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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance Fourth Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, February 17, 2022.

I would now like to turn the conference over to Marie-Annick Bonneau, Head of Investor Relations. Please go ahead.

Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of Investor Relations*

Good afternoon, and welcome to our fourth quarter conference call. All our Q4 documents, including press release, slides for this conference call, MD&A and supplementary information package are posted in the Investor Relations section of our website at ia.ca. This conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts. A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days, and a transcript will be available on our website in the next week. I draw your attention to the information on forward-looking statements on Slide 2, and on non-IFRS and additional financial measures on Slide 3. Also, please note that a detailed discussion of the company's risks is provided in our 2021 MD&A available on SEDAR and on our website.

I will now turn the call over to Denis Ricard, President and CEO.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Good afternoon, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending the call on behalf of iA. First, Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer and responsible, among other things, for our U.S. operations; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Savings; Sean O'Brien, responsible for our mutual fund business and wealth management distribution affiliates; François Blais, in charge of Dealer Services, Special Markets and iA Auto and Home; and finally, Eric Jobin responsible for our group businesses.

iA Financial Group reported solid fourth quarter results as demonstrated by the 6 key performance indicators shown on Slide 7. Starting with profitability. Core EPS of $2.01 for the quarter was within guidance, which led to a record annual core EPS of $8.31, $0.11 above the top end of our 2021 guidance range. Core ROE of 14.2% is also above the guidance range. This metric is on a trailing 12-months basis and demonstrate the strength of our results for 2021.

The following 2 metrics illustrate our strong growth momentum, which continued in Q4. First, premiums and deposits totaled a solid $4.2 billion, up 6% above a very strong quarter last year. As for AUA/AUM of more than $221 billion, this represents in a significant increase of 12% over the last 12 months. Our capital position continues to be very robust with a solvency ratio of 134% up by 3 percentage points in addition to which our distinctive macroeconomic protection now equivalent to 12 percentage points. Finally, book value growth is a telling indicator of the real value created for our shareholders, and we are therefore very pleased that it has grown by 12% in 2021.

Now turning to Slide 8, 2021 has been the most profitable year in iA Financial Group history. In addition to profits exceeding expectation and a solid capital position, sales momentum was quite strong throughout the year, and I want to highlight, in particular, the strength of our individual insurance sales. As an illustration, the most recent industry data shows that in 2021, about 1 in 4 individual insurance policies sold in Canada was issued by iA. Also noteworthy are the net fund entries of nearly $4.5 billion in retail wealth management and sales in our Dealer Services division that remained above expectations regardless of low vehicle inventories. Our strong 2021 results have enabled us to create value for our shareholders as demonstrated by the growth in both value and the substantial increase in the quarterly dividend per share of 29%, as announced last November. Moreover, we reinitiated the NCIB program during the fourth quarter, under which we have already begun to buy back shares.

An important success factor in 2021 was the superior client experience provided by our employees and advisors. And I want to take the time today to thank them and to emphasize how much I value their engagement. Our employees are key to our success as are our distributors and advisors. Indeed, at iA, client experience is based on a three-way relationship between the client, the advisor and iA through its employees. Therefore, by taking good care of our employees, we're also taking care of our clients and advisors. This is one of the many reasons why we are committed to offering a great employee experience through good working conditions, flexibility, support and a rewarding career. With this approach, it is no coincidence that in 2021, at the same time, as we rank #1 for the overall company rating in the advisor perception survey, the satisfaction of our clients as measured by internal surveys was well above expectation. This is a solid foundation for continued growth in 2022 and beyond.

Driven by this momentum, we are very pleased to increase this year our core ROE target range to 13% to 15%. This enhanced guidance comes 1 year earlier than the road map presented at our March 2021 investor event. Also, we're targeting strong organic capital generation again in 2022 with the upper end of the range at $525 million. And as we continue to be focused on the execution of our strategy, we are well reserved with additional macro and pandemic protections totaling nearly $1 billion.

Regarding IFRS 17 now, our favorite topic, as the transition to the new accounting regime is just around the corner, we want the market to know that we are already managing our business with the new regime in mind and that we will be transparent and proactive in our communications on this topic throughout the year. In this context, based on the currently available information, we are pleased today to share a positive outlook and therefore, express our confidence as we continue to prepare for the transition.

Based on the strength of our balance sheet, the flexibility of our investment portfolio and our overall financial solidity, we expect near-neutral to favorable impacts on several key metrics. These include the book value, a meaningful indicator of the company's value. In conclusion, this morning, we released our first sustainable bond framework. This is a step forward in our sustainability agenda and our ambition to make a positive difference, both environmentally and socially.

This ends my remarks. I will turn it over to Mike, who will comment further on business growth. And following Mike, Jacques will provide more information about the future outlook and Q4 results. Mike?

Michael Stickney - *iA Financial Corporation Inc. - Executive VP & Chief Growth Officer*

Thank you, Denis, and good afternoon, everyone. Business growth during Q4 was no exception to the very strong performance recorded throughout 2021. Long-term value creation depends on the ability to generate new business, and we are pleased to see that our focus on growth in recent years is paying off.

Now please refer to Slide 10 as I will comment on Q4 sales' results by line of business. In Individual Insurance, the strong momentum continued with total sales of $87 million during the fourth quarter, a significant increase of 21% year-over-year. As Denis mentioned, 1 out of 4 individual policies in Canada were sold by iA in 2021. This further demonstrates our leading position in the mass/mid-market. Growth was supported by the strength of our distribution networks, our superior digital tools and our comprehensive range of products. On the last point, we continue to expand our product shelf as we launch the new iA PAR Wealth product during Q4.

