Industrial Alliance Insurance and Financial Services Inc.

Interim Condensed Consolidated Financial Statements

For the First Quarter of 2020

As at March 31, 2020 and 2019

iA Financial Group

Interim Condensed Consolidated Financial Statements (unaudited)

Consolidated Income Statements

(Unaudited, in millions of dollars, unless otherwise indicated)	Three months ended March 31	
	2020	2019
	$	$
Revenues		
Premiums		
Gross premiums	**2,941**	2,541
Premiums ceded	**(195)**	(186)
Net premiums (Note 14)	**2,746**	2,355
Investment income (Note 3)		
Interest and other investment income	**439**	326
Change in fair value of investments	**(1,297)**	1,836
	(858)	2,162
Other revenues	**438**	410
	2,326	4,927
Policy benefits and expenses		
Gross benefits and claims on contracts	**1,610**	1,494
Ceded benefits and claims on contracts	**(134)**	(117)
Net transfer to segregated funds	**688**	224
Increase (decrease) in insurance contract liabilities	**(702)**	2,350
Increase (decrease) in investment contract liabilities	**1**	14
Decrease (increase) in reinsurance assets	**(75)**	(39)
	1,388	3,926
Commissions	**439**	385
General expenses	**407**	361
Premium and other taxes	**33**	32
Financing charges	**13**	15
	2,280	4,719
Income before income taxes	**46**	208
Income taxes (Note 13)	**(2)**	50
Net income	**48**	158
Net income attributed to participating policyholders	**1**	1
Net income attributed to shareholders	**47**	157
Dividends attributed to preferred shares (Note 9)	**6**	6
Net income attributed to common shareholders	**41**	151
Basic earnings per common share (in dollars) (Note 15)	**0.37**	1.39

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Comprehensive Income Statements

(Unaudited, in millions of dollars)	Three months ended March 31	
	2020	2019
	$	$
Net income	**48**	158
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	**(118)**	70
Reclassification of losses (gains) on available for sale financial assets included in net income	**(6)**	(2)
	(124)	68
Net investment hedge		
Unrealized gains (losses) on currency translation in foreign operations	**128**	(25)
Hedges of net investment in foreign operations	**(110)**	20
	18	(5)
Cash flow hedge		
Unrealized gains (losses) on cash flow hedges	**(1)**	(1)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**69**	(22)
Total other comprehensive income	**(38)**	40
Comprehensive income	**10**	198
Comprehensive income attributed to participating policyholders	**1**	1
Comprehensive income attributed to shareholders	**9**	197

Income Taxes Included in Other Comprehensive Income

(Unaudited, in millions of dollars)	Three months ended March 31	
	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	**41**	(25)
Reclassification of gains (losses) on available for sale financial assets included in net income	**3**	2
Hedges of net investment in foreign operations	**19**	(3)
	63	(26)
Items that will not be reclassified subsequently to net income:		
Remeasurement of post-employment benefits	**(24)**	8
Total income tax recovery (expense) included in other comprehensive income	**39**	(18)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Statements of Financial Position

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

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Equity Statements

(Unaudited, in millions of dollars)	As at March 31, 2020						
	Participating policyholders' accounts	**Common shares**	**Preferred shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income**	**Total**
		(Note 9)	(Note 9)			(Note 10)	
	$	$	$	$	$	$	$
Balance as at December 31, 2018	52	1,655	525	23	3,440	23	5,718
Net income attributed to shareholders	—	—	—	—	713	—	713
Net income attributed to participating policyholders' accounts	(10)	—	—	—	—	—	(10)
Other comprehensive income	—	—	—	—	—	33	33
Comprehensive income for the year	(10)	—	—	—	713	33	736
Equity transactions							
Transfer of post-employment benefits	—	—	—	—	(21)	21	—
Transfer of stock option plan	—	—	—	(23)	—	—	(23)
Dividends on common shares	—	—	—	—	(651)	—	(651)
Dividends on preferred shares	—	—	—	—	(22)	—	(22)
Other	—	—	—	—	1	—	1
	—	—	—	(23)	(693)	21	(695)
Balance as at December 31, 2019	42	1,655	525	—	3,460	77	5,759
Net income attributed to shareholders	**—**	**—**	**—**	**—**	**47**	**—**	**47**
Net income attributed to participating policyholders' accounts	**1**	**—**	**—**	**—**	**—**	**—**	**1**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**(38)**	**(38)**
Comprehensive income for the period	**1**	**—**	**—**	**—**	**47**	**(38)**	**10**
Equity transactions							
Transfer of post-employment benefits	**—**	**—**	**—**	**—**	**69**	**(69)**	**—**
Dividends on common shares	**—**	**—**	**—**	**—**	**(671)**	**—**	**(671)**
Dividends on preferred shares	**—**	**—**	**—**	**—**	**(6)**	**—**	**(6)**
Other	**—**	**—**	**—**	**—**	**2**	**—**	**2**
	—	**—**	**—**	**—**	**(606)**	**(69)**	**(675)**
Balance as at March 31, 2020	**43**	**1,655**	**525**	**—**	**2,901**	**(30)**	**5,094**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

