Introduction to IFRS 17

May 2022

INVESTED IN YOU.

iA Financial Group

CAUTIONARY NOTE

The information contained in this document reflects the current interpretations of iA Financial Group based in the individual facts and circumstances as of the date of publication. Such interpretations, facts and circumstances may change and lead to other or different interpretations and may also change following the final issuance of regulatory and industry guidance relating to IFRS 17.

The information contained in this presentation is intended solely to provide general guidance on matters of interest for the personal use of the reader, who accepts full responsibility for its use. The information is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice or services. As such, it should not be used as a substitute for proper professional consultation.

While we have made every attempt to ensure the information contained in this presentation has been obtained from reliable sources, iA Financial Group is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this site is provided "as is," with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. Nothing herein shall to any extent substitute for the independent investigations and the sound technical and business judgement of the reader.

Table of Contents

This session is a high-level presentation of the key concepts of IFRS 17.
It does not focus on iA's specific situation.

New international accounting standard for insurance contracts

Accounting change: No changes to underlying economics of the business

IFRS 17 (first comprehensive standard) replaces IFRS 4 (current standard)

INSURANCE CONTRACTS

CLASSIFICATION	MEASUREMENT	DISCLOSURE
IFRS 4	Jurisdiction-specific	
IFRS 17		

IASB's objectives with IFRS 17

- Provide **updated/relevant information** about the **obligations**, **risks** and **performance** of insurance contracts
- Increase **transparency**, **understandability** and **comparability**

IASB: International Accounting Standards Board

Scope and timeline

Retrospective application for 2022 restated results	Q1/2023

January 1, 2022
Transition date
(IFRS 17)

January 1, 2023
Effective date
(IFRS 17 and IFRS 9[1])

March 31, 2023
First quarter requiring disclosure under IFRS 17 and IFRS 9

	Applicability	Examples
IFRS 9	Financial Instruments	Investment Assets
IFRS 17	Insurance Contracts	Insurance Liabilities Reinsurance Assets

[1] IFRS 9 (insurers only): Mandatory January 1, 2023 effective date and optional retrospective application for 2022 restated results.

Key highlights

Key highlights	**Enhanced disclosures** with separate presentation of insurance vs. investment results **Change in timing of profits** (especially on long-term businesses) **New contractual service margin (CSM)** recognizes profit over time as services are provided **Liability discount rates delinked from assets**: Higher volatility of reported earnings **Upcoming tax and capital regime adaptations** (no final regulations/policies published yet) **Resulting impacts on KPIs** such as core earnings, core ROE, book value and solvency ratio
Not impacted	**Underlying economic value and risks** of products and business **Wealth businesses** (and other businesses not involving issuance of insurance contracts)
Slightly impacted	**Results of short-term products** (such as auto and home insurance and group insurance)

Measurement and key differences with IFRS 4

Measurement models

IFRS 4	**Canadian asset liability method (CALM)**	**Unearned premium reserve (UPR)**
IFRS 17	**DEFAULT APPROACHES**	**SIMPLIFIED MODEL**

DEFAULT APPROACHES

General measurement model (GMM)	Variable fee approach (VFA)
Applicable to **long-term** contracts	Applicable to insurance contracts with **direct participation features**
E.g.: Non-par life insurance and annuities[1]	*E.g.: Segregated funds and participating life insurance[1]*

Focus of this session

SIMPLIFIED MODEL

Premium allocation approach (PAA)
Simplified method **allowed** for **short-term** contracts
E.g.: Auto and home insurance[1]

Small impacts

[1] Use of model by product may vary by company due to differences in product features and the fact that the PAA is optional.