Now looking at Group Insurance. Employee plan sales for the quarter amounted to $15 million compared to $30 million for the same period last year. Sales for the full year were about the same level as in 2020. In Dealer Services, Canada, sales of $266 million increased by 7% from a year earlier, a good performance in the context of vehicle inventory shortages. In the Special Markets division, the addition of new blocks of business and the pickup in travel insurance sales led to a significant year-over-year increase of 69% from the same period a year earlier.

In the U.S. now, individual sales of $33 million were up 6% year-over-year, mainly from growth in the family and government worksite markets. In the Dealer Services division of our U.S. operations, sales for the fourth quarter were 4% higher than a year earlier, which is a good performance considering the vehicle inventory challenges that the industry is facing. Sales for the full year 2021 were up 49%. These good results were mainly attributable to the synergies between DAC and IAS. Note that the low vehicle inventory situation persists, and that sales growth may continue to be slower in early 2022 for both the Canadian and U.S. Dealer Services divisions.

Now turning to Slide 11 for Individual Wealth Management. Guaranteed product sales for the quarter amounted to $228 million and ended 2021 with a total of $891 million of sales. 2021 was also a record year for iA in both segregated funds and mutual funds. Combined net inflows amounted to nearly $4.5 billion in 2021. Looking at segregated funds, the company ranked first in 2021 in net sales, solidifying a strong leading position in the industry. During the quarter, gross segregated fund sales exceeded $1.2 billion, up 41% year-over-year, while net sales totaled $823 million for the quarter, a strong increase of $276 million over the same period last year as with Individual Insurance sales, distribution networks and digital tools will be key to our success.

As for mutual funds, gross sales totaled $715 million. Net sales recorded for the quarter were solid with inflows of $242 million showing continued momentum and bringing net sales to a record level of $1.2 billion for the year. This is thanks to the strong performance of the fund lineup, which we continually enhance to better meet the needs of our investors. On this note, in January, iA Clarington launched 3 new portfolio solutions, including additional socially responsible investment portfolios.

In Group Savings and Retirement, good sales of $620 million compared with a very strong quarter of $879 million last year. As you know, sales in this sector tend to vary considerably for one quarter to another depending on the size of the contracts sold. Finally, direct written premiums in our P&C affiliate, iA Auto and Home continued their steady growth and increased 6% year-over-year. Overall, premiums and deposits, a key indicator of our success in growing the business totaled nearly $4.2 billion during the fourth quarter and concluded the year with a very strong annual growth of 18% over the excellent year of 2020. Most sectors contributed to this solid result, especially Individual Wealth Management. In addition, net fund entries and growth of the financial markets led assets under management and administration to a record level and resulted in a 12% increase over the last 12 months.

Please now turn to Slide 12 to summarize the growth story for the quarter. Q4 sales were solid and concluded a year of very strong growth, marked by records in several sectors and surpassing the already excellent results of 2020. Individual Insurance and Wealth Management stood out by adding another strong performance in the recent string of successes. Also both Dealer Services divisions in Canada and the U.S. showed resiliency and performed well in the context of vehicle inventory shortages, allowing for continued growth in this capital-light business.

I will now turn it over to Jacques to comment on Q4 earnings and capital strength and the outlook for 2022 and 2023.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Thank you, Mike. Good afternoon, everyone. Strong profitability was achieved again in the fourth quarter, concluding 2021 on a positive note.

Starting with Slide 14, which compare our results with the guidance that was provided at the beginning of 2021. Our results were generally in line with or better than the guidance. Noteworthy are the core EPS and core ROE, which both exceed their target range for the year. I also want to underline our very strong organic capital generation throughout the year, well above the guidance with a total close to $0.5 billion in 2021.

Slide 15 compares core earnings to reported earnings. Items adjusted for Q4 reported earnings include favorable market-related impacts, the small favourable outcome from the year-end actuarial assumption review and a small net gain related to acquisitions and disposition, which essentially results from the disposal of PPI benefits.

Slide 16 presents the source of earnings for the fourth quarter on a core basis. Expected profit was 15% higher than a year ago. Policyholder experience was also favourable with the main exception of expenses, which were higher than expected, primarily due to higher variable compensation as a result of our strong performance in 2021. Strain on new business was within our target range, only slightly higher than expected. Income on capital was higher than expected with a positive contribution from iA Auto and Home.

Finally, the tax charge was higher than expected, mainly due to tax adjustments related to prior years. More details on these items are provided on Slide 31 to 34 in the appendices. As a result, core EPS for the quarter was $2.01, a very good result near the middle of the target range. However, this result is different from the guidance I gave you on our last call because of unexpected higher expenses and taxes.

I now want to comment on our year-end assumption review, starting with an update on the additional protections put in place for the pandemic uncertainty. Please refer to Slide 17. The additional protection for mortality was at the right level for 2021 as reflected in the slightly lower-than-expected additional mortality. For 2022, we have decided to strengthen this additional protection for our U.S. business by $13 million. As for the additional protection for policyholder behavior, it has been reduced at year-end, taking into account that management took action to reduce the risk.

As shown on Slide 18, the overall impact of the 2021 actuarial review on earnings was a small net positive. The result of the year-end review based on our internal risk studies and the latest experience recorded is a good indication that our reserves are well positioned.

Moving to Slide 19. Our solvency ratio increased again during the quarter to reach 134% at year-end. The increase was supported by very strong organic capital generation, management actions and investment strategies.

The solvency ratio, along with the different metrics presented on Slide 20, are indicative of our robust financial position. In particular, our distinctive macroeconomic protections were the equivalent of 12 percentage points that add to our solvency ratio. Also, the macroeconomic sensitivities of our solvency ratio have been updated and they remain low. For more information about capital sensitivities, I refer you to Slide 43 in the appendix of the slide deck. Finally, we reinstated our NCIB program in December under which up to 5% of our outstanding common shares can be redeemed until December 2022.

