surrenders, contract terminations and pandemic outbreaks. A number of scenarios are analyzed to ensure that the Company will be able to meet its commitments in various extreme situations.

Given the quality of its investment portfolio, and despite financial market volatility, the Company believes its current liquidity level to be adequate.

Operational Risk

Operational risk is the risk of loss arising from deficiencies or errors attributable to processes, people, systems or external events.

This risk is present in all the Company's activities. It can be related to regulatory compliance, financial reporting, human resources, fraud, data protection, information security and technology, process execution, business relationships with clients, external events or contractual agreements with suppliers. The impact of one of these risks occurring can take the form of financial losses, loss of competitive position or injury to reputation. In addition to mitigation measures carried out by Risk Management on all processes and procedures, a continuity plan involving a predefined crisis team reduces this residual risk.

To manage operational risk, the Company emphasizes proactive management practices by ensuring that appropriate and effective internal controls are in place and by utilizing competent, well-trained employees at all levels. The Company also makes it a priority to revise its policies and develop stricter standards, when appropriate, to account for changes in its operations and environment.

In addition, through its enterprise and operational risk management frameworks, the Company makes all managers accountable by asking them to confirm their sector's compliance with procedures, describe the processes in place for ensuring this compliance, and confirm that policies and procedures are up to date. The risks that could arise are also assessed and quantified, as well as the steps taken to manage the most material risks.

Regulatory Non-Compliance Risk – The Company is regulated by the provinces and territories of Canada and by the various states in the U.S. where it conducts business. It is also supervised by various regulatory bodies.

Regulatory non-compliance risk arises from the possibility of the Company failing to comply with applicable regulatory requirements in the jurisdictions where it operates.

The Company has adopted a *Regulatory Risk Management Policy* that is used as the basis for a regulatory risk management program. The Chief Compliance Officer is responsible for coordinating the program within the Company and ensuring that it is implemented and enforced in the various business lines.

To ensure the sound management of regulatory non-compliance risk, the Company uses a methodology that focuses on identifying, assessing and quantifying risk and putting effective, efficient and appropriate controls in place in its day-to-day activities. The Company's assessment of regulatory non-compliance risk includes the potential impacts on its operations and reputation, among other things.

The Company monitors new regulatory risks and communicates them to the appropriate business lines to ensure that any controls required to comply with new laws or guidelines are put in place in a timely manner. More generally, the Company emphasizes ongoing communication to remind employees of the importance of legal and regulatory compliance issues.

Financial Reporting – The Company also maintains an ongoing control evaluation program in order to issue the certification required by the regulatory authorities with respect to the financial information presented in the Company's annual and interim filings (certification under Multilateral Instrument 52-109). Under this program, the managers of each business line evaluate and test the controls in their sector, following which a designated team verifies the quality of the controls and the conclusion of the managers' evaluation. A summary report is submitted annually to the Audit Committee, which then reports the results of the evaluation to the Board of Directors. The certification of the financial information presented in the annual and interim filings is submitted quarterly in the prescribed format. This certification is available on SEDAR and on the Company's website.

Human Resources – The competency of human resources is an essential factor in implementing business and operational risk management strategies. In this regard, the Company follows best practices and has a code of business conduct in addition to well-defined policies and procedures with respect to compensation, recruitment, training, employment equity, diversity and occupational health and safety. These policies are continually kept up to date in order to attract and retain the best candidates at every level of the Company. The Company shows its concern for its employees' quality of life by offering programs that promote a healthy lifestyle and adopting various measures designed to improve the work environment.

Protection of Personal Information – The use of emerging technology entails numerous challenges for the protection of personal information. While data analytics is useful in providing better client service, the increase in available data and the risks associated with it require vigilance by all Company stakeholders. An abundance of privacy risks, ranging from the unethical use of collected data to identity theft, can arise if personal information is hacked or inadvertently disclosed. All of these risks are mitigated by applying sound governance practices throughout the life cycle of all sensitive data. Ensuring the ongoing awareness of all employees and partners also helps to maintain a high level of commitment to privacy, supported by an increased focus on device security. The Company implements policies and directives that regulate data use and governance. It strives to comply with the highest ethical and moral standards while meeting all legal requirements in this regard. It continues to develop new tools and practices to provide optimal protection for all its partners and clients.

Information and Communications Technologies and Cybersecurity – Reliable information and communications technologies (ICTs), protection of information and sophisticated data are essential for the successful execution of the business process, and the Company places special emphasis on this aspect. It has a comprehensive plan in place for reducing and controlling the risk of ICT failure based on best practices and recognized IT standards, protection of information and data management. The management of these risks is reviewed at regular intervals in order to adapt to changing technologies, regulations and Company needs.

Changing business needs in the insurance and financial services industry are accelerating the use of online applications, mobile technologies and cloud computing. Along with this acceleration comes an increase in risks related to information security and cyber threats as it is difficult to develop and implement effective preventive measures to keep up with industry attacks. Cybercrime techniques are sophisticated and continually evolving, and they come from an increasing number of sources: viruses, malware, denial of service, phishing, ransomware, exfiltration, etc.

The potential consequences range from service interruptions and unauthorized access to sensitive or personal information to asset or intellectual property theft. These can lead to reputation damage, lawsuits and other repercussions.

To mitigate information security and cybersecurity risks, the Company has set up and regularly maintains a security risk log for tracking changes in cyber threats, countermeasures and regulatory requirements. In addition, the Company has adopted an information security authority framework outlining roles and responsibilities with respect to information security. It has also approved an information security investment program that includes the implementation of a normative framework, a reference model aligned with industry best practices, and technology resources and services for identifying, preventing, detecting and eliminating threats against its assets and operations. These measures are continuously complemented by information security awareness campaigns and training for all Company employees. The Company also has a cyber risk insurance policy.

Crisis Management – The Company's crisis management and business continuity structure covers all the potential risks the Company may be exposed to, including the risk associated with the physical occupancy of the premises and disruptions in service in the event of a natural disaster, cyber attack, pandemic or other type of disaster. The Company has implemented an extensive business continuity plan and has procedures in place in its primary business offices to minimize service recovery times. Both the business continuity plan and the related procedures are reviewed and tested on a regular basis.

The Company has adopted a detailed communication plan designed to protect its corporate image in a crisis situation and to reassure the public about its ability to manage this kind of situation. The plan outlines the communication strategies to use in a crisis situation in order to notify the public of the causes and consequences of the crisis, the procedures in place to resolve it and the measures taken to reduce the risk of the same thing happening again. In addition, the Company continually monitors social media for elements that could have a negative impact on the Company's reputation and produces a report on the subject once a year. It also keeps a log of complaints found on social media.

Risk Update on the COVID-19 Pandemic

This section analyzes the impact of the COVID-19 crisis on the Company's main risks.

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

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

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

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

Insurance Risk – COVID-19 has temporarily increased uncertainty about claims volume due to policyholder behaviour, mortality, morbidity, longevity and general insurance claims. The Company's sensitivity to these assumptions is presented in the "Insurance Risk" section of this report.

Interest Rate Risk – The tables presented in the “Interest Rate Risk” section summarize the impact of matching and interest rate risk on net income attributed to common shareholders and on accumulated other comprehensive income.

Stock Market Risk – COVID-19 and its repercussions on the economy increase stock market volatility. The Company's sensitivity to a sudden drop in the markets is presented in the “Stock Market Risk” section of this report.

Strategic Risk – The COVID-19 pandemic could lead to changes in behaviour or health risks (long-term health issues or delayed diagnoses) for clients. Senior management has strengthened the strategic risk assessment for those factors that could increase uncertainty about the growth outlook for certain sectors.

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Responsibility for Financial Reporting

The Consolidated Financial Statements of **iA Financial Corporation Inc.**, which have been approved by the Board of Directors, were prepared by Management in accordance with International Financial Reporting Standards and contain certain amounts based on best judgment and estimates as their final determination is dependent upon subsequent events. It is the opinion of Management that the significant accounting policies utilized are appropriate in the circumstances and are adequate to reflect the financial position and the results of operations within reasonable limits of materiality. The financial information presented elsewhere in the Annual Report is consistent with the information contained in the financial statements.

In order to carry out its responsibilities with regard to the financial statements, Management maintains internal control systems that aim to provide a reasonable degree of certainty that transactions are duly authorized, that the assets are well protected, and that adequate records are kept. These internal control systems provide for communication of professional conduct rules and principles, using the Code of Business Conduct prepared by the Company for all organizational members. These internal control systems are reinforced by the work of a team of internal auditors, who make a periodic review of all material departments within the Company.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, ensures that Management assumes its responsibility in terms of financial statements.

The functions of the Audit Committee are to:
- Review the financial statements and recommend them for approval by the Board of Directors;
- Review the internal control systems and security;
- Recommend the appointment of the independent auditor and its fee arrangements to the Board of Directors;
- Review other accounting, financial and security matters as required.

The Audit Committee meets regularly with Management, the internal auditor and the independent auditor. The latter may, as it sees fit, meet with the Audit Committee, with or without Management, to discuss matters affecting the audit and financial information.

The Appointed Actuary of Industrial Alliance Insurance and Financial Services Inc., a subsidiary of the Company, is appointed by the Board of Directors of this subsidiary, pursuant to the *Insurers Act* (Quebec), and is responsible for ensuring that assumptions and methods used in the valuation of insurance contract liabilities are in accordance with the standards of practice of the Canadian Institute of Actuaries. The Appointed Actuary is required to express an opinion regarding the appropriateness of the insurance contract liabilities net of reinsurance assets at the Statement of Financial Position date to meet all policyholder obligations of the Company. Examination of supporting data for the accuracy and completeness analysis of Company assets for their ability to support the amount of insurance contract liabilities net of reinsurance assets are important elements of the work required to form this opinion.

The independent auditor is appointed to report to the shareholders regarding the fairness of presentation of the Company's Consolidated Financial Statements. The independent auditor fulfills this responsibility by carrying out an independent audit of these financial statements in accordance with Canadian generally accepted auditing standards.

The Autorité des marchés financiers (AMF) has the power to perform checks to ensure that the Company respects the *Insurers Act*, preserves the interests of the policyholders and pursues sound capitalization and good solvency.

On behalf of Management,

Denis Ricard
President and Chief Executive Officer
Quebec City, February 11, 2021

Jacques Potvin
Executive Vice-President, CFO and Chief Actuary
Quebec City, February 11, 2021

Independent Auditor's Report

To the shareholders of
iA Financial Corporation Inc.

Opinion

We have audited the consolidated financial statements of **iA Financial Corporation Inc.** (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated income statements, consolidated comprehensive income statements, consolidated equity statements and consolidated cash flows statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Insurance Contract Liabilities – Refer to Notes 2 and 14 to the Financial Statements

Key Audit Matter Description

The Company has significant insurance contract liabilities representing the majority of its total liabilities. Insurance contract liabilities are determined using generally accepted actuarial practices accordingly to standards established by the Canadian Institute of Actuaries. Insurance risk is the risk of loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing.

While there are many assumptions which management makes, the assumptions with the greatest uncertainty are those related to lapse behaviour and mortality. Management has applied a heightened level of judgment to determine the impact, if any, of the COVID-19 pandemic on these assumptions. Lapse and mortality assumptions required significant auditor attention in certain circumstances, including where (i) there is limited Company and industry experience data, (ii) the historical experience may not be a good indicator of the future, and (iii) policyholder behaviour may be irrational. Auditing of certain actuarial models and lapse and mortality assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve actuarial specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to actuarial models and lapse behaviour and mortality assumptions included the following, among others:

- With the assistance of actuarial specialists, we tested the reasonableness of lapse behaviour and mortality assumptions, by:
  - Evaluating whether management's methods and assumptions used were determined in accordance with actuarial principles and practices under the Canadian actuarial standards of practice.
  - Testing experience studies and other inputs used in the determination of the lapse and mortality assumptions.
  - Analyzing management's interpretation of its experience study results, evaluating triggers and drivers for revisions of assumptions, assessing reasonably possible alternative assumptions, and considering industry and other external sources of benchmarking where applicable.
- With the assistance of actuarial specialists, we tested the appropriateness of actuarial models used in the estimation process by:
  - Calculating an independent estimate of the insurance contract liability for a sample of insurance policies and comparing the results to the Company's results.
  - Testing the accuracy of changes in key assumptions for a sample of actuarial models.

IAS Parent Holdings, Inc and its subsidiaries (collectively "IAS") Acquisition of Identifiable Intangible Assets – Refer to Note 4 of the Financial Statements

Key Audit Matter Description

The Company completed the acquisition of IAS and used the acquisition method of accounting for business combinations. The purchase price was allocated, on a preliminary basis, to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill. Intangible assets, mainly consisting of distribution networks, were identified and evaluated using a discounted cashflow model. This required management to make significant estimates and assumptions related to the forecasts of revenue and expenses, the attrition rate and the discount rate.

Given the significant judgments made by management to estimate the fair value of these distribution networks, performing audit procedures to evaluate the reasonableness of the estimates and assumptions related to the forecasts of revenue and expenses, the attrition rate and the discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve our valuation specialists.

How the Key Audit Matter Was Addressed in the Audit
Our audit procedures related to the forecasts of revenue and expenses, the attrition rate and the discount rate for the identifiable intangible assets included the following, among others:

- With the assistance of our valuation specialists, we evaluated the reasonableness of management's assumptions related to the forecasts of revenue and expenses and the attrition rate by comparing those to:
  - Historical of revenue and expenses of IAS.
  - Historical revenue, expenses and attrition rate of previous acquisitions performed by the Company.
  - Internal presentations about IAS to management and the board of directors.
  - Underlying analysis detailing business strategies and growth plans.
  - Forecasted information in analysts' and industry reports that are publicly available and historical information from certain peer companies.
  - Evidence obtained in other areas of the audit.
- With the assistance of fair value specialists, we evaluated the reasonableness of the discount rate by testing the source information underlying the determination of the discount rate and developing a range of independent estimates and comparing those to the discount rate selected by management.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Sophie Fortin.

Deloitte LLP [1]

Quebec City, Quebec
February 11, 2021

[1] CPA auditor, CA, public accountancy permit No. A124208

Consolidated Income Statements

Years ended December 31 (in millions of dollars, unless otherwise indicated)	2020	2019
Revenues		
Premiums		
Gross premiums	**$ 12,132**	$ 9,757
Premiums ceded	**(936)**	(813)
Net premiums (Note 24)	**11,196**	8,944
Investment income (Note 5)		
Interest and other investment income	**1,439**	1,364
Change in fair value of investments	**3,229**	3,278
	4,668	4,642
Other revenues	**1,775**	1,679
	17,639	15,265
Policy benefits and expenses		
Gross benefits and claims on contracts	**5,871**	5,939
Ceded benefits and claims on contracts	**(581)**	(547)
Net transfer to segregated funds	**2,872**	917
Increase (decrease) in insurance contract liabilities (Note 14)	**5,760**	4,773
Increase (decrease) in investment contract liabilities (Note 14)	**34**	27
Decrease (increase) in reinsurance assets (Note 14)	**(737)**	(44)
	13,219	11,065
Commissions	**1,788**	1,654
General expenses (Note 21)	**1,668**	1,472
Premium and other taxes	**129**	128
Financing charges (Note 22)	**73**	59
	16,877	14,378
Income before income taxes	**762**	887
Income taxes (Note 23)	**130**	188
Net income	**$ 632**	$ 699
Net income attributed to participating policyholders	**(1)**	(10)
Net income attributed to shareholders	**$ 633**	$ 709
Dividends attributed to preferred shares issued by a subsidiary (Note 18)	**22**	22
Net income attributed to common shareholders	**$ 611**	$ 687
Earnings per common share (in dollars) (Note 25)		
Basic	**$ 5.71**	$ 6.43
Diluted	**5.70**	6.40
Weighted average number of shares outstanding (in millions of units) (Note 25)		
Basic	**107**	107
Diluted	**107**	107
Dividends per common share (in dollars) (Note 17)	**1.94**	1.77

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

Consolidated Comprehensive Income Statements

Years ended December 31 (in millions of dollars)	2020	2019
Net income	**$ 632**	$ 699
Other comprehensive income, net of income taxes		
Items that may be reclassified subsequently to net income:		
Available for sale financial assets		
Unrealized gains (losses) on available for sale financial assets	**99**	83
Reclassification of losses (gains) on available for sale financial assets included in net income	**(22)**	(14)
	77	69
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	**(103)**	(62)
Hedges of net investment in foreign operations	**32**	49
	(71)	(13)
Cash flow hedge		
Unrealized gains (losses) on cash flow hedges	**21**	(23)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**(54)**	(21)
Total other comprehensive income	**(27)**	12
Comprehensive income	**$ 605**	$ 711
Comprehensive income attributed to participating policyholders	**(1)**	(10)
Comprehensive income attributed to shareholders	**$ 606**	$ 721

Income Taxes Included in Other Comprehensive Income

Years ended December 31 (in millions of dollars)	2020	2019
Income tax recovery (expense) related to:		
Items that may be reclassified subsequently to net income:		
Unrealized losses (gains) on available for sale financial assets	**$ (34)**	$ (28)
Reclassification of gains (losses) on available for sale financial assets included in net income	**8**	5
Hedges of net investment in foreign operations	**(5)**	(9)
Unrealized losses (gains) on cash flow hedges	**(5)**	4
	(36)	(28)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**19**	8
Total income tax recovery (expense) included in other comprehensive income	**$ (17)**	$ (20)

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

Consolidated Statements of Financial Position

As at December 31 (in millions of dollars)	2020	2019
Assets		
Investments (Note 5)		
Cash and short-term investments	**$ 1,949**	$ 1,108
Bonds	**32,099**	27,508
Stocks	**3,286**	3,024
Mortgages and other loans	**2,801**	3,870
Derivative financial instruments (Note 8)	**1,652**	1,003
Policy loans	**881**	900
Other invested assets	**563**	429
Investment properties	**1,916**	2,077
	45,147	39,919
Other assets (Note 9)	**3,261**	2,193
Reinsurance assets (Note 14)	**1,981**	1,030
Fixed assets (Note 10)	**390**	394
Deferred income tax assets (Note 23)	**38**	28
Intangible assets (Note 11)	**1,621**	1,110
Goodwill (Note 11)	**1,224**	606
General fund assets	**53,662**	45,280
Segregated funds net assets (Note 12)	**32,804**	27,868
Total assets	**$ 86,466**	$ 73,148
Liabilities		
Insurance contract liabilities (Note 14)	**$ 36,527**	$ 30,665
Investment contract liabilities (Note 14)	**575**	630
Derivative financial instruments (Note 8)	**569**	455
Other liabilities (Note 15)	**7,647**	6,063
Deferred income tax liabilities (Note 23)	**382**	287
Debentures (Note 16)	**1,449**	1,050
General fund liabilities	**47,149**	39,150
Liabilities related to segregated funds net assets (Note 12)	**32,804**	27,868
Total liabilities	**$ 79,953**	$ 67,018
Equity		
Share capital and contributed surplus	**$ 1,694**	$ 1,684
Preferred shares issued by a subsidiary (Note 18)	**525**	525
Retained earnings and accumulated other comprehensive income	**4,253**	3,879
Participating policyholders' accounts	**41**	42
	6,513	6,130
Total liabilities and equity	**$ 86,466**	$ 73,148

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

Denis Ricard
President and Chief Executive Officer

Danielle G. Morin
Chair of Audit Committee

Consolidated Equity Statements

Years ended December 31 (in millions of dollars)

	Participating policyholders' accounts	Common shares (Note 17)	Preferred shares issued by a subsidiary (Note 18)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (Note 19)	Total
Balance as at December 31, 2018	$ 52	$ 1,655	$ 525	$ 23	$ 3,440	$ 23	$ 5,718
Net income attributed to shareholders	—	—	—	—	709	—	709
Net income attributed to participating policyholders' accounts	(10)	—	—	—	—	—	(10)
Other comprehensive income	—	—	—	—	—	12	12
Comprehensive income for the year	(10)	—	—	—	709	12	711
Equity transactions							
Transfer of post-employment benefits (Note 27)	—	—	—	—	(21)	21	—
Stock option plan (Note 26)	—	—	—	4	—	—	4
Stock options exercised	—	—	—	(9)	—	—	(9)
Common shares issued	—	54	—	—	—	—	54
Redemption of common shares	—	(43)	—	—	(96)	—	(139)
Dividends on common shares	—	—	—	—	(188)	—	(188)
Dividends on preferred shares issued by a subsidiary	—	—	—	—	(22)	—	(22)
Other	—	—	—	—	1	—	1
	—	11	—	(5)	(326)	21	(299)
Balance as at December 31, 2019	42	1,666	525	18	3,823	56	6,130
Net income attributed to shareholders	**—**	**—**	**—**	**—**	**633**	**—**	**633**
Net income attributed to participating policyholders' accounts	**(1)**	**—**	**—**	**—**	**—**	**—**	**(1)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**(27)**	**(27)**
Comprehensive income for the year	**(1)**	**—**	**—**	**—**	**633**	**(27)**	**605**
Equity transactions							
Transfer of post-employment benefits (Note 27)	**—**	**—**	**—**	**—**	**(54)**	**54**	**—**
Stock option plan (Note 26)	**—**	**—**	**—**	**3**	**—**	**—**	**3**
Stock options exercised	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**
Common shares issued	**—**	**9**	**—**	**—**	**—**	**—**	**9**
Redemption of common shares	**—**	**(1)**	**—**	**—**	**(3)**	**—**	**(4)**
Dividends on common shares	**—**	**—**	**—**	**—**	**(208)**	**—**	**(208)**
Dividends on preferred shares issued by a subsidiary	**—**	**—**	**—**	**—**	**(22)**	**—**	**(22)**
Other	**—**	**—**	**—**	**—**	**1**	**—**	**1**
	—	**8**	**—**	**2**	**(286)**	**54**	**(222)**
Balance as at December 31, 2020	**$ 41**	**$ 1,674**	**$ 525**	**$ 20**	**$ 4,170**	**$ 83**	**$ 6,513**

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

Consolidated Cash Flows Statements

Years ended December 31 (in millions of dollars)	2020	2019
Cash flows from operating activities		
Income before income taxes	**$ 762**	$ 887
Financing charges	**73**	59
Income taxes paid, net of refunds	**(165)**	(241)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	**5,899**	4,807
Increase (decrease) in investment contract liabilities	**(55)**	—
Decrease (increase) in reinsurance assets	**(837)**	(95)
Unrealized losses (gains) on investments	**(3,225)**	(3,271)
Provisions for losses	**58**	40
Amortization of premiums and discounts	**23**	16
Other depreciation	**287**	210
Goodwill impairment (Note 21)	**24**	22
Gain on a contingent consideration settlement	**—**	(14)
Gain on disposal of business (Note 4)	**(16)**	—
Other items not affecting cash	**(400)**	44
Operating activities affecting cash:		
Sales, maturities and repayments on investments	**16,472**	14,764
Purchases of investments	**(16,805)**	(16,712)
Realized losses (gains) on investments	**(49)**	(30)
Other items affecting cash	**(186)**	(68)
Net cash from (used in) operating activities	**1,860**	418
Cash flows from investing activities		
Acquisition of businesses, net of cash	**(1,042)**	(6)
Disposal of business, net of cash	**79**	—
Sales (purchases) of fixed and intangible assets	**(177)**	(150)
Net cash from (used in) investing activities	**(1,140)**	(156)
Cash flows from financing activities		
Issuance of common shares	**7**	45
Redemption of common shares (Note 17)	**(4)**	(139)
Issuance of debentures (Note 16)	**398**	398
Redemption of debentures (Note 16)	**—**	(250)
Reimbursement of lease liabilities[1]	**(19)**	(15)
Dividends paid on common shares	**(208)**	(188)
Dividends paid on preferred shares issued by a subsidiary	**(22)**	(22)
Interest paid on debentures	**(37)**	(23)
Interest paid on lease liabilities	**(4)**	(4)
Net cash from (used in) financing activities	**111**	(198)
Foreign currency gains (losses) on cash	**10**	(2)
Increase (decrease) in cash and short-term investments	**841**	62
Cash and short-term investments at beginning	**1,108**	1,046
Cash and short-term investments at end	**$ 1,949**	$ 1,108
Supplementary information:		
Cash	**$ 1,690**	$ 801
Short-term investments	**259**	307
Total cash and short-term investments	**$ 1,949**	$ 1,108

[1] For the year ended December 31, 2020, lease liabilities, presented in *Other liabilities* in the Consolidated Statements of Financial Position, include an amount of $23 ($12 for the year ended December 31, 2019) of non-affecting cash items, mostly attributable to new liabilities.

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

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019 (in millions of dollars, unless otherwise indicated)

1 › General Information

iA Financial Corporation Inc. (iA Financial Corporation) is a holding company listed on the Toronto Stock Exchange and incorporated under the *Business Corporations Act* (Quebec). iA Financial Corporation and its subsidiaries (the "Company") offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, mortgages, auto and home insurance, creditor insurance, replacement insurance, replacement warranties, extended warranties and other ancillary products for dealer services and other financial products and services. The Company's products and services are offered on both an individual and group basis and extend throughout Canada and the United States.

On January 1, 2019, Industrial Alliance Insurance and Financial Services Inc. (iA Insurance) and iA Financial Corporation completed an operation pursuant to which iA Financial Corporation became the holding company that owns all the common shares of iA Insurance by way of a plan of arrangement under the *Companies Act* (Quebec) and the *Business Corporations Act* (Quebec) (the "arrangement").

Pursuant to the arrangement, all of the outstanding common shares of iA Insurance as at January 1, 2019 were exchanged for newly issued common shares of the Company, on a one for one basis. Issued and outstanding iA Insurance preferred shares and debentures remain issued by iA Insurance and have been guaranteed by the Company in accordance with the terms of the arrangement. The Company is a "successor issuer" of iA Insurance as defined in the securities regulations with respect to previously issued common shares of iA Insurance. This change in company structure was recorded at the carrying amount.

Publication of these Consolidated Financial Statements (the "Financial Statements") was authorized for issue by the Company's Board of Directors on February 11, 2021.