Overview of insurance contract liabilities

Balance Sheet[1]

IFRS 4	IFRS 17
Equity	Equity
ALM PfAD[2,3] (reinvestment risk)	CSM
Insurance PfADs[2]	Risk adjustment
Other asset PfADs[2,4]	
Best estimate liability	Current estimate (estimates of present value of future cash flows)

KEY DIFFERENCES WITH IFRS 4

- **CSM:** **New concept of Contractual Service Margin (CSM)** *(see slides 14-16)*

FULFILMENT CASH FLOWS

- **Risk adjustment:** **Similar to PfADs under IFRS 4, but only covers insurance risks** *(see slide 13)*
- **Current estimate:**
  - **Non-attributable expenses are excluded** *(see slide 10)*
  - **Discount rates based on liability characteristics** *(see slides 11-12)*
  - **New requirement with respect to the valuation of financial guarantees embedded in insurance contracts**

[1] Illustrative example of a company experiencing no impact to book value at transition. Relative size of each balance sheet item is illustrative only (does not represent iA's situation).
[2] Provisions for Adverse Deviation, i.e. conservatism to cover for the risk that actual experience emerges less favourably than expected.
[3] ALM: Asset-liability mismatch. [4] Excluding ALM PfAD (reinvestment risk) which is shown separately.

Current estimate – Attributable expenses

		Included in IFRS 17 current estimate?
Acquisition expenses	Expenses incurred **for the issuance of insurance contracts**, for both successful and unsuccessful efforts (including allocation of some overhead expenses)	✓
Other insurance service expenses	• **Policy and claims management** expenses (including allocation of some overhead expenses) • **Investment expenses for some products** with significant investment-related pass-through elements (e.g. segregated funds)	✓
Expenses not attributable to insurance contracts	**Most investment expenses** and **other overhead expenses** not deemed to be directly attributable to insurance contracts	✗

IFRS 4: Almost all expenses included in best estimate liability

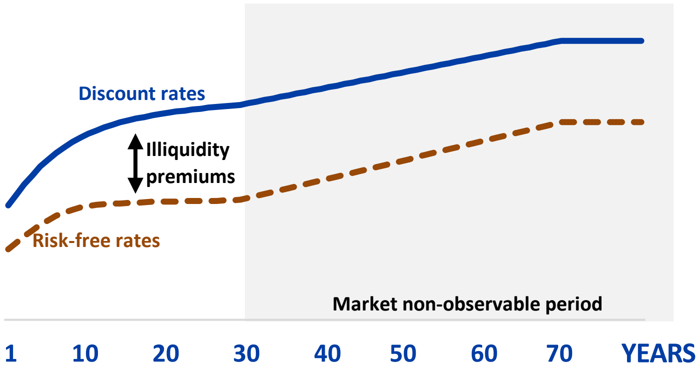
IFRS 17: Non-attributable expenses excluded from current estimate, but included in CSM *(see slide 16)*

Current estimate – Discount rates

	IFRS 4	IFRS 17
Link between assets and liabilities	Assets ⇄ Liabilities	Assets ¦ Liabilities
Discount rates	Expected average returns on assets backing liabilities	Based on liability characteristics
Earnings volatility	Low (changes in fixed-income asset value offset by liability movements)	Higher *(see slide 12)*

Discount rates under IFRS 17

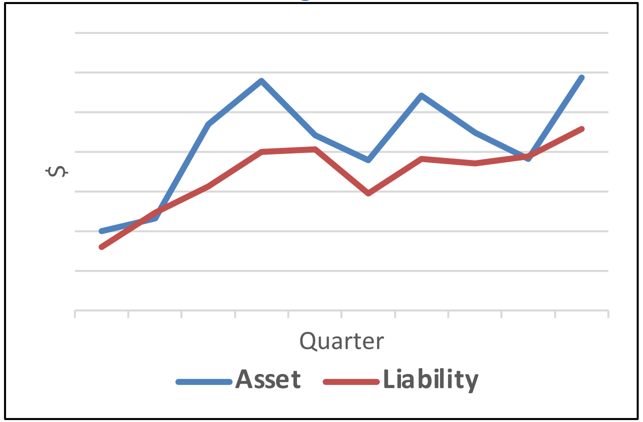
Risk-free rates + Illiquidity premiums (of the liability)