I now refer you to Slide 21, as I will comment briefly on the investment strategies that contribute to the increase in our solvency ratio in Q4. Taking a step back, you will remember that during our March 2021 investor event, my colleague, Alain Bergeron, explained that with the coming of IFRS 17 there are opportunities to realize the full potential of our scale and capabilities. As the transition to IFRS 17 approaches and the constraint of IFRS 4 are about to disappear, our investment portfolio adds flexibility to seize opportunities, and we took actions to optimize it.

In addition to their favourable impact on our solvency ratio in Q4, these changes improve the ROE of the investment portfolio without taking on more economic risks. Finally, these changes reduced the combined sensitivity of the IRR and URR, the most relevant metric available for assessing our interest rate sensitivity in preparation for IFRS 17. As we are already acting on the basis of the new accounting standards, we will present today some of our expectations for the upcoming transition to IFRS 17.

Please refer to Slide 22. Thanks to our long-term management approach, our sound risk management and our well-positioned actuarial reserve, we are in a great position for the transition. Based on currently available information, we expect impacts ranging from near-neutral to favourable for all the key measures presented at the top of the slide, i.e. core EPS, core EPS growth, core ROE, book value, solvency ratio and the level of capital available for deployment.

Under IFRS 17, there will be increase emphasis on core earnings measure as they will exclude the macro volatility resulting from the new accounting regime and will, therefore, be the best indicator of the company's ability to generate recurring and sustainable revenue. This outlook that we provide today is preliminary as the items displayed at the bottom of Slide 22 are not finalized or remain uncertain. In view of the transition to IFRS 17, we want to proactively communicate each educational information to the market on a regular basis.

With this in mind, moving to Slide 23, I will take a few minutes of your time today to discuss briefly about the Contractual Service Margin or the CSM. CSM represents all costs and risk included in the pricing of insurance products that are not captured in the IFRS 17 current estimate or risk adjustment. This notably includes expenses that are not directly attributable to contracts under IFRS 17 and the risk of asset liability mismatch. Both of these items are reflected in IFRS 4 liabilities today. An unearned profit or free profit, which is similar to the current concept of value of new business is the remaining component of the CSM. It is also important to understand that risk adjustment should be considered along with the CSM to better predict future IFRS 17 insurance profit.

When future assumptions will realize as expected, risk adjustment and CSM will both flow to the P&L. It should also be noted that the establishment of the CSM at transition may or may not impact a company's equity. For more information, I invite you to look at Slide 27 and 28 in the appendices, which provide details on the link between CSM, reported earnings, core earnings and capital generation.

To conclude, I will share our targets for 2022 as presented on Slide 24. Building on 2021 strong performance, we are significantly increasing our core EPS target range with the midpoint being 14% higher than in 2021. Our core ROE target is also increased to 13% to 15%. As for the impact of new business, we are pleased to target a strain very close to 0, particularly as we prepare to transition to IFRS 17. Organic capital generation will remain strong with a target range of $450 million to $525 million. Finally, as disclosed at the end of 2021, our dividend payout ratio target of 25% to 30% is now based on core earnings.

This completes my remarks. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Doug Young with Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Just a question on the IFRS disclosure, Jacques, I mean you don't expect any negative impact on the book value. I mean Industrial Alliance has $1 billion of macro protection embedded in your reserves, I think, Denis, that's what you mentioned. And I assume the 2 are related in that. Is the assumption here that you are going to release those excess provisions at the transition and essentially move that out of the liability into the CSM as part of the setup of the CSM? Is that do I have that mechanics right? That's where I'm getting a little confused because I would have anticipated there to be some form of equity impact.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Thank you, Doug, for the question. We can't say that. IFRS 17 is a really different construct from IFRS 4. So I really like to look at it from the Slide 23 perspective, when you have the current liabilities, you have the risk adjustment and those 2 are really looking at best estimate, I would say, commitment you have towards your clients as well as, I would say, the equivalent of PfAD or protection, or margin for actuarial assumptions. So the CSM is really covering I would say, ALM risk, unattributable expenses and what we consider free profit. For iA, of course, under the current accounting regime, we have those extra protection. We are very proud of them. They've been very useful to eliminate volatility. They have absorbed volatility over the past few years. And this will certainly flow through into the CSM because we cannot front-end all the profit we have in our product.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And when I think of that, I mean, the biggest part of the excess provisions right now, I believe, is the equities that are backing your long duration liabilities, correct me if I'm wrong on that. And so to the extent that those excess provisions are released, because as you mentioned, they did temper volatility in the past. That would tell me is that one of the consequences of releasing these extra provisions is that there's going to be a little bit more volatility in your results. And then I would imagine you're going to back that out when you calculate the core number. And so I'm just wondering if -- do I have that right? Is that -- should we expect some more volatility because of the release of these excess provisions? And then how are you going to back that out? Or how do you think of defining core?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

That's a really good point, Doug. Actually, that's one of the limitation we find of the IFRS 17 regime. What I used in the Investor Day, I will use the same expression. It uses a very short-term lenses for all businesses, whether the businesses is long term, midterm or short term. And here, that's a good example you're providing on. In fact, we will continue to manage business with long-term. So you're totally right, reported earnings will be more volatile because in the past, that stock market protection was absorbing that volatility. Now it will be in reported earnings, and that's why it's so important, definition of core earning to remove that short-term volatility because - those NFI, we own them for the long-term liabilities. So it's a buy-and-hold kind of strategy. So you're totally right.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So I think I get that. And then just second question. You changed the investment portfolio in advance of the shift to IFRS 17, but you didn't talk about what changes were actually made. And it did cause a little bit of wonky impact on your IRR sensitivity, at least for 2022. So can you talk a bit about what the changes were? And how will that create some additional volatility as we -- and I know 2022 is going to be under IFRS 4, but we still have to think of that before we go to IFRS 17. Should we expect some additional volatility from those changes as well?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

That's a good question again, Doug. Actually, what we've done with our asset, we lengthened the duration of our asset portfolio. We also added some credit. When you look at 2022, we have market protection. If you go at the bottom of the slide, we have $900 million of protection to absorb the volatility in 2022. That's why we felt pretty comfortable doing those transactions, and we are very pleased with the risk profile. When we look at IFRS 17, I will answer it that way, we have always and we will continue always to optimize, I would say, our economic view of our business because it is an accounting regime change. It's not the underlying business that is changing. However, when you do that optimization, you need to take into account the constraint that the accounting regime and the regulatory capital regime of putting on your sales. And with those transactions, we are -- with the choices we are making with IFRS 17 because that's a standard -- principle-based standard on which we can make choices, we are making choices to bring the accounting as close as possible -- closer actually to the economic view. So it will help. Those transactions will help us in regard of the diversification of risk under IFRS 17.