2 › Significant Accounting Policies

a) Basis of Presentation

The Company's financial statements are established according to International Financial Reporting Standards (IFRS) on December 31, 2020. The IFRS are published by the International Accounting Standards Board (IASB) and are based on International Financial Reporting Standards, International Accounting Standards (IAS), and on interpretations developed by the IFRS Interpretations Committee (IFRS IC).

IFRS does not currently include an insurance contract measurement standard. Therefore, as permitted by IFRS 4 *Insurance Contracts*, insurance contract liabilities are measured in accordance with accepted actuarial practice in Canada using the Canadian Asset Liability Method (CALM).

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

b) Important Estimates, Assumptions, Judgments and Impacts of COVID-19 Pandemic

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

Determination of control for purposes of consolidation	Note 2, section c) "Basis of Consolidation and Method" Note 7 "Management of Risks Associated with Financial Instruments", section b) iii) "Other Information on Credit Risk - Interests in Non-Consolidated Structured Entities"
Fair value and impairment of financial instruments and fair value of investment properties	Note 2, section d) "Invested Assets and Investment Income" Note 5 "Invested Assets and Investment Income" Note 6 "Fair Value of Financial Instruments and Investment Properties" Note 7 "Management of Risks Associated with Financial Instruments"
Classification of contracts, measurement of insurance contract liabilities and investment contract liabilities and measurement of reinsurance assets	Note 2, section j) "Reinsurance Assets" Note 2, section k) "Insurance Contract Liabilities and Investment Contract Liabilities" Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities"
Goodwill and intangible assets	Note 2, section g) "Intangible Assets" Note 2, section h) "Goodwill" Note 4 "Acquisition and Disposal of Businesses" Note 11 "Intangible Assets and Goodwill"
Income taxes	Note 2, section m) "Income Taxes" Note 23 "Income Taxes"
Post-employment benefits	Note 2, section s) "Post-Employment Benefits" Note 27 "Post-Employment Benefits"
Determination of reporting segments and allocation methodologies in the presentation of segmented information	Note 24 "Segmented Information"

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

Impacts of COVID-19 Pandemic

Since the beginning of 2020, the spread of the COVID-19 virus, elevated to a pandemic by the World Health Organization (WHO) on March 11, 2020, has caused turbulence in the financial markets, resulted in economic uncertainty and disrupted the activities of the business community and citizens. The COVID-19 pandemic has forced governments to implement exceptional measures to slow the progression of this crisis. These measures, which include travel bans, periods of isolation and social distancing, have shaken the world's financial markets and economies. Governments and central banks implemented significant monetary and fiscal interventions to stabilize economic conditions. The risk management program established by the Company made it possible to partially mitigate the negative effects of this crisis on its results for the year ended December 31, 2020. Moreover, the Company deployed initiatives in order to support its clients and mitigate the impacts of the crisis. With regards to the operations of the Company, measures are used to protect the health and the safety of its employees while ensuring the continuity of its activities.

At this time, it is impossible to reliably assess the duration and extent of the impacts that these elements could have on the Company's future financial results, due to uncertainties still prevailing as at December 31, 2020. The significant estimates, assumptions and judgments made by management in the preparation of these financial statements take into account these uncertainties, which primarily affect the following assets and liabilities of the Company:

Fair Value of Financial Instruments and Investment Properties

Changes in market factors, such as interest rates, stock prices and exchange rates, caused by COVID-19 resulted in changes in the fair value of financial instruments. Likewise, the financial projections used to establish the fair value of investment properties were reviewed, resulting in a decrease in the fair value of investment properties, which was recorded as a change in fair value in investment income.

The investment properties as well as the bonds and stocks classified as designated at fair value through profit or loss support the insurance contract liabilities. Consequently, changes in the fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the CALM.

Note 5 "Invested Assets and Investment Income" and Note 6 "Fair Value of Financial Instruments and Investment Properties" present the fair value of the financial assets and liabilities and of the investment properties.

Goodwill

As part of the monitoring of impairment indicators, the revision of the financial projections, which consider the effects of COVID-19, resulted in a reduction of the carrying value of the goodwill of a Company cash-generating unit (CGU). This impairment is recorded as a goodwill impairment in Note 11 "Intangible Assets and Goodwill" and in Note 21 "General Expenses". As at December 31, 2020, no further impairment indicator relating to COVID-19 has been identified.

Insurance Contract Liabilities and Investment Contract Liabilities

Changes in methods and assumptions and the impact of exchange rate fluctuations used in the calculation of provisions for future policy benefits and other insurance contract liabilities, as well as the financial assumptions used in the calculation of investment contract liabilities, take into account the economic uncertainties related to COVID-19, such as the temporary increase in mortality and abandonment assumptions for certain policies. See Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities".

Post-Employment Benefits – Net liabilities resulting from the obligation in respect of defined benefits

COVID-19 had a significant impact on the changes in the financial assumptions used in the measurement of the defined benefit obligation and in the return on defined benefit plan assets, resulting in an increase in the net liability arising from the defined benefit obligation leading to an actuarial loss recognized as a reduction in *Other comprehensive income* as presented in Note 27 "Post-Employment Benefits".

Actual results could differ from best estimates, as mentioned above.

c) Basis of Consolidation and Method

Entities over which the Company exercises control are consolidated. Control is defined as being the exposure or the right to receive variable returns from the involvement with an entity and the ability to affect those returns through the power held over it. The Company holds the power when it has existing rights that give it the current ability to direct the relevant activities, that is, the activities that significantly affect the investee's returns. Management makes judgments in determining whether control exists, particularly in determining the extent to which the Company has the ability to exercise its power to generate variable returns. Entities are consolidated from the date control is obtained and deconsolidated on the date control ceases. The acquisition method is used to account for the acquisition of a subsidiary and the difference between the acquisition cost of the subsidiary and the fair value of the subsidiary's net identifiable assets acquired is recorded as goodwill. The Company uses uniform accounting policies in the Financial Statements for similar transactions and events. Intercompany balances, and revenues and expenses for intercompany transactions are eliminated on consolidation.

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

d) Invested Assets and Investment Income

Invested assets include financial assets such as cash and short-term investments, bonds, stocks, mortgages and other loans, derivative financial instruments, policy loans, other invested assets and investment properties.

Financial assets are classified into one of the following categories:

- assets at fair value through profit or loss, including assets held for trading and assets designated at fair value through profit or loss;
- assets available for sale, carried at fair value, with fair value variations recognized in *Other comprehensive income*;
- assets held to maturity, carried at amortized cost;
- loans and receivables, carried at amortized cost using the effective interest method.

Financial assets are classified according to their nature and use by the Company at the time of initial recognition. The fair value option of designating financial assets in the category assets at fair value through profit or loss is used by the Company for its assets matching the insurance contract liabilities and investment contract liabilities, except for mortgages and other loans and bonds that are not quoted on an active market. Thus, any changes in the fair value of underlying assets matched to the insurance contract liabilities and investment contract liabilities are directly reflected in the insurance contract liabilities and investment contract liabilities. Changes in fair value of assets matching these liabilities and changes in corresponding insurance contract liabilities and investment contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise.

Bonds and stocks that are not matched with insurance contract liabilities and investment contract liabilities are classified as available for sale. Mortgages and other loans, as well as bonds not quoted in an active market are classified as loans and receivables. Bonds quoted in an active market that are related to securitization liabilities are classified as assets held to maturity. In 2019, the Company did not hold any financial assets in the category held to maturity.

The Company applies the trade date accounting method, which is the date on which the Company commits to purchase or sell assets. Transaction costs related to financial assets classified at fair value through profit or loss are recorded in the Income Statement as incurred. Transaction costs related to financial assets available for sale are capitalized to the asset and, in the case of bonds, these costs are amortized using the effective interest method. Transaction costs related to loans and receivables and to assets held to maturity are capitalized to the asset and amortized in the Income Statement using the effective interest method.

Invested assets are accounted for using the methods described below.

i) Cash and Short-Term Investments

Cash and short-term investments consist of cash, payments in transit and fixed income securities held for short-term commitment. Cash and payments in transit are classified as loans and receivables and accounted for at amortized cost using the effective interest method. Fixed income securities are classified as held for trading and accounted for at fair value.

ii) Bonds

Designated at Fair Value Through Profit or Loss

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

Available for Sale

Bonds classified as available for sale are carried at fair value. Unrealized gains and losses are recognized in *Other comprehensive income*, except for the portion related to foreign exchange difference, which is recorded in the Income Statement. Upon realization, gains or losses are reclassified to the Income Statement in *Interest and other investment income*. Interest as well as premiums and discounts are calculated according to the effective interest method and are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as available for sale are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, the cumulative loss recorded in *Accumulated other comprehensive income* is reclassified as an impairment loss in the Income Statement under *Investment income*. Following impairment loss recognition, these bonds continue to be recorded at fair value. Subsequent decreases in fair value are recorded in the Income Statement and they are evaluated at each reporting date to determine whether there is a fair value increase. If there is a fair value increase, impairment loss recorded in the Income Statement could be reversed if the fair value increase can be objectively linked to an event occurring after the impairment loss was recognized.

Held to maturity

Bonds classified as held to maturity are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as held to maturity are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is an impairment, a provision for losses is recorded, which corresponds to the difference between the carrying value of the asset and the recoverable amount valuated according to the estimated future cash flows discounted at the initial effective interest rate. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed and the changes related to provisions for losses are recorded in the Income Statement.

Loans and Receivables
Private bonds not traded in an active market are classified as loans and receivables. These bonds are carried at amortized cost using the effective interest method. The interest calculated according to this method and the realized gains or losses on disposal of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, bonds classified as loans and receivables are tested for impairment. The Company considers an impairment loss if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the obligation if it represents objective evidence of impairment, such as the issuer's financial difficulty, a bankruptcy or default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the asset and the recoverable amount valuated according to the estimated future cash flows discounted at the initial effective interest rate. This provision is immediately recorded in the Income Statement. When the effects of the cause of the impairment begin to fade and future payments are reasonably assured, the provision is reduced or reversed and the changes related to provisions for losses are recorded in the Income Statement.

iii) Stocks
Designated at Fair Value Through Profit or Loss
Stocks designated at fair value through profit or loss are measured at fair value. Realized and unrealized gains and losses are recognized immediately in *Change in fair value of investments* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

Available for Sale
Stocks classified as available for sale are carried at fair value. Unrealized gains and losses and variations of exchange rates are recognized in *Other comprehensive income*. Upon realization, gains or losses are reclassified in *Interest and other investment income* in the Income Statement. Dividends are recognized in *Interest and other investment income* in the Income Statement from the moment that the Company has the right to receive payment.

At each reporting date, stocks classified as available for sale are tested for impairment. The Company records an impairment loss if evidence of impairment exists, such as observable data about the issuer's significant financial difficulty or changes in the economic, legal or technological environment that have a negative effect on the issuer. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. For stocks with similar characteristics and behaviour to debt instruments, the Company records an impairment loss if evidence of impairment exists and considers that the amount invested will not be recovered.

When there is impairment, the cumulative losses previously accounted for in *Accumulated other comprehensive income* are reclassified as impairment losses under *Interest and other investment income* in the Income Statement. These stocks continue to be recorded at fair value. Any decline in value subsequent to impairment is recorded in the Income Statement, while increases are recorded in *Other comprehensive income*. An increase in value of an impaired security is only recorded in the Income Statement when the security is sold or derecognized.

iv) Mortgages and Other Loans
Loans and Receivables
Other loans consist of personal loans. Mortgages and other loans classified as loans and receivables are carried at amortized cost using the effective interest method, net of a provision for credit losses, if applicable. Interest and realized gains or losses on disposition of these securities are accounted for in *Interest and other investment income* in the Income Statement.

At each reporting date, the Company performs an impairment test on each loan. A group test is then performed on groups of assets with similar risks, including loans valued individually and which had no indication of impairment. On a group basis, the Company considers similar risk characteristics that take into account the type of loan, the activity sector, geographic situation, potential late payment observed and other relevant factors. On an individual basis, the Company considers an impairment loss if it deems it unlikely that it will be able to recover the full amount of principal and interest at maturity due to objective evidence of impairment, including the borrower's financial difficulty, a bankruptcy or a default of payment of principal or interest. When there is impairment, a provision for losses is recorded, which corresponds to the spread between the carrying value of the loan and the recoverable amount valuated according to the estimated future cash flows, discounted at the initial effective interest rate. The estimated cash flows consider the fair value of any guarantee underlying the loans, less related costs. When the effects of the cause of the impairment begin to fade, and future payments are reasonably assured, the provision is reduced or reversed. When there is no longer a realistic probability of recovery or when the asset is derecognized after the guarantee is exercised or the asset is sold, the provision is written off and reduced by any recovery. All changes affecting the provision for losses are recorded in the Income Statement.

When an impairment loss is recognized on a loan, the future interest is recognized based on the interest rate used to discount the future cash flows in order to valuate the fair value loss. When contractual payments are 90 days or more in arrears in the case of mortgages and 120 days or more in the case of other loans, contractual interest is no longer recognized. Contractual interest is resumed once the contractual payments are no longer considered in arrears and are considered current.

Designated at Fair Value Through Profit or Loss
Mortgages and other loans designated at fair value through profit or loss are carried at fair value. Realized and unrealized gains and losses are immediately recognized in the Income Statement in *Change in fair value of investments* and interest income earned is accounted for in *Interest and other investment income*.

Securitization of Mortgages

Residential Mortgages

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

As at December 31, 2019, the Company had retained substantially all risks and rewards related to the transferred loans, and as part of the securitization of residential mortgages, the asset derecognition criteria were not met. The Company continued to recognize residential mortgages in the Statement of Financial Position and a liability related to the amounts securitized was recorded in *Other liabilities*. Interest income on securitized loans was recorded in *Interest and other investment income* in the Income Statement according to the effective interest method and interest expenses on liabilities were recorded in *Financing charges* in the Income Statement.

Multi-residential and Non-residential Mortgages

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

v) Derivative Financial Instruments

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

Hedge Accounting

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

Fair Value Hedging

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

Cash Flow Hedging

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

Net Investment Hedge

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

vi) Embedded Derivative Financial Instruments

Embedded derivative financial instruments are separate from the host contract and are accounted for at fair value if the economic characteristics and risks of the embedded derivative financial instruments are not closely linked to the economic characteristics and risks of the host contract, if the terms of the embedded derivative financial instrument are the same as an independent derivative financial instrument, and if the host instrument itself is not accounted for at fair value through profit or loss. Changes in the fair value of embedded derivative financial instruments are recorded in the Income Statement under *Change in fair value of investments*.

vii) Policy Loans

Policy loans, classified as loans and receivables, correspond to the unpaid capital balance and are fully secured by the cash surrender value on the insurance contracts on which the respective loans are made.

viii) Other Invested Assets

Other invested assets include the investment in associates and joint ventures, investment fund units which are restricted investments and notes receivable. Notes receivable are classified as loans and receivables and are accounted for at amortized cost using the effective interest method. Investments in associates and joint ventures are accounted for according to the equity method as described in section c) "Basis of Consolidation and Method", in the present note. Investment fund units which are restricted investments are classified as available for sale.

ix) Investment Properties

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

x) Derecognition

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

e) Other Assets

Other assets mainly include investment income due and accrued, outstanding premiums, due from reinsurers, due from agents, accounts receivable, deferred sales commissions, income tax receivable and funds deposited in trust. Financial assets included in *Other assets* are classified as loans and receivables and are measured at amortized cost. Real estate held for resale (foreclosed properties) is measured at the lower of fair value less cost to sell and the carrying value of the underlying loans at foreclosure date. Funds deposited in trust represent amounts received from clients held in trust.

The Company purchases securities and, simultaneously, agrees to resell them in the short term, at a set price and date. These reverse repurchase agreements are recorded in the Statement of Financial Position at the consideration paid plus accrued interest. Commitments related to securities purchased under reverse repurchase agreements are recorded at amortized cost using the effective interest method and are classified as loans and receivables. Interest on reverse repurchase operations is recorded in the Income Statement as *Interest and other investment income*.

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

f) Fixed Assets

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

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

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

At the end of each year, the Company must revise the residual value and useful life of fixed assets. Any change represents a modification of an accounting estimate and must be accounted for prospectively.

g) Intangible Assets

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

Intangible assets with finite useful life primarily include capitalized software applications, distribution networks and customer relationships. These assets are depreciated linearly over their estimated useful life varying between 4 and 30 years. Useful life is reassessed each year and any depreciation expense is adjusted prospectively, if applicable. Finite life intangible assets are subject to impairment testing if there is evidence of impairment and losses in value are calculated and recorded on an individual basis for each asset.

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

h) Goodwill

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

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

i) Segregated Funds

Funds from group or individual annuities issued by the Company may be invested in segregated portfolios at the option of the policyholders. The underlying assets are registered in the name of the Company and the segregated funds policyholders have no direct access to the specific assets. The policyholders bear the risks and rewards of the funds' investment performance. The Company derives fee income from the management of its segregated funds. These revenues are accounted for in *Other revenues* in the Income Statement. Investment income and changes in fair value of the segregated fund assets are not presented separately in the Income Statement and are offset by a corresponding change in the liabilities related to segregated funds net assets.

Segregated Funds Net Assets

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

Liabilities Related to Segregated Funds Net Assets

Insurance or investment contract liabilities whose financial risk corresponds to the risk assumed by insureds are presented separately from the total general fund liabilities in the Statement of Financial Position and are accounted for at the fair value of segregated funds net assets.

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

j) Reinsurance Assets

In the normal course of business, the Company uses reinsurance to limit its risk exposure. Reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who share the risks. Reinsurance assets represent the amounts due to the Company for ceded insurance contract liabilities, investment contract liabilities and unearned premiums. The calculation of these amounts is similar to the calculation of the underlying insurance contract liabilities and investment contract liabilities and unearned premiums, in accordance with the contract provisions of reinsurance agreements. To the extent that assuming reinsurers are unable to meet their obligations, the Company remains liable to its policyholders for the portion reinsured.

Gains or losses that could occur on buying reinsurance are recognized in Net income immediately and are not amortized. The gross amounts of assets and liabilities related to reinsurance are presented separately in the Statement of Financial Position. The amounts due to or from reinsurers for premiums received or claims made are included in *Other assets* and *Other liabilities* in the Statement of Financial Position. Premiums for ceded reinsurance are shown under Ceded premiums in the Income Statement. The Ceded benefits and claims on contracts item in the Income Statement shows expense recoveries related to reinsurance contracts.

The reinsurance assets are tested for impairment. The Company considers impairment if it deems it unlikely that it will be able to recover all amounts due according to the contractual terms of the reinsurance agreement if it represents objective evidence of impairment, such as the third party's financial difficulty, a bankruptcy or default of payment of amounts due. This provision is immediately recorded in *General expenses* in the Income Statement.

k) Insurance Contract Liabilities and Investment Contract Liabilities

i) Classification of Contracts

The Company issues contracts that contain an insurance risk, a financial risk or both. Insurance contracts, including reinsurance acceptances, are contracts that contain a significant insurance risk. Significant insurance risk exists when the Company agrees to compensate policyholders or beneficiaries of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing are unknown. This risk is assessed by reviewing a portfolio of contracts with similar risk features.

Investment contracts are contracts that contain a financial risk and which do not include a significant insurance risk. The financial risk represents the risk of a possible future change in one or more of the following items: specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Service contracts are contracts that do not contain any significant insurance risk and no financial risk and for which the Company offers administrative services only. Service contracts also include the service components of investment contracts. The accounting policy relating to the fee income earned from these contracts is described in section q) "**Other Revenues**" in the present note.

Management makes judgments to evaluate the classification of contracts to determine whether these arrangements should be accounted for as insurance, investment or service contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts if insurance risk subsequently becomes significant.

Insurance contracts are accounted for in accordance with IFRS 4 Insurance Contracts, whereas investment contracts are accounted for according to IAS 39 Financial Instruments, Recognition and Measurement, and service contracts according to IFRS 15 Revenue from Contracts with Customers.

ii) Insurance Contract Liabilities
The appointed actuary determines the amount of insurance contract liabilities using the CALM, in accordance with the standards of the Canadian Institute of Actuaries (CIA), and as permitted by IFRS 4 *Insurance Contracts*. Pursuant to the CALM method, insurance contract liabilities represent the amount which, added to future premiums and investment income, will be sufficient to cover estimated future benefits, policyholder dividends and experience rating refunds, taxes (other than income taxes), commissions and fees to administer in-force policies. The change in the insurance contract liabilities is included in *Increase (decrease) in insurance contract liabilities* in the Income Statement.

iii) Investment Contract Liabilities
Investment contract liabilities are the amounts that the Company owes to clients since these contracts do not have significant insurance risk. These contracts are initially carried at fair value less transaction cost directly related to the establishment of the contract and are subsequently re-measured at amortized cost. This liability is derecognized when all the obligations relating to this type of contract are performed, extinguish or expire.

l) Other Liabilities
Other liabilities are primarily made up of unearned premiums, post-employment benefits, amounts on deposit on products other than insurance contracts, accounts payable, due to reinsurers, securities sold under repurchase agreements, short-selling securities, securitization liabilities, lease liabilities and other liabilities.

Financial liabilities included in the *Other liabilities* are classified as financial liabilities at amortized cost, except for short-selling securities, which are classified as held for trading. The commitments related to short-selling securities reflect the Company's obligation to deliver securities that it sold without owning them at the time of sale. Short-selling securities are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recognized in Change in fair value of investments in the Income Statement. A financial liability is derecognized when the obligation related to the financial liability is settled, cancelled or expires.

The Company sells securities and, simultaneously, agrees to repurchase them in the short term, at a set price and date. These repurchase agreements are recorded in the Statement of Financial Position at the consideration received plus accrued interest. Commitments related to securities acquired under repurchase agreements are recorded at amortized cost using the effective interest method. Interest on repurchase operations is recorded in the Income Statement under *Financing charges*.

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

The purchased businesses in force are initially recorded at fair value. If negative, this fair value is recorded in the Statement of Financial Position in *Other liabilities* for an amount equal to the discounted value of estimated future gains or losses related to purchased businesses in force at the acquisition date. The discounted value of the future gain or loss takes into consideration the cost of capital and is estimated using actuarial assumptions that are similar to the ones used to establish the insurance contract liability purchased and a discount rate integrating a risk premium. The fair value of purchased businesses in force recorded as part of a business combination is amortized over the useful life of the portfolio contracts.

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

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

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

To determine the impact of taxes, the Company must comply with both IFRS and actuarial standards of practice. Consequently, according to the CALM method, the determination of insurance contract liabilities must account for all cash flows associated with the insurance contract liabilities provided, including income taxes. Insurance contract liabilities are determined by considering the tax impacts related to these contracts on a discounted basis, adjusted for all related deferred tax assets and liabilities. The net result of this adjustment is to leave the discounting effect of deferred taxes related to temporary differences on tax items related to insurance contracts in *Insurance contract liabilities.*

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

n) Debentures

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

o) Foreign Exchange Conversion

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

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

p) Premiums and Expenses

Insurance and annuity premiums, including those invested in the general fund and segregated funds, are recognized as revenue when due under contracts in force. Net premiums represent gross premiums, including assumed premiums, net of the share ceded to reinsurers for insuring a part of the risk. When premiums are recognized, provisions for future policy benefits are calculated, with the result that benefits and expenses are matched with such revenue.

General insurance premiums are recorded when written. Premiums are recognized as premiums earned over the contract period. The unrecognized portion is recorded as unearned premiums in *Other liabilities* in the Statement of Financial Position.

Benefits and claims on contracts mainly consist of amounts paid on death, annuities, redemptions and health.

Benefits and claims as well as expenses are recognized when incurred.

q) Other Revenues

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

r) Net Transfer to Segregated Funds

Net transfer to segregated funds represents the total amount transferred from the general fund to segregated funds less the total amount transferred from the segregated funds to the general fund at the request of policyholders.

s) Post-Employment Benefits

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

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

t) Stock-Based Compensation

i) Stock Option Plan

The stock option plan is accounted for as a transaction which is settled in equity. The cost of stock options granted is calculated using the fair value method. Fair value of options is estimated at the grant dates taking into account a forfeiture rate and using the graded vesting method. The cost of stock options is accounted for as a remuneration expense included in *General expenses* in the Income Statement. The corresponding amount is recorded in the Company's contributed surplus in the Statement of Financial Position. For options that are cancelled before vesting, the remuneration expense that has previously been recognized is reversed. When options are exercised, contributed surplus is reversed and the shares issued are credited to share capital. Stock-based compensation is recognized at the grant date for grants to management personnel who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to management personnel who will become eligible to retire during the vesting period.

ii) Share Purchase Plan for Employees

The Company's cash contribution is charged to the Income Statement as *General expenses* in the period the shares are purchased.

iii) Deferred Share Units (DSU)

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

iv) Mid-Term Incentive Plan

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

v) Restricted Share Units

The restricted share units plan is accounted for as a share-based payment transaction that is settled in cash. Its valuation is based on the fair value of the common shares of a subsidiary of the Company which, for the purposes of the plan, is deemed to wholly own certain other subsidiaries of the group which are not under its control. Fair value is determined using equity valuation models. Based on the estimated number of restricted share units expected to be vested, the Company recognizes the remuneration expense in *General expenses* in the Income Statement and the corresponding liability in the Statement of Financial Position for the vesting period. At the end of each reporting period and on the settlement date, the liability is remeasured based on the fair value of the subsidiary's common shares and the change is recorded in *General expenses* in the Income Statement.

3 › Changes in Accounting Policies

New Accounting Policies Applied

These standards or amendments apply to financial statements beginning on or after January 1, 2020.

Standards or amendments	Description of the standards or amendments and impacts on financial statements of the Company
IFRS 4 *Insurance Contracts*	*Description:* On September 12, 2016, the IASB published an amendment to IFRS 4 *Insurance Contracts*. This amendment, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, provides two options to entities applying IFRS 4: • the deferral approach is an optional temporary exemption from applying IFRS 9 until January 1, 2021 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; • the overlay approach permits entities to adopt IFRS 9 but adjust some of the impacts arising from designated financial assets, those being assets related to the insurance contract liabilities. On June 25, 2020, the IASB published an amendment to IFRS 4 *Insurance Contracts* to extend the deferral approach until January 1, 2023. *Status:* The Company met all criteria and chose the deferral approach, as described below. The Company will apply IFRS 9 only to financial statements beginning on or after January 1, 2023.