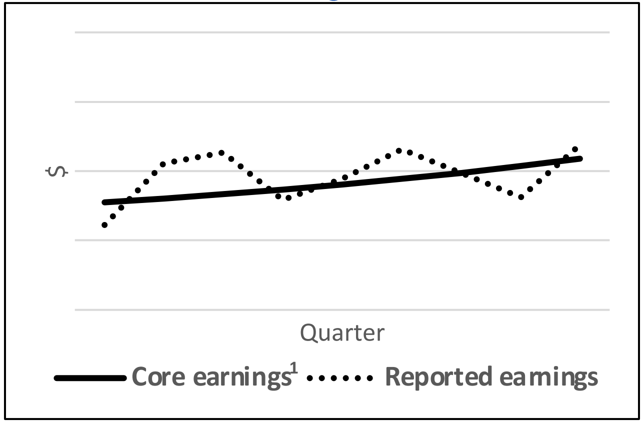
Current estimate – Discount rates and earnings volatility

Asset-liability delinking results in unwarranted earnings volatility

Asset-liability disconnect
(in accounting measurement)



Earnings volatility
(difference between change in assets vs. liabilities)



- **Assets and liabilities react differently from market indicators** (risk-free rates, equity markets, spreads, etc.)
- **Volatility of assets and liabilities will depend on their duration**

Core earnings will eliminate this unwarranted earnings volatility
(meaningful indicator of recurring earnings power)

[1] Illustrative only.

Risk adjustment

	IFRS 4 PfADs[1]	IFRS 17 RISK ADJUSTMENT
Approach	Margin method and ranges prescribed by the Canadian Institute of Actuaries	Based on the company-specific compensation required to take on other risk
Risks covered	**ALM risk[2]** **Other asset risks** ✓	**ALM risk[2]** **Other asset risks** ✗ [3]
	Insurance risks ✓	**Insurance risks** ✓
Disclosure	**None**	**Confidence level**

Confidence level

Disclosure requirement to **enable** the **comparison** of risk adjustment between insurers

For example, such disclosure could state that there is a 90% probability that our insurance contract liabilities, including risk adjustments, are sufficient to fulfil our obligations to our clients (when considering insurance risks only).

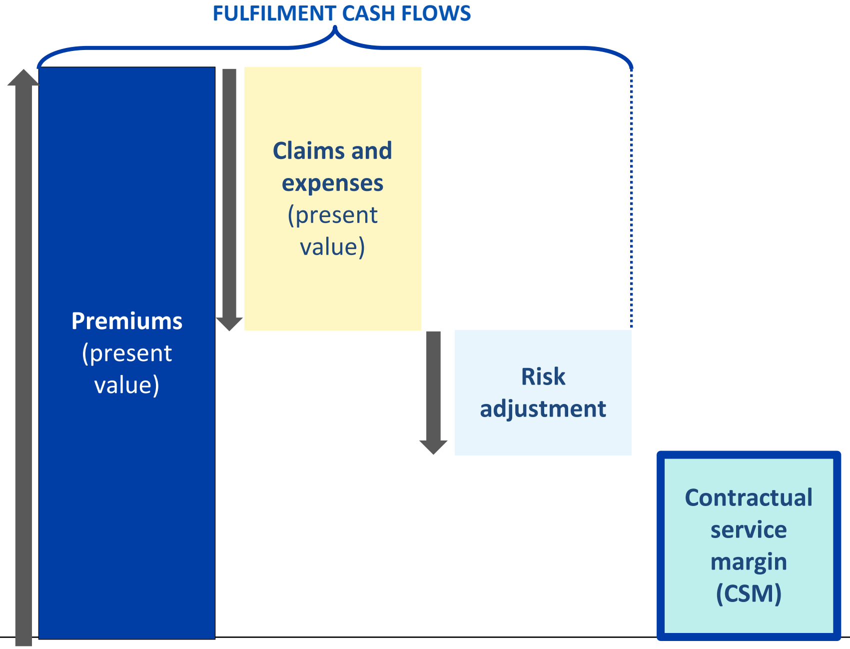
Estimate based on **each insurer's own risk assessment**