(Unaudited, in millions of dollars)	As at March 31, 2019						
	Participating policyholders' accounts	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
		(Note 9)	(Note 9)			(Note 10)	
	$	$	$	$	$	$	$
Balance as at December 31, 2018	52	1,655	525	23	3,440	23	5,718
Net income attributed to shareholders	—	—	—	—	157	—	157
Net income attributed to participating policyholders' accounts	1	—	—	—	—	—	1
Other comprehensive income	—	—	—	—	—	40	40
Comprehensive income for the period	1	—	—	—	157	40	198
Equity transactions							
Transfer of post-employment benefits	—	—	—	—	(22)	22	—
Transfer of stock option plan	—	—	—	(23)	—	—	(23)
Dividends on common shares	—	—	—	—	(180)	—	(180)
Dividends on preferred shares	—	—	—	—	(6)	—	(6)
	—	—	—	(23)	(208)	22	(209)
Balance as at March 31, 2019	53	1,655	525	—	3,389	85	5,707

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Consolidated Cash Flows Statements

(Unaudited, in millions of dollars)	Three months ended March 31	
	2020	2019
	$	$
Cash flows from operating activities		
Income before income taxes	**46**	208
Financing charges	**13**	15
Income taxes paid, net of refunds	**(51)**	(116)
Operating activities not affecting cash:		
Increase (decrease) in insurance contract liabilities	**(663)**	2,377
Increase (decrease) in investment contract liabilities	**2**	(2)
Decrease (increase) in reinsurance assets	**(93)**	(69)
Unrealized losses (gains) on investments	**1,299**	(1,834)
Provisions for losses	**20**	8
Amortization of premiums and discounts	**4**	3
Other depreciation	**42**	40
Goodwill impairment (Note 12)	**24**	—
Other items not affecting cash	**(71)**	(34)
Operating activities affecting cash:		
Sales, maturities and repayments on investments	**3,653**	3,459
Purchases of investments	**(3,736)**	(3,779)
Realized losses (gains) on investments	**(12)**	(11)
Other items affecting cash	**1,415**	(213)
Net cash from (used in) operating activities	**1,892**	52
Cash flows from investing activities		
Sales (purchases) of fixed and intangible assets[1]	**(15)**	(35)
Net cash from (used in) investing activities	**(15)**	(35)
Cash flows from financing activities		
Reimbursement of lease liabilities[1]	**(13)**	(4)
Dividends paid on common shares	**(671)**	(180)
Dividends paid on preferred shares	**(6)**	(6)
Interest paid on debentures	**(10)**	(10)
Interest paid on lease liabilities	**(1)**	(1)
Net cash from (used in) financing activities	**(701)**	(201)
Foreign currency gains (losses) on cash	**6**	(1)
Increase (decrease) in cash and short-term investments	**1,182**	(185)
Cash and short-term investments at beginning	**1,005**	1,046
Cash and short-term investments at end	**2,187**	861
Supplementary information:		
Cash	**1,820**	423
Short-term investments	**367**	438
Total cash and short-term investments	**2,187**	861

[1] For the three months ended March 31, 2020, fixed assets and lease liabilities presented in the Consolidated Statements of Financial Position include an amount of $17 ($4 for the three months ended March 31, 2019) of initial capitalization not affecting cash.

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2020 and 2019 (unaudited) (in millions of dollars, unless otherwise indicated)

1 › General Information

Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company incorporated under the *Business Corporations Act* (Quebec), governed by the *Insurers Act* and regulated by the Autorité des marchés financiers (AMF). Industrial Alliance Insurance and Financial Services Inc. and its subsidiaries (iA Insurance or the "Company") offer a wide range of life and health insurance products, savings and retirement plans, mutual funds, securities, auto and home insurance, mortgages, 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 to the United States.

On January 1, 2019, iA Insurance and iA Financial Corporation Inc. (iA Financial Corporation) completed an operation pursuant to which iA Financial Corporation became the holding company that owns all the common shares of the Company 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 Company's common shares outstanding as at January 1, 2019 were exchanged for newly issued common shares of iA Financial Corporation, on a one for one basis. The Company's issued and outstanding preferred shares and debentures remain issued and have been guaranteed by iA Financial Corporation in accordance with the terms of the arrangement. iA Financial Corporation is a "successor issuer" of the Company as defined in the securities regulations with respect to previously issued common shares of the Company. This change in company structure had no financial impact on the Company's financial statements.

On January 1, 2020, Industrial Alliance Insurance and Financial Services Inc. and its subsidiary The Excellence Life Insurance Company merged. The merger was recorded at book value and had no effect on the consolidated financial statements.

The Company's Interim Consolidated Financial Statements are prepared on the basis of International Financial Reporting Standards (IFRS) in accordance with IAS 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB). These Interim Consolidated Financial Statements do not contain all the information required in a complete annual financial statement and should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2019, which are included in the 2019 Annual Report. The significant accounting policies used to prepare these Interim Consolidated Financial Statements are consistent with those found in the 2019 Annual Report, except for items mentioned in Note 2.

Publication of these Interim Consolidated Financial Statements was authorized for issue by the Company's Board of Directors on May 7, 2020.