Conceptual Framework for Financial Reporting	*Description:* On March 29, 2018, the IASB published a revised version of the *Conceptual Framework for Financial Reporting*. The IASB decided to revise the *Conceptual Framework for Financial Reporting* because important issues were not addressed and some indications were outdated or unclear. This revised version includes, among other things, a new chapter on valuation, guidance on the presentation of financial performance and improved definitions of an asset and a liability and guidance in support of those definitions. The Conceptual Framework helps entities to develop their accounting method when no IFRS is applicable to a specific situation. This revised version applies prospectively. *Impact:* No impact on the Company's financial statements.
IFRS 3 *Business Combinations*	*Description:* On October 22, 2018, the IASB published an amendment to the standard IFRS 3 *Business Combinations*. The amendment *Definition of a Business* clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. This amendment applies prospectively. *Impact:* No impact on the Company's financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	*Description:* On October 31, 2018, the IASB published an amendment to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The amendment *Definition of Material* clarifies the definition of material in IAS 1 along with the explanation accompanying that definition and aligns the definitions used across IFRS standards. This amendment applies prospectively. *Impact:* No impact on the Company's financial statements.

Future Changes in Accounting Policies

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

Standards or amendments	Description of the standards or amendments
IFRS 9 *Financial Instruments*	The Company adopted the amendment to IFRS 4 *Insurance Contracts* described in the section "New Accounting Policies Applied". Consequently, even if the provisions of IFRS 9 applied to financial statements beginning on or after January 1, 2018, the Company will apply these provisions simultaneously to the application of the standard IFRS 17. *Description:* On July 24, 2014, the IASB published the standard IFRS 9 *Financial Instruments* which replaces the provisions of the standard IAS 39 *Financial Instruments: Recognition and Measurement.* The standard IFRS 9: • requires financial assets to be measured at amortized cost or at fair value on the basis of the entity's business model for managing assets; • changes the accounting for financial liabilities measured using the fair value option; • proposes a new accounting model related to the recognition of expected credit losses, requiring the entity to recognize expected credit losses on financial assets using current estimates of expected shortfalls in cash flows on those instruments as at the reporting date; • modifies the hedge accounting model, which aims to present in the financial statements the effect of risk management activities. The provisions of the new standard IFRS 9 will apply retrospectively or on a modified retrospective basis. On October 12, 2017, the IASB published an amendment to IFRS 9 *Financial Instruments*. The amendment *Prepayment Features with Negative Compensation* enables entities to measure at amortized cost some prepayable financial assets with so-called negative compensation. *Status:* The Company is currently evaluating the impact of this standard on its financial statements.
IFRS 17 *Insurance Contracts*	*Description:* On May 18, 2017, the IASB published the standard IFRS 17 *Insurance Contracts* which replaces the provisions of the standard IFRS 4 *Insurance Contracts*. The standard IFRS 17: • has an objective to ensure that an entity provides relevant information that faithfully represents those contracts and gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, income statement and cash flows statement; • establishes the principles for recognition, measurement, presentation and disclosure; • defines a general model and a variable fee approach applicable to all insurance contracts and reinsurance contracts to measure the insurance contract liabilities; • defines a specific model for contracts of one year or less. The provisions of the new standard IFRS 17 will apply retrospectively to each group of insurance contracts and, if and only if impracticable, an entity shall apply the modified retrospective or fair value approach to financial statements beginning on or after January 1, 2021. Early adoption is permitted if IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are previously applied. On June 25, 2020, the IASB published an amendment to IFRS 17 *Insurance Contracts* that clarifies different subjects and that postpones the effective date to financial statements beginning on or after January 1, 2023. *Status:* The Company is currently evaluating the impact on presentation, disclosure and measurement of the insurance contract liabilities that this standard will have on its financial statements.
IAS 1 *Presentation of Financial Statements*	*Description:* On January 23, 2020, the IASB published an amendment to IAS 1 *Presentation of Financial Statements.* The amendment concerns the classification of liabilities as current or non-current and only affects the presentation of liabilities in the statement of financial position, and not the amount or timing of recognition of any asset, liability income or expense, or the information that entities disclose about those items. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. On July 15, 2020, the IASB published an amendment to IAS 1 *Presentation of Financial Statements* that postpones the effective date to financial statements beginning on or after January 1, 2023. *Status:* The Company is currently evaluating the impact of this amendment on its financial statements.

IAS 16 *Property, Plant and Equipment*	*Description:* On May 14, 2020, the IASB published an amendment to IAS 16 *Property, Plant and Equipment*. The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The provisions of this amendment will apply retrospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. *Status:* The Company is currently evaluating the impact of this amendment on its financial statements.
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	*Description:* On May 14, 2020, the IASB published an amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendment clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling the contract. The provisions of this amendment will apply on a modified retrospective basis to financial statements beginning on or after January 1, 2022. Early adoption is permitted. *Status:* The Company is currently evaluating the impact of this amendment on its financial statements.
IFRS 3 *Business Combinations*	*Description:* On May 14, 2020, the IASB published an amendment to IFRS 3 *Business Combinations*. The amendment updates the reference to the Conceptual Framework and adds an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. *Status:* The Company is currently evaluating the impact of this amendment on its financial statements.
Annual Improvements to IFRSs 2018-2020 Cycle	*Description:* On May 14, 2020, the IASB published the Annual Improvements to IFRSs 2018-2020 Cycle. The Annual Improvements clarify situations specific to four standards: • IFRS 1 *First-time Adoption of International Financial Reporting Standards* related to the fact that a subsidiary that becomes a first-time adopter later than its parent is allowed to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs; • IFRS 9 *Financial Instruments* related to the fact that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on the other's behalf, are included when the entity applies the '10 per cent' test in assessing whether to derecognize a financial liability; • IFRS 16 *Leases* related to Illustrative Example 13 accompanying IFRS 16 that removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion; • IAS 41 *Agriculture* related to the fact that an entity no longer excludes taxation cash flows when measuring the fair value of a biological asset using a present value technique to ensure consistency with the requirements in IFRS 13 *Fair Value Measurement*. The provisions of IFRS 1, IFRS 9, and IAS 41 will apply prospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. The Annual Improvement to IFRS 16 only regards an illustrative example, so this is applicable immediately. *Status:* The Company is currently evaluating the impact of these improvements on its financial statements.
IFRS 16 *Leases*	*Description:* On May 28, 2020, the IASB published an amendment to IFRS 16 *Leases*. The amendment *COVID-19 Related Rent Concessions* exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19 related rent concessions that reduce lease payments due on or before June 30, 2021. The provisions of this amendment will apply retrospectively to financial statements beginning on or after June 1, 2020. Early adoption is permitted. *Status:* The Company has completed the analysis of this amendment and concluded that it will not have a significant impact on its financial statements.
IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*	*Description*: On August 27, 2020, the IASB published an amendment to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*. The amendment, *Interest Rate Benchmark Reform – Phase 2*, clarifies the requirements related to financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements of financial instruments when an existing interest rate benchmark is replaced. The provisions of this amendment will apply on a modified retrospective basis to financial statements beginning on or after January 1, 2021. Early adoption is permitted. *Status:* The Company has completed the analysis of this amendment and concluded that it will not have a significant impact on its financial statements.

Information on the Deferral of the Application of IFRS 9 *Financial Instruments*

The Company applies IFRS 4 *Insurance Contracts* in its operations. This standard was amended in 2016 to allow entities that apply IFRS 4 to defer the application of IFRS 9 *Financial Instruments* if total liabilities for insurance activities represent more than 90% of the entity's total liabilities. This calculation is made as of the closing date preceding April 1, 2016, the calculation date identified in the standard.

For this calculation, the Company primarily considered insurance contract liabilities, investment contract liabilities, liabilities related to segregated funds net assets and debentures as at December 31, 2015. Liabilities related to its insurance activities are greater than 90% of total liabilities.

The Company has decided to defer the application of IFRS 9 until IFRS 17 *Insurance Contracts* is adopted. IFRS 17 includes the measurement principles of these policies. If the Company had applied IFRS 9, this would not have had a significant impact on the classification of financial assets designated at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* given the very close relationship between invested assets and insurance contract liabilities. For financial assets classified as loans and receivables, held to maturity or available for sale as at December 31, 2020, an amount of $948 ($756 as at December 31, 2019) would not have met the solely payments of principal and interest test in accordance with IFRS 9. In addition, for mortgages, the Company could not have used the low credit risk exemption in the calculation of expected credit losses.

4 › Acquisition and Disposal of Businesses

Acquisition of Businesses

Group Insurance

On January 10, 2020, the Company announced that it acquired 100% of the shares of three Canadian companies specializing in vehicle warranties: WGI Service Plan Division Inc. and WGI Manufacturing Inc. (collectively "WGI") as well as Lubrico Warranty Inc. for a total amount of $107. WGI wholesale manufactures and administrates chemical protection products for the automobile industry through independent dealers across Canada. As for Lubrico Warranty Inc., it sells car warranties through used vehicle dealerships across Canada (except in the province of Quebec). With these acquisitions, the Company is pursuing its growth strategy in order to become a major player in the Canadian automotive environment.

As at December 31, 2020, the allocation of the acquisition price process was completed for these acquisitions.

US Operations

On May 22, 2020, the Company acquired 100% of the shares of IAS Parent Holdings, Inc. and its subsidiaries (collectively "IAS") for a total amount of $974. IAS is one of the largest independent providers of solutions in the U.S. vehicle warranty market. IAS 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 in the U.S. market. This acquisition greatly complements the Company's current U.S. warranty business in terms of product line, distribution channels and geographic reach.

The finalization of the purchase price allocation process should be completed as soon as management has gathered all relevant available information necessary to finalize this allocation within a period not to exceed 12 months from the date of acquisition. Once the analysis is finalized, allocation of the preliminary purchase price and its distribution by line of business could be adjusted.

The allocation of the acquisition price is summarized as follows:

	2020	
	Final	**Preliminary**
(in millions of dollars)	**Group Insurance**	**US Operations**
Fair value of identifiable assets and liabilities acquired		
Investments	**$ 9**	**$ 133**
Other assets and liabilities	**(18)**	**(197)**
	(9)	**(64)**
Fair value of intangible assets	**72**	**489**
Fair value of deferred income tax liabilities on intangible assets	**(19)**	**(122)**
Fair value of net identifiable assets acquired	**44**	**303**
Goodwill	**63**	**671**
	107	**974**
Acquisition price:		
Cash	**$ 107**	**$ 974**

The goodwill reflects the Company's intention to pursue its growth strategy as well as the synergies expected from the integration of these companies. Goodwill is not deductible for tax purposes.

Intangible assets mainly consist of distribution networks.

As at December 31, 2020, revenues and net income from WGI and Lubrico did not have a significant impact on the Company's financial results. Regarding IAS, revenues and net income have had an impact of $161 and $31 respectively on the Company's financial statements since the acquisition. As part of these acquisitions, integration expenses and acquisition costs of $21 are included in *General expenses*.

Disposal of Business

On June 1, 2020, the Company sold a subsidiary, iA Investment Counsel Inc., to CWB Financial Group. Goodwill of $26 and intangible assets of $41 were disposed of in this transaction. A gain before tax of $16 was recognized in the Income Statement in *Other revenues.* The after-tax gain on this transaction is $8. The sale reflects the Company's decision to focus on serving wealth management needs of high-net-worth Canadians exclusively through its expanding network of independent, entrepreneur-owned investment advisory practices.

5 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	2020						
(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total	Fair value
Cash and short-term investments	$ 831	$ —	$ —	$ 1,118	$ —	$ 1,949	$ 1,949
Bonds							
Governments	12,729	1,855	494	117	—	15,195	
Municipalities	1,306	205	—	40	—	1,551	
Corporate and other	10,923	1,952	—	2,478	—	15,353	
	24,958	4,012	494	2,635	—	32,099	32,501
Stocks							
Common	1,774	50	—	—	—	1,824	
Preferred	233	506	—	—	—	739	
Stock indexes	61	7	—	—	—	68	
Investment fund units	623	32	—	—	—	655	
	2,691	595	—	—	—	3,286	3,286
Mortgages and other loans							
Insured mortgages							
Multi-residential	—	—	—	1,379	—	1,379	
Non-residential	—	—	—	5	—	5	
	—	—	—	1,384	—	1,384	
Conventional mortgages							
Multi-residential	48	—	—	200	—	248	
Non-residential	33	—	—	226	—	259	
	81	—	—	426	—	507	
Other loans	—	—	—	910	—	910	
	81	—	—	2,720	—	2,801	2,935
Derivative financial instruments	1,652	—	—	—	—	1,652	1,652
Policy loans	—	—	—	881	—	881	881
Other invested assets	—	123	—	4	436	563	563
Investment properties	—	—	—	—	1,916	1,916	1,943
Total investments	$ 30,213	$ 4,730	$ 494	$ 7,358	$ 2,352	$ 45,147	$ 45,710

(in millions of dollars)	2019 At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
Cash and short-term investments	$ 489	$ —	$ 619	$ —	$ 1,108	$ 1,108
Bonds						
Governments	11,714	1,870	111	—	13,695	
Municipalities	1,106	166	40	—	1,312	
Corporate and other	8,601	1,721	2,179	—	12,501	
	21,421	3,757	2,330	—	27,508	27,750
Stocks						
Common	1,621	34	—	—	1,655	
Preferred	186	374	—	—	560	
Stock indexes	215	98	—	—	313	
Investment fund units	489	7	—	—	496	
	2,511	513	—	—	3,024	3,024
Mortgages and other loans						
Insured mortgages						
Residential	—	—	846	—	846	
Multi-residential	—	—	1,419	—	1,419	
Non-residential	—	—	6	—	6	
	—	—	2,271	—	2,271	
Conventional mortgages						
Residential	—	—	293	—	293	
Multi-residential	66	—	193	—	259	
Non-residential	28	—	225	—	253	
	94	—	711	—	805	
Other loans	—	—	794	—	794	
	94	—	3,776	—	3,870	3,917
Derivative financial instruments	1,003	—	—	—	1,003	1,003
Policy loans	—	—	900	—	900	900
Other invested assets	—	—	5	424	429	429
Investment properties	—	—	—	2,077	2,077	2,099
Total investments	$ 25,518	$ 4,270	$ 7,630	$ 2,501	$ 39,919	$ 40,230

The *At fair value through profit or loss* category includes securities held for trading, mainly derivative financial instruments and short-term investments as well as securities designated at fair value through profit or loss. Other invested assets are made up of notes receivable, investments in associates, investments in joint ventures accounted for using the equity method and investment fund units classified as available for sale which represent restricted investments. Investment fees are presented in Note 21 "General Expenses".

Fair value of investment properties is $1,943 ($2,099 in 2019) and is composed of investment properties of $1,916 ($2,077 in 2019) and of linearization of rents of $27 ($22 in 2019). The linearization of rents is the total rental income under the lease, distributed evenly over the lease term, using an average rate, which considers free rents and other advantages granted to tenants. Amounts related to the linearization of rents are presented in Note 9 "Other Assets". Rental income is presented in the investment income table in section c) of this note and operating expenses for investment properties are shown in Note 21 "General Expenses".

Sale of Residential Mortgage Portfolio

On September 1, 2020, the Company assigned to a third party, by way of a sales agreement, its residential mortgage portfolio held through iA Insurance as well as its rights and obligations toward the Canada Mortgage and Housing Corporation (CMHC) regarding residential mortgages included under the mortgage-backed securities program issued under the *National Housing Act*. This sale reflects management's decision to exit the residential mortgage market. The Company transferred the risks and rewards related to this portfolio and, consequently, derecognized the residential mortgages. As part of this transaction, the Company received monetary consideration and recognized government bonds under its assets.

Impacts of Sale of Residential Mortgage Portfolio
The gain related to this transaction is presented in *Investment income* in the Income Statement.

The securitization liability related to the portfolio was not derecognized because the Company is party to a total return swap agreement and remains responsible for the related liabilities.

b) Investments in Associates and Joint Ventures
The Company holds interests ranging from 25% to 50% as at December 31, 2020 and as at December 31, 2019. The carrying value of these investments as at December 31, 2020 is $436 ($422 as at December 31, 2019). The share of net income and comprehensive income for the year ended December 31, 2020 amounts to $20 ($24 for the year ended December 31, 2019).

c) Investment Income

	2020					
(in millions of dollars)	At fair value through profit or loss	Available for sale	Held to maturity	Loans and receivables	Other	Total
Cash and short-term investments						
Interest	$ —	$ —	$ —	$ 22	$ —	$ 22
Change in fair value	4	—	—	—	—	4
Bonds						
Interest	587	91	1	127	—	806
Change in fair value	2,125	—	—	—	—	2,125
Gains (losses) realized	—	32	—	(2)	—	30
Variation in provisions for losses	—	—	—	(12)	—	(12)
Stocks						
Dividends	131	22	—	—	—	153
Change in fair value	96	—	—	—	—	96
Gains (losses) realized	—	(2)	—	—	—	(2)
Mortgages and other loans						
Interest	3	—	—	194	—	197
Change in fair value	1	—	—	—	—	1
Gains (losses) realized	—	—	—	21	—	21
Variation in provisions for losses	—	—	—	(46)	—	(46)
Derivative financial instruments						
Interest	3	—	—	—	—	3
Change in fair value	1,133	—	—	—	—	1,133
Policy loans						
Interest	—	—	—	41	—	41
Other invested assets	(2)	3	—	8	3	12
Investment properties						
Rental income	—	—	—	—	213	213
Change in fair value	—	—	—	—	(129)	(129)
Total investment income	$ 4,081	$ 146	$ 1	$ 353	$ 87	$ 4,668
Interest	590	91	1	384	—	1,066
Dividends	131	22	—	—	—	153
Derivative financial instruments	3	—	—	—	—	3
Rental income	—	—	—	—	213	213
Gains (losses) realized	—	30	—	19	—	49
Variation in provisions for losses	—	—	—	(58)	—	(58)
Other	(1)	3	—	8	3	13
Interest and other investment income	723	146	1	353	216	1,439
Cash and short-term investments	4	—	—	—	—	4
Bonds	2,125	—	—	—	—	2,125
Stocks	96	—	—	—	—	96
Mortgages and other loans	1	—	—	—	—	1
Derivative financial instruments	1,133	—	—	—	—	1,133
Investment properties	—	—	—	—	(129)	(129)
Other	(1)	—	—	—	—	(1)
Change in fair value of investments	3,358	—	—	—	(129)	3,229
Total investment income	$ 4,081	$ 146	$ 1	$ 353	$ 87	$ 4,668

(in millions of dollars)	2019 At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total
Cash and short-term investments					
Interest	$ 1	$ —	$ 31	$ —	$ 32
Change in fair value	7	—	—	—	7
Bonds					
Interest	532	101	93	—	726
Change in fair value	2,198	—	—	—	2,198
Gains (losses) realized	—	20	1	—	21
Variation in provisions for losses	—	—	(3)	—	(3)
Stocks					
Dividends	108	21	—	—	129
Change in fair value	206	—	—	—	206
Gains (losses) realized	—	(1)	—	—	(1)
Mortgages and other loans					
Interest	4	—	194	—	198
Change in fair value	(4)	—	—	—	(4)
Gains (losses) realized	—	—	10	—	10
Variation in provisions for losses	—	—	(37)	—	(37)
Derivative financial instruments					
Interest	16	—	—	—	16
Change in fair value	833	—	—	—	833
Policy loans					
Interest	—	—	46	—	46
Other invested assets	(7)	—	7	21	21
Investment properties					
Rental income	—	—	—	200	200
Change in fair value	—	—	—	44	44
Total investment income	$ 3,894	$ 141	$ 342	$ 265	$ 4,642
Interest	537	101	364	—	1,002
Dividends	108	21	—	—	129
Derivative financial instruments	16	—	—	—	16
Rental income	—	—	—	200	200
Gains (losses) realized	—	19	11	—	30
Variation in provisions for losses	—	—	(40)	—	(40)
Other	(1)	—	7	21	27
Interest and other investment income	660	141	342	221	1,364
Cash and short-term investments	7	—	—	—	7
Bonds	2,198	—	—	—	2,198
Stocks	206	—	—	—	206
Mortgages and other loans	(4)	—	—	—	(4)
Derivative financial instruments	833	—	—	—	833
Investment properties	—	—	—	44	44
Other	(6)	—	—	—	(6)
Change in fair value of investments	3,234	—	—	44	3,278
Total investment income	$ 3,894	$ 141	$ 342	$ 265	$ 4,642

6 › Fair Value of Financial Instruments and Investment Properties

a) Methods and Assumptions Used to Estimate Fair Values

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

Financial Assets

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

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

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

Mortgages and Other Loans – The fair value of mortgages and other loans is estimated by discounting the cash flows with the interest rates currently prevailing on the market for loans with substantially the same credit risk and terms.

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

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

Policy Loans – Policy loans are carried at amortized cost. They are guaranteed and may be reimbursed at any time. Their fair value approximates their carrying value due to their nature.

Other Investments – The fair value of other investments is approximately the same as the carrying value due to the nature of these elements.

Other Assets – The fair value of the other financial assets is approximately the same as the carrying value due to their short-term nature.

Investment Properties

The fair value of investment properties is determined using various recognized methods and standards of assessment in the real estate sector. Among these methods, the income approach is the most commonly used, as it is based on an investor's behaviour in relation to income expected to be generated by an investment property. Under this approach, discounting of the cash flows generated by an investment property is preferred as it measures the relationship between the market value and the reasonably discounted incomes over an investment horizon. Expected cash flows include contractual and projected income as well as the investment property's operating expenses. These cash flows reflect the interest, rental and occupancy rates established based on market studies, rental income expected from leases in effect and estimates of future cash inflows, including revenues projected for future leases, and estimates of future cash inflows made according to the current market circumstances. Future lease rates are estimated based on the location, current type and quality of the building, and market data and projections as of the date of the valuation. Fair values are usually compared to market information, including recent transactions for similar assets to verify their reasonableness. Highest and best use is one of the possible valuation methods. Highest and best use of a site is an integral part of the process to establish the fair value of an investment property. This use is the one that, at the time of the appraisal, provides the highest fair value for the investment property. As a result, this use is determined by considering possible, legally admissible, financially feasible physical use achievable in the short term based on demand and must be tied to the likelihood of being achieved rather than to the simple possibility. Assessments are carried out by external independent appraisers on an annual basis or by qualified Company personnel quarterly. During the year, 100% of the investment properties portfolio was assessed by independent appraisers (88 % in 2019).

Financial Liabilities

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

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

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

The fair value of securitization liabilities is estimated by discounting cash flows with the interest rates currently prevailing on the market for new debt with substantially the same terms. This fair value is disclosed in Note 7 "Management of Risks Associated with Financial Instruments" in section b) iii).

The fair value of mortgage debt is estimated by discounting the cash flows with the interest rate currently prevailing on the market, for new mortgage debt with substantially the same terms. The fair value of the mortgage debt is $76 ($76 as at December 31, 2019). The mortgage debt is secured by real estate with a carrying value of $174 ($181 as at December 31, 2019), bearing interest of 3.143% and maturing on May 1, 2022. The interest expense on the mortgage debt is $2 (less than $1 for the year ended December 31, 2019). The carrying value of the mortgage debt is included in Note 15 "Other Liabilities".

Debentures – The fair value of debentures classified as financial liabilities at amortized cost is estimated using a valuation model that takes into account instruments on the market that have substantially the same conditions. This fair value can fluctuate due to interest rates and credit risks associated with these instruments. Fair value of debentures is presented in Note 16 "Debentures".

b) Hierarchy of the Fair Value

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

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

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

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

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

Assets

	2020			
(in millions of dollars)	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Cash and short-term investments				
Held for trading	$ —	$ 831	$ —	$ 831
Bonds				
Designated at fair value through profit or loss				
Governments	420	12,309	—	12,729
Municipalities	—	1,306	—	1,306
Corporate and other	—	10,783	140	10,923
	420	24,398	140	24,958
Available for sale				
Governments	248	1,607	—	1,855
Municipalities	—	205	—	205
Corporate and other	—	1,952	—	1,952
	248	3,764	—	4,012
	668	28,162	140	28,970
Stocks				
Designated at fair value through profit or loss	1,247	—	1,444	2,691
Available for sale	187	365	43	595
	1,434	365	1,487	3,286
Mortgages and other loans				
Designated at fair value through profit or loss	—	81	—	81
Derivative financial instruments				
Held for trading	433	1,216	3	1,652
Other investments				
Available for sale	76	47	—	123
Investment properties	—	—	1,916	1,916
General fund investments recognized at fair value	2,611	30,702	3,546	36,859
Segregated funds financial instruments and investment properties	25,065	7,365	264	32,694
Total financial assets at fair value	$ 27,676	$ 38,067	$ 3,810	$ 69,553

(in millions of dollars)	2019 Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Cash and short-term investments				
Held for trading	$ —	$ 489	$ —	$ 489
Bonds				
Designated at fair value through profit or loss				
Governments	850	10,864	—	11,714
Municipalities	—	1,106	—	1,106
Corporate and other	—	8,472	129	8,601
	850	20,442	129	21,421
Available for sale				
Governments	76	1,794	—	1,870
Municipalities	—	166	—	166
Corporate and other	—	1,710	11	1,721
	76	3,670	11	3,757
	926	24,112	140	25,178
Stocks				
Designated at fair value through profit or loss	1,220	—	1,291	2,511
Available for sale	108	374	31	513
	1,328	374	1,322	3,024
Mortgages and other loans				
Designated at fair value through profit or loss	—	94	—	94
Derivative financial instruments				
Held for trading	229	774	—	1,003
Investment properties	—	—	2,077	2,077
General fund investments recognized at fair value	2,483	25,843	3,539	31,865
Segregated funds financial instruments and investment properties	21,343	6,373	90	27,806
Total financial assets at fair value	$ 23,826	$ 32,216	$ 3,629	$ 59,671

Transfers from Level 1 to Level 2 during the year ended December 31, 2020 amount to $564 (none for the year ended December 31, 2019). These transfers result from the application of a fair value adjustment for events that took place after the market close but before the valuation date. Transfers from Level 2 to Level 1 during the year ended December 31, 2020 amount to $564 (none for the year ended December 31, 2019). These transfers are related to segregated funds financial instruments. There were no other transfers from Level 1 to Level 2 or vice versa during the year ended December 31, 2020.