[1] Provisions for Adverse Deviation, i.e. conservatism to cover for the risk that actual experience emerges less favourably than expected.
[2] ALM: Asset-liability mismatch.
[3] ALM risk and other asset risks are conceptually covered in, respectively, the CSM and the current estimate *(see slide 16).*

CSM – Initial CSM on new contracts

NON-ONEROUS CONTRACTS

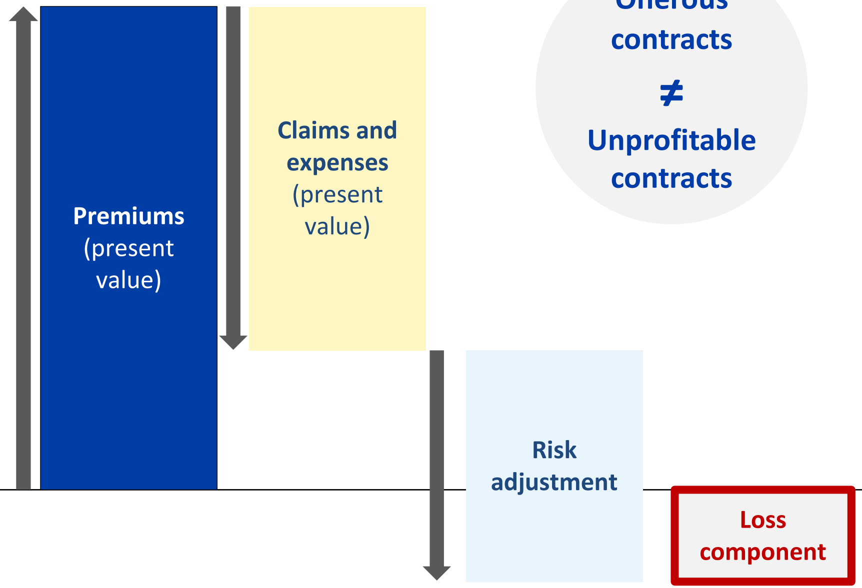
The profit calculated at issue is not recognized immediately, but rather recognized over time through CSM amortization



CSM reflects all items considered in premiums that are not measured in fulfilment cash flows (e.g. non-attributable expenses)