2 › 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 March 17, 2020, the IASB decided to extend the deferral approach until January 1, 2023. The IASB expects to issue the amendment to IFRS 17 *Insurance Contracts* in the second quarter of 2020. *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 January 1, 2021, or January 1, 2023 once the amendment has been published.
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 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 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 this new standard 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 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 this new standard 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 March 17, 2020, the IASB decided to extend the date of application to financial statements beginning on or after January 1, 2023. The IASB expects to issue the amendment to IFRS 17 *Insurance Contracts* in the second quarter of 2020. *Status:* The Company is 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. *Status:* The Company is evaluating the impact of this amendment 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 or available for sale as at March 31, 2020, an amount of $653 ($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.

3 › Invested Assets and Investment Income

a) Carrying Value and Fair Value

	As at March 31, 2020					
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and short-term investments	1,168	—	1,019	—	2,187	2,187
Bonds						
Governments	11,327	1,428	106	—	12,861	
Municipalities	1,183	172	40	—	1,395	
Corporate and other	9,374	1,722	2,356	—	13,452	
	21,884	3,322	2,502	—	27,708	27,997
Stocks						
Common	1,631	36	—	—	1,667	
Preferred	152	284	—	—	436	
Stock indexes	182	12	—	—	194	
Investment fund units	441	6	—	—	447	
	2,406	338	—	—	2,744	2,744
Mortgages and other loans						
Insured mortgages						
Residential	—	—	820	—	820	
Multi-residential	—	—	1,349	—	1,349	
Non-residential	—	—	6	—	6	
	—	—	2,175	—	2,175	
Conventional mortgages						
Residential	—	—	302	—	302	
Multi-residential	71	—	197	—	268	
Non-residential	31	—	231	—	262	
	102	—	730	—	832	
Other loans	—	—	808	—	808	
	102	—	3,713	—	3,815	3,963
Derivative financial instruments	912	—	—	—	912	912
Policy loans	—	—	927	—	927	927
Other invested assets	—	—	5	429	434	434
Investment properties	—	—	—	2,022	2,022	2,044
Total investments	26,472	3,660	8,166	2,451	40,749	41,208

	As at December 31, 2019					
	At fair value through profit or loss	Available for sale	Loans and receivables	Other	Total	Fair value
	$	$	$	$	$	$
Cash and short-term investments	489	—	516	—	1,005	1,005
Bonds						
Governments	11,713	1,551	111	—	13,375	
Municipalities	1,106	167	40	—	1,313	
Corporate and other	8,601	1,721	2,179	—	12,501	
	21,420	3,439	2,330	—	27,189	27,430
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	25,517	3,952	7,527	2,501	39,497	39,807

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 and investments in joint ventures accounted for using the equity method.

b) Investments in Associates and Joint Ventures

The Company holds interests ranging from 25% to 50% as at March 31, 2020 (ranging from 25% to 50% as at December 31, 2019). The carrying value of these investments as at March 31, 2020 is $429 ($422 as at December 31, 2019). The share of net income and comprehensive income for the three months ended March 31, 2020 amounts to $2 ($5 for the three months ended March 31, 2019).

c) Investment Income

	Three months ended March 31	
	2020	2019
	$	$
Interest and other investment income		
Interest	**318**	236
Dividends	**59**	28
Derivative financial instruments	**(3)**	5
Rental income	**59**	48
Gains (losses) realized	**12**	11
Variation in provisions for losses	**(20)**	(8)
Other	**14**	6
	439	326
Change in fair value of investments		
Cash and short-term investments	**2**	2
Bonds	**(109)**	1,178
Stocks	**(197)**	119
Mortgages and other loans	**11**	(1)
Derivative financial instruments	**(971)**	557
Investment properties	**(33)**	(8)
Other	**—**	(11)
	(1,297)	1,836
Total investment income	**(858)**	2,162

4 › 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 uses 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 in 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 in 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.

Financial Liabilities

Derivative Financial Instruments – The fair value of derivative financial instruments recorded as financial liabilities is presented in Note 6 "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, the measure of volatility and liquidity and other reference data published by the markets.

The fair value of securitization liabilities and mortgage debt is estimated by discounting cash flows with the interest rates currently prevailing on the market for new debts with substantially the same terms.

The fair value of the mortgage debt is $75 ($76 as at December 31, 2019). It is secured by real estate with a carrying value of $74 ($74 as at December 31, 2019), bearing interest of 3.143% and maturing on May 1, 2022. The interest expense on the mortgage debt is less than $1 (less than $1 for the three months ended March 31, 2019).

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.

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

	As at March 31, 2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Recurring fair value measurements				
Cash and short-term investments				
Held for trading	—	1,168	—	1,168
Bonds				
Designated at fair value through profit or loss				
Governments	578	10,749	—	11,327
Municipalities	—	1,183	—	1,183
Corporate and other	—	9,246	128	9,374
	578	21,178	128	21,884
Available for sale				
Governments	150	1,278	—	1,428
Municipalities	—	172	—	172
Corporate and other	—	1,711	11	1,722
	150	3,161	11	3,322
	728	24,339	139	25,206
Stocks				
Designated at fair value through profit or loss	1,033	—	1,373	2,406
Available for sale	21	284	33	338
	1,054	284	1,406	2,744
Mortgages and other loans				
Designated at fair value through profit or loss	—	102	—	102
Derivative financial instruments				
Held for trading	45	867	—	912
Investment properties	—	—	2,022	2,022
General fund investments recognized at fair value	1,827	26,760	3,567	32,154
Segregated funds financial instruments and investment properties	18,646	6,386	195	25,227
Total financial assets at fair value	20,473	33,146	3,762	57,381