Transfers from Level 2 to Level 3 during the year ended December 31, 2020 amount to $10 (none for the year ended December 31, 2019). These transfers are from bonds designated at fair value through profit or loss. The fair value of these bonds is measured at the quoted market price obtained through brokers who estimate the fair value of these financial instruments. However, the price of these bonds has remained unchanged for more than 30 days which, according to the Company's internal policy, results in a transfer.

Transfers from Level 3 to Level 2 during the year ended December 31, 2020 amount to $7 (none for the year ended December 31, 2019). These transfers are from bonds designated at fair value through profit or loss. The fair value of these bonds is measured at the quoted market price obtained through brokers who estimate the fair value of these financial instruments. As at December 31, 2020, the value of these bonds is based on a price obtained less than 30 days ago.

Transfers from Level 3 to Level 1 during the year ended December 31, 2020 amount to $7 (none for the year ended December 31, 2019). These transfers are related to segregated funds financial instruments. The fair value of these stocks was previously determined using internal valuation models that required the use of assumptions, including one main assumption that was not observable in the market.

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

The Company uses unobservable inputs in the valuation of bonds and stocks classified into Level 3. Regarding bonds, unobservable inputs mainly correspond to credit and liquidity risk premiums ranging from 1.30% to 2.43% as at December 31, 2020 (1.09% to 2.68% as at December 31, 2019). Stocks classified into Level 3 are mainly valuated from information available in the financial statements of companies using models based on discounting expected cash flows as well as the use of multiples.

The main unobservable inputs used in the valuation of the investment properties as at December 31, 2020 are the discount rate, which is between 5.25% and 8.00% (5.25% and 7.75% in 2019) and the terminal capitalization rate, which is between 4.25% and 7.25% (4.25% and 7.25% in 2019). The discount rate is based on market activity by type of building and the location and reflects the expected rate of return to be realized on investments over the next 10 years. The terminal capitalization rate is based on market activity by type of building and the location and reflects the expected rate of return to be realized on investments over the remaining life after the 10-year period. If all other factors remain constant, a decrease (increase) in the discount rate and terminal capitalization rate will lead to an increase (decrease) in fair value of investment properties.

Due to the unobservable nature of the main data used to measure bonds, stocks and investment properties classified in Level 3, the Company does not assess whether the application of other assumptions would have an impact on fair value. Also, the investment properties as well as the bonds and stocks classified as designated at fair value through profit or loss support the insurance contract liabilities. Consequently, changes in the fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the CALM. Even if the Company were to use possible alternative assumptions affecting fair value, this would not have a significant impact on the Financial Statements.

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

	2020							
(in millions of dollars)	Balance as at December 31, 2019	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3	Balance as at December 31, 2020	Total unrealized gains (losses) included in net income on investments still held
Bonds								
Designated at fair value through profit or loss	$ 129	$ 11	$ —	$ 26	$ (29)	$ 3	$ 140	$ 11
Available for sale	11	—	—	—	(11)	—	—	—
Stocks								
Designated at fair value through profit or loss	1,291	48	—	199	(94)	—	1,444	49
Available for sale	31	—	2	11	(1)	—	43	—
Derivative financial instruments								
Held for trading	—	3	—	—	—	—	3	3
Investment properties	2,077	(129)	—	28	(60)	—	1,916	(129)
General fund investments recognized at fair value	3,539	(67)	2	264	(195)	3	3,546	(66)
Segregated funds financial instruments and investment properties	90	10	—	181	(10)	(7)	264	10
Total	$ 3,629	$ (57)	$ 2	$ 445	$ (205)	$ (4)	$ 3,810	$ (56)

(in millions of dollars)	2019 Balance as at December 31, 2018	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3	Balance as at December 31, 2019	Total unrealized gains (losses) included in net income on investments still held
Bonds								
Designated at fair value through profit or loss	$ 140	$ 7	$ —	$ —	$ (18)	$ —	$ 129	$ 7
Available for sale	16	—	—	—	(5)	—	11	—
Stocks								
Designated at fair value through profit or loss	1,134	5	—	198	(46)	—	1,291	5
Available for sale	29	—	(1)	3	—	—	31	—
Derivative financial instruments								
Held for trading	1	—	—	—	(1)	—	—	—
Investment properties	1,720	44	—	318	(5)	—	2,077	44
General fund investments recognized at fair value	3,040	56	(1)	519	(75)	—	3,539	56
Segregated funds financial instruments and investment properties	47	1	—	44	(2)	—	90	2
Total	$ 3,087	$ 57	$ (1)	$ 563	$ (77)	$ —	$ 3,629	$ 58

For the year ended December 31, 2020, an amount of $28 ($55 for the year ended December 31, 2019) presented in *Purchases* for investment properties corresponds to capitalizations to *Investment properties.* Also, *Sales and settlements* for investment properties do not include any transfers to fixed assets ($2 for the year ended December 31, 2019).

Realized and unrealized gains (losses) included in net income and *Total unrealized gains (losses) included in net income on financial instruments still held* are presented in the *Investment income* in the Income Statement, except the value of segregated funds assets, which is not presented in the Income Statement, but is included in the change in segregated funds net assets in Note 12 "Segregated Funds Net Assets". *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 19 "Accumulated Other Comprehensive Income" in *Unrealized gains (losses).*

Fair Value Disclosed in the Notes

The Company classifies certain financial instruments as held to maturity or as loans and receivables. These financial instruments are measured at amortized cost and fair value is disclosed in the notes. The following table shows the hierarchy level of such fair values:

(in millions of dollars)	2020 Level 1	Level 2	Level 3	Total
Classified as held to maturity				
Bonds				
Governments	**$ —**	**$ 497**	**$ —**	**$ 497**
Total of assets classified as held to maturity	**—**	**497**	**—**	**497**
Classified as loans and receivables				
Bonds				
Governments	**—**	**8**	**148**	**156**
Municipalities	**—**	**54**	**—**	**54**
Corporate and other	**—**	**187**	**2,637**	**2,824**
	—	**249**	**2,785**	**3,034**
Mortgages and other loans	**—**	**2,854**	**—**	**2,854**
Total of assets classified as loans and receivables	**—**	**3,103**	**2,785**	**5,888**
Total of assets whose fair value is disclosed in the notes	**$ —**	**$ 3,600**	**$ 2,785**	**$ 6,385**

(in millions of dollars)	2019 Level 1	Level 2	Level 3	Total
Classified as loans and receivables				
Bonds				
Governments	$ —	$ 8	$ 132	$ 140
Municipalities	—	51	—	51
Corporate and other	—	243	2,138	2,381
	—	302	2,270	2,572
Mortgages and other loans	—	3,823	—	3,823
Total of assets classified as loans and receivables	$ —	$ 4,125	$ 2,270	$ 6,395

Financial Liabilities

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

(in millions of dollars)	**2020** **Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Other liabilities				
Held for trading	**$ 65**	**$ 208**	**$ —**	**$ 273**
Derivative financial instruments				
Held for trading	**220**	**310**	**39**	**569**
Total of liabilities classified as held for trading	**285**	**518**	**39**	**842**
Classified at amortized cost				
Other liabilities				
Securitization liabilities	**—**	**1,009**	**—**	**1,009**
Mortgage debt	**—**	**76**	**—**	**76**
Debentures	**—**	**1,528**	**—**	**1,528**
Total of liabilities classified at amortized cost	**$ —**	**$ 2,613**	**$ —**	**$ 2,613**

(in millions of dollars)	2019 Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Other liabilities				
Held for trading	$ 46	$ 165	$ —	$ 211
Derivative financial instruments				
Held for trading	80	339	36	455
Total of liabilities classified as held for trading	126	504	36	666
Classified at amortized cost				
Other liabilities				
Securitization liabilities	—	1,183	—	1,183
Mortgage debt	—	76	—	76
Debentures	—	1,063	—	1,063
Total of liabilities classified at amortized cost	$ —	$ 2,322	$ —	$ 2,322

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

	2020							
(in millions of dollars)	**Balance as at December 31, 2019**	**Realized and unrealized gains (losses) included in net income**	**Realized and unrealized gains (losses) included in other comprehensive income**	**Purchases**	**Sales and settlements**	**Transfers into (out of) Level 3**	**Balance as at December 31, 2020**	**Total unrealized gains (losses) included in net income on financial liabilities**
Derivative financial instruments	**$ 36**	**$ 5**	**$ —**	**$ 1**	**$ (3)**	**$ —**	**$ 39**	**$ —**

	2019							
(in millions of dollars)	Balance as at December 31, 2018	Realized and unrealized gains (losses) included in net income	Realized and unrealized gains (losses) included in other comprehensive income	Purchases	Sales and settlements	Transfers into (out of) Level 3	Balance as at December 31, 2019	Total unrealized gains (losses) included in net income on financial liabilities
Derivative financial instruments	$ 31	$ —	$ —	$ 9	$ (4)	$ —	$ 36	$ —

7 › Management of Risks Associated with Financial Instruments

Effective risk management rests on identifying, understanding and communicating all risks the Company is exposed to in the course of its operations. Risk management is comprised of a series of objectives, policies and procedures that are approved by the Board of Directors and enforced by managers. The main risk management policies and procedures are subject to annual reviews. More information regarding the principles, responsibilities and key measures and management practices of the Company's risk management is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on pages 47 to 56. The shaded information in these pages is considered an integral part of these financial statements. Market risk, credit risk and liquidity risk are the most significant risks that the Company must manage for financial instruments.

a) Market Risk

Market risk represents the risk of fluctuation in the fair value of a financial instrument, which could lead to a loss due to changes in market factors, such as interest rates, stock prices and exchange rates.

Interest Rate Risk

One of an insurer's fundamental activities is to invest client premiums for the payment of future benefits, whose maturity date may be a long-time in the future, such as death benefits and annuity payments. To properly manage the risks of interest rate fluctuations and fund availability, the Company maintains a system to match its assets to its insurance contract liabilities and long-term debts, matches its liabilities until they expire and uses derivative financial instruments as complementary management tools. Consequently, assets are chosen based on amount, cash flow and return in order to correspond to the characteristics of the matched liabilities. The accounting policies for derivative financial instruments used for matching correspond to those used for the underlying items. Therefore, any change in the fair value of assets held for matching purposes will have little impact on the financial position of the Company and on its ability to honour its obligations. One of the strategies used in matching is immunization. This strategy consists in using fixed income securities to immunize a liability against interest rate variations. In the measurement of its insurance contract liabilities, as described in Note 14 "Insurance Contract Liabilities and Investment Contract Liabilities", the Company takes into account the level of matching achieved between assets and liabilities.

Risk of a Market Downturn

The risk of a market downturn represents the risk of losses caused by stock market fluctuations or caused by private equity value fluctuations. The Company is exposed to this risk in various ways as part of its regular operations, through: 1) the fee income collected on the investment funds managed by the Company, which is calculated based on assets under management; 2) the discounted future revenues on Universal Life policy funds; 3) the income on capital generated by the assets backing the Company's capital; and 4) benefits from guarantees on segregated funds.

In its risk management strategy, the Company has implemented a dynamic hedging program for all minimum withdrawal guarantees and almost all maturity guarantees offered by the Individual Wealth Management sector. The value of the assets underlying the hedged guarantees represents $7,140 as at December 31, 2020 ($7,366 in 2019). More detailed information on the hedging program is provided in the shaded portion of the "Risk Management" section of the Management's Discussion and Analysis on page 53.

Foreign Currency Risk

Foreign currency risk represents the risk that the Company assumes for losses due to exchange rates related to foreign currencies to which the Company is exposed. The Company has adopted a policy to avoid exposure to currency risk whereby liabilities are generally matched with assets of the same currency; otherwise, derivative financial instruments are used. To protect itself against foreign currency risk, the Company also uses hedge accounting to limit the impact of changes in equity, primarily with respect to a net investment in a foreign operation that has a different functional currency from the Company's functional currency. Disclosure of hedge accounting is presented in Note 8 "Derivative Financial Instruments".

Impairment of Financial Assets Classified as Available for Sale
For the years ended December 31, 2020 and 2019, the Company did not reclassify any unrealized losses of stocks classified as available for sale from *Other comprehensive income* to *Investment income* in the Income Statement.

Since the financial assets designated at fair value through profit or loss are matched, variations of fair value, other than those related to credit risk, are directly reflected in the *Increase (decrease) in insurance contract liabilities*, which prevents a disparity of the treatment in the net income. Only variations in the fair value related to credit events regarding cash flows would have an impact on the Company's net income.

The unrealized gains and losses on financial assets classified as available for sale and included in the *Accumulated other comprehensive income* are the following:

	2020			2019		
(in millions of dollars)	**Fair value**	**Unrealized losses**	**Unrealized gains**	Fair value	Unrealized losses	Unrealized gains
Bonds						
Governments	**$ 1,855**	**$ (1)**	**$ 81**	$ 1,870	$ (1)	$ 57
Municipalities	**205**	**—**	**10**	166	—	3
Corporate and other	**1,952**	**—**	**88**	1,721	(2)	40
	4,012	**(1)**	**179**	3,757	(3)	100
Stocks	**595**	**(10)**	**18**	513	(21)	10
Other investments	**123**	**—**	**4**	—	—	—
Total	**$ 4,730**	**$ (11)**	**$ 201**	$ 4,270	$ (24)	$ 110

b) Credit Risk
Credit risk corresponds to the possibility that the Company will sustain a financial loss if a counterparty or a debtor does not meet its commitments. This is a material risk for the Company, and it originates mainly from credit granted in the form of mortgages and other loans as well as private placements, exposure to different investment portfolios, derivative financial instruments and reinsurance activities. The maximum credit risk associated with financial instruments corresponds to the carrying value of financial instruments presented in the Statement of Financial Position, except for the investments in associates and joint ventures.

Credit risk can also occur when there is a concentration of investments in entities with similar characteristics or that operate in the same sector or the same geographic region, or when a major investment is made in one entity. This constitutes concentration risk.

The Company's credit risk management policies include the assignment of risk ratings, management of impaired loans, as well as a level of authorization according to the rating and the amount of the financial instrument. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. Consequently, the Company manages credit risk in accordance with these investment policies. These policies define the credit risk limits according to the characteristics of the counterparties. The Company requires prudent diversification of its credit portfolios, the use of follow-up mechanisms that rely on pricing procedures and granting of credit and a regular follow-up of its risk measurement after the initial granting of credit. The Company also requires a review and independent audit of its credit risk management program and reports the results of the follow-up, review and audit program to the Board of Directors. The credit risk related to derivative financial instruments is presented in Note 8 "Derivative Financial Instruments".

b) i) Credit Quality Indicators
Bonds by Investment Grade

(in millions of dollars)	**2020**	2019
AAA	**$ 1,916**	$ 1,866
AA	**15,176**	13,101
A	**9,459**	7,960
BBB	**5,231**	4,343
BB and lower	**317**	238
Total	**$ 32,099**	$ 27,508

The Company prepares an assessment of the quality of the investment if the evaluation is not available from a credit rating agency. Bonds that have been internally evaluated represent an amount of $2,116 as at December 31, 2020 ($2,054 as at December 31, 2019).

Mortgages and Other Loans

(in millions of dollars)		2020		2019
Insured mortgages	$	1,384	$	2,271
Conventional mortgages		507		805
Other loans		910		794
Total	$	2,801	$	3,870

The credit quality of mortgages and other loans is assessed internally, on a regular basis, when the review of the portfolio is made.

Derivative Financial Instruments
The Company's credit risk exposure is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument. The Company applies the same criteria in selecting counterparties as it does for investing in bonds. As at December 31, 2020, all counterparties to derivative financial instrument contracts have a credit rating of AA- or higher (AA- or higher as at December 31, 2019).

Reinsurance Assets
The Company assesses the financial soundness of reinsurers before signing any reinsurance agreements and monitors their situation on a regular basis. It can eliminate certain risks by using letters of credit and by requiring cash deposits in trust accounts. Reinsurance agreements without security held from reinsurers are with several well-established, highly rated reinsurers. The Company's reinsurance assets are with reinsurers who have a minimum credit rating of A- in a proportion of 99% (98% in 2019).

b) ii) Past Due or Impaired Financial Assets
To manage risk, the Company evaluates, among other things, the ability of the issuer to ensure current and future contractual payments of principal and interest. The Company follows up monthly to ensure that cash flows stipulated in the contract are recovered in a timely manner and takes the necessary action to address the outstanding amounts. In addition, the Company identifies the issuers that may have an unstable financial situation and classifies each of the issuer's assets under one of the following quality lists:

Watch list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require monitoring. No impairment loss is recognized in respect of assets of these issuers.

List of securities on the monitor list: The collection of current and future contractual payments of principal and interest is reasonably assured, but changes in the facts and circumstances specific to the issuer require increased monitoring. An asset is moved from the watch list to the list of securities on the monitor list when changes in facts and circumstances of the issuer increase the likelihood that a security suffers as a loss-generating event in the near future. No impairment loss is accounted for in respect of assets of these issuers.

List of impaired assets: The collection of current and future contractual payments of principal and interest is no longer assured. For investments classified as available for sale or carried at amortized cost, an impairment loss is recognized in Net income.

The Company maintains provisions for potential credit losses, including losses of principal and interest on bonds, mortgages and other loans, and real estate held for resale. Provisions for credit losses consist of specific provisions for loans and debt securities considered to be impaired, as well as amounts for financial assets which have similar credit risks that are subject to a collective impairment test.

The carrying value of loans and debt securities considered by the Company to be impaired is reduced by specific provisions to the value estimated to be realizable. A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more in the case of mortgages and 120 days or more in the case of other loans and that is not the subject of a measure deployed by the Company to support its clients or in foreclosure is assumed to be impaired. Any impaired loan which is not insured and fully guaranteed is considered as an impaired investment. When an asset is classified as impaired, allowances for losses are established to adjust the carrying value of the asset to its net recoverable amount. To determine this amount, several factors are taken into account, including market conditions, evaluations obtained from third parties and/or the discounted value of expected cash flows. A provision for losses on reinsurance assets is established when a reinsurance counterparty is no longer able to meet its contractual commitments to the Company. In addition, a provision, included as a component of insurance contract liabilities, is made for other potential future losses on loans and debt securities matching these liabilities, in compliance with actuarial standards.

Past Due Bonds, Mortgages and Other Loans
Bonds, mortgages and other loans are considered in arrears when the counterparty has not made a payment at a contractual date.

(in millions of dollars)	2020 Bonds classified as held to maturity	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
Gross values					
Not past due and not impaired	**$ 494**	**$ 2,604**	**$ 1,786**	**$ 903**	**$ 5,787**
Past due and not impaired					
30 – 89 days in arrears	**—**	**—**	**24**	**29**	**53**
90 – 119 days in arrears	**—**	**—**	**—**	**4**	**4**
120 days or more in arrears	**—**	**—**	**—**	**1**	**1**
Impaired	**—**	**45**	**—**	**—**	**45**
Total of gross values	**$ 494**	**$ 2,649**	**$ 1,810**	**$ 937**	**$ 5,890**
Specific provisions for losses	**—**	**14**	**—**	**—**	**14**
	494	**2,635**	**1,810**	**937**	**5,876**
Collective provisions	**—**	**—**	**—**	**27**	**27**
Total of net values	**$ 494**	**$ 2,635**	**$ 1,810**	**$ 910**	**$ 5,849**

(in millions of dollars)	2019 Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
Gross values				
Not past due and not impaired	$ 2,319	$ 2,978	$ 760	$ 6,057
Past due and not impaired				
30 – 89 days in arrears	—	2	36	38
90 – 119 days in arrears	—	2	5	7
120 days or more in arrears	—	—	2	2
Impaired	21	—	1	22
Total of gross values	$ 2,340	$ 2,982	$ 804	$ 6,126
Specific provisions for losses	10	—	—	10
	2,330	2,982	804	6,116
Collective provisions	—	—	10	10
Total of net values	$ 2,330	$ 2,982	$ 794	$ 6,106

Foreclosed Properties

During the year ended December 31, 2020, the Company took possession of properties held as collateral on mortgages for a value of less than $1 ($3 for the year ended December 31, 2019). Foreclosed properties that the Company still held at year-end are presented as real estate held for resale in Note 9 “Other Assets”.

Specific Provisions for Losses

(in millions of dollars)	2020 Bonds classified as loans and receivables
Balance at beginning	**$ 10**
Variation in specific provisions for losses	**4**
Balance at end	**$ 14**

	2019		
(in millions of dollars)	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Total
Balance at beginning	$ 8	$ 1	$ 9
Variation in specific provisions for losses	2	(1)	1
Balance at end	$ 10	$ —	$ 10

During the year ended December 31, 2020, the specific provisions for losses did not vary for bonds classified as held to maturity, mortgages classified as loans and receivables and other loans. The specific provisions for losses for other loans did not vary for the year ended December 31, 2019 .

b) iii) Other Information on Credit Risk

Investment properties

Minimum payments receivable from rental of investment properties in future years are as follows:

(in millions of dollars)	**2020**	2019
Due in 1 year or less	**$ 84**	$ 86
Due after 1 year to 5 years	**297**	307
Due after 5 years	**435**	468
Total	**$ 816**	$ 861

These payments are received under operating leases and are therefore not recorded in the Statement of Financial Position.

Securitization of Mortgages

Securitization of Residential Mortgages

As mentioned in Note 5 "Invested Assets and Investment Income", the Company derecognized the residential mortgages and recognized government bonds as part of its assets. The securitization liability related to the portfolio, presented in *Other liabilities*, was not derecognized because the Company remains responsible for the related liabilities. As at December 31, 2019, the Company recognized the full carrying value of the residential mortgages because it had retained substantially all risks and rewards related to these loans. As at December 31, 2020, there are no securitized residential mortgages (carrying value of $663 in 2019) and the carrying value of the government bonds is $494 ($0 in 2019). Their fair values are $0 and $497 respectively ($663 and $0 respectively in 2019).

Securitization of Multi-residential and Non-residential Mortgages

During the years ended December 31, 2020 and 2019, as part of the Canada Mortgage and Housing Corporation (CMHC) program, the Company transferred insured multi-residential and non-residential mortgages to an unrelated counterparty. As part of this transfer, the Company conserved substantially all risks and rewards related to the transferred mortgages. For these multi-residential and non-residential mortgages, the Company is exposed to credit risk in the event of a late payment by the borrower. In this situation, the unrelated counterparty has no obligation to compensate the Company. Additionally, in the event of prepayment, any difference between the return generated by the reinvestment versus the Company's obligations to the counterparty would be assumed by the Company. Consequently, the Company continues to recognize the full carrying value of these multi-residential and non-residential mortgages. As at December 31, 2020, the carrying value of the ceded mortgages is $437 ($499 in 2019) and their fair value is $457 ($497 in 2019).

The carrying value of the liability related to the securitization of residential, multi-residential and non-residential mortgages is $977 ($1,179 in 2019). Its fair value is $1,009 ($1,183 in 2019).

Securities Lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for short periods. Collateral, which represents between 102% and 107% (between 102% and 107% in 2019) of the fair value of the loaned securities according to their nature, is deposited by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market values fluctuate. It is Company practice to obtain a guarantee from the lending agent against counterparty default, including collateral deficiency. As at December 31, 2020, the Company had loaned securities, which are included in invested assets, with a carrying value of approximately $73 ($3,979 in 2019).

Right of Offset, Collateral Held and Transferred

The Company negotiates financial instruments in accordance with the Credit Support Annex, which forms part of the International Swaps and Derivative Association's (ISDA) Master Agreement and in accordance with the Supplemental Terms or Conditions Annex, which forms part of the Global Master Repurchase Agreement (GMRA). These agreements require guarantees by the counterparty or by the Company. The amount of assets to pledge is based on changes in fair value of financial instruments. The fair value is monitored daily. The assets pledged as collateral consist of, but are not limited to cash, Treasury bills and Government of Canada bonds. The Company may receive assets as collateral from the counterparty. According to the conditions set forth in the Credit Support Annex, the Company may be authorized to sell or re-pledge the assets it receives. In addition, under the ISDA and the GMRA, the Company has the right to offset in the event of default, insolvency, bankruptcy or other early termination. The following table presents the impact of conditional compensation on the financial situation and that of other similar agreements, namely the GMRA and the Credit Support Appendices (CSA).

	As at December 31, 2020			
	Financial instruments presented in the Statements of Financial Position	**Related amount not offset in the Statements of Financial Position**		**Net amount**
(in millions of dollars)		**Financial instruments**	**Financial collateral/pledged**	
Financial assets				
Derivative financial instruments (Note 8)	**$ 1,652**	**$ 307**	**$ 872**	**$ 473**
Securities purchased under reverse repurchase agreements (Note 9)	**20**	**—**	**20**	**—**
	1,672	**307**	**892**	**473**
Financial liabilities				
Derivative financial instruments (Note 8)	**569**	**307**	**—**	**262**
Securities sold under repurchase agreements (Note 15)	**13**	**—**	**13**	**—**
	$ 582	**$ 307**	**$ 13**	**$ 262**

	As at December 31, 2019			
	Financial instruments presented in the Statements of Financial Position	Related amount not offset in the Statements of Financial Position		Net amount
(in millions of dollars)		Financial instruments	Financial collateral/pledged	
Financial assets				
Derivative financial instruments (Note 8)	$ 1,003	$ 339	$ 498	$ 166
Financial liabilities				
Derivative financial instruments (Note 8)	$ 455	$ 339	$ —	$ 116

Since the Company does not offset the financial instruments presented in the Statement of Financial Position, the net amount of the financial instruments is identical to the gross amount of the financial position.