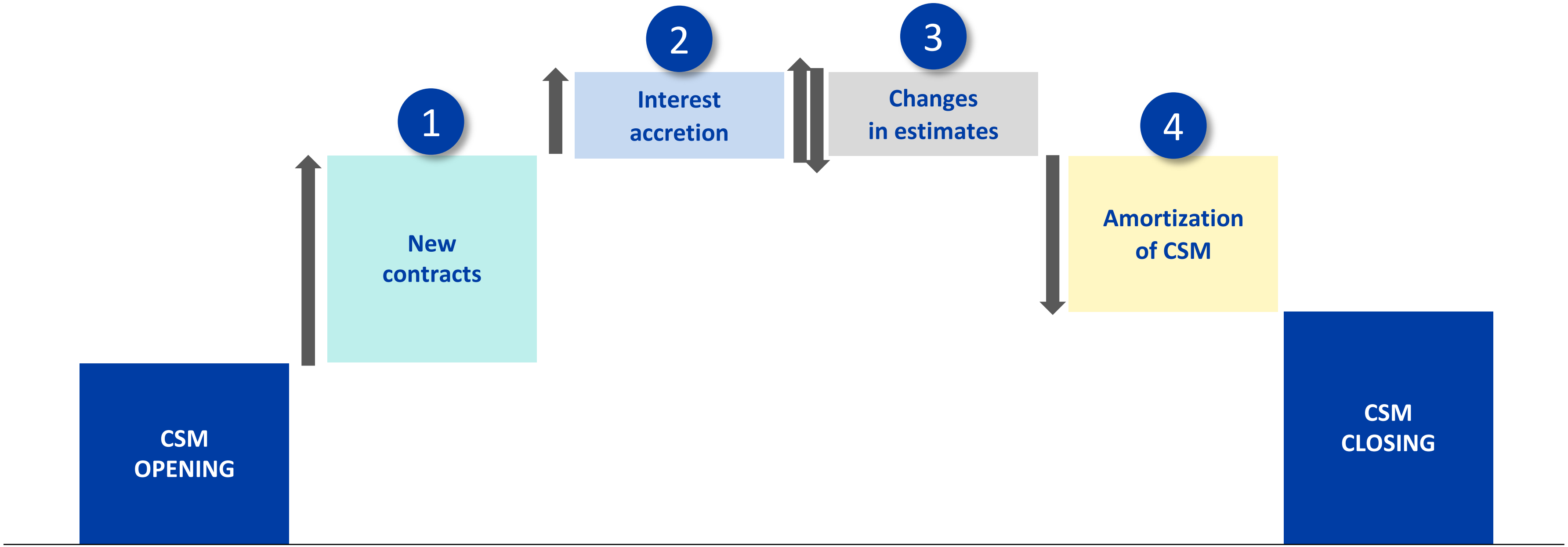
ONEROUS CONTRACTS

The loss component at issue is recognized immediately



Onerous contracts ≠ Unprofitable contracts

CSM – Evolution over a period (General measurement model)



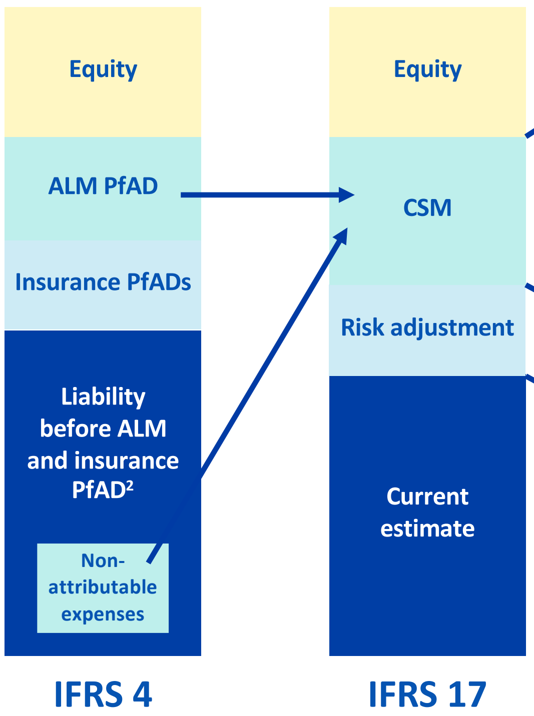
1. Addition of contractual service margins (CSM) from new non-onerous contracts
2. Interest accreted based on locked-in initial discount rates
3. Reversal of the impact on fulfilment cash flows of changes in non-financial assumptions only
4. Release into P&L based on insurance services provided during the period vs. future services to be provided

Note: Variable fee approach (VFA) differs from GMM in the treatment of financial risk. For example, the impact on fulfilment cash flows of changes in non-financial <u>AND financial</u> assumptions are reversed by the CSM.

CSM – Conceptual construct

CSM is not all "free profit"

Balance Sheet[1]



IFRS 17 CONCEPTUAL CONSTRUCT

Expected future revenues to cover non-attributable expenses
(Similar to IFRS 17 current estimate)

Expected future profit covering asset-liability mismatch and operational risks
(Similar to IFRS 17 risk adjustment)

Additional expected future profit ("free profit")
(Similar to concept of *Value of new business*)

Expected future profit covering insurance risks only

CSM + Risk Adjustment is a better indicator of expected future IFRS 17 insurance profit than CSM only

CSM established at transition comes from:

- **IFRS 4 liability portions, and**
- **Potential reduction of equity** (depending on business model)

[1] Illustrative example of a company experiencing no impact to book value at transition. Relative size of each balance sheet item is illustrative only (does not represent iA's situation). [2] Closest equivalent to IFRS 17 current estimate (cash flows discounted at "risk-free + illiquidity premium" rates).