	As at December 31, 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	10,863	—	11,713
Municipalities	—	1,106	—	1,106
Corporate and other	—	8,472	129	8,601
	850	20,441	129	21,420
Available for sale				
Governments	76	1,475	—	1,551
Municipalities	—	167	—	167
Corporate and other	—	1,710	11	1,721
	76	3,352	11	3,439
	926	23,793	140	24,859
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	25,524	3,539	31,546
Segregated funds financial instruments and investment properties	21,343	6,373	90	27,806
Total financial assets at fair value	23,826	31,897	3,629	59,352

Transfers from level 1 to level 2 during the three months ended March 31, 2020 have a value of $564 (none for the year ended December 31, 2019). Transfers from level 1 to level 2 result from the application of a fair value adjustment for events which took place after the market close but before the valuation date. These transfers are related to segregated fund financial instruments and investment properties.

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 1.45% to 4.57% as at March 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 March 31, 2020 are the discount rate, which is between 5.25% and 7.75% (5.25% and 7.75% as at December 31, 2019) and the terminal capitalization rate, which is between 4.25% and 7.25% (4.25% and 7.25% as at December 31, 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 location. This rate reflects the expected rate of return on the investment 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 bonds and stocks classified as designated at fair value through profit or loss support the Company's insurance contract liabilities. Consequently, changes in fair value of these assets are offset by changes in the corresponding insurance contract liabilities under the Canadian Asset Liability Method (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:

	Three months ended March 31, 2020							
	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 in (out) of Level 3**	**Balance as at March 31, 2020**	**Total unrealized gains (losses) included in net income on investments still held**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Bonds								
Designated at fair value through profit or loss	**129**	**—**	**—**	**25**	**(26)**	**—**	**128**	**—**
Available for sale	**11**	**—**	**—**	**—**	**—**	**—**	**11**	**—**
Stocks								
Designated at fair value through profit or loss	**1,291**	**29**	**—**	**90**	**(37)**	**—**	**1,373**	**30**
Available for sale	**31**	**—**	**1**	**1**	**—**	**—**	**33**	**—**
Investment properties	**2,077**	**(33)**	**—**	**9**	**(31)**	**—**	**2,022**	**(33)**
General fund investments recognized at fair value	**3,539**	**(4)**	**1**	**125**	**(94)**	**—**	**3,567**	**(3)**
Segregated funds financial instruments and investment properties	**90**	**5**	**—**	**101**	**(1)**	**—**	**195**	**5**
Total	**3,629**	**1**	**1**	**226**	**(95)**	**—**	**3,762**	**2**

	Year ended December 31, 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 in (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 three months ended March 31, 2020, an amount of $9 ($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 are not presented in the Income Statement, but are included in the change in segregated funds net assets in Note 7 "Segregated Funds Net Assets". *Realized and unrealized gains (losses) included in other comprehensive income* are presented in Note 10 "Accumulated Other Comprehensive Income" in *Unrealized gains (losses).*

Fair Value Disclosed in the Notes

The Company classifies certain financial instruments 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:

	As at March 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Classified as loans and receivables				
Bonds				
Governments	**—**	**9**	**138**	**147**
Municipalities	**—**	**51**	**—**	**51**
Corporate and other	**—**	**248**	**2,345**	**2,593**
	—	**308**	**2,483**	**2,791**
Mortgages and other loans	**—**	**3,861**	**—**	**3,861**
Total of assets classified as loans and receivables	**—**	**4,169**	**2,483**	**6,652**

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Classified as loans and receivables				
Bonds				
Governments	—	8	131	139
Municipalities	—	51	—	51
Corporate and other	—	243	2,138	2,381
	—	302	2,269	2,571
Mortgages and other loans	—	3,823	—	3,823
Total of assets classified as loans and receivables	—	4,125	2,269	6,394

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:

	As at March 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Recurring fair value measurements				
Other liabilities				
Held for trading	**73**	**174**	**—**	**247**
Derivative financial instruments				
Held for trading	**49**	**1,663**	**22**	**1,734**
Total of liabilities classified as held for trading	**122**	**1,837**	**22**	**1,981**
Classified at amortized cost				
Other liabilities				
Securitization liabilities	**—**	**1,214**	**—**	**1,214**
Mortgage debt	**—**	**75**	**—**	**75**
Debentures	**—**	**656**	**—**	**656**
Total of liabilities classified at amortized cost	**—**	**1,945**	**—**	**1,945**

	As at December 31, 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	315	36	431
Total of liabilities classified as held for trading	126	480	36	642
Classified at amortized cost				
Other liabilities				
Securitization liabilities	—	1,183	—	1,183
Mortgage debt	—	76	—	76
Debentures	—	664	—	664
Total of liabilities classified at amortized cost	—	1,923	—	1,923

5 › Management of Risks Associated with Financial Instruments

a) Impairment of Financial Assets Classified as Available for Sale
During the three months ended March 31, 2020 and the year ended December 31, 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:

	As at March 31, 2020			As at December 31, 2019		
	Fair value	**Unrealized losses**	**Unrealized gains**	Fair value	Unrealized losses	Unrealized gains
	$	**$**	**$**	$	$	$
Bonds						
Governments	**1,428**	**(2)**	**48**	1,551	(1)	57
Municipalities	**172**	**—**	**5**	167	—	3
Corporate and other	**1,722**	**(44)**	**19**	1,721	(2)	40
	3,322	**(46)**	**72**	3,439	(3)	100
Stocks	**338**	**(115)**	**5**	513	(21)	10
Total	**3,660**	**(161)**	**77**	3,952	(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 their commitments.

b) i) Credit Quality Indicators

Bonds by Investment Grade

	As at March 31, 2020	As at December 31, 2019
	$	$
AAA	**1,394**	1,546
AA	**13,151**	13,101
A	**8,466**	7,961
BBB	**4,488**	4,343
BB and lower	**209**	238
Total	**27,708**	27,189

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 $2,178 as at March 31, 2020 ($2,054 as at December 31, 2019).

Mortgages and Other Loans

	As at March 31, 2020	As at December 31, 2019
	$	$
Insured mortgages	**2,175**	2,271
Conventional mortgages	**832**	805
Other loans	**808**	794
Total	**3,815**	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.

b) ii) Past Due or Impaired Financial Assets

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. 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 or in foreclosure is assumed to be impaired. Any loan in default which is not insured and fully guaranteed is generally impaired.

	As at March 31, 2020			
	Bonds classified as loans and receivables	**Mortgages classified as loans and receivables**	**Other loans**	**Total**
	$	**$**	**$**	**$**
Gross values				
Not past due and not impaired	**2,500**	**2,901**	**781**	**6,182**
Past due and not impaired				
30 – 89 days in arrears	**—**	**4**	**38**	**42**
90 – 119 days in arrears	**—**	**—**	**6**	**6**
120 days or more in arrears	**—**	**—**	**2**	**2**
Impaired	**5**	**—**	**1**	**6**
Total of gross values	**2,505**	**2,905**	**828**	**6,238**
Specific provisions for losses	**3**	**—**	**—**	**3**
	2,502	**2,905**	**828**	**6,235**
Collective provisions	**—**	**—**	**20**	**20**
Total of net values	**2,502**	**2,905**	**808**	**6,215**

	As at December 31, 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 three months ended March 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 the end of the period are presented as real estate held for resale in *Other Assets*.

Specific Provisions for Losses

	As at March 31, 2020			
	Bonds classified as loans and receivables	**Mortgages classified as loans and receivables**	**Other loans**	**Total**
	$	**$**	**$**	**$**
Balance at beginning	**10**	**—**	**—**	**10**
Variation in specific provisions for losses	**(7)**	**—**	**—**	**(7)**
Balance at end	**3**	**—**	**—**	**3**

	As at December 31, 2019			
	Bonds classified as loans and receivables	Mortgages classified as loans and receivables	Other loans	Total
	$	$	$	$
Balance at beginning	8	1	—	9
Variation in specific provisions for losses	2	(1)	—	1
Balance at end	10	—	—	10

6 › 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.

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 March 31, 2020 is $905 ($1,001 as at December 31, 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.

	As at March 31, 2020					
	Notional amount				**Fair value**	
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Positive**	**Negative**
	$	**$**	**$**	**$**	**$**	**$**
Equity contracts						
Swap contracts	**439**	**742**	**97**	**1,278**	**31**	**(96)**
Futures contracts	**1,052**	**—**	**—**	**1,052**	**6**	**(40)**
Options	**4,851**	**—**	**—**	**4,851**	**51**	**(10)**
Currency contracts						
Forward contracts	**5,185**	**1,078**	**—**	**6,263**	**42**	**(312)**
Swap contracts	**54**	**794**	**2,573**	**3,421**	**9**	**(769)**
Interest rate contracts						
Swap contracts	**681**	**3,201**	**5,509**	**9,391**	**604**	**(290)**
Forward contracts	**1,015**	**3,159**	**—**	**4,174**	**168**	**(194)**
Other derivative contracts	**1**	**1**	**359**	**361**	**1**	**(23)**
Total	**13,278**	**8,975**	**8,538**	**30,791**	**912**	**(1,734)**

	As at December 31, 2019					
	Notional amount				Fair value	
	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	3,358	1,057	—	4,415	70	(10)
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	11,904	8,287	8,757	28,948	1,003	(431)

	As at March 31, 2020		
	Notional amount	**Fair value**	
		Positive	**Negative**
	$	**$**	**$**
Derivative financial instruments not designated as hedge accounting	**28,335**	**900**	**(1,576)**
Net investment hedge	**1,336**	**1**	**(117)**
Fair value hedges			
Interest risk	**985**	**10**	**(30)**
Currency risk	**18**	**—**	**(1)**
Cash flow hedges			
Currency risk	**117**	**1**	**(10)**
Total of derivative financial instruments	**30,791**	**912**	**(1,734)**

	As at December 31, 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	77	1	(1)
Total of derivative financial instruments	28,948	1,003	(431)

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 2 years as at March 31, 2020 (less than 2 years as at December 31, 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 three months ended March 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 15 years as at March 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 March 31, 2020 (less than 1 year to 9 years as at December 31, 2019).