Financial collateral received/pledged shown in the table above excludes initial margin on over-the-counter derivatives and forward currency contracts traded on the stock exchange, amounts related to segregated fund assets, overcollateralization as well as overcollateralized derivative financial instruments. The total value of collateral received was $782 as at December 31, 2020 on the assets of derivative financial instruments ($476 as at December 31, 2019) and $20 on securities purchased under reverse repurchase agreements (none as at December 31, 2019). As at December 31, 2020, the Company had no pledge on derivative financial instrument liabilities (none as at December 31, 2019) and $13 on securities sold under repurchase agreements (none as at December 31, 2019).

Interests in Non-Consolidated Structured Entities

The Company has determined that its investments in asset-backed securities, its investments in investment fund units and its private stocks represent interests held in non-consolidated structured entities.

Asset-backed securities and mortgage securities are managed by entities that combine similar assets and sell them to investors who receive all or a portion of the cash flows generated. These entities are managed by managers who are not related to the Company.

The goal of the investment fund units in which the Company invests is to generate capital growth. These investment fund units are either managed by external managers or by internal managers through Company subsidiaries. The managers apply various investment strategies to meet their respective objectives. The Company also invests in fund units through its segregated funds.

The table below presents the non-consolidated structured entities according to their type in the Statement of Financial Position.

	2020		2019	
(in millions of dollars)	**Carrying amount**	**Maximum risk**	Carrying amount	Maximum risk
Government bonds				
Mortgage-backed securities	**$ 555**	**$ 555**	$ 75	$ 75
Corporate and other bonds				
Asset-backed securities	**4**	**4**	6	6
	559	**559**	81	81
Stocks				
Investment fund units managed internally	**331**	**331**	285	285
Investment fund units managed externally	**324**	**324**	211	211
Private stocks	**1,487**	**1,487**	1,321	1,321
	2,142	**2,142**	1,817	1,817
Total	**$ 2,701**	**$ 2,701**	$ 1,898	$ 1,898

The maximum risk represents the risk of total loss that the Company could suffer on investments in non-consolidated structured entities, which equals the carrying amount of these investments in the above table.

The Company develops and sponsors mutual funds to implement investment strategies on behalf of investors, and earns management fees for providing these services. The Company does not control these mutual funds. The Company's interest in mutual funds is limited to the capital invested, if any, and fees earned. The Company's mutual fund assets under management as at December 31, 2020 were $11,393 ($11,594 as at December 31, 2019).

b) iv) Concentration Risk

Concentration risk arises when there is a concentration of investments in entities with similar characteristics, or when a substantial investment is made with a single entity. The following tables provide information about the Company's investment concentration risk.

Bonds by sector of activity

	2020			
(in millions of dollars)	**At fair value through profit or loss**	**Available for sale**	**Loans and receivables**	**Total**
Bonds (corporate and other)				
Financial services	**$ 1,832**	**$ 1,246**	**$ 413**	**$ 3,491**
Utilities	**3,616**	**126**	**779**	**4,521**
Consumer cyclical and non-cyclical	**2,337**	**167**	**332**	**2,836**
Energy	**955**	**192**	**404**	**1,551**
Industry	**876**	**32**	**237**	**1,145**
Communications	**896**	**151**	**—**	**1,047**
Other	**411**	**38**	**313**	**762**
Total	**$ 10,923**	**$ 1,952**	**$ 2,478**	**$ 15,353**

	2019			
(in millions of dollars)	At fair value through profit or loss	Available for sale	Loans and receivables	Total
Bonds (corporate and other)				
Financial services	$ 1,492	$ 1,024	$ 411	$ 2,927
Utilities	2,786	100	730	3,616
Consumer cyclical and non-cyclical	1,920	156	336	2,412
Energy	944	249	420	1,613
Industry	668	34	203	905
Communications	473	115	—	588
Other	318	43	79	440
Total	$ 8,601	$ 1,721	$ 2,179	$ 12,501

Mortgages and other loans by region and type

	2020					
(in millions of dollars)	**Atlantic provinces**	**Quebec**	**Ontario**	**Western provinces**	**Outside Canada**	**Total**
Insured mortgages						
Multi-residential	**$ 28**	**$ 839**	**$ 166**	**$ 346**	**$ —**	**$ 1,379**
Non-residential	**—**	**—**	**1**	**4**	**—**	**5**
	28	**839**	**167**	**350**	**—**	**1,384**
Conventional mortgages						
Multi-residential	**—**	**45**	**48**	**40**	**115**	**248**
Non-residential	**20**	**35**	**55**	**71**	**78**	**259**
	20	**80**	**103**	**111**	**193**	**507**
Other loans	**113**	**255**	**273**	**269**	**—**	**910**
Total	**$ 161**	**$ 1,174**	**$ 543**	**$ 730**	**$ 193**	**$ 2,801**

	2019					
(in millions of dollars)	Atlantic provinces	Quebec	Ontario	Western provinces	Outside Canada	Total
Insured mortgages						
Residential	$ 1	$ 785	$ 54	$ 6	$ —	$ 846
Multi-residential	28	833	165	393	—	1,419
Non-residential	—	—	2	4	—	6
	29	1,618	221	403	—	2,271
Conventional mortgages						
Residential	1	145	129	18	—	293
Multi-residential	—	49	45	23	142	259
Non-residential	21	53	34	83	62	253
	22	247	208	124	204	805
Other loans	91	230	244	229	—	794
Total	$ 142	$ 2,095	$ 673	$ 756	$ 204	$ 3,870

Investment properties by type

(in millions of dollars)	**2020**	2019
Office	**$ 1,646**	$ 1,767
Retail	**188**	236
Industrial	**74**	66
Land and other	**8**	8
Total	**$ 1,916**	$ 2,077

c) Interest Rate Risk

Interest rate risk arises, among other things, from the uncertainty of the future interest rates at which maturing investments will be reinvested. The following table provides information on the maturity dates of the Company's investments subject to interest rate risk. Policy loans do not have a maturity date.

	2020		2019	
(in millions of dollars)	**Bonds**	**Mortgages and other loans**	Bonds	Mortgages and other loans
Due in 1 year or less	**$ 561**	**$ 360**	$ 835	$ 358
Due after 1 year to 5 years	**3,794**	**1,331**	2,709	2,476
Due after 5 years to 10 years	**2,502**	**871**	2,176	788
Due after 10 years	**25,242**	**239**	21,788	248
Total	**$ 32,099**	**$ 2,801**	$ 27,508	$ 3,870

The effective yield is between 0.00% and 15.93% (0.00% and 12.48% in 2019) for bonds, between 0.49% and 34.99% (1.57% and 34.99% in 2019) for mortgages and other loans and between 0.00% and 14.37% (0.00% and 15.43% in 2019) for policy loans.

d) Liquidity Risk
Liquidity risk represents the possibility that the Company will not be able to raise the necessary funds, at the appropriate time and under reasonable conditions, to honour its financial commitments.

The following tables present the maturities of financial liabilities and lease liabilities:

	2020				
(in millions of dollars)	Due in 1 year or less	Due in over 1 year to 3 years	Due in over 3 years to 5 years	Due in over 5 years	Total
Benefits payable	$ 218	$ —	$ —	$ —	$ 218
Other policy liabilities	39	8	2	—	49
Amounts on deposit related to products other than insurance contracts	1,770	8	4	—	1,782
Investment contract liabilities	159	99	64	253	575
Derivative financial instruments	248	22	28	271	569
Other financial liabilities	1,416	52	39	13	1,520
Securities sold under repurchase agreements	13	—	—	—	13
Short-selling securities	273	—	—	—	273
Securitization liabilities	203	505	262	7	977
Mortgage debt	2	73	—	—	75
Lease liabilities	22	40	27	52	141
Debentures	—	—	—	1,449	1,449
Total	$ 4,363	$ 807	$ 426	$ 2,045	$ 7,641

	2019				
(in millions of dollars)	Due in 1 year or less	Due in over 1 year to 3 years	Due in over 3 years to 5 years	Due in over 5 years	Total
Benefits payable	$ 153	$ —	$ —	$ —	$ 153
Other policy liabilities	45	6	2	—	53
Amounts on deposit related to products other than insurance contracts	1,348	33	3	—	1,384
Investment contract liabilities	184	97	69	280	630
Derivative financial instruments	123	48	38	246	455
Other financial liabilities	1,090	40	14	7	1,151
Short-selling securities	211	—	—	—	211
Securitization liabilities	207	516	367	89	1,179
Mortgage debt	2	72	—	—	74
Lease liabilities	19	24	26	68	137
Debentures	—	—	—	1,050	1,050
Total	$ 3,382	$ 836	$ 519	$ 1,740	$ 6,477

Annual interest payments are as follows:

(in millions of dollars)	2021	2022	2023	2024	2025
Securitization liabilities	$ 20	$ 17	$ 11	$ 5	$ 2
Lease liabilities	5	4	3	3	2
Debentures	$ 42	$ 42	$ 42	$ 42	$ 42

Information concerning off-Statement of Financial Position commitments is presented in Note 29 “Guarantees, Commitments and Contingencies”.

8 › Derivative Financial Instruments

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

Swaps are over-the-counter (OTC) contractual agreements between the Company and a third party to exchange a series of cash flows based on rates applied to a notional amount. Interest rate swaps are contractual agreements in which two counterparties exchange a fixed or a floating interest rate payment based on the notional amount for a specified period, according to a frequency and denominated in the same currency. Currency rate swaps are transactions in which two counterparties exchange cash flows of the same nature and denominated in two different currencies. Total return swaps are contracts that transfer the variations in value of a reference asset, including any returns such as interest earned on these assets, in exchange for a reference return specified in the contract.

Forwards, which are OTC contractual agreements negotiated between counterparties, and futures contracts, which are traded on an organized market, are contractual obligations to buy or to sell a financial instrument at a predetermined future time at a given price.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or to sell a financial asset at a predetermined price during a given time period or at a fixed date.

The notional amount represents the amount to which a rate or price is applied to determine the cash flows to be exchanged periodically and does not represent direct credit exposure. Maximum credit risk is the estimated cost of replacing derivative financial instruments that have a positive value should the counterparty default. The maximum credit risk of derivative financial instruments as at December 31, 2020 is $1,648 ($1,001 in 2019). The Company's exposure at the end of each reporting period is limited to the risk that a counterparty does not honour the terms of a derivative financial instrument.

	2020					
	Notional amount				**Fair value**	
(in millions of dollars)	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Positive**	**Negative**
Equity contracts						
Swap contracts	**$ 735**	**$ 460**	**$ 87**	**$ 1,282**	**$ 35**	**$ (3)**
Futures contracts	**660**	**—**	**—**	**660**	**1**	**(8)**
Options	**7,632**	**—**	**—**	**7,632**	**439**	**(215)**
Currency contracts						
Forward contracts	**4,476**	**536**	**—**	**5,012**	**129**	**(18)**
Swap contracts	**510**	**367**	**3,345**	**4,222**	**136**	**(137)**
Interest rate contracts						
Swap contracts	**1,093**	**3,169**	**4,845**	**9,107**	**538**	**(148)**
Forward contracts	**1,597**	**2,456**	**—**	**4,053**	**371**	**(1)**
Credit risk contracts						
Swap contracts	**—**	**2**	**—**	**2**	**—**	**—**
Other derivative contracts	**3**	**5**	**340**	**348**	**3**	**(39)**
Total	**$ 16,706**	**$ 6,995**	**$ 8,617**	**$ 32,318**	**$ 1,652**	**$ (569)**

	2019					
	Notional amount				Fair value	
(in millions of dollars)	Less than 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
Equity contracts						
Swap contracts	$ 490	$ 719	$ 97	$ 1,306	$ 21	$ (2)
Futures contracts	632	—	—	632	1	(4)
Options	5,594	—	—	5,594	236	(77)
Currency contracts						
Forward contracts	4,315	1,057	—	5,372	70	(34)
Swap contracts	21	777	2,406	3,204	33	(169)
Interest rate contracts						
Swap contracts	643	3,188	5,697	9,528	361	(65)
Forward contracts	1,165	2,544	200	3,909	280	(68)
Other derivative contracts	1	2	357	360	1	(36)
Total	$ 12,861	$ 8,287	$ 8,757	$ 29,905	$ 1,003	$ (455)

(in millions of dollars)	2020 Notional amount	Fair value Positive	Negative
Derivative financial instruments not designated as hedge accounting	**$ 29,733**	**$ 1,580**	**$ (540)**
Net investment hedge	**1,555**	**56**	**—**
Fair value hedges			
Interest risk	**860**	**10**	**(28)**
Currency risk	**30**	**1**	**—**
Cash flow hedges			
Currency risk	**140**	**5**	**(1)**
Total of derivative financial instruments	**$ 32,318**	**$ 1,652**	**$ (569)**

(in millions of dollars)	2019 Notional amount	Fair value Positive	Negative
Derivative financial instruments not designated as hedge accounting	$ 26,568	$ 964	$ (425)
Net investment hedge	1,284	23	—
Fair value hedges			
Interest risk	1,002	14	(5)
Currency risk	17	1	—
Cash flow hedges			
Currency risk	1,034	1	(25)
Total of derivative financial instruments	$ 29,905	$ 1,003	$ (455)

Embedded Derivative Financial Instruments

The Company owns perpetual preferred shares with call options that give the issuer the right to redeem the shares at a predetermined price. Accounting standards require that the value of the call options be measured separately from the preferred shares. The value of the call options for embedded derivative financial instruments is determined using a valuation that relies predominantly on the volatility, quoted price on markets and characteristics of the underlying preferred shares. Embedded derivative financial instruments are presented as *Other derivative contracts*.

Net Investment Hedge

Forward contracts, designated as hedges of net investments in foreign operations with a functional currency other than the functional currency of the Company, have maturities of less than 1 year as at December 31, 2020 (less than 2 years in 2019). The effective portion of changes in fair value is recorded in *Other comprehensive income*, as is the foreign currency translation of the net investment in a foreign operation. For the years ended December 31, 2020 and 2019, the Company did not recognize any ineffectiveness.

Fair Value Hedges

Interest rate risk hedging

The Company entered into a hedging relationship in order to reduce its exposure to interest rate risk related to financial assets classified as available for sale. The Company entered into interest rate swap contracts with maturities ranging from 1 year to 14 years as at December 31, 2020 (from 2 years to 15 years as at December 31, 2019).

The Company entered into a hedging relationship in order to reduce its exposure to interest rate risk on financial liabilities classified as financial liabilities at amortized cost. The Company entered into interest rate swap contracts with maturities of less than 1 year to 8 years as at December 31, 2020 (less than 1 year to 9 years as at December 31, 2019).

For the year ended December 31, 2020, the Company has recognized a loss of $20 on the hedging instruments (loss of $7 for the year ended December 31, 2019) and a gain of $19 on the hedged items (gain of $6 for the year ended December 31, 2019). For the year ended December 31, 2020, the Company has recognized an ineffectiveness of $1 ($1 for the year ended December 31, 2019).

Currency rate risk hedging

The Company entered into a fair value hedge to manage its exposure to changes in currency rate risk related to financial assets classified as available for sale. The Company entered into forward contracts with maturities of less than 2 years as at December 31, 2020 (less than 2 years as at December 31, 2019).

For the years ended December 31, 2020 and 2019, the Company did not recognize any ineffectiveness.

Cash Flow Hedges

The Company entered into a cash flow hedging relationship in order to manage its exposure to changes in currency rate risk on financial assets denominated in foreign currency. The Company entered into swap contracts that have maturities from 2 years to 9 years as at December 31, 2020 (from 4 years to 10 years as at December 31, 2019). For the years ended December 31, 2020 and 2019, the Company did not recognize any ineffectiveness.

During the year ended December 31, 2020, the Company ended a cash flow hedging relationship which was entered into in 2019 in order to manage its exposure to changes in currency rate risk on forecasted transactions. The Company was using forward contracts that had maturities of less than 1 year as at December 31, 2019. For the years ended December 31, 2020 and 2019, the Company did not recognize any ineffectiveness.

9 › Other Assets

(in millions of dollars)	**2020**	2019
Investment income due and accrued	**$ 203**	$ 186
Outstanding premiums	**105**	89
Due from reinsurers	**134**	115
Due from agents	**107**	84
Accounts receivable	**1,161**	963
Deferred sales commissions	**441**	160
Prepaid expenses	**41**	35
Real estate held for resale	**1**	9
Linearization of rents	**27**	22
Income taxes receivable	**137**	137
Funds deposited in trust	**877**	340
Securities purchased under reverse repurchase agreements	**20**	—
Miscellaneous	**7**	53
Total	**$ 3,261**	$ 2,193

The amount of *Other assets* that the Company expects to receive within the next 12 months is $1,847 ($1,574 as at December 31, 2019).

10 › Fixed Assets

(in millions of dollars)	Own-use Property Land	Own-use Property Real estate	Right-of-use Assets Rental space	Right-of-use Assets Other	Other fixed assets	Total
Cost						
Balance as at December 31, 2018	$ 48	$ 211	$ —	$ —	$ 231	$ 490
Impact of adopting IFRS 16	—	—	132	8	—	140
Balance as at January 1, 2019	48	211	132	8	231	630
Acquisitions	—	6	6	4	22	38
Disposals/write-offs	—	—	(1)	—	(13)	(14)
Transfer of an investment property	1	1	—	—	—	2
Transfer to properties held for resale	—	(8)	—	—	—	(8)
Effect of changes in exchange rates	—	(1)	—	—	(1)	(2)
Balance as at December 31, 2019	49	209	137	12	239	646
Acquisitions	**—**	**5**	**14**	**1**	**28**	**48**
Business acquisitions	**—**	**—**	**13**	**—**	**17**	**30**
Disposals/write-offs	**(1)**	**(14)**	**(9)**	**(1)**	**(40)**	**(65)**
Effect of changes in exchange rates	**—**	**—**	**(1)**	**—**	**(2)**	**(3)**
Balance as at December 31, 2020	**48**	**200**	**154**	**12**	**242**	**656**
Accumulated depreciation						
Balance as at December 31, 2018	—	60	—	—	153	213
Depreciation for the year	—	11	15	3	22	51
Depreciation on disposals/write-offs	—	—	—	—	(11)	(11)
Depreciation transferred to properties held for resale	—	(1)	—	—	—	(1)
Balance as at December 31, 2019	—	70	15	3	164	252
Depreciation for the year	**—**	**10**	**18**	**3**	**23**	**54**
Depreciation on disposals/write-offs	**—**	**(14)**	**(2)**	**—**	**(32)**	**(48)**
Depreciation acquired through business combinations	**—**	**—**	**—**	**—**	**8**	**8**
Balance as at December 31, 2020	**—**	**66**	**31**	**6**	**163**	**266**
Net carrying value as at December 31, 2020	**$ 48**	**$ 134**	**$ 123**	**$ 6**	**$ 79**	**$ 390**
Net carrying value as at December 31, 2019	$ 49	$ 139	$ 122	$ 9	$ 75	$ 394

During the year, no own-use property (a property of $7 in 2019) was transferred to properties held for resale under *Other assets*.

11 › Intangible Assets and Goodwill

Intangible assets (in millions of dollars)	**Finite useful life** Software applications	**Finite useful life** Other	**Indefinite useful life**	**Total**
Cost				
Balance as at December 31, 2018	$ 451	$ 532	$ 370	$ 1,353
Acquisitions	111	20	—	131
Disposals/write-offs	(23)	(2)	—	(25)
Effect of changes in exchange rates	—	(3)	—	(3)
Balance as at December 31, 2019	539	547	370	1,456
Acquisitions	**122**	**45**	**—**	**167**
Acquisitions through business combinations	**—**	**561**	**—**	**561**
Disposals/write-offs	**(27)**	**(1)**	**—**	**(28)**
Disposal of business	**(4)**	**(40)**	**(22)**	**(66)**
Effect of changes in exchange rates	**(2)**	**(47)**	**—**	**(49)**
Balance as at December 31, 2020	**628**	**1,065**	**348**	**2,041**
Accumulated depreciation				
Balance as at December 31, 2018	164	118	—	282
Depreciation for the year	38	37	—	75
Depreciation on disposals/write-offs	(9)	(2)	—	(11)
Balance as at December 31, 2019	193	153	—	346
Depreciation for the year	**46**	**63**	**—**	**109**
Depreciation on disposals/write-offs	**(7)**	**—**	**—**	**(7)**
Disposal of business	**(4)**	**(21)**	**—**	**(25)**
Effect of changes in exchange rates	**(2)**	**(1)**	**—**	**(3)**
Balance as at December 31, 2020	**226**	**194**	**—**	**420**
Net carrying value as at December 31, 2020	**$ 402**	**$ 871**	**$ 348**	**$ 1,621**
Net carrying value as at December 31, 2019	$ 346	$ 394	$ 370	$ 1,110

Goodwill (in millions of dollars)	
Balance as at December 31, 2018	$ 633
Effect of changes in exchange rates	(5)
Impairment	(22)
Balance as at December 31, 2019	606
Acquisition of businesses	**734**
Disposal of business	**(26)**
Effect of changes in exchange rates and other	**(66)**
Impairment	**(24)**
Balance as at December 31, 2020	**$ 1,224**

Impairment of Goodwill and Settlement of Contingent Consideration

As at March 31, 2020, as a result of the COVID-19 pandemic described in Note 2, the Company reviewed the financial projections of PPI Management Inc. Further to this review, an impairment test was performed with respect to PPI Management Inc.'s operations included in the Individual Insurance sector CGU. This led the Company to recognize an impairment of goodwill of $24. This amount was recognized in the Income Statement in *General expenses*. The recoverable amount of the CGU is determined by the higher of value in use and fair value less costs of sale which, as of March 31, 2020, was the value in use, determined using cash flow projections before tax based on future financial projections approved by management covering a five-year period.

During the quarter ended September 30, 2019, the Company concluded the final settlement of the contingent consideration recorded in the final allocation of the acquisition price of PPI Management Inc. As at September 30, 2019, the contingent consideration was settled for $10, resulting in a gain of $14 recorded in the Income Statement in *General expenses*. At the same time, the financial projections of the subsidiary were reviewed. As a result, an impairment test was performed with respect to PPI Management Inc. activities included in the Individual Insurance sector CGU. This led the Company to recognize an impairment of goodwill of $22. This amount was recognized in the Income Statement in *General expenses*. To determine the recoverable amount of the CGU, an identical methodology was employed in 2019 and 2020 to calculate the value in use.

The CGU presents a higher risk of impairment considering the sensitivity to the various assumptions described below. Management has determined that reasonable changes in the most important assumptions may result in the recoverable amount being lower than the carrying amount, which would give rise to an impairment of some or all goodwill.

	2020		2019	
(in millions of dollars)	**Indefinite useful life intangible assets**	**Goodwill**	Indefinite useful life intangible assets	Goodwill
Cash generating unit				
Individual Wealth Management	**$ 310**	**$ 283**	$ 332	$ 309
Individual Insurance	**6**	**123**	6	147
Group Insurance	**1**	**144**	1	81
General Insurance	**2**	**11**	2	11
U.S. Business	**3**	**643**	3	38
Other activities	**26**	**20**	26	20
Total	**$ 348**	**$ 1,224**	$ 370	$ 606

Goodwill and intangible assets with indefinite useful life are tested for impairment annually, or more frequently if events or changes in circumstances occur that may cause the recoverable amount of a CGU or CGU group to decrease to below its carrying value. The recoverable amount is the higher of the fair value less costs of sale and the value in use. Fair value less costs of sale is assessed by using a valuation multiples methodology. Under this methodology, fair value is assessed with reference to multiples or ratios of comparable businesses or previous business acquisition transactions. The value in use is based on the best estimates of future earnings and the level and cost of capital estimated on contract duration. The value attributed to new business is based on the business plans, on reasonable assumptions about growth and the levels of profitability of this new business. The discount rates reflect the nature and environment of the CGU.

When estimating the recoverable amount of the CGU or CGU group, the Company makes judgments and various assumptions and estimates that could result in material adjustments to the recoverable amount. Any significant change in a key assumption, such as the discount rate, growth rates, the value of new sales and any significant change in projected cash flows could result in significant changes in the recoverable amounts. As at December 31, 2020, management has determined that no reasonably possible change in the assumptions used would lead to a recoverable amount of a CGU or CGU group less than its carrying amount other than PPI Management Inc. activities included in the Individual Insurance sector CGU.

Individual Wealth Management, General Insurance and Other Activities

The recoverable amount of CGUs in the Individual Wealth Management sector is determined according to calculations of the value in use, or, according to the fair value less costs of sale. The recoverable amount of CGUs in the General Insurance and Other activities sectors has been determined according to calculations of the value in use, which were higher than the fair value less costs of sale.

The calculations of the recoverable amount of CGUs call upon cash flow projections before tax based on financial budgets approved by management and which cover a five-year period. Cash flows that go beyond this period are extrapolated using estimated growth rates. The calculation of the fair value less costs of sale is based on price-to-assets-under-management or price-to-assets-under-administration measures. The fair value measurements are categorized in Level 3 of the fair value hierarchy.

The Company uses several key assumptions in determining the recoverable amount. The assumed discount rate for determining the value of the CGUs is between 12% and 14% before tax (between 11% and 14% before tax in 2019).The assumptions used in the calculation are set for the medium-term growth rate between 2% and 5% (between 2% and 7% in 2019) and the long-term growth rate between 1% and 4% (between 1% and 4% in 2019).

Management determined the gross margin forecast according to past returns and its expectations in terms of market development. The growth rates used are in line with forecasts published in industry reports. The long-term growth rates used are projected industry growth rates. The discount rate is the interest rate used to establish the present value of future cash flows, and the rates used are before tax, which take into account specific risks in relation to relevant activity sectors.

Individual Insurance, Group Insurance and U.S. Business

The recoverable amount of CGUs in the Individual Insurance, Group Insurance and U.S. Business sectors was determined according to calculations of the value in use or according to the fair value less costs of sale. The calculation of the fair value less costs of sale is based on measures such as multiple based on results. The calculations of the recoverable amount call upon discounted cash flow projections and represent estimated actuarial amounts which take into account the present value of net shareholder assets, future profitability of in-force business and profitability of new business where insurance companies are concerned. Cash flow projections before tax based on financial budgets approved by management, and which cover a five-year period are used for other kinds of businesses. Cash flows that go beyond this period are extrapolated using estimated growth rates.