Disclosures

Current earnings – IFRS 17 vs. IFRS 4

More detailed and transparent disclosures under IFRS 17

IFRS 4 - SOE (Source of earnings analysis)
Expected profit on in-force Experience gain (loss) Strain on sales Changes in assumptions Income on capital
Income taxes
Net income

Almost all non-IFRS information

IFRS 17 Detailed income statement (simplified)	
Insurance service result	**Insurance revenue** - Risk adjustment release - CSM release - Expected claims and expenses - Revenue from PAA contracts
	Insurance service expenses - Actual claims and expenses - Losses on onerous contracts
	Net reinsurance expenses
Net investment result	**Investment income**
	Insurance finance expenses
Other (incl. wealth businesses and non-attrib. expenses)	
Income taxes	
Net income	

All IFRS information

Income statement to be rearranged in a **Drivers of Earnings analysis**, with:

- Actual and expected claims and expenses merged into insurance experience gains/(losses)
- Losses on onerous contracts split between “impact of new business” and “impact of assumption changes”

Performance of reinsurance contracts isolated

Investment results isolated from insurance results

Current earnings – Summary of expected pre-tax income

CSM	• Unearned profit that is not captured in risk adjustment and investment results • Released into insurance results as insurance services are provided	***Predictable and stable***
+		
Risk Adjustment	• Compensation for insurance risk (risk that claims/expenses are higher than expected) • Released into insurance results as risk expires	***Predictable and stable***
+		
Investment Results	• Difference between expected return on assets and expected financial increase in liabilities • Amounts are released into investment results over the life of the assets/liabilities	***Source of volatility***
+		
Other significant sources	• Profit on PAA business • Profit on business other than insurance/investment contracts (mostly wealth businesses) • Non-attributable expenses and financing charges • Expected losses on new onerous contracts	***Predictable and stable***

Future earnings

Risk adjustment and CSM balances: Important indicators of future releases

Risk adjustment & CSM on in-force

- Balances and reconciliations
- CSM expected future recognition

Liability reconciliations

	EPVFCF	RA	CSM	Total
Balance (beginning)	**XX**	**XX**	**XX**	**XX**
Reconciliation	XX	XX	XX	XX
Balance (end)	**XX**	**XX**	**XX**	**XX**

Future recognition of CSM in P&L

	< Yr 1	Yr 1-5	...	Total
Expected release	**XX**	**XX**	**XX**	**XX**

Risk adjustment & CSM on new business

- Initial balances

Contracts initially recognized in the period

	Non-Onerous	Onerous
EPVFCF - Outflows	*XX*	*XX*
EPVFCF - Inflows	*XX*	*XX*
EPVFCF	XX	XX
RA	XX	XX
CSM	XX	-
Loss on onerous contracts	-	**XX**

2023 capital formula: CSM expected to be included in **Tier 1 available capital**

EPVFCF: Estimates of present value of future cash flows
RA: Risk adjustment

In a nutshell

- **IFRS 17 and IFRS 9 take effect on January 1, 2023**
- **Underlying economic value and risk of insurance business are not impacted**
- **IFRS 17 is an accounting change that impacts the timing of profits**
  - Income from CSM is recognized over time as services are provided
  - Liabilities are delinked from assets, leading to increased earnings volatility
- **More detailed and transparent disclosure under IFRS 17**
- **In addition to current financial KPIs, risk adjustment and CSM balances will be important indicators of future earnings**
- **Final 2023 capital and tax rules still outstanding**

If you have questions related to these topics, please contact iA's Investor Relations Department:
investors@ia.ca

No offer or solicitation to purchase

This presentation does not, and is not intended to, constitute or form part of, and should not be construed as, an offer or invitation for the sale or purchase of, or a solicitation of an offer to purchase, subscribe for or otherwise acquire, any securities, businesses and/or assets of any entity, nor shall it or any part of it be relied upon in connection with or act as any inducement to enter into any contract or commitment or investment decision whatsoever.