Operator

Our next question comes from Tom MacKinnon with BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Kind of want to look at the Slide 27, where you talk about the movement in the CSM. It looks like you certainly make the point it's great to see the CSM growing, and you want to see the CSM growing. Yet, if I look at that kind of waterfall chart, the things that are actually -- you're showing is making it growing in the biggest box is new business. And if I look at your strain has actually been -- that would have been a negative, and then you're forecasting it just to be 0. So I'm wondering how you get a big plus year for new business and on that waterfall chart.

And when you talk about an uptick from changes in assumptions. I mean it was $0.02 in total for the year for changes in actuarial assumptions and under IFRS 17, the investment assumptions, we view wouldn't be in that. So it would actually be negative under that. So traditionally, you've been negative to 0 at that in those 2 things that are making this waterfall chart go up. So I'm wondering how are you going to -- are you doing something different when we move into IFRS 17 to make this new business nicely positive in particular? How should we be thinking about that?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I just can say that I don't know if you were in and out close to your mic, but it was cutting a lot, but I will try to answer. And if ever, I don't get your question right, never hesitate to ask it again, please. So no, absolutely not, actually. The business we're selling today is very profitable, and it will show when we will add new business year in and year out, there will be CSM there. Like I said in my opening remarks, CSM, there are 3 components to it. So it's not only free profit. There's free profit is certainly a big part of it. But there are some margin there that we are pleased to have to cover on attributable expenses as well as the ALM risk. And compared to what we have and the basis change, I would say, it will flow there. That's simply what will happen.

I see that as pretty much the same thing we have done in our way of managing with IFRS 4 that management action were not part of the core earnings. They were used to manage a business change when there were bad news coming our way. And here, it could be the same. We're very pleased with where our assumptions are based, but you never know how it will evolve in the future. So new business, it will really show the added value of new business. But that's where I see it. So tell me if I got your question right. And if ever you ask another question, please try to be closer to your mic.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Yes. Is this better here? My question really is you haven't had any impact on new business being positive before, but now you're talking about it being positive under IFRS 17. So what's changing here? That's really the thing I'm looking for.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Okay. Perfect. The sound was much better. Thank you very much for that. Actually, it's because we've been conservative with our view on new business. We knew IFRS 17 was coming for us, it was appropriate to limit the profit at sale. So we use very conservative assumptions, and that's why we have never shown positive, I would say, negative strain. So this is the only reason. Under IFRS 4, it's not because business are having a strain that business is not profitable, not at all. So what you're seeing here is really under IFRS 17 that the CSM become out of the sudden, completely visible and you see it.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. Is that sort of because your not going to be describing that ALM, PfAD to the business anymore. So that's why you're going to get a positive impact from new business under IFRS 17?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Our product in Canada, they are very profitable. In the U.S., they are very profitable. We are pleased with that. So strain under the current regime even if it's not negative, it doesn't mean our profit is not there. It's only that we book higher reserve, and that profit will flow into the future. Here, when you see that slide, the new business, and you see the CSM, it comprises the 3 components on Slide 23. And I can tell you that the free profit is the biggest part of that.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. And then with respect to -- currently, you have these excess reserves, and they don't count its capital in your solvency capital ratio. And as you move those excess reserves now into CSM, they don't count as available capital as well in the -- under IFRS 17 for your capital formula. Is that correct?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No. Actually, that's why we're showing that our capital ratio will increase okay? Those reserves that are not, the stock market protection is not taken into account. That's what we are disclosing. We've been disclosing since Q3, I believe 2019. This will now be part of CSM and other reserves. So it will now be part of the solvency ratio.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

So as you mentioned your solvency ratio are not changing as you go to IFRS 17. The fact that you are at least talking about adding the CSM to your equity, wouldn't that imply that your solvency ratio would go up under IFRS 17?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

That's what we expect. But at the same time, the fact that related to Doug's question earlier, volatility of reported earnings and volatility of the capital ratio will be higher. Our target operating ratio will also increase, okay? This is something that we have to factor in. But what we expect with the information we have now is really that the deployable capital will increase as well. So net-net, we should be positive.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. And my last question is, it seems like you kind of had almost like excess reserves that aren't really excess reserves and you move on to IFRS 17, so you put them into the CSM. Why don't you just release them as equity?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

At the end of the day, we can release them as equity. But like I said earlier, those extra reserves have been very useful to absorb volatility, short-term volatility and allow management to really concentrate on managing the business with a long-term view. So it has been very useful. I can release them now if I want, but I will have to book them again at the CSM when we will do the transition, so.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

But you have to put them into CSM. Is that what you're saying? Under IFRS 17, then do you have the choice to release them to equity under IFRS 17?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Exactly. At the end of the day, Tom, I will say that those reserves are part of future profit. It's not a one-on-one here, we're speaking broadly. We are speaking about near neutral. We're still in unknown because the capital formula is not formalized. So so far, we have made some choices, but we will revisit those choices, if ever there's a surprise there. But ballpark, I would say that, that CSM will flow through -- not the CSM, but those extra reserves will flow through the CSM because they are part of future profit of the product.