The Company uses several key assumptions in delivering the recoverable amount. The assumed discount rate for determining the value of CGUs is between 11% and 12% before tax (between 9% and 12% before tax in 2019).

The key assumptions of the valuation take into account the discount rate, expected business growth, expected return of the financial markets, mortality and improved mortality, lapses and fees.

12 › Segregated Funds Net Assets

Policyholders can select from a variety of segregated funds. Although the underlying assets are registered in the name of the Company and the segregated funds policyholder has no direct access to the specific assets, the contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the funds' investment performance. However, the Company offers guarantees on some contracts and is exposed to equity market risk and interest rate risk as a result of these guarantees. The Company's exposure to loss from segregated fund products is limited to the value of these guarantees and the related liabilities are recorded in *Insurance contract liabilities*.

(in millions of dollars)	**2020**	2019
Assets		
Cash and short-term investments	**$ 1,077**	$ 992
Bonds	**6,481**	5,509
Stocks	**25,207**	21,362
Mortgages	**27**	21
Investment properties	**16**	17
Derivative financial instruments	**26**	20
Other assets	**155**	285
	32,989	28,206
Liabilities		
Accounts payable and accrued expenses	**185**	338
Net assets	**$ 32,804**	$ 27,868

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

(in millions of dollars)	**2020**	2019
Balance at beginning	**$ 27,868**	$ 23,781
Add:		
Amounts received from policyholders	**5,875**	4,292
Interest and dividends	**913**	1,009
Net realized gains	**791**	554
Net increase (decrease) in fair value	**920**	2,127
	36,367	31,763
Less:		
Amounts withdrawn by policyholders	**3,039**	3,409
Operating expenses	**524**	486
	3,563	3,895
Balance at end	**$ 32,804**	$ 27,868

	2020	2019
Type of funds		
Equity	**45%**	42%
Balanced	**34%**	36%
Fixed income	**20%**	21%
Money market	**1%**	1%
Total	**100%**	100%

Money market funds consist of investments that have a term of maturity of less than one year. Fixed income funds primarily consist of investments in fixed income securities and, for some funds, a small proportion in high-yield bonds. The balanced funds consist of fixed income securities and a larger equity investment component. The equity funds, which range from low volatility equity funds to aggressive equity funds, invest in a varying mix of Canadian, U.S. and global equities.

13 › Management of Insurance Risk

Insurance risk is the risk of loss resulting from higher actual benefit amounts than those expected at the time of product design and pricing. It may arise at different stages in a product's life, either during product design and pricing, during underwriting or claims settlement, or when establishing provisions for future policy benefits.

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

The Company has controls and processes in place at each of these stages to ensure that these risks are adequately managed.

Product Design and Pricing

For certain types of contracts, insurance risk may be shared with or transferred to the policyholder through a dividends and experience refunds policy, or through the fact that the Company can adjust the premiums or future benefits if experience turns out to be different than expected. For other types of contracts, the Company assumes the entire risk, thus the need to carry out a proper valuation of the commitments in this regard.

The Company has adopted a product design and pricing policy that establishes standards and guidelines on pricing methods, formulation of assumptions, profitability objectives, analysis of the sensitivity of this profitability according to various scenarios, documentation, and the accountability of the various people involved.

At this stage in the life of a product, risk is primarily managed through a regular analysis of the pricing adequacy of Company products as compared to recent experience. The pricing assumptions are revised as needed or the various options offered by the reinsurance market are utilized.

Underwriting and Claims Adjudication

Given the geographic diversity of its clients, the Company is not heavily exposed to concentration risk with respect to individuals or groups. The largest portion of the Company's mortality risk is in Canada.

The Company has established guidelines pertaining to underwriting and claims adjudication risk that specify the Company's retention limits. These retention limits vary according to the type of protection and the characteristics of the insureds, and are revised regularly according to the Company's capacity to manage and absorb the financial impact associated with unfavourable experience regarding each risk. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

Calculation of Provisions for Future Policy Benefits

In any insurance company, calculating the provisions for future policy benefits is a complex process that relies on financial projection models and assumptions to determine the value of the amounts that will be paid in the future to policyholders and beneficiaries. Internal reviews of changes in technical results and external sources of information are monitored for the purpose of revising the assumptions, which may result in revisions of provisions for future policy benefits.

The Company has developed a policy that outlines the documentation and the control rules needed to ensure that the actuarial valuation standards defined by the CIA (or another relevant organization), as well as the Company's standards, are followed and applied consistently in all sectors and in all territories where the Company conducts business.

Every year, the appointed actuary ensures that the valuation of provisions for future policy benefits is carried out in accordance with accepted actuarial practice in Canada and that the selected assumptions and valuation methods are appropriate.

Reinsurance

In the normal course of business, the Company uses reinsurance agreements to limit its risk on every life insured. The Company adopted a reinsurance risk management policy whereby maximum benefit amounts, which vary by line of business, are established for life and health insurance.

Although reinsurance agreements provide for the recovery of claims arising from the liabilities ceded, the Company retains primary responsibility to its policyholders, and is therefore exposed to the credit associated with the amounts ceded to reinsurers in the event that the reinsurers are unable to meet their obligations.

As at December 31, 2019, the Company also had reinsurance agreements covering financial losses from multiple claims due to catastrophic events affecting multiple lives insured. As at December 31, 2020, these reinsurance agreements had not been renewed.

14 › Insurance Contract Liabilities and Investment Contract Liabilities

A) Insurance Contract Liabilities

Insurance contract liabilities are determined according to the CALM described in Note 2 "Significant Accounting Policies", section k) ii) "Insurance Contract Liabilities". Insurance contract liabilities are determined using generally accepted actuarial practices according to standards established by the CIA. An explicit projection of the cash flows using the most probable assumptions for each cash flow component and each significant contingency is used to calculate the provisions for future policy benefits.

a) Composition

(in millions of dollars)	**2020**	2019
Provisions for future policy benefits	**$ 35,729**	$ 30,002
Other insurance contract liabilities		
Benefits payable and provisions for unreported claims	**350**	283
Policyholders' amounts on deposit	**384**	349
Provisions for dividends to policyholders and experience rating refunds	**64**	31
	798	663
Total	**$ 36,527**	$ 30,665

	2020						
	Individual		**Group**				
(in millions of dollars)	**Insurance**	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
Insurance contract liabilities (gross)							
Canada	**$ 25,659**	**$ 2,246**	**$ 1,697**	**$ 5,030**	**$ —**	**$ —**	**$ 34,632**
United States	**—**	**—**	**—**	**—**	**2,003**	**(110)**	**1,893**
Other countries	**2**	**—**	**—**	**—**	**—**	**—**	**2**
	25,661	**2,246**	**1,697**	**5,030**	**2,003**	**(110)**	**36,527**
Reinsurance assets							
Canada	**(36)**	**—**	**139**	**130**	**—**	**—**	**233**
United States	**—**	**—**	**—**	**—**	**923**	**(97)**	**826**
	(36)	**—**	**139**	**130**	**923**	**(97)**	**1,059**
Net insurance contract liabilities	**$ 25,697**	**$ 2,246**	**$ 1,558**	**$ 4,900**	**$ 1,080**	**$ (13)**	**$ 35,468**

	2019						
	Individual		Group				
(in millions of dollars)	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
Insurance contract liabilities (gross)							
Canada	$ 21,468	$ 1,839	$ 1,570	$ 4,141	$ —	$ (10)	$ 29,008
United States	—	—	—	—	1,744	(89)	1,655
Other countries	2	—	—	—	—	—	2
	21,470	1,839	1,570	4,141	1,744	(99)	30,665
Reinsurance assets							
Canada	(702)	—	154	132	—	(10)	(426)
United States	—	—	—	—	847	(83)	764
	(702)	—	154	132	847	(93)	338
Net insurance contract liabilities	$ 22,172	$ 1,839	$ 1,416	$ 4,009	$ 897	$ (6)	$ 30,327

b) Changes in Insurance Contract Liabilities and Reinsurance Assets

	2020			
(in millions of dollars)	**Provisions for future policy benefits**	**Other insurance contract liabilities**	**Insurance contract liabilities**	**Reinsurance assets**
Balance at beginning	**$ 30,002**	**$ 663**	**$ 30,665**	**$ 338**
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	**4,240**	**—**	**4,240**	**313**
On new policies	**928**	**—**	**928**	**(43)**
Changes in methods and assumptions	**592**	**—**	**592**	**464**
	5,760	**—**	**5,760**	**734**
Changes in methods and assumptions	**—**	**(3)**	**(3)**	**(2)**
Effect of change in exchange rates	**(40)**	**(3)**	**(43)**	**(17)**
Other	**7**	**141**	**148**	**6**
	(33)	**135**	**102**	**(13)**
Balance at end	**$ 35,729**	**$ 798**	**$ 36,527**	**$ 1,059**

	2019			
(in millions of dollars)	Provisions for future policy benefits	Other insurance contract liabilities	Insurance contract liabilities	Reinsurance assets
Balance at beginning	$ 25,307	$ 633	$ 25,940	$ 333
Increase (decrease) of insurance contract liabilities and reinsurance assets				
Normal changes – provisions for future policy benefits				
On in-force	4,056	—	4,056	88
On new policies	701	—	701	(44)
Changes in methods and assumptions	16	—	16	—
	4,773	—	4,773	44
Changes in methods and assumptions	—	(1)	(1)	—
Effect of change in exchange rates	(78)	(4)	(82)	(39)
Other	—	35	35	—
	(78)	30	(48)	(39)
Balance at end	$ 30,002	$ 663	$ 30,665	$ 338

The variation of insurance contract liabilities and reinsurance assets include the amounts related to participating contracts.

Gains and Losses on New Reinsurance Treaties

For the year ended December 31, 2020, the Company has concluded new reinsurance agreements (none for the year ended December 31, 2019) for which it has recorded a gain of $126 (none for the year ended December 31, 2019) in the Income Statement.

c) Risk Management and Assumptions for Valuation of Insurance Contract Liabilities

Best estimate assumptions represent current and objective estimates of the expected outcomes. Their selection takes into consideration current circumstances, historical data from the Company, the industry or the sector, the relationship between the historical and anticipated future results as well as other relevant factors. The use of actuarial assumptions in the valuation of insurance contract liabilities requires significant judgment. The margins for adverse deviations assumptions and methods used to establish the most significant assumptions are described below:

Mortality and Morbidity

Mortality represents the occurrence of death in a given population. The mortality assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative. For Individual Insurance, the Company's mortality experience has exhibited a gradually declining trend. The calculation of insurance contract liabilities for this operating segment takes into account an improvement in future mortality rates. For Individual Wealth Management and Group Savings and Retirement, annuity mortality improvement has been projected to occur throughout the future. For the Group Insurance segment, the expected future mortality experience is incorporated into the calculation of insurance contract liabilities for this block, but no future mortality improvement is assumed.

Morbidity represents the occurrence of accident or illness among insured risks. The morbidity assumptions are based on recent technical results of the Company. The Company also uses the technical results of the industry if those of the Company are not sufficiently representative.

To manage mortality and morbidity risk, the Company uses detailed and uniform underwriting procedures that assess the insurability of the candidate and control exposure to large claims. The Company conducts monthly monitoring of technical results relating to claims and fixes retention limits that vary across markets and regions. Once the retention limits have been reached, the Company turns to reinsurance to cover the excess risk.

As at December 31, 2020, the Company estimates that a 5% permanent deterioration in mortality rates would result in a $179 reduction in net income attributed to common shareholders due to the strengthening of the insurance contract liabilities ($205 as at December 31, 2019). An improvement of the same percentage in mortality rates would have a similar impact, but in the opposite direction.

As at December 31, 2020, the Company estimates that a 5% deterioration in morbidity rates would result in a $65 reduction in net income attributed to common shareholders ($59 as at December 31, 2019). The 5% deterioration is expressed assuming 95% of the termination rate of disability when the insured is or becomes disabled and 105% of the expected occurrence rate when the insured is not disabled. An improvement of the same percentage in morbidity rates would have a similar impact, but in the opposite direction.

Investment Return and Interest Rate Risk

The Company segments assets to sustain liabilities by sector and by geographic market and establishes appropriate investment strategies for each liability.

CALM is the method prescribed by the standards of the CIA to ensure the adequacy of assets backing the insurance contract liabilities. By closely matching the asset cash flows with those of the corresponding liabilities, the Company reduces its sensitivity to future variations. These cash flows related to the assets and liabilities are projected based on a number of scenarios, some of which are prescribed by the CIA. The disinvestment or reinvestment occurs according to the specifications of each scenario and the insurance contract liabilities are determined based on the range of possible outcomes. Changes in fair value of assets matching these liabilities and changes in insurance contract liabilities are directly recognized in the Income Statement in order to avoid a mismatch that would otherwise arise. A description of CALM is found in Note 2 "Significant Accounting Policies", section k) ii) "Insurance Contract Liabilities".

Interest rate risk is the risk of loss due to future changing interest rates. The investment returns are projected from the current investment portfolios as well as the planned reinvestment strategies. The uncertainty related to interest rate fluctuation is that economic losses or gains can occur following the disinvestment or reinvestment of future cash flows. The Company manages interest rate risk through an asset and liability matching policy that is updated periodically. The primary objective of this policy is to minimize the volatility of profit margins caused by fluctuations between the realized returns and those credited to existing contracts. To monitor matching, investments are segmented by matching blocks established based on the cash flow structure of the liabilities, with blocks of business being grouped together by line of business. For non-immunized liabilities, primarily individual insurance products that have very long-term commitments, the Company favours an investment strategy that tends to achieve a balance between optimizing after-tax return and capital protection since it is impossible to apply a complete immunization strategy due to a lack of availability of fixed income securities for such maturities. However, the Company has taken several initiatives to improve the short-term flows of non-immunized liabilities.

As at December 31, 2020, the Company estimates that a 0.1% decrease in the initial reinvestment rate would lead to a decrease in the insurance contract liabilities of approximately $4 after taxes (decrease of $2 after taxes as at December 31, 2019). A 0.1% decrease in the ultimate reinvestment rate would lead to an increase in the insurance contract liabilities of about $68 after taxes ($61 after taxes as at December 31, 2019). The Company estimates that a 0.1% increase in the initial reinvestment rate and in the ultimate reinvestment rate would have a similar impact to a decrease, but in the opposite direction.

Also, the Company estimates that if the markets suddenly decreased by 10% as at December 31, 2020, net income attributed to common shareholders would be about $34 lower than expected for its regular operations ($31 as at December 31, 2019). The Company estimates that a 10% increase at the beginning of the period, followed by market growth in line with expectations, would have a similar impact but in the opposite direction.

Expenses

Administration expenses include costs of servicing and maintaining in-force policies and associated overhead expenses. Policy administration expenses were calculated using the Company's internal expense allocation studies. These studies consider investments in improvement projects for which productivity gains are planned. These gains are only recognized up to the cost of the project that generates them. Unit expense factors projected for the coming years vary according to the investments planned in improvement projects, productivity that they will generate and the inflation assumption, which is established coherently with the interest rate assumption.

The risk related to expenses is the risk that the costs of future expenses are greater than the estimated costs in the measurement of liabilities or used in the design and pricing of products. A rigorous budget process is implemented annually. The budget is monitored on an ongoing basis throughout the year to assess the differences between budgeted costs and actual costs. To manage the risk, the Company prices its products to cover expected costs.

As at December 31, 2020, the Company estimates that a 5% increase in unit costs would result in a $64 reduction in net income attributed to common shareholders ($62 as at December 31, 2019). A decrease of the same percentage would have a similar impact, but in the opposite direction.

Lapse

Cancellation of contracts includes lapses and surrenders. Lapse means that the policyholder has stopped paying premiums. Surrender means that the policyholder voluntarily cancelled the contract. Long-term lapse rate assumptions take into account the usually lower contract cancellation rates with respect to lapse-supported products compared to other products. Expected lapse rate assumptions are generally based on the Company's recent lapse experience and are adjusted to take into account industry experience where the Company's experience is limited.

The Company reduces its exposure to lapse and surrender risk as much as possible through the way it develops its products. The contracts are built with modalities having a positive impact on the lapse rate. These modalities may result in charges for surrenders, limitations on the amounts surrendered or limitations regarding the moment when surrenders may be made. Finally, the Company has established a monthly method to follow-up on lapses and surrenders.

As at December 31, 2020, the Company estimates that a 5% deterioration in lapse rates would result in a $181 reduction in net income attributed to common shareholders ($167 as at December 31, 2019). These rates were evaluated respecting the adjustability of certain products. An improvement of the same percentage would have a similar impact, but in the opposite direction.

Premium Payment Patterns

For Universal Life contracts, assumptions must be established with respect to premium payment patterns. The Company has studied the payment pattern experience of Universal Life contracts. When this experience is not sufficiently representative, it is adjusted to take into consideration the industry experience. The premium payment patterns can vary depending on the payment frequency, the level of the target premium compared to the minimum premium, the type of policy insurance costs (level or annually increasing costs), the type of product and the year of issue.

Currency Risk

Currency risk results from a difference between the currency of liabilities and the currency of the assets they are backing. Generally speaking, the Company's strategy to manage exposure to currency risk consists of matching assets to the corresponding liabilities according to the currency. The Company implements a hedging strategy when the liabilities are matched to assets of a different currency.

Guarantees on Segregated Funds

A segregated fund is a type of investment similar to a mutual fund, but which generally includes a guarantee in the event of death and a guarantee at maturity. Because of the volatility inherent in the stock markets, the Company is exposed to the risk that the market value of the segregated funds will be lower than their guaranteed minimum value at the time the guarantee is applied and that it will then have to compensate the investor for the difference in the form of a benefit. The Company has set up a dynamic hedging program. In this program, a large part of the variations in the economic value of liabilities is offset by variations in assets held. The hedging program is not designed to completely eliminate the risks associated with the hedged guarantees. A number of factors can alter the quality of the hedge and potentially lead to a gain or loss in the Income Statement.

A liability related to the segregated fund guarantees granted by the Company is maintained in the general fund. The amount of the liability is at least as great as the amount determined using the methodology defined by the CIA.

Margins for Adverse Deviations

Assumptions that rely on best estimates are used to calculate the insurance contract liabilities. According to CIA standards, the appointed actuary must adjust these assumptions to include margins for adverse deviations and to take into account the uncertainty related to the establishment of these best estimates and a potential deterioration of the expected experience. These margins increase insurance contract liabilities and provide reasonable assurance that the amount of assets backing the insurance contract liabilities is sufficient to cover the impact of adverse experience.

The range of margins for adverse deviations is set out in standards issued by the CIA. The factors considered in the selection of appropriate ranges include the degree of uncertainty with respect to the expected experience and the relative volatility of potential losses over the remaining term of the policies. Provisions for adverse deviations that are not required to offset future adverse experience will be released back as an increase in *Net income*.

d) Impact of Changes in Methodologies and Assumptions on Net Insurance Contract Liabilities

A review of the methods and assumptions is performed annually to reflect changing experience and to reduce the uncertainty risk related to the insurance contract liabilities and the assets backing the liabilities.

The following table presents the impact of changes in methodologies and assumptions as well as their explanation:

	2020			2019	
	Normal	Related to COVID-19 pandemic	Total	Total	
(in millions of dollars)		(Note 2)			
Mortality and morbidity	$ 164	$ 58	$ 222	$ 17	Mainly explained by the update of annual mortality and morbidity studies (Normal column) and by the revision of assumptions to take into account the temporary rise in mortality caused by the COVID-19 pandemic (Related to COVID-19 pandemic column)
Policyholder behaviour	321	69	390	8	Mainly explained by the update of annual lapse rate studies (Normal column) and by the revision of lapse assumptions for certain policies to take into account the temporary uncertainty caused by the COVID-19 pandemic (Related to COVID-19 pandemic column)
Investment returns	(396)	—	(396)	(153)	Mainly explained by the annual update of investment return assumptions and gains from transactions improving asset-liability matching, offset by strengthening related to the decline in the interest rate used for long-term projections (Ultimate Reinvestment Rate)
Expenses, models and other	(96)	—	(96)	125	Mainly explained by the update of the expense assumption and model refinements
Impact on net non-participating insurance contract liabilities	$ (7)	$ 127	$ 120	$ (3)	
Impact on net participating insurance contract liabilities	$ 7	$ —	$ 7	$ 18	
Impact on net insurance contract liabilities	$ —	$ 127	$ 127	$ 15	

Note that the total change in net insurance contract liabilities other than changes in methods and assumptions includes a gain of $126 presented in the normal change in policy liabilities on in-force. This gain comes from the signing of new reinsurance treaties considering the opportunities arising from competition in this market.

B) Investment Contract Liabilities

a) Composition

Non-participating deficit reimbursement agreement group insurance contracts are classified as investment contracts. Under deficit reimbursement agreements, the policyholder reimburses any deficit to the Company at the end of the contract.

The fair value of these investment contracts is determined using the parameters of the agreement concluded between the Company and the policyholder for this type of contract. Investment contract liabilities represent the balance that is due to the policyholder. Transactions involving deposits, withdrawals and earned interest correspond to the variation in investment contract liabilities.

	2020		
	Group		
(in millions of dollars)	Insurance	Savings and Retirement	Total
Investment Contract Liabilities (gross)			
Canada	$ 575	$ —	$ 575
Reinsurance assets			
Canada	83	—	83
Net investment contract liabilities	$ 492	$ —	$ 492

	2019		
	Group		
(in millions of dollars)	Insurance	Savings and Retirement	Total
Investment Contract Liabilities (gross)			
Canada	$ 629	$ 1	$ 630
Reinsurance assets			
Canada	79	—	79
Net investment contract liabilities	$ 550	$ 1	$ 551

b) Variations in Net Investment Contract Liabilities

	2020		2019	
(in millions of dollars)	**Investment contract liabilities**	**Reinsurance assets**	Investment contract liabilities	Reinsurance assets
Balance at beginning	**$ 630**	**$ 79**	$ 630	$ 82
Deposits	**11**	**17**	141	21
Withdrawals	**(94)**	**(15)**	(161)	(25)
Increase (decrease) in investment contract liabilities and reinsurance assets	**34**	**3**	27	2
Other	**(6)**	**(1)**	(7)	(1)
Balance at end	**$ 575**	**$ 83**	$ 630	$ 79

C) Assets Backing Liabilities and Equity

The carrying value of total assets backing insurance contract liabilities, investment contract liabilities, other liabilities and equity are as follows:

	2020									
	Individual		**Group**							
(in millions of dollars)	**Insurance**	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Insurance contract liabilities total**	**Investment contract liabilities**	**Other liabilities and equity**	**Total**
Cash and short-term investments	**$ 484**	**$ 48**	**$ 23**	**$ 57**	**$ —**	**$ —**	**$ 612**	**$ 5**	**$ 1,332**	**$ 1,949**
Bonds	**18,503**	**1,868**	**1,414**	**4,341**	**989**	**(13)**	**27,102**	**430**	**4,567**	**32,099**
Mortgages and other loans	**116**	**72**	**117**	**411**	**28**	**—**	**744**	**57**	**2,000**	**2,801**
Stocks	**2,502**	**2**	**4**	**69**	**8**	**—**	**2,585**	**1**	**700**	**3,286**
Policy loans	**754**	**71**	**—**	**—**	**55**	**—**	**880**	**—**	**1**	**881**
Other invested assets	**432**	**—**	**—**	**—**	**—**	**—**	**432**	**—**	**131**	**563**
Derivative financial instruments[1]	**896**	**185**	**—**	**22**	**—**	**—**	**1,103**	**(1)**	**(19)**	**1,083**
Investment properties	**1,909**	**—**	**—**	**—**	**—**	**—**	**1,909**	**—**	**7**	**1,916**
Reinsurance assets	**(36)**	**—**	**139**	**130**	**923**	**(97)**	**1,059**	**83**	**839**	**1,981**
Other	**101**	**—**	**—**	**—**	**—**	**—**	**101**	**—**	**6,433**	**6,534**
Total	**$ 25,661**	**$ 2,246**	**$ 1,697**	**$ 5,030**	**$ 2,003**	**$ (110)**	**$ 36,527**	**$ 575**	**$ 15,991**	**$ 53,093**

	2019									
	Individual		Group							
(in millions of dollars)	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Insurance contract liabilities total	Investment contract liabilities	Other liabilities and equity	Total
Cash and short-term investments	$ 397	$ 67	$ 42	$ 43	$ —	$ —	$ 549	$ 23	$ 536	$ 1,108
Bonds	15,280	1,624	1,231	3,501	797	(6)	22,427	451	4,630	27,508
Mortgages and other loans	165	81	138	464	35	—	883	79	2,908	3,870
Stocks	2,366	2	4	—	9	—	2,381	2	641	3,024
Policy loans	823	18	1	—	56	—	898	—	2	900
Other invested assets	420	—	—	—	—	—	420	—	9	429
Derivative financial instruments[1]	541	47	—	1	—	—	589	(4)	(37)	548
Investment properties	2,069	—	—	—	—	—	2,069	—	8	2,077
Reinsurance assets	(702)	—	154	132	847	(93)	338	79	613	1,030
Other	111	—	—	—	—	—	111	—	4,220	4,331
Total	$ 21,470	$ 1,839	$ 1,570	$ 4,141	$ 1,744	$ (99)	$ 30,665	$ 630	$ 13,530	$ 44,825

[1] In its matching process, the Company considers the net value of derivative financial instruments, therefore, both assets and liabilities. Derivative financial instruments liabilities of an amount of $438 ($338 in 2019) for Individual Insurance, $47 ($37 in 2019) for Individual Wealth Management, none for Group Insurance (none in 2019) and $8 ($5 in 2019) for Group Savings and Retirement were considered in the matching process.

The fair value of assets backing net insurance contract liabilities as at December 31, 2020 was estimated at $35,937 ($30,595 as at December 31, 2019). Insurance contract liabilities are measured at fair value as per the CALM method, except for liabilities backed by assets that are measured at amortized cost, such as mortgages, and bonds classified as loans and receivables.