For the three months ended March 31, 2020, the Company has recognized a loss of $27 on the hedging instruments (gain of $19 for the three months ended March 31, 2019) and a gain of $29 on the hedged items (loss of $19 for the three months ended March 31, 2019). For the three months ended March 31, 2020, the Company has recognized an ineffectiveness of $2 (none for the three months ended March 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 March 31, 2020 (less than 2 years as at December 31, 2019).

For the three months ended March 31, 2020 and 2019, the Company did not recognize any ineffectiveness.

Cash Flow Hedges

The Company uses 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 uses swap contracts that have maturities from 4 years to 10 years as at March 31, 2020 (from 4 years to 10 years as at December 31, 2019). For the three months ended March 31, 2020 and 2019, the Company has recognized no ineffectiveness.

7 › Segregated Funds Net Assets

	As at March 31	As at December 31
	2020	2019
	$	$
Assets		
Cash and short-term investments	861	992
Bonds	5,227	5,509
Stocks	19,227	21,362
Mortgages	22	21
Investment properties	17	17
Derivative financial instruments	—	20
Other assets	1,250	285
Total assets	26,604	28,206
Liabilities		
Accounts payable and accrued expenses	1,098	338
Derivative financial instruments	46	—
Total liabilities	1,144	338
Net assets	25,460	27,868

The following table presents the change in segregated funds net assets:

	Three months ended March 31	
	2020	2019
	$	$
Balance at beginning	27,868	23,781
Add:		
Amounts received from policyholders	1,778	1,056
Interest and dividends	124	131
Net realized gains	76	8
Net increase (decrease) in fair value	(3,174)	1,734
	26,672	26,710
Less:		
Amounts withdrawn by policyholders	1,086	836
Operating expenses	126	115
	1,212	951
Balance at end	25,460	25,759

8 › Debentures

Following the change in company structure (Note 1), the issued and outstanding debentures remain issued by the Company and are guaranteed by the parent company, iA Financial Corporation, under the terms of the arrangement.

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.

9 › Share Capital

The capital issued by the Company is the following:

	As at March 31, 2020		As at December 31, 2019	
	Number of shares (in thousands)	**Amount $**	Number of shares (in thousands)	Amount $
Common shares				
Balance at beginning and at the end	**108,575**	**1,655**	108,575	1,655
Preferred shares, Class A				
Balance at beginning and at the end	**21,000**	**525**	21,000	525
Total of share capital		**2,180**		2,180

Stock Option Plan

Following the change in company structure (Note 1), the stock option plan was transferred to iA Financial Corporation. As a result, any shares arising from this plan will be issued by iA Financial Corporation.

Dividends

	Three months ended March 31			
	2020		2019	
	Total $	**Per share (in dollars)**	Total $	Per share (in dollars)
Common shares	**671**	**6.18**	180	1.66
Preferred shares				
Class A – Series B	**2**	**0.29**	2	0.29
Class A – Series G	**2**	**0.24**	2	0.24
Class A – Series I	**2**	**0.30**	2	0.30
	6		6	
Total	**677**		186	

10 › Accumulated Other Comprehensive Income

	Bonds	Stocks	Currency translation	Hedging	Total
	$	$	$	$	$
Balance as at December 31, 2019	**73**	**(8)**	**73**	**(61)**	**77**
Unrealized gains (losses)	**(64)**	**(95)**	**—**	**—**	**(159)**
Income taxes on unrealized gains (losses)	**16**	**25**	**—**	**—**	**41**
Other	**—**	**—**	**128**	**(130)**	**(2)**
Income taxes on other	**—**	**—**	**—**	**19**	**19**
	(48)	**(70)**	**128**	**(111)**	**(101)**
Realized losses (gains)	**(7)**	**(2)**	**—**	**—**	**(9)**
Income taxes on realized losses (gains)	**2**	**1**	**—**	**—**	**3**
	(5)	**(1)**	**—**	**—**	**(6)**
Balance as at March 31, 2020	**20**	**(79)**	**201**	**(172)**	**(30)**
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)	56	(6)
Income taxes on other	—	—	—	(9)	(9)
	82	1	(62)	47	68
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	(61)	77
Balance as at December 31, 2018	6	(10)	135	(108)	23
Unrealized gains (losses)	89	6	—	—	95
Income taxes on unrealized gains (losses)	(24)	(1)	—	—	(25)
Other	—	—	(25)	22	(3)
Income taxes on other	—	—	—	(3)	(3)
	65	5	(25)	19	64
Realized losses (gains)	(5)	1	—	—	(4)
Income taxes on realized losses (gains)	3	(1)	—	—	2
	(2)	—	—	—	(2)
Balance as at March 31, 2019	69	(5)	110	(89)	85

11 › Capital Management

Regulatory Requirements and Solvency Ratio

The Company manages its capital jointly with its parent company, iA Financial Corporation.

The Company's capital adequacy requirements are regulated according to 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, for 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.

As at March 31, 2020, the Company maintains a ratio that satisfies the regulatory requirements.