Operator

Our next question comes from Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

I want to stay away from getting too technical here, but I just want to paraphrase or clarify something you're seeing and you -- as a strategic decision over the past few years, you've been selling more and more products that are short-duration, capital-light. In theory, you guys could have -- or your company, I should say, could have been recognizing new business gains, but you didn't, so that you would be better -- avoid downside risk, I guess, from IFRS 17. Is that sort of the thing?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

It's a fair statement Gabriel.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And then just the rate sensitivity thing, the IRR sensitivity that went from like virtually nothing to a $25 million downside when rates go up 10 basis points. Can you just explain that to me what changed? I guess there was a change in the portfolio. Why does that have an impact if we can try to keep it at a high level? And is that sensitively going to be a bigger number under IFRS 17?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Okay. This is the same answer I provided earlier. Gabriel, we lengthen the duration of our asset portfolio when we added some credit. And it has a very nice and great impact on the solvency ratio, but it increased the IRR sensitivity risk. But under IFRS 17, what will be very important for us is the whole liabilities, which is better measured by looking at the combination of IRR and URR. And this is really the metric on which we're reducing our risk. So that's why I'm saying that moving to IFRS 17, we are bringing the accounting/capital regime closer to the economic. So that's really what's in it here.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. It's Denis here. I'd like to add something on this. The way I look at it at a very high level is that this accounting change that is IFRS 17, at the end of the day, the question we could ask ourselves, what are the conditions under which -- when you look at the long term, I mean, going forward, under what conditions can we have, let's say, at iA, a continuity in terms of the main key indicators like book value, like core EPS, core ROE. And basically, when you combine the changes that basically we did on the investment side. That leads us to a more, let's say, better link between economic environment versus the balance sheet and the choices we need to make on the investment side. At the end of the day, it's a win-win for us.

Now the consequence is that we have a situation where we are hedging our, let's say, interest rate -- long-term interest rate going forward. So by doing that, lengthening the duration of assets, increasing credit. We are in a great position where we can see that the IFRS transition will be either slightly positive or even neutral for us. That's basically at a high level the way I look at it.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And I kind of want to move away from this topic. So I just want to talk about group, the loss there. The morbidity, I'm looking across the sector here, we're seeing some parallels, maybe duration of claim lasting longer and maybe thought that's it or maybe something else. If you can let me know what that is, the driver of the negative morbidity that is? And then how long do you think these issues are going to persist?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Okay. Gabriel, I think I'm going to leave it to Eric to answer that. I don't know, Eric, if it's the first time you have a question, but go ahead.

Eric Jobin - *iA Financial Corporation Inc. - Executive VP, Group Benefits & Retirement Solutions*

Yes, I'm ice breaking here. Thank you, Denis. So to answer that question, I would say that it has not been visible last year, but there are many parameters that play when we talk about visibility, just thinking about short-term, long-term incidence rate, duration of disability and finally, termination. And last year, we had some fluctuations in those parameters during the year, but they tended to cancel out over the year. So it did not really impact our experience. And what happened in Q4 that we noticed is a slightly higher duration on short-term disability and a bit higher incidence on long-term disability. So they line up in the same direction. But when I think about the future and if we think about what happened in the last 2 years with respect to those parameters, they have sometimes gone up and then come down. And when I look at the numbers right now, there's no reason to believe that it will not come down and in line with our pricing parameters.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So okay, what's, some analogy type stuff, not analogy, but just give some real-world explanation here, higher duration on STD. That's because hospitals are tied up, so getting care takes longer. And the incidence on LTD moving higher, that's mental health or what?

Eric Jobin - *iA Financial Corporation Inc. - Executive VP, Group Benefits & Retirement Solutions*

Yes. When you think about the COVID impact, on the health side, people are trending to take a bit more time to return to work. And there is a bit of what I would call a spillover effect between STD that goes into LTD. And in the past, they tended to settle and return to work earlier. So that's really what's happening there. So they will just return sooner than normal on the LTD side.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So you expect this stuff to settle out in the near term?

Eric Jobin - *iA Financial Corporation Inc. - Executive VP, Group Benefits & Retirement Solutions*

Yes. That doesn't mean, though, that we won't have volatility. But yes, I'm expecting that to settle out.

Operator

Our next question comes from Darko Mihelic with RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

My first question is for Mike, and it has to do with the car sales in the U.S. And I just wanted to see if you had any view on this, but I've read an article that suggested that many dealers in the U.S. are, with this inventory shortage, trying to make more money on cars that they're selling. And one of the ways that they're doing it is their sort of forcing the car to be sold with a warranty attached. I guess they don't really want to try and charge more than the MSRP because the dealers don't like it. So what they're doing instead is they're sort of saying to a customer, hey, if you want to buy this car, you more or less kind of have to buy it with the warranty or they're including the warranty in the price, and they're sort of getting the car sold that way. So my question is, are you aware of this? Have you seen it? Is this a risk to your business?

Michael Stickney - *iA Financial Corporation Inc. - Executive VP & Chief Growth Officer*

Yes. Thanks for the question, Darko. I'm sure there are dealers out there who do that sort of thing. It's definitely not recommended to basically force people to take the warranty. So I don't think it's that common. And we really haven't run into it in our business, and I guess, with our dealer clients to any extent because that would obviously you could run a risk of consumer complaints and all that sort of stuff. So I would say it's a minor percentage of what's going on out there. Just in general, it's a tough market in terms of the inventory shortages. And I've certainly heard and read reports about dealers charging more than MSRP, which the OEMs don't like, but they're doing it. Where they're really making their money right now in selling used cars. The price of used cars is really skyrocketed, and there's good margins there for them as well.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

And just so to make it clear, how is it that you would know if a car warranty was being bundled into the price?