The fair value of assets backing net investment contract liabilities as at December 31, 2020 represents approximately $504 ($557 as at December 31, 2019).

15 › Other Liabilities

(in millions of dollars)	**2020**	2019
Unearned premiums	**$ 2,096**	$ 1,447
Other insurance contract liabilities	**91**	89
Post-employment benefits	**380**	274
Income taxes payable	**96**	76
Amounts on deposit on products other than insurance contracts	**1,782**	1,384
Accounts payable	**1,316**	988
Due to reinsurers	**204**	163
Securities sold under repurchase agreements	**13**	—
Short-selling securities	**273**	211
Securitization liabilities	**977**	1,179
Mortgage debt	**75**	74
Lease liabilities	**141**	137
Fair value of purchased business in force	**11**	12
Miscellaneous	**192**	29
Total	**$ 7,647**	$ 6,063

16 › Debentures

(in millions of dollars)		2020 Carrying value		2020 Fair value		2019 Carrying value		2019 Fair value
Subordinated debentures bearing interest at 2.64%	$	**250**	$	**255**	$	249	$	251
Subordinated debentures bearing interest at 3.30%		**399**		**423**		399		409
Subordinated debentures bearing interest at 3.072%		**398**		**431**		398		399
Subordinated debentures bearing interest at 2.40%		**398**		**415**		—		—
Floating rate surplus notes based on LIBOR plus 4.25%		**4**		**4**		4		4
Total	$	**1,449**	$	**1,528**	$	1,050	$	1,063

Subordinated debentures represent direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors.

Subordinated Debentures Bearing Interest at 2.64%
Subordinated debentures maturing February 23, 2027, bearing interest of 2.64%, payable semi-annually from August 23, 2015 to February 23, 2022, and a variable interest rate equal to the three-month Canadian Dollar Offered Rate (CDOR) plus 1.08%, payable quarterly commencing May 23, 2022 until February 23, 2027. These subordinated debentures are redeemable by the Company starting February 23, 2022, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes amortized transaction costs and an issue discount for less than $1.

Subordinated Debentures Bearing Interest at 3.30%
Subordinated debentures maturing September 15, 2028, bearing interest of 3.30%, payable semi-annually from September 15, 2017 to September 15, 2023, and a variable interest rate equal to the three-month CDOR plus 2.14%, payable quarterly commencing September 15, 2023 until September 15, 2028. These subordinated debentures are redeemable by the Company starting September 15, 2023, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes amortized transaction costs and an issue discount for a total of $1.

Subordinated Debentures Bearing Interest at 3.072%
Subordinated debentures maturing September 24, 2031, bearing interest of 3.072%, payable semi-annually from March 24, 2020 to September 24, 2026, and a variable interest rate equal to the three-month CDOR plus 1.31%, payable quarterly commencing December 24, 2026 until September 24, 2031. These subordinated debentures are redeemable by the Company starting September 24, 2026, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes amortized transaction costs and an issue discount for a total of $2.

Subordinated Debentures Bearing Interest at 2.40%
On February 21, 2020, the Company issued subordinated debentures maturing February 21, 2030, bearing interest of 2.40%, payable semi-annually from August 21, 2020 to February 21, 2025, and a variable interest rate equal to the three-month CDOR plus 0.71%, payable quarterly commencing May 21, 2025 until February 21, 2030. These subordinated debentures are redeemable by the Company starting February 21, 2025, in whole or in part, subject to approval by the AMF. The carrying value of the debentures includes amortized transaction costs and an issue discount for a total of $2.

Subordinated Debentures Bearing Interest at 2.80%
On May 16, 2019, the Company redeemed all of its $250 subordinated debentures maturing May 16, 2024, bearing interest of 2.80% payable semi-annually until May 16, 2019. The subordinated debentures were redeemed at nominal value plus accrued and unpaid interest. Consequently, the Company paid a total of $254.

Floating Rate Surplus Notes Based on LIBOR plus 4.25%
Floating rate surplus notes, bearing interest equal to the LIBOR 3-month rate plus 4.25%, payable quarterly, maturing in May 2034.

17 › Share Capital

As a result of the change in company structure (Note 1), the Company's authorized share capital consists of the following:

Common Shares
Unlimited number of common shares without par value, with one voting right.

Class A Preferred Shares
Class A preferred shares, without par value, issuable in series. The number that may be issued is limited to not more than one-half of the number of common shares issued and outstanding at the time of the proposed issue of such Class A preferred shares.

The share capital issued by the Company is as follows:

(in millions of dollars, unless otherwise indicated)	2020 Number of shares (in thousands)	2020 Amount	2019 Number of shares (in thousands)	2019 Amount
Common shares				
Balance at beginning	**106,966**	**$ 1,666**	108,575	$ 1,655
Shares issued on exercise of stock options	**185**	**9**	1,206	54
Shares redeemed	**(87)**	**(1)**	(2,815)	(43)
Balance at end	**107,064**	**$ 1,674**	106,966	$ 1,666

Normal Course Issuer Bid Redemption

With the approval of the Toronto Stock Exchange, the Board of Directors renewed the Normal Course Issuer Bid redemption of 2018 and authorized the Company to purchase, in the normal course of its activities, from November 12, 2019 to November 11, 2020, up to 5,335,397 common shares (5,482,768 common shares from November 12, 2018 to November 11, 2019), representing approximately 5% of its 106,707,949 common shares issued and outstanding as at November 1, 2019. For the year ended December 31, 2020, a total of 86,872 common shares (2,815,373 as at December 31, 2019) were purchased and cancelled for a net cash amount of $4 ($139 as at December 31, 2019), of which $1 was recorded against share capital ($43 as at December 31, 2019) and $3 against retained earnings ($96 in 2019). Redemptions are currently suspended, in accordance with instructions from regulatory authorities, thus preventing the renewal of the offer following its expiry.

Dividends

(in millions of dollars, unless otherwise indicated)	2020 Total	2020 Per share (in dollars)	2019 Total	2019 Per share (in dollars)
Common shares	**$ 208**	**$ 1.94**	$ 188	$ 1.77

Dividends Declared and Not Recognized on Common Shares

A dividend of 0.485 dollars per share was approved by the Board of Directors of the Company on February 11, 2021. This dividend was not recorded as a liability in these financial statements. This dividend will be paid on March 15, 2021 to the shareholders of record as of February 26, 2021, date on which it will be recognized in the equity of the Company.

Dividend Reinvestment and Share Purchase Plan

The Company offers a Dividend Reinvestment and Share Purchase Plan to its common shareholders. Dividends on common shares are deducted from equity in the period in which they were authorized. The common shares issued under the plan will be purchased on the secondary market.

18 › Preferred Shares Issued by a Subsidiary

The preferred shares issued by iA Insurance, a subsidiary of the Company, are as follows:

An unlimited number of Class A – Series B preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash of 0.2875 dollars per share, redeemable in whole or in part at the option of the Company commencing on March 31, 2011, subject to approval by the AMF, for an amount between 26 dollars and 25 dollars per share according to the year and convertible at the option of the shareholders, subject to approval by the AMF, into new Class A preferred shares.

An unlimited number of Class A – Series G preferred shares, without par value, without voting rights, with a non-cumulative quarterly dividend in cash with an initial annual rate equal to 1.0750 dollars per share, redeemable in whole or in part at the option of the Company on June 30, 2017 and on June 30 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series H preferred shares on June 30, 2017 and thereafter on June 30 every 5 years. On June 30, 2017, the Company modified the non-cumulative quarterly dividend to an annual rate equal to 0.94425 dollars in cash per share.

An unlimited number of Class A – Series I preferred shares, without par value, without voting rights, with a fixed non-cumulative quarterly dividend in cash with an annual rate equal to 1.20 dollars per share for a period of five years beginning on March 7, 2018 and ending on March 31, 2023, excluding this date, redeemable in whole or in part at the option of the Company on March 31, 2023 and on March 31 every 5 years thereafter for a cash value of 25 dollars, subject to approval by the AMF, and convertible at the option of the shareholders into Class A – Series J preferred shares on March 31, 2023 and thereafter on March 31 every 5 years.

Preferred shares issued by iA Insurance are the following:

(in millions of dollars, unless otherwise indicated)	2020 Number of shares (in thousands)	2020 Amount	2019 Number of shares (in thousands)	2019 Amount
Preferred shares, Class A , issued by iA Insurance				
Balance at beginning and at end	**21,000**	**$ 525**	21,000	$ 525

Dividends

(in millions of dollars, unless otherwise indicated)	**2020** Total	**2020** Per share (in dollars)	2019 Total	2019 Per share (in dollars)
Preferred shares, issued by iA Insurance				
Class A – Series B	**$ 6**	**$ 1.15**	$ 6	$ 1.15
Class A – Series G	**9**	**0.94**	9	0.94
Class A – Series I	**7**	**1.20**	7	1.20
Total	**$ 22**		$ 22	

19 › Accumulated Other Comprehensive Income

(in millions of dollars)	Bonds	Stocks	Currency translation	Hedging	Total
Balance as at December 31, 2018	$ 6	$ (10)	$ 135	$ (108)	$ 23
Unrealized gains (losses)	110	1	—	—	111
Income taxes on unrealized gains (losses)	(28)	—	—	—	(28)
Other	—	—	(62)	31	(31)
Income taxes on other	—	—	—	(5)	(5)
	82	1	(62)	26	47
Realized losses (gains)	(20)	1	—	—	(19)
Income taxes on realized losses (gains)	5	—	—	—	5
	(15)	1	—	—	(14)
Balance as at December 31, 2019	73	(8)	73	(82)	56
Unrealized gains (losses)	**118**	**15**	**—**	**—**	**133**
Income taxes on unrealized gains (losses)	**(31)**	**(3)**	**—**	**—**	**(34)**
Other	**—**	**—**	**(103)**	**63**	**(40)**
Income taxes on other	**—**	**—**	**—**	**(10)**	**(10)**
	87	**12**	**(103)**	**53**	**49**
Realized losses (gains)	**(32)**	**2**	**—**	**—**	**(30)**
Income taxes on realized losses (gains)	**8**	**—**	**—**	**—**	**8**
	(24)	**2**	**—**	**—**	**(22)**
Balance as at December 31, 2020	**$ 136**	**$ 6**	**$ (30)**	**$ (29)**	**$ 83**

20 › Capital Management

As part of its capital management, the Company pursues sound capitalization and good solvency objectives to ensure capital protection, to respect the requirements established by the organization that regulates its operations, the AMF, to favour its development and growth, to enhance shareholder returns and to maintain favourable credit ratings.

To reach its objectives, the Company has an enterprise risk management framework that aims to describe the relationship between the Company's appetite, risk tolerance and capital requirements. This framework includes a capital management policy that describes the key processes related to capital management, including the process for determining the target operating level of the solvency ratio. The framework also comprises reporting on the Company's risk profile and an own risk and solvency assessment (ORSA) report. These reports enable the identification of risks and the evaluation of required capital to support these risks and contain proposals for possible risk management actions. These documents are revised annually and filed with the Board of Directors.

Considering the various items that can influence the Company's capital, including the contribution of net income and the features of assets underlying the capital, the Company adjusts its management strategy to enable it to optimize the structure and cost of its capital according to needs and regulatory requirements. For example, the Company may issue or redeem participating shares or subordinated debt securities.

Regulatory Requirements and Solvency Ratio

The Company is committed to respecting certain requirements of the guideline on capital adequacy requirements for life insurers (CARLI).

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

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

Tier 1 capital contains more permanent equity items and is primarily composed of equity attributable to common shareholders and preferred shares. Goodwill and other intangible assets are deducted from this category.

Tier 2 capital is primarily composed of subordinated debentures.

The surplus allowance is the value of specific provisions for adverse deviations included in insurance contract liabilities.

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

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

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

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

The Company manages its capital on a consolidated basis. As at December 31, 2020 and 2019, the Company maintains a ratio that satisfies the regulatory requirements.

(in millions of dollars, unless otherwise indicated)	**2020**	2019
Available capital		
Tier 1 capital	**$ 2,767**	$ 3,213
Tier 2 capital	**1,601**	1,596
Surplus allowance and eligible deposits	**5,055**	4,462
Total	**$ 9,423**	$ 9,271
Base solvency buffer	**$ 7,267**	$ 6,980
Total ratio	**130%**	133%

21 › General Expenses

General Expenses by Nature

(in millions of dollars)	**2020**	2019
Salaries, benefits and stock-based compensation	**$ 786**	$ 678
Professional fees	**212**	211
Depreciation of fixed assets (Note 10)	**54**	51
Depreciation of intangible assets (Note 11)	**109**	75
Revaluation of a contingent consideration (Note 11)	**—**	(14)
Impairment of goodwill (Note 11)	**24**	22
Real estate operating expenses	**117**	108
Other administrative expenses	**366**	341
Total	**$ 1,668**	$ 1,472

General expenses include investment fees for an amount of $69 ($70 in 2019). These investment fees exclude real estate operating expenses.

22 › Financing Charges

(in millions of dollars)	**2020**	2019
Interest on debentures	**$ 41**	$ 26
Interest on securitization liabilities	**23**	25
Interest on lease liabilities	**5**	4
Other	**4**	4
Total	**$ 73**	$ 59

23 › Income Taxes

a) Income Tax Expense (Recovery) for the Year

Income tax

(in millions of dollars)		2020		2019
Current income tax				
Current year	**$**	**158**	$	172
Adjustments of previous years		**13**		1
		171		173
Deferred income tax				
Creation and reversal of temporary differences		**(7)**		24
Adjustments of previous years		**(33)**		(6)
Variation in tax rates		**(1)**		(3)
		(41)		15
Income tax expense (recovery)	**$**	**130**	$	188

Income tax recognized directly in equity

(in millions of dollars)		2020		2019
Recognized in other comprehensive income				
Current income tax expense (recovery)	**$**	**9**	$	5
Deferred income tax expense (recovery)		**8**		15
Total	**$**	**17**	$	20

(in millions of dollars)		2020		2019
Recognized in share capital and retained earnings				
Deferred income tax expense (recovery)	**$**	**—**	$	—

b) Reconciliation of Income Tax Expense

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

(in millions of dollars, unless otherwise indicated)		2020			2019	
Income before income taxes	**$**	**762**		$	887	
Income tax expense at Canadian statutory tax rate		**202**	**26%**		237	27%
Increase (decrease) in income taxes due to:						
Differences in tax rates on income not subject to tax in Canada		**(3)**	**—%**		(4)	—%
Tax-exempt investment income		**(63)**	**(8%)**		(38)	(5%)
Non-deductible (non-taxable) portion of the change in fair value of investment properties		**6**	**1%**		(8)	(1%)
Adjustments of previous years		**(20)**	**(3%)**		(5)	(1%)
Variation in tax rates		**(1)**	**—%**		(3)	—%
Other		**9**	**1%**		9	1%
Income tax expense (recovery) and effective income tax rate	**$**	**130**	**17%**	$	188	21%

c) Deferred Income Taxes

i) Recognized deferred income tax assets and liabilities

(in millions of dollars)	Deferred income tax assets 2020	Deferred income tax assets 2019	Deferred income tax liabilities 2020	Deferred income tax liabilities 2019
Insurance contract liabilities[1]	**$ 1**	$ —	**$ 7**	$ (9)
Real estate	**—**	—	**113**	144
Bonds	**(16)**	(1)	**70**	39
Intangible assets	**1**	1	**290**	168
Stocks	**—**	—	**36**	33
Post-employment benefits	**9**	7	**(93)**	(70)
Losses available for carryforward	**30**	15	**(84)**	(2)
Other	**13**	6	**43**	(16)
	$ 38	$ 28	**$ 382**	$ 287
Net deferred income tax liability			**$ 344**	$ 259

[1] Consists of insurance contract liabilities and investment contract liabilities, less reinsurance assets and policy loans.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities for the same taxable entity and the same taxation authority and if the Company intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

ii) Changes in net deferred tax assets (liabilities) for the year are as follows:

(in millions of dollars)	Insurance contract liabilities	Real estate	Bonds	Stocks	Intangible assets	Post-employment benefits	Losses available for carry-forward	Other	Total
Balance as at December 31, 2018	$ 40	$ (126)	$ (16)	$ (31)	$ (203)	$ 63	$ 26	$ 7	$ (240)
Recognized in net income	(15)	(18)	(21)	(2)	36	6	(1)	—	(15)
Recognized in other comprehensive income	(16)	—	(4)	—	—	8	—	(3)	(15)
Effect of changes in exchange rates	—	—	1	—	—	—	—	1	2
Other	—	—	—	—	—	—	(8)	17	9
Balance as at December 31, 2019	9	(144)	(40)	(33)	(167)	77	17	22	(259)
Recognized in net income	**(1)**	**31**	**(39)**	**(3)**	**4**	**7**	**24**	**18**	**41**
Recognized in other comprehensive income	**(16)**	**—**	**(2)**	**—**	**—**	**19**	**—**	**(9)**	**(8)**
Acquisition and disposal of businesses	**2**	**—**	**(1)**	**—**	**(141)**	**—**	**84**	**(77)**	**(133)**
Effect of changes in exchange rates	**(1)**	**—**	**2**	**—**	**12**	**—**	**(8)**	**7**	**12**
Other	**1**	**—**	**(6)**	**—**	**3**	**(1)**	**(3)**	**9**	**3**
Balance as at December 31, 2020	**$ (6)**	**$ (113)**	**$ (86)**	**$ (36)**	**$ (289)**	**$ 102**	**$ 114**	**$ (30)**	**$ (344)**

Non-capital carryforward tax losses for which a deferred tax asset has not been recognized amount to $7 ($6 in 2019). These losses will expire between the years 2024 and 2040.

The Company recognizes a deferred tax liability on all temporary differences associated with investments in subsidiaries, branches, associates and joint ventures unless the Company is able to control the timing of the reversal of these differences and it is probable that these differences will not reverse in the foreseeable future. As at December 31, 2019, temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which a deferred tax liability has not been recognized amount to $722 ($798 in 2019).

24 › 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 makes judgments 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 makes judgments and uses assumptions 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

	2020						
	Individual		Group				
(in millions of dollars)	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
Revenues							
Net premiums	$ 1,625	$ 3,916	$ 1,603	$ 3,018	$ 694	$ 340	$11,196
Investment income	3,592	149	194	387	192	154	4,668
Other revenues	118	1,501	72	105	176	(197)	1,775
	5,335	5,566	1,869	3,510	1,062	297	17,639
Operating expenses							
Gross benefits and claims on contracts	813	1,887	1,146	1,397	589	39	5,871
Ceded benefits and claims on contracts	(251)	—	(63)	(26)	(351)	110	(581)
Net transfer to segregated funds	—	1,779	—	1,093	—	—	2,872
Increase (decrease) in insurance contract liabilities	4,168	392	62	889	265	(16)	5,760
Increase (decrease) in investment contract liabilities	—	—	34	—	—	—	34
Decrease (increase) in reinsurance assets	(664)	—	2	3	(94)	16	(737)
Commissions, general and other expenses	928	1,355	579	115	597	11	3,585
Financing charges	12	2	33	—	1	25	73
	5,006	5,415	1,793	3,471	1,007	185	16,877
Income before income taxes and allocation of other activities	329	151	76	39	55	112	762
Allocation of other activities	88	15	1	5	3	(112)	—
Income before income taxes	417	166	77	44	58	—	762
Income taxes	67	42	15	9	(3)	—	130
Net income	350	124	62	35	61	—	632
Net income attributed to participating policyholders	(1)	—	—	—	—	—	(1)
Net income attributed to shareholders	$ 351	$ 124	$ 62	$ 35	$ 61	$ —	$ 633

	2019						
	Individual		Group				
(in millions of dollars)	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
Revenues							
Net premiums	$ 1,587	$ 2,911	$ 1,638	$ 2,001	$ 493	$ 314	$ 8,944
Investment income	3,767	57	172	332	162	152	4,642
Other revenues	120	1,463	55	97	103	(159)	1,679
	5,474	4,431	1,865	2,430	758	307	15,265
Operating expenses							
Gross benefits and claims on contracts	831	2,018	1,134	1,379	468	109	5,939
Ceded benefits and claims on contracts	(255)	—	(59)	(28)	(288)	83	(547)
Net transfer to segregated funds	—	674	—	243	—	—	917
Increase (decrease) in insurance contract liabilities	3,658	197	44	690	224	(40)	4,773
Increase (decrease) in investment contract liabilities	—	—	27	—	—	—	27
Decrease (increase) in reinsurance assets	9	—	(3)	(2)	(87)	39	(44)
Commissions, general and other expenses	860	1,307	611	107	384	(15)	3,254
Financing charges	21	2	26	—	1	9	59
	5,124	4,198	1,780	2,389	702	185	14,378
Income before income taxes and allocation of other activities	350	233	85	41	56	122	887
Allocation of other activities	92	3	6	3	18	(122)	—
Income before income taxes	442	236	91	44	74	—	887
Income taxes	75	61	24	12	16	—	188
Net income	367	175	67	32	58	—	699
Net income attributed to participating policyholders	(10)	—	—	—	—	—	(10)
Net income attributed to shareholders	$ 377	$ 175	$ 67	$ 32	$ 58	$ —	$ 709

Segmented Premiums

	2020						
	Individual		**Group**				
(in millions of dollars)	**Insurance**	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
Gross premiums							
Invested in general fund	**$ 2,035**	**$ 836**	**$ 1,734**	**$ 813**	**$ 1,302**	**$ 100**	**$ 6,820**
Invested in segregated funds	**—**	**3,080**	**—**	**2,232**	**—**	**—**	**5,312**
	2,035	**3,916**	**1,734**	**3,045**	**1,302**	**100**	**12,132**
Premiums ceded							
Invested in general fund	**(410)**	**—**	**(131)**	**(27)**	**(608)**	**240**	**(936)**
Net premiums	**$ 1,625**	**$ 3,916**	**$ 1,603**	**$ 3,018**	**$ 694**	**$ 340**	**$ 11,196**

(in millions of dollars)	Individual Insurance	Individual Wealth Management	Group Insurance	Group Savings and Retirement	US Operations	Other	Total
	2019						
Gross premiums							
Invested in general fund	$ 1,989	$ 546	$ 1,777	$ 678	$ 953	$ 99	$ 6,042
Invested in segregated funds	—	2,365	—	1,350	—	—	3,715
	1,989	2,911	1,777	2,028	953	99	9,757
Premiums ceded							
Invested in general fund	(402)	—	(139)	(27)	(460)	215	(813)
Net premiums	$ 1,587	$ 2,911	$ 1,638	$ 2,001	$ 493	$ 314	$ 8,944

Segmented Assets and Liabilities

(in millions of dollars)	**Individual Insurance**	**Individual Wealth Management**	**Group Insurance**	**Group Savings and Retirement**	**US Operations**	**Other**	**Total**
	2020						
Assets							
Invested assets	**$ 25,922**	**$ 2,145**	**$ 1,969**	**$ 4,949**	**$ 1,347**	**$ 8,815**	**$ 45,147**
Segregated funds net assets	**—**	**19,240**	**—**	**13,564**	**—**	**—**	**32,804**
Reinsurance assets	**(36)**	**—**	**222**	**130**	**1,805**	**(140)**	**1,981**
Other	**109**	**1,096**	**—**	**—**	**74**	**5,255**	**6,534**
Total assets	**$ 25,995**	**$ 22,481**	**$ 2,191**	**$ 18,643**	**$ 3,226**	**$ 13,930**	**$ 86,466**
Liabilities							
Insurance contract liabilities and investment contract liabilities	**25,661**	**2,246**	**2,272**	**5,030**	**2,003**	**(110)**	**37,102**
Liabilities related to segregated funds net assets	**—**	**19,240**	**—**	**13,564**	**—**	**—**	**32,804**
Other	**441**	**47**	**3**	**8**	**—**	**9,548**	**10,047**
Total liabilities	**$ 26,102**	**$ 21,533**	**$ 2,275**	**$ 18,602**	**$ 2,003**	**$ 9,438**	**$ 79,953**

(in millions of dollars)	Individual Insurance	Individual Wealth Management	Group Insurance	Group Savings and Retirement	US Operations	Other	Total
	2019						
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

25 › Earnings Per Common Share

Basic Earnings Per Share

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

(in millions of dollars, unless otherwise indicated)		**2020**		2019
Net income attributed to common shareholders	**$**	**611**	$	687
Weighted average number of outstanding shares (in millions of units)		**107**		107
Basic earnings per share (in dollars)	**$**	**5.71**	$	6.43

Diluted Earnings Per Share

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common shares to take into account the conversion of all potentially dilutive common shares.

The dilutive effect of stock options considers the number of shares presumed issued without consideration, calculated as the difference between the number of shares deemed to have been issued (by assuming the outstanding stock option grants are exercised) and the number of shares that would have been issued at the average market price for the year (the number of shares that would have been issued using the issuance proceeds, using the average market price of the Company's common shares for the year). In 2020, an average of 253,078 antidilutive stock options (39,522 in 2019) were excluded from the calculation.

(in millions of dollars, unless otherwise indicated)		**2020**		2019
Net income attributed to common shareholders	**$**	**611**	$	687
Weighted average number of outstanding shares (in millions of units)		**107**		107
Weighted average number of outstanding shares on a diluted basis (in millions of units)		**107**		107
Diluted earnings per share (in dollars)	**$**	**5.70**	$	6.40

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

26 › Stock-Based Compensation

Stock Option Plan

Following the change in company structure (Note 1), the stock option plan of iA Insurance was exchanged for an identical plan with the Company. The Company grants a certain number of common stock options to management and to senior management and determines the exercise price of the options, the expiry date and the date on which the options can be exercised. Once they are exercised, these options involve the issuance of new shares of the Company.

The exercise price of each option is equal to the weighted average price of the shares traded on the Toronto Stock Exchange during the five days of trading preceding the option grant date. The options are generally valid for 10 years. They can be exercised at a maximum rate of 25% per year for the first four anniversaries of the grant. In certain cases, the Human Resources and Compensation Committee can modify the number of options purchased following an event, moving up the expiration date of the option.

The Board can grant options for a total of 11,350,000 common shares and cannot grant more than 1.4% of the issued and outstanding common shares of the Company per person eligible for the plan.