INVESTED IN YOU.

Appendix – Glossary

- **Contractual service margin (CSM)**: portion of the insurance contract liability established at issuance of a contract to offset new business profits at issue and to defer it over the life of the contract as services are provided. Specific considerations apply to determine the CSM for in-force business at IFRS 17 transition date.
- **Current estimate (estimates of present value of future cash flows)**: an explicit, unbiased, and probability-weigthed estimate (i.e. expected value) of the present value of the future cash flows that will arise as the insurer fulfils its insurance contract obligations.
- **Fulfilment cash flows (FCF)**: the sum of current estimate and risk adjustment.
- **General measurement model (GMM)**: the “default” measurement model among the three measurement models under IFRS 17.
- **Initial recognition**: refers to the accounting of a contract at issuance.
- **Insurance contract**: a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- **Insurance risk**: risk, other than financial risk, transferred from the holder of a contract to the issuer. For the sake of simplicity, insurance risk is sometimes used to describe non-financial risk (excluding operational risk).
- **Loss component**: for onerous contracts at initial recognition, a loss is recognized in earnings and a loss component (notional amount) is established. After initial recognition, the loss component is tracked and disclosed.
- **Onerous contract**: an insurance contract is onerous at initial recognition if fulfilment cash flows measured (including acquisition expenses) represent a net outflow (i.e. loss) at initial recognition.
- **Overhead expenses:** expenses such as expenses for human resources, information technology, financial functions, corporate compliance (e.g. risk management and internal audit), board governance, senior management, etc.
- **Premium allocation approach (PAA)**: one of the three measurement models under IFRS 17. The PAA is a simplified model allowed for short-term contracts.
- **Risk adjustment for non-financial risk (risk adjustment)**: the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
- **Variable fee approach (VFA)**: one of the three measurement models under IFRS 17. VFA applies to insurance contracts with significant investment-related pass-through elements. VFA treats financial risk differently than the GMM.

FORWARD-LOOKING STATEMENTS

- This document may contain statements relating to strategies used by iA Financial Group or statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “may”, “will”, “could”, “should”, “would”, “suspect”, “expect”, “anticipate”, “intend”, “plan”, “believe”, “estimate”, and “continue” (or the negative thereof), as well as words such as “objective”, “goal”, “guidance”, “outlook” and “forecast”, or other similar words or expressions. Such statements constitute forward-looking statements within the meaning of securities laws. In this document, 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 Group 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. In addition, 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.
  - Material factors and risks that could cause actual results to differ materially from expectations include, but are not limited to: insurance, market, credit, liquidity, strategic and operational risks, such as: general business and economic conditions; level of competition and consolidation; changes in laws and regulations, including tax laws and changes made to capital and liquidity guidelines; risks associated with the political and social environment; risks related to climate change including the transition to a low-carbon economy and iA Financial Group’s ability to satisfy stakeholder expectations on environmental and social issues; data and cyber risks; risks related to human resources; hedging strategy risks; liquidity of iA Financial Group, 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; the occurrence of natural or man-made disasters, international conflicts, pandemic diseases (such as the current COVID-19 pandemic) and acts of terrorism.
  - Material factors and assumptions used in the preparation of financial outlooks include, but are not limited to: accuracy of accounting policies and best estimate actuarial and economic assumptions used by the Company such as mortality, morbidity, longevity and policyholder behaviour; different business growth rates per business unit; no unexpected material changes in the economic, competitive, insurance, legal or regulatory environment; risks and conditions; and the Company’s recent performance and results, as discussed elsewhere in this document.
- Additional information about the material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the “Risk Management” section of the Management’s Discussion and Analysis for 2021, the “Management of Risks Associated with Financial Instruments” note to the audited consolidated financial statements for the year ended December 31, 2021, and elsewhere in iA Financial Group’s filings with the Canadian Securities Administrators, which are available for review at sedar.com.
- The forward-looking statements in this document reflect iA Financial Group’s expectations as of the date of this document. iA Financial Group 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.

iA Financial Group