	March 31, 2020
	$
Available capital, surplus allowance and eligible deposits	**8,077**
Base solvency buffer	**6,942**
Total ratio	**116%**

In the Company's consolidated financial statements as at December 31, 2019, the solvency ratio was 126% and the Company maintained a ratio that satisfied the regulatory requirements.

12 › General Expenses

Impairment of Goodwill

Following effects of the COVID-19 pandemic described on Note 18, the Company reviewed the financial projections of PPI Management Inc. Following this review, an impairment test was performed with respect to PPI Management Inc. activities included in the Individual Insurance Sector cash generating units (CGU). This led the Company to recognize an impairment of goodwill of $24. This amount was recognized in the Income Statement in General Expenses. To determine the recoverable amount of the CGU, the value in use was determined using cash flow projections before tax based covering a five-year period.

13 › Income Taxes

The effective income tax rate differs from the Canadian statutory tax rate due to the following items:

	Three months ended March 31			
	2020		2019	
	$	**%**	$	%
Income before income taxes	**46**		208	
Income tax expense at Canadian statutory tax rate	**12**	**27**	56	27
Increase (decrease) in income taxes due to:				
Differences in tax rates on income not subject to tax in Canada	**(1)**	**(2)**	(1)	—
Tax-exempt investment income	**(21)**	**(47)**	(5)	(3)
Non-taxable portion of the change in fair value of investment properties	**4**	**8**	—	—
Adjustments of previous years	**(1)**	**(2)**	—	—
Variation in tax rates	**(1)**	**(2)**	(1)	—
Other	**6**	**14**	1	—
Income tax expense (recovery) and effective income tax rate	**(2)**	**(4)**	50	24

14 › Segmented Information

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

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

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

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

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

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

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

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

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

Segmented Income Statements

	Three months ended March 31, 2020						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Revenues							
Net premiums	397	1,078	415	633	138	85	2,746
Investment income	(1,246)	327	18	(48)	54	37	(858)
Other revenues	29	376	19	27	32	(45)	438
	(820)	1,781	452	612	224	77	2,326
Operating expenses							
Gross benefits and claims on contracts	229	557	292	386	125	21	1,610
Ceded benefits and claims on contracts	(63)	—	(13)	(6)	(74)	22	(134)
Net transfer to segregated funds	—	425	—	263	—	—	688
Increase (decrease) in insurance contract liabilities	(1,235)	476	10	(68)	115	—	(702)
Increase (decrease) in investment contract liabilities	—	—	1	—	—	—	1
Decrease (increase) in reinsurance assets	(12)	—	3	1	(67)	—	(75)
Commissions, general and other expenses	244	351	146	28	112	(2)	879
Financing charges	5	—	8	—	—	—	13
	(832)	1,809	447	604	211	41	2,280
Income before income taxes and allocation of other activities	12	(28)	5	8	13	36	46
Allocation of other activities	26	2	2	1	5	(36)	—
Income before income taxes	38	(26)	7	9	18	—	46
Income taxes	(3)	(3)	(1)	1	4	—	(2)
Net income	41	(23)	8	8	14	—	48
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	40	(23)	8	8	14	—	47

	Three months ended March 31, 2019						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Revenues							
Net premiums	388	720	397	660	115	75	2,355
Investment income	1,826	25	66	154	52	39	2,162
Other revenues	29	354	14	25	17	(29)	410
	2,243	1,099	477	839	184	85	4,927
Operating expenses							
Gross benefits and claims on contracts	226	520	291	315	98	44	1,494
Ceded benefits and claims on contracts	(52)	—	(15)	(6)	(54)	10	(117)
Net transfer to segregated funds	—	147	—	77	—	—	224
Increase (decrease) in insurance contract liabilities	1,788	59	11	415	89	(12)	2,350
Increase (decrease) in investment contract liabilities	—	—	14	—	—	—	14
Decrease (increase) in reinsurance assets	(15)	—	2	3	(40)	11	(39)
Commissions, general and other expenses	200	323	145	26	79	5	778
Financing charges	5	—	6	—	—	4	15
	2,152	1,049	454	830	172	62	4,719
Income before income taxes and allocation of other activities	91	50	23	9	12	23	208
Allocation of other activities	19	(2)	1	1	4	(23)	—
Income before income taxes	110	48	24	10	16	—	208
Income taxes	25	13	6	3	3	—	50
Net income	85	35	18	7	13	—	158
Net income attributed to participating policyholders	1	—	—	—	—	—	1
Net income attributed to shareholders	84	35	18	7	13	—	157

Segmented Premiums

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

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

Segmented Assets and Liabilities

	As at March 31, 2020						
	Individual		**Group**				
	Insurance	**Wealth Management**	**Insurance**	**Savings and Retirement**	**US Operations**	**Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Assets							
Invested assets	**22,859**	**2,462**	**1,979**	**4,037**	**1,193**	**8,219**	**40,749**
Segregated funds net assets	**—**	**14,894**	**—**	**10,566**	**—**	**—**	**25,460**
Reinsurance assets	**(691)**	**—**	**226**	**131**	**1,731**	**(139)**	**1,258**
Other	**115**	**1,360**	**—**	**—**	**43**	**3,009**	**4,527**
Total assets	**22,283**	**18,716**	**2,205**	**14,734**	**2,967**	**11,089**	**71,994**
Liabilities							
Insurance contract liabilities and investment contract liabilities	**20,233**	**2,324**	**2,236**	**4,073**	**2,040**	**(99)**	**30,807**
Liabilities related to segregated funds net assets	**—**	**14,894**	**—**	**10,566**	**—**	**—**	**25,460**
Other	**1,432**	**114**	**16**	**28**	**—**	**9,043**	**10,633**
Total liabilities	**21,665**	**17,332**	**2,252**	**14,667**	**2,040**	**8,944**	**66,900**