The following table presents the activities of the plan:

	2020			2019		
(in dollars, unless otherwise indicated)	**Number of stock options (in thousands)**		**Weighted average exercise price**	Number of stock options (in thousands)		Weighted average exercise price
Balance at beginning	**1,965**	**$**	**47.34**	2,875	$	42.89
Options granted	**285**		**73.93**	348		49.85
Options exercised	**(185)**		**40.24**	(1,206)		37.26
Options cancelled	**(100)**		**61.26**	(52)		52.03
Balance at end	**1,965**		**51.15**	1,965		47.34
Exercisable at end	**1,240**	**$**	**45.61**	1,058	$	43.06

The stock options outstanding as at December 31, 2020 by exercise price are as follows:

Exercise price (in dollars, unless otherwise indicated)	**Number of stock options (in thousands)**	**Weighted average exercise price**	**Average remaining life (in years)**
23.45 – 28.72	**60**	**$ 26.03**	**1.11**
32.09 – 43.51	**704**	**40.48**	**4.00**
43.52 – 55.85	**706**	**53.43**	**7.01**
55.86 – 58.43	**250**	**58.43**	**7.11**
58.44 – 73.93	**245**	**73.93**	**9.11**
Total	**1,965**	**$ 51.15**	**6.45**

Fair value of options is estimated at the grant dates using the Black-Scholes option pricing model. The weighted average fair value of the options granted in 2020 is 12.72 dollars (8.26 dollars in 2019). The pricing model assumes the following information:

	2020	2019
Risk-free interest rate	**1.38%**	1.74%
Expected volatility	**22.61%**	25.30%
Expected life (in years)	**5.4**	5.6
Expected dividends	**2.59%**	3.51%
Exercise price (in dollars)	**73.93**	49.85

The stock-based compensation expense during the year ended December 31, 2020 is $3 ($4 in 2019), and an equivalent amount was accounted for in *Contributed surplus* in the Equity Statements.

The Black-Scholes option pricing model estimates the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models also use assumptions that are highly subjective, including expected volatility of the underlying stocks. The expected volatility is based on historical volatility of the common shares as well as comparable market data analysis. Changes in assumptions can materially affect estimates of fair values.

Share Purchase Plan for Employees

The Company adopted an employee share purchase plan in which employees can contribute up to 5% of their salary to a maximum of 3,000 dollars per year. The Company matches 50% of the employee's contribution amount up to a maximum of 1,000 dollars per year. The share purchase plan for employees does not involve the issuance of new shares. The shares purchased by employees are already outstanding shares of the Company and they are purchased on the market. The shares purchased by the employees under the share purchase plan must be kept by the employees for a minimum period of two years. During the year, the remuneration expense for this plan is $3 ($2 in 2019).

Deferred Share Units (DSU)

This plan is offered to Company's directors, management and senior management. Under this plan, each member may choose to receive all or a percentage of their annual directors' remuneration, or management or senior management incentive bonus in the form of DSUs. The election to participate must be made on an annual basis and rights issued are vested immediately. Each DSU is equivalent to one common share and earns dividend equivalents in the form of additional DSUs at the same rate as the dividends on common shares. The value at the time of the settlement will be based on the fair market value of the common shares. To manage the risk of cash flow variation of its common share quoted price fluctuation, the Company uses derivative financial instruments. The amount of outstanding deferred share units is 190,740 (303,713 in 2019). The variation related to the fluctuation of the Company's common share quoted price, excluding adjustments arising from derivative financial instruments which are accounted for in *Interest and other investment income,* generated a gain of $2 in 2020 (a loss of $11 in 2019) recorded in *General expenses*. The liability for this plan is $10 ($22 in 2019).

Mid-Term Incentive Plan

This plan was created for the Company's management and senior management. Under this plan, each member may receive performance share units (PSU), a compensation based on the Company's performance over three years. Performance is measured based on the Company's total net income attributed to common shareholders and the common share price. Each PSU is equivalent to one common share and earns dividend equivalents in the form of additional PSUs at the same rate as the dividends on common shares. The value at the time of settlement will be based on the fair market value of common shares for the last 20 working days of the period, increased by a vesting factor based on the Company's net income attributed to common shareholders return on equity over the three-year period. Settlement is made in cash. As at December 31, 2020, 118,298 (116,050 in 2019) performance share units are outstanding. The compensation expense recognized in respect of this plan is $1 ($4 in 2019) and the liabilities are $4 ($5 in 2019).

Restricted Share Units

This plan, created for certain members of management of the Company, took effect during the year. Under this plan, each member receives restricted share units, which vest over a period of 5 years from the effective date of the plan, at a rate of 20% per year. Restricted share units whose rights are not ultimately vested, where applicable, may be reallocated. Each restricted share unit is equivalent to one common share of a subsidiary of the Company which, for the purposes of the plan, is deemed to wholly own certain other subsidiaries of the Company which are not under its control. These units give the right to dividend equivalents cumulated in favour of the participant until the plan settlement date. Settlement of restricted share units and dividend equivalents will be made in cash at the end of the 5-year vesting period. As of December 31, 2020, 28,000,000 restricted share units have been granted. The compensation expense recognized in respect of this plan is $5 and the liability is $5.

Stock-Based Compensation Expense

(in millions of dollars)		**2020**		2019
Expense arising from equity-settled stock-based payment transactions	**$**	**3**	$	4
Expense (gain) arising from cash-settled stock-based payment transactions		**7**		17
Total of stock-based compensation expense	**$**	**10**	$	21

These expenses are recorded in the Income Statement as *General expenses*.

27 › Post-Employment Benefits

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

Defined Benefit Plans

The Company provides defined benefit plans to eligible employees. The defined benefit plans are end-of-career plans based on the average of the best five years of salary. No indexation clause is included in the plan. The funded defined benefit plan is administered separately from the Company by a retirement fund that is a legally distinct entity. The retirement committee of the funded retirement plan is made up of members from the Company, members of retirement plans and non-members of retirement plans. The laws and regulations that the retirement plan is subject to require that the retirement committee act in the interests of the retirement fund and stakeholders, such as active, inactive and retired members. The retirement committee is responsible for the investment policy for retirement plan assets.

The plans are exposed to investment risks, such as credit risk, market risk, concentration risk and interest rate risk, and actuarial risks, such as risk related to mortality, rate of compensation increase and discount rate. The Company measures by extrapolation its accrued benefit obligation for the current year from the December 31, 2019 actuarial valuation. The most recent actuarial valuation of the pension plans for funding purposes was completed on December 31, 2019. The next required valuation will be performed as at December 31, 2020 and will be available later in 2021.

Other Post-Retirement Benefits

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

Variation in the discounted value of the assets and liabilities in respect of the defined benefits of plans during the year is as follows:

	2020		2019	
(in millions of dollars)	**Pension plans**	**Other plans**	Pension plans	Other plans
Accrued benefit plan obligation				
Balance at beginning	**$ 1,467**	**$ 48**	$ 1,216	$ 40
Current service cost	**62**	**4**	43	2
Interest cost	**48**	**2**	48	2
Employee contributions	**24**	**—**	22	—
Actuarial losses (gains) following remeasurement				
Actuarial losses (gains) on demographic assumption changes	**(8)**	**(1)**	(4)	1
Actuarial losses (gains) on financial assumption changes	**167**	**5**	183	6
Actuarial losses (gains) arising from members' experience	**10**	**—**	1	(1)
Benefits paid	**(51)**	**(2)**	(42)	(2)
Balance at end	**$ 1,719**	**$ 56**	$ 1,467	$ 48

(in millions of dollars)	2020 Pension plans	2020 Other plans	2019 Pension plans	2019 Other plans
Defined benefit plan assets				
Fair value at beginning	**$ 1,241**	**$ —**	$ 1,029	$ —
Interest income	**40**	**—**	40	—
Actuarial gains (losses) following remeasurement				
Return on assets (excluding the amount included in the net interest)	**100**	**—**	157	—
Administrative expense	**(1)**	**—**	(1)	—
Employee contributions	**24**	**—**	22	—
Employer contributions	**42**	**—**	36	—
Benefits paid	**(51)**	**—**	(42)	—
Fair value at end	**$ 1,395**	**$ —**	$ 1,241	$ —

Amounts Recognized in the Statement of Financial Position

(in millions of dollars)	2020 Pension plans	2020 Other plans	2019 Pension plans	2019 Other plans
Obligation in respect of capitalized defined benefit plans[1]	**$ 1,551**	**$ —**	$ 1,324	$ —
Obligation in respect of non-capitalized defined benefit plans	**168**	**56**	143	48
Accrued benefit plan obligation	**1,719**	**56**	1,467	48
Fair value of plan assets[1]	**1,395**	**—**	1,241	—
Net liabilities (assets) resulting from the obligation in respect of defined benefits	**$ 324**	**$ 56**	$ 226	$ 48

[1] As at December 31, 2020, there is a pension plan deficit of $156 ($83 in 2019).

The amounts presented in Note 15 "Other Liabilities" are:

(in millions of dollars)	2020	2019
Pension plans	**$ 324**	$ 226
Other plans	**56**	48
Post-employment benefits	**$ 380**	$ 274

Amounts Recognized in Net Income and Other Comprehensive Income

(in millions of dollars)	2020 Pension plans	2020 Other plans	2019 Pension plans	2019 Other plans
Current service cost	**$ 62**	**$ 4**	$ 43	$ 2
Net interest	**8**	**2**	8	2
Administrative expense	**1**	**—**	1	—
Components of the cost of defined benefits recognized in the net income	**71**	**6**	52	4
Remeasurement of net liabilities (assets) as defined benefits				
Rate of return on assets (excluding amounts included in the net interest above)	**(100)**	**—**	(157)	—
Actuarial losses (gains) on demographic assumption changes	**(8)**	**(1)**	(4)	1
Actuarial losses (gains) on financial assumption changes	**167**	**5**	183	6
Actuarial losses (gains) arising from members' experience	**10**	**—**	1	(1)
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	**69**	**4**	23	6
Total of defined benefit cost components	**$ 140**	**$ 10**	$ 75	$ 10

Items that will not be reclassified subsequently to net income

(in millions of dollars)	**2020** Pension plans	Other plans	2019 Pension plans	Other plans
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income				
Remeasurement of post-employment benefits	**$ 69**	**$ 4**	$ 23	$ 6
Income taxes on remeasurement of post-employment benefits	**(18)**	**(1)**	(7)	(1)
Total of other comprehensive income	**$ 51**	**$ 3**	$ 16	$ 5

Plan members make contributions to their retirement plan varying from 0% to 9% (0% to 9% in 2019). The Company makes the necessary residual contributions to plans. The Company finances plans in such a way as to constitute defined benefits according to the plan provisions. The value of these benefits is established using an actuarial valuation method. The weighted average duration of the obligation in respect of defined benefits at the end of the year is 21.6 years (20.2 years in 2019) for pension plans and 11.3 years (12.2 years in 2019) for the other plans. The Company estimates that it will have to contribute an amount of $43 to its defined benefit plans in 2021.

The plan assets are divided as follows:

	2020	2019
Asset classes		
Fund units		
Diversified Fund	**100%**	100%

The retirement committee adopted, under the recommendation of the investment committee, an investment policy that takes into account the characteristics specific to the plan, the laws and regulations that the plan is subject to, and the investment orientations favoured by the retirement committee. The investment policy defines the target allocation of assets used as a benchmark portfolio. The main objectives of the investment policy, which are dictated by the financing policy, are to maintain a stable and sustainable cost of the plan, as well as an appropriate level of funding to ensure the security of the plan's commitments. The plan is exposed to various investment risks, namely the risks that the investments suffer losses or do not produce the expected return. The investment policy contains several quantitative and qualitative measures that aim to limit the impact of these risks. All fund units have prices listed on active markets and are classified as Level 1.

The effective return of plan assets is positive 11% (positive 19% in 2019). The plan assets are managed by a subsidiary of the Company. The pension plan assets did not include any common shares of the Company in 2020 and 2019.

Significant Assumptions

Significant judgments and assumptions are made by management in determining the expense and benefits obligations for the Company's defined benefit pension plans and other post-employment benefits. The significant actuarial assumptions made are detailed as follows:

	2020 Pension plans	Other plans	2019 Pension plans	Other plans
Accrued benefit plan obligation				
Discount rate	**2.7%**	**2.7%**	3.2%	3.2%
Rate of compensation increase	**3.3%**	**—**	3.3%	—
Rate of mortality (table)	**CPM-2014Publ**	**CPM-2014Publ**	CPM-2014Publ	CPM-2014Publ
Benefit plan expenses				
Discount rate	**3.2%**	**3.2%**	3.9%	3.9%
Rate of compensation increase	**3.3%**	**—**	3.3%	—

	2020 Other plans Drug	Dental	Other
Assumed health care cost trend rates			
Initial health care cost trend rates	**5.6%**	**4.5%**	**4.8%**
Cost trend rate declines to	**3.9%**	**4.5%**	**4.8%**
Number of years required to stabilize the rate	**9**	**—**	**—**

	2019		
	Other plans		
	Drug	Dental	Other
Assumed health care cost trend rates			
Initial health care cost trend rates	5.8%	4.5%	4.8%
Cost trend rate declines to	3.9%	4.5%	4.8%
Number of years required to stabilize the rate	9	—	—

Sensitivity Analysis
Retirement Plan
The significant assumptions used to determine the accrued benefit plan obligation are the discount rate, the rate of compensation increase and the mortality rate. Each sensitivity analysis below is done with a variation of only one assumption with other assumptions unchanged.

Sensitivity of Key Assumptions of Benefit Plan Obligation

	2020		2019	
	Pension plans		Pension plans	
(in millions of dollars)	**Increase**	**Decrease**	Increase	Decrease
Discount rate assumption				
Impact of an absolute change of 1.0%	**$ (309)**	**$ 435**	$ (249)	$ 344
Rate of compensation increase				
Impact of an absolute change of 1.0%	**$ 104**	**$ (89)**	$ 83	$ (71)
Rate of mortality				
Impact of a relative change of 10.0%	**$ (27)**	**$ 29**	$ (21)	$ 23

	2020	2019
Sample life expectancies based on mortality assumptions (in years)		
Male		
Age 65 in fiscal year	**23.3**	23.2
Age 65 in fiscal year + 30 years	**25.3**	25.2
Female		
Age 65 in fiscal year	**25.2**	25.1
Age 65 in fiscal year + 30 years	**27.1**	27.0

Other Post-Retirement Benefits
Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	2020		2019	
(in millions of dollars)	**Increase**	**Decrease**	Increase	Decrease
Accrued benefit obligation	**$ 8**	**$ (6)**	$ 6	$ (5)

The impact of the one percentage-point fluctuation in the assumed health care cost trend on the total of service and interest cost is less than $1 for 2020 (less than $1 in 2019).

The Company could expect interrelations between the assumptions, especially between the discount rate and expected growth of salaries since they are both influenced by the expected inflation rate. The above analysis excludes these interrelations between assumptions.

Defined Contribution Plan
A defined contribution plan, providing pension benefits, is maintained by the Company. These amounts are not included in the cost recognized for the defined benefit plans above. The total cost recognized for the Company's defined contribution plan is $4 ($3 in 2019). The liability related to this plan is presented in Note 15 "Other Liabilities" included in *Accounts payable* for an amount of $1 ($2 in 2019).

28 › Related Party Transactions

The Company eliminates transactions carried out with its subsidiaries and carried out between the various members of its group of companies on consolidation. The Company provides investment management services to its pension plans. These services are offered by the Company in the normal course of business and are subject to normal market conditions. The Company concludes transactions with associates. These transactions are concluded in the normal course of business and are subject to normal market conditions.

Key Management Personnel

The Company's key management personnel are members of senior management, who have the power and responsibility to plan, manage and control the Company's operations. Senior executives are likely to purchase insurance, wealth management and other products and services offered by the Company as part of its regular operations. The terms and conditions of these operations are essentially the same as those granted to clients or employees.

The compensation of directors and key management personnel for the year was as follows:

(in millions of dollars)	**2020**	2019
Salaries and other short-term benefits	**$ 8**	$ 7
Post-retirement benefits	**2**	1
Stock-based compensation	**3**	3
Total	**$ 13**	$ 11

29 › Guarantees, Commitments and Contingencies

In the normal course of its operations, the Company frequently concludes several types of contracts or agreements which, in certain cases, can be considered as guarantees, commitments or contingencies.

Contractual Commitments

The Company currently has contracts covering various products and services, such as outsourced computer services, which, due to their nature, are difficult to cancel. The minimum commitment amounts for the coming years represent $69 in 2021, $63 in 2022, $48 in 2023, $45 in 2024 and $93 in 2025 and beyond.

Lease Commitments

The Company is also involved in short term leases and leases for which the underlying asset is of low value, including equipment. The minimum commitment for the next 12 months represents $1.

In the normal course of business, the Company is involved in lease agreements that will come into effect shortly. These leases are not reflected in the financial statements.

Commitments

The Company is committed to a third party for one of its subsidiaries for an amount of less than $1 (less than $1 in 2019). The Company is also committed to third parties to ensure the funds offered by one of its subsidiaries.

Investment Commitments

In the normal course of the Company's business, various outstanding contractual commitments related to offers for commercial loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. There were $773 ($803 as at December 31, 2019) of outstanding commitments as at December 31, 2020, of which the estimated disbursements will be $72 ($65 as at December 31, 2019) in 30 days, $308 ($314 as at December 31, 2019) in 31 to 365 days and $393 ($424 as at December 31, 2019) in more than one year.

Letters of Credit

In the normal course of operations, banks issue letters of credit on behalf of the Company. As at December 31, 2020, the balance of these letters is $7 ($7 as at December 31, 2019).

Indemnifications

In the normal course of business, the Company enters into several types of agreements that could include indemnities in favour of third parties. Under certain unusual circumstances, the Company could be called upon to pay specific indemnifications. These indemnifications could vary based upon the nature and terms of the agreements. The primary indemnifications would concern the Company's directors, among others, in case of an event not covered by the liability insurance on the directors. The amount of these indemnifications cannot be determined. The Company has not had to pay out significant indemnities in the past and considers the likelihood of such payment being made to be low.

Lines of Credit

As at December 31, 2020, the Company had operating lines of credit totalling $56 ($56 as at December 31, 2019). As at December 31, 2020 and 2019, no lines of credit were used. The purpose of these lines of credit is to facilitate financing of the Company's operations and meet its temporary working capital requirements.

Legal and Regulatory Proceedings

The Company is regularly involved in legal actions, both as defendant and as a plaintiff. In addition, government and regulatory bodies in Canada and in the United States, from time to time, make inquiries and require the production of information or conduct examinations or investigations concerning the Company's compliance with insurance, securities and other laws. Management makes judgments to evaluate the possible outcomes and does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

30 › Subsidiaries

The following is a list of directly and indirectly held major operating subsidiaries.

As at December 31, 2020	Ownership (%)	Address	Description
Industrial Alliance Insurance and Financial Services Inc.[1, 2]	100	Quebec City, Canada	Life and health insurance company that distributes life and health insurance products, savings and retirement plans, mortgages and other financial products and services
Michel Rhéaume et associés ltée	100	Montreal, Canada	Life insurance broker
PPI Management Inc.[1]	100	Toronto, Canada	Insurance broker
IA Clarington Investments Inc.[1]	100	Toronto, Canada	Fund management firm that markets investment products, including mutual funds and segregated funds
Investia Financial Services Inc.	100	Quebec City, Canada	Mutual fund broker
FundEX Investments Inc.	100	Vaughan, Canada	Mutual fund broker
iA Private Wealth Inc.[1, 3]	100	Montreal, Canada	Securities broker
Forstrong Global Asset Management Inc.	73	Kelowna, Canada	International wealth management and mutual fund portfolio management (exchange-traded funds)
Industrial Alliance Investment Management Inc.	100	Quebec City, Canada	Investment advisor that oversees the management of the Company's general fund, segregated fund and mutual fund portfolios
Industrial Alliance Trust Inc.	100	Quebec City, Canada	Trust services
Industrial Alliance Auto and Home Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Prysm General Insurance Inc.	100	Quebec City, Canada	Property and casualty insurance company
Industrial Alliance Pacific General Insurance Corporation	100	Quebec City, Canada	Property and casualty insurance, and other ancillary products company
SAL Marketing Inc.	100	Vancouver, Canada	Extended warranty and other ancillary products company
National Warranties MRWV Limited	100	Laval, Canada	Extended warranty and other ancillary products company
iA Auto Finance Inc.[1]	100	Oakville, Canada	Auto finance company
IA American Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer Security Life Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
American-Amicable Life Insurance Company of Texas	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Pioneer American Insurance Company	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Occidental Life Insurance Company of North Carolina	100	Waco, Texas, United States	Life and health insurance company that offers life insurance, health and annuity products in the United States
Dealers Alliance Corporation[1]	100	Addison, Texas, United States	Extended warranty/service contracts and other ancillary products company
Dealers Assurance Company	100	Addison, Texas, United States	Property and casualty insurer providing liability insurance coverage to companies offering extended warranty/service contracts and other ancillary products
iA American Warranty Corp.[4]	100	Albuquerque, New Mexico, United States	Administrator of extended warranty/service contracts and other ancillary products
Ecoblock, Inc.	100	Albuquerque, New Mexico, United States	Provider of ancillary automotive products
First Automotive Service Corporation	100	Albuquerque, New Mexico, United States	Extended warranty/service contracts and other ancillary products company
Lubrico Warranty Inc.	100	London, Canada	Automobile warranty company
WGI Service Plan Division Inc.	100	Vancouver, Canada	Automobile warranties and ancillary products company
WGI Manufacturing Inc.	100	Scarborough, Canada	Manufacturer and distributor of automobile protection products
IAS Parent Holdings, Inc.[1]	100	Austin, Texas, United States	Vehicle warranties and related software and services company

[1] These subsidiaries hold directly or indirectly other subsidiaries with essentially a 100% ownership.

[2] On January 1, 2020, Industrial Alliance Insurance and Financial Services Inc. and its subsidiary The Excellence Life Insurance Company merged.

[3] Since January 18, 2021, iA Private Wealth Inc. is the new brand replacing Industrial Alliance Securities Inc. and HollisWealth.

[4] Formerly Southwest Reinsure Inc.

31 › Comparative Figures

Certain comparative figures have been reclassified to comply with the current presentation. The reclassifications had no impact on the net income of the Company.

Management of iA Financial Group

Executive Committee

Denis Ricard – B.Sc., FSA, FCIA
President and Chief Executive Officer

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Executive Vice-President and
Chief Investment Officer

François Blais – B.Sc., FCIA, FCAS
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Dealer Services and Special Risks

Jean-François Boulet – BA, Fellow CHRP
Executive Vice-President
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Group Benefits and Retirement Solutions

Renée Laflamme – BBA, FCPA, FCA, CFA
Executive Vice-President
Individual Insurance, Savings and
Retirement

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Information Technology and
Investment Operations

Sean O'Brien – Business Diploma
Executive Vice-President
Wealth Management

Jacques Potvin – B.Sc., FSA, FCIA
Executive Vice-President, Chief Financial
Officer and Chief Actuary

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Corporate Strategy and Development

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FundEX Investments
David Chapman – B.Sc., FLMI, ACS
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iA American Warranty Group Dealers Assurance Company
Kristen Gruber – MBA, CPCU
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Isabelle Blackburn – CFA, CIA
President and Chief Operating Officer

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iA Auto Finance
Gwen Gareau
President

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Stéphan Bourbonnais – MBA
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Investia Financial Services
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MRA
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This annual report was jointly produced by the iA Financial Group Actuarial; Accounting; Investor Relations and Public Affairs; and Digital Marketing and Brand Management departments.

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Stock Exchange Listing

The common shares of iA Financial Corporation Inc. are listed on the Toronto Stock Exchange under the stock symbol IAG.

The preferred shares of Industrial Alliance Insurance and Financial Services Inc. are listed on the Toronto Stock Exchange under the stock symbol IAF.

Annual Meeting of Shareholders

Thursday, May 6, 2021 at 2:00 PM

Shareholder Services and Dividend Reinvestment and Share Purchase Plan

For questions regarding share accounts, dividends, changes of address and ownership and other related matters, contact our transfer agent:

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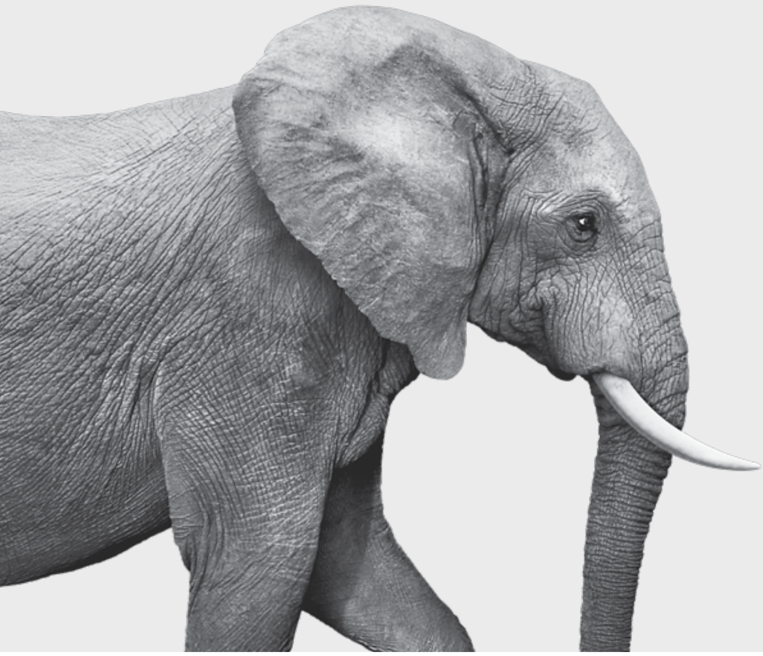

General Information

For information on upcoming earnings releases, investor conferences and disclosure documents, consult our website at ia.ca, under *About iA*, in the ***Investor Relations*** section.

For questions regarding iA Financial Group products and services, contact your advisor or consult pages 136 to 138 of this annual report to find the office nearest you.

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