Michael Stickney - *iA Financial Corporation Inc. - Executive VP & Chief Growth Officer*

It would be hard for us to know. You're right. The one way we -- it comes to mind that you get some level of consumer complaints, that sort of thing, and I certainly haven't heard any from our business.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. Okay. I have a few IFRS 17 questions as well. And maybe first, just going back to, I guess, the best way to ask this, Jacques, is one of the things that you highlight that is not yet sort of finalizes the tax treatment of the CSM. So the first question, I guess, is have you looked at that through a lens of what's the worst-case scenario? And if you have, would it be material to you if the tax treatment goes against what you're hoping for?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

That's a pretty good question, Darko. Maybe I should say that my view on that first. And after that, I will answer the question. I think I was a very young actuary in the early '90s when I recall my first year-end that we had calculated tax reserve as well as GAP reserve. And it changed, I believe, in 1992, 1993. I really believe that tax regimes should be work according to the accounting regime is. It's very bizarre to recognize profit on the tax side without recognize it on the accounting basis. So that's really my view on that.

As to answer your question, I would say that no, I didn't use the worst case in the metric we set there. The one that is at risk is more the P&L, the EPS that will be a risk. Book values won't be affected by that because there will be an asset, a deferred tax asset that will be set on the balance sheet for that. But we expect, if ever, the worst happened that there would be transition at least. So that's what we expect. But like I explained on Slide 23, it's not all free profit, okay? I really hope that Finance Canada is getting that.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. Okay. And my second question on IFRS 17 is given what I'm reading in the way you're sort of describing this, it sounds like you're not willing or you're not going to take very much of the OCI option. And I'm just wondering why that would be.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Okay. You're reading it well. We look at it. We analyze the situation. And of course, I will say OCI, the advantage of OCI will be to move some volatility from the P&L to the OCI. But at the end of the day, capital is king. And the capital formula will be the same under both approaches. And we think that even using OCI, there will still remain some volatility into the P&L. So it will have triggered as well a core EPS definition. So we will have a core as well. Also, what we're seeing there is that it's much more complex to run with the OCI. And one of the drawback of OCI for us is really, like I said earlier, the choices we made -- we are making there, is really to try to align as much as possible the accounting with the economic regime. It's much easier to manage a company when the 2 are closer together than when they are far apart. So if you use OCI and you focus on P&L only, you may take investment decision that looks good on the P&L, but that may not be that good for the economic value of the enterprise. So that's really where we're moving.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. I think I might follow up with you on that for some technical. I have a few technical questions on that. In addition to that question, when I look at your Slide 23, and it's obvious, right? What comes out obviously is there's very little -- let's say, very close to neutral impact on your shareholders' equity. You're just shifting around -- I mean the reserves are basically just being shifted around. But what I'm struggling to capture or I'm struggling to understand is if the discount rate now being related to the nature of your liabilities and disconnected from your assets. I would be under the impression that the discount rate might actually be lower. I know this is a strange concept, but if you bear with me, I would think that the way you discount now would be at a lower rate. And therefore, your overall liabilities would have increased, and your equity would have dropped.

Is it the opposite? Is it actually that the discount rate is close to where you're currently discounting? And maybe you can also weave into your answer, how you are arriving at your discount rate? Is it a reference portfolio or something like that might help me as well?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Okay. We're using reference portfolio. And the way I will summarize the answer there because it's 2 different constructs. The fact that we have had the stock market protection, and we say that we have not been aggressive the investment which we are using today is not maybe -- is conservative, and we said that is conservative because we wanted to have that extra caution to absorb the volatility. So that's why rates are comparable. But when we construct our IFRS 17, assumption is really reference portfolio and the liquidity premium was built according to the characteristics of the liabilities. So that's really it. And if ever, your the discount rate, you change it, you're just transferring money into the CSM because at the end of the day, you must not put front-end profit under the IFRS 17 regime.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. And just 2 more questions, and I promise I won't hog the pock anymore. Are you finished with the changes to your investment portfolio? Or is it possible that you do more changes throughout the year?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, like I said earlier, what we're providing today is with the information we know today. So the capital formula is not finalized yet. The CSM taxation, not finalized yet. So at the end of the day, there could be some changes that we will bring.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. And the reason why I ask is it's very curious that you can somehow lengthen the duration of the portfolio, but also add credit. Typically, credit would be shorter. So how are you actually lengthening the portfolio duration while adding credit risk?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, we're doing both. It's not using the same instrument, the same asset, I would say.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. Meaning...

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Maybe, Alain, you want to give some color on that?

Alain Bergeron - *iA Financial Corporation Inc. - Executive VP & CIO*

Yes. Darko, there are multiple ways to increase the duration. One is to take physical bonds and change them. And that's one thing that has been part of the toolbox, but another way is to add derivatives or to use derivatives to increase the duration. If you do that, then you can achieve what we've achieved.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. So that's as I suspected. But one way or another, you're still shifting. I mean, it's very hard to somehow figure out how you can extend the duration and the yield without having risks somewhere in the portfolio. So it seems to me like you may have added spread risk. Is that the way I should think of it and swap risk as well?

Alain Bergeron - *iA Financial Corporation Inc. - Executive VP & CIO*

Well, so you are right...

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Go ahead, Alain.