	As at December 31, 2019						
	Individual		Group				
	Insurance	Wealth Management	Insurance	Savings and Retirement	US Operations	Other	Total
	$	$	$	$	$	$	$
Assets							
Invested assets	23,113	1,880	1,881	3,998	1,058	7,567	39,497
Segregated funds net assets	—	16,392	—	11,476	—	—	27,868
Reinsurance assets	(702)	—	233	132	1,491	(124)	1,030
Other	121	866	—	—	38	2,951	3,976
Total assets	22,532	19,138	2,114	15,606	2,587	10,394	72,371
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	—	7,060	7,449
Total liabilities	21,812	18,268	2,204	15,623	1,744	6,961	66,612

15 › Basic Earnings Per Common 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 period.

	Three months ended March 31	
	2020	2019
Net income attributed to common shareholders	**41**	151
Weighted average number of outstanding shares (in millions of units)	**109**	109
Basic earnings per share (in dollars)	**0.37**	1.39

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.

16 › Post-Employment Benefits

The Company maintains a number of funded and unfunded defined benefit plans that provide pension benefits and defined contribution plans.

The Company also 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.

Amounts Recognized in Net Income and Other Comprehensive Income

	Three months ended March 31			
	2020		2019	
	Pension plans	**Other plans**	Pension plans	Other plans
	$	**$**	$	$
Current service cost	**15**	**1**	12	1
Net interest	**2**	**—**	2	—
Components of the cost of defined benefits recognized in the net income	**17**	**1**	14	1
Remeasurement of net liabilities (assets) as defined benefits[1]				
Rate of return on assets (excluding amounts included in the net interest above)	**162**	**—**	(93)	—
Actuarial losses (gains) on financial assumption changes	**(253)**	**(2)**	122	1
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income	**(91)**	**(2)**	29	1
Total of defined benefit cost components	**(74)**	**(1)**	43	2

[1] Market based assumptions, such as expected rate of return on assets and changes in financial assumptions, are reviewed on a quarterly basis. All other assumptions are reviewed on an annual basis.

Items that will not be reclassified subsequently to net income

	Three months ended March 31			
	2020		2019	
	Pension plans	**Other plans**	Pension plans	Other plans
	$	**$**	$	$
Losses (gains) on components of the cost of defined benefits recognized in other comprehensive income				
Remeasurement of post-employment benefits	**(91)**	**(2)**	29	1
Income taxes on remeasurement of post-employment benefits	**23**	**1**	(8)	—
Total of other comprehensive income	**(68)**	**(1)**	21	1

17 › Commitments

Business Disposal

On March 2, 2020, the Company entered into an agreement for the sale of iA Investment Counsel Inc. to CWB Financial Group. 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. Subject to regulatory approval, the transaction is expected to close between May and July 2020. This commitment has not been reflected in the financial statements and may not be executed.

Investment Commitments

In the normal course of the Company's business, various outstanding contractual commitments related to offers for commercial and residential loans, private placements, joint ventures and real estate are not reflected in the financial statements and may not be fulfilled. There were $909 ($803 as at December 31, 2019) of outstanding commitments as at March 31, 2020, of which the estimated disbursements will be $78 ($65 as at December 31, 2019) in 30 days, $371 ($314 as at December 31, 2019) in 31 to 365 days and $460 ($424 as at December 31, 2019) in more than one year.

Financing Agreement

The Company has a financing agreement with iA Financial Corporation for an amount of $80 ($80 as at December 31, 2019), to be used only to finance iA Financial Corporation's Normal Course Issuer Bid program.

Letters of Credit

In the normal course of operations, banks issue letters of credit on behalf of the Company. As at March 31, 2020, the balance of these letters is $7 ($7 as at December 31, 2019).

Lines of Credit

As at March 31, 2020, the Company had operating lines of credit totalling $56 ($56 as at December 31, 2019). As at March 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.

18 › Event After the Reporting Period

COVID-19

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 negatively impacted the financial markets, has resulted in economic uncertainty as well as shaken the operations of the business community. 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, disrupted the world's financial markets and economies. This situation had negative effects on March 31, 2020 Company's financial results. However, risk management program established by the Company made it possible to partially mitigate the effects of this crisis on the results of the Company. The Company deployed initiatives, for the majority subsequent to March 31, 2020, in order to support its customers and mitigate the impact of the crisis, in addition to the measures implemented by levels of government to contain this pandemic. In addition, governments and central banks implemented significant monetary and fiscal interventions to stabilize economic conditions. At this time, it is impossible to reliably assess the duration and extent of the impacts that these events could have on the Company's future financial results, due to uncertainties about future developments. 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.

19 › 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.