Alain Bergeron - *iA Financial Corporation Inc. - Executive VP & CIO*

Yes. So I mean, there's a few things to think about -- so that's true that when you add for example, derivatives, then you can get exposure to -- you've mentioned swapped spread. That would be an example or liquidity that could be another example, depending on how you structure the short-end leg. But I think if you take a step back, I think the important part is when you start to think of the IFRS 17 or 2023 plus by making the portfolio changes that we've made, the one thing that -- well, actually both lending duration it reduces the economic risk because it manages the total overall interest rate exposure. The other thing is it's with the credit, the credit in the new world of IFRS 17 adding to our credit actually reduce ALM risk. And so that's an important consideration in why we've been making these 2 -- actually adding the credit decreases that risk but also increase the portfolio income.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

I see. okay. So you're trying to -- I mean, I guess, at the end of the day, Jacques, I'll have to ask you about the investment result at some other time, but is that a key component of your earnings stream as well going forward? Or it sounds to me like you're really pushing us on the CSM and the risk adjustment as being the core measure to look at and net investment result is something that's really pushed to the side? Or am I just assuming too much there?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No, everything will continue to be important where the unfolding of the CSM and the risk adjustment, there will be insurance risk there. There is interest factor into those 2 calculations. So you need a good investment strategy to provide the investment return to compensate for it. It's the same world we are living it today. It's just reported a little bit slightly differently.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. All right. I'll follow up with you after, Jacques.

Alain Bergeron - *iA Financial Corporation Inc. - Executive VP & CIO*

Just 1 thing I would close on this topic is that you're right that while making changes, you move risks around a little bit, but it's our view that given the composition of the risk have changed the total economic risk is about in the same ballpark.

Operator

Our next question comes from Meny Grauman with Scotiabank.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Just following up on the items you highlighted that are not finalized yet. What's your expectation in terms of timing both for the tax treatment and the final capital formula? Do you have a good sense of when we should get clarity there?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

My understanding is capital formula will be probably late this spring. About the taxation, I don't know exactly.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And if you consider both those items, where do you view more risk being?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I don't know how to answer that one, Meny. We are ready to call the shot when we will see what will be the playing rules. So we'll see.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Okay. Fair enough. I just wanted to ask another question on expenses, Jacques. You talked about how expenses surprised you in Q4. And just wondering as you look at 2022, what are you expecting? And how do you gain confidence that you won't be surprised again? Obviously, inflation is a big topic these days. I'm just wondering how you're thinking about expenses in 2022 and especially relative to the surprise that you got in Q4?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Thank you, Meny, for that question. Actually, I was hoping for a question on expenses. I will take a little bit more time just to explain. I said in my remarks that we guided in Q3 to the top of our guidance, the EPS at the top of the guidance. And for sure, we didn't achieve that. And expenses was part of that. So what surprised us in Q4, actually, bonuses is been a part of that. And 2 reasons for that.

Our Net Promoter Score, Denis spoke about the survey we're conducting with our client, with our client satisfaction. So they were through the roof, so we are not expecting that as well as the Q4 growth has been better than what we were expecting. So we had a $0.04 impact, higher $0.04 impact than expected when I guided you in November on that aspect. There's also a file we have with RevenueQuebec, with one of our life insurance distributor, and on that one, we decided to be prudent in December and took a provision for that, so it's $0.02.

Also, we had a lower proportion of tax-deductible expenses that cost a $0.03 in Q4, and we have provisioned all year along with an assumption there, and we discovered in Q4 that we didn't provision enough. So those 3 elements add to $0.09. And the tax true-up, I was not expecting the tax true-up, so $0.04 there. Although the gain and loss are pretty much in line. So overall, it's $0.13 lower than what we're expecting. So this is to reconcile Q3 guidance to Q4.

Q4 by itself, when I look at expenses, it's really the $0.24. And from those $0.24, there actually at least $0.10 on bonuses that really should be linked to the first 3 quarters because it's really related to the overall yearly performance, strong performance on both the top line, bottom line and the client satisfaction.

Also, I spoke earlier about the tax, about the non-deductible expenses, this part also has to be spread over the year. And the tax provision is really a onetime item. So actually, in Q4, when I look at it, there's probably $0.11 that we can see as being normal expenses for Q4. That's really the way I see it. And on that $0.11, they are expenses that are there because of compliance, I will say IFRS 17, and I'm pretty sure it's the same in all other company. We are spending. we have an army of people that help with IFRS 17 in place, and we need to be ready to run paralleled tests and so on. So it's really putting additional costs.

Also, we have made adjustment to our salary compensation to make sure that we continue to attract and retain the talent we need to execute and to transform. And also, the main impact is really we have had tremendous growth everywhere. So we need people to support that growth, that business. So this is very important. So the bottom line, and I'm coming to your question, 2022 guidance is taking into account everything we know today, so what is recurring on the expense side.

Operator

Our next question comes from Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Before I get into my series of IFRS questions. Let me just quickly run something by you on segregated funds. So your company is obviously dominating the market there. It's been a long time since we cared about the risk that segregated funds posed to any life insurance company. Perhaps you could just take us through the nature of the guarantees on the segregated funds relative to where your peers are today, like are you offering anything that I would others might think is outsized risk and then relative to what you did before the big financial crisis of 2008 and '09?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Okay, Mario, it's Denis here. I'm so glad you asked the question. I used to be the appointed actuary in those years, so I'm very pleased to answer that question, and you were there at that time as well. So it may remind you some of the discussion we had. I mean when you look at it at a high level, at iA, the best, I would say, guarantee not the best guarantee, but the best protection against, let's say, macroeconomic negative movement is in the design of the products. That's basically where it starts, before even thinking about investment strategies.

And at iA, when you look at the design of our products, it's been less risky than anything you found in the industry. And I'll give you 1 example or 2 examples. One is, let's say, our guarantee is by contract, not by deposit, where you would find guarantees across the other companies that were by deposit. Also, like the 10-year guarantee, we used to have the guarantee that we sold were, let's say, for at age between 55 and 65. So the average duration of the guarantee was significantly higher than 10 years. This combined with the fact that we hedged some of those 100% guarantee that we had on our portfolio, put us in a very good position.

In fact, so much so that when the regulator changes formula and, let's say, recognize the hedging strategies at that time, and I'm thinking maybe 5 years ago, I can't remember exactly how many years. We were able to release some capital at the time. But it's not that it would have been the same for the whole industry. It's because our design was less risky and also that we had a great, that's a hedging strategy. Hopefully, that answers your question, Mario.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Yes, I think so. So you still add value to your customers, but you're careful in your design, so you don't have to necessarily overcharge them. And that combined with your distribution is what's driving these strong sales. I guess that's a fair way to put it.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, nowadays, the guarantees or most of the guarantees are sold at, let's say, at the lower level of guarantee, right? There are less and less 100% type of guarantee in our portfolio. But for the rest, you said, it's a fair comment.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Okay. So now let's go into IFRS for a moment. So I listened to all this, and I'm certainly coming to understand what you're telling us. So there's going to be a regular level of income, like investment income, and that regular level of investment income will be the interest income, the dividend income, but assets, all assets, virtually all assets have a lot more value to an investor than just the regular income. They must also have gains like realized and unrealized gains. But what I'm hearing is that, to the extent that this creates volatility, that will be removed in your core earnings.

So help me think this through? When you think about your investment portfolio, what is the regular yield then when you take the cash? Let's say, dividends and interest income, you got to add some amount for realized and unrealized gains. Probably this is best for Jacques. How do you decide, how much to include there for realized and unrealized in a way? I'm sure you're aware that Manulife includes $100 million of gains every quarter on their alternative long-duration investments. There's an analogy here then for Industrial Alliance. Industrial Alliance will also have a certain amount of return that you'll include every quarter. So how do you get there?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, that's a very fair question, Mario, here. And we have not gone through the math yet, but the principle you're explaining is exactly that. Actually, we will have to look at what's our long-term view. I will use stock, okay? The common stock as an example. What's our long-term view on the dividend plus the market rate that should increase and that's probably this long-term view that we will put as being recurring, expecting core earnings. And anything that will be above or below will be considered as being noncore. So that's probably the mindset we will have here.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Okay. So using long-term averages then for equity market returns and, let's say, long-term averages for real estate and everything else. I think that's all, that's entirely fair because it's objective, it's verifiable, I can kind of look at long-term returns and say, okay, that makes sense. Where the problem arises -- and I'm just looking at to 2023, 2024. If I were running one of these companies, and I knew that the analysts and investors would play ball with me and accept some kind of regular return, then I would just increase risk. I would extend duration. I would add credit risk, pretty much what you've done. I would do that to make sure that I maximize my core earnings on the assumption that everybody is going to play along with me, and I'll exclude all the bad stuff. So what then is the governor? What is the thing that's going to stop a life insurance company from taking that?

And I know this is a very cynical question, but what's going to stop a life insurance company from just going too far and adding so much credit risk and duration risk knowing very well that the analysts will just ignore it anyway? What's the governor?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I see 2 things here, Mario. The first one is risk appetite and tolerance, okay? When we work those, we have 2 different view on that. We have an economic view, and we have the accounting regulatory capital view. So everyone has to be on board, all executive as well as the Board. So this give us in check in regard of the return you can provide because you have to factor in all the risk you're taking into those 2. And like I said, regulatory capital as well will catch you at one point in time if you're too risky because the way that the capital solvency ratio is working, they are, it is stress testing all liabilities, all assets. So at one point in time, you will have to have the capital to support that risk, so.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

And then the last thing I would add is that traditionally, iA has had, let's say, less corporate credit than their peers. So I mean, we were still in a good situation here.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Yes. I think these are all great answers. And to quote, it was Ronald Reagan who said, "Trust, but verify." I think one of the things we're all going to have to do is have all the life insurance companies be very, very transparent and how they come up with these expected or recurring returns because as investors and analysts, if we can't get really comfortable with that, it can be awfully difficult to ignore all the bad stuff. One final thing then is on -- yes?

Alain Bergeron - *iA Financial Corporation Inc. - Executive VP & CIO*

Mario, Can I just add something in? As you think about this and you challenge the industry and you challenge us, don't forget the impact of these decisions have also on the ALM risk in the true economic ALM risk. In a way, links to what Jacques mentioned, which because the capital formula also includes that, but that's an important consideration, the risk and the return.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Totally gets you. But like an answer like we're good guys, trust us, that's not going to fly over the long term. I know where you're going with this, that you manage your ALM risk and capital, but we're going to really need to get comfortable with these recurring yields. Otherwise, it's not going to be acceptable to just ignore all the bad stuff.

One final thing then. Sorry, go ahead. I was just to say one final thing, if I may then. I can see how the LICAT will be adjusted to ex this out. I can see how core earnings will be adjusted to ex this out. But some investors really care about book value and book value growth. And in fact, you, at the beginning of almost every one of your presentations, you're fond of saying, hey, we've grown our book value better than our peers. So what happens in a world where there's this massive volatility, we're all ignoring it from an earnings and capital perspective, but the book value is getting crushed every quarter. How do we deal with that volatility?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No. Actually, we will have to live with it. But at the end of the day, that's exactly why we are working, and we are paid to minimize the risk, to optimize the value of shareholders by minimizing the risk having the best diversification of risk on the liability side as well as with our investment strategy, our ALM strategy. But down the road as an insurance company, we are taking risk on all that, so it is diversification there that will be key. But there will be volatility there that we will have to live with.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

I mean, suffice to say, this is going to be a really tough goal in the first few quarters of '23 and -- but I appreciate you giving us the information. So at least we know what questions to ask.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Thank you, Mario.

Operator

Our next question comes from Lemar Persaud with Cormark Securities.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Just on IFRS 17, it sounds like some of the issues that still need to be finalized are pretty material. So I'm just wondering, is there any risk that implementation gets pushed out beyond 2023? Or does it feel like you can get all the ducks in line by January 1?

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I hope not. With all the work we've been putting there and all insurance companies that has put to be prepared for that date so that it won't be delayed again.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Okay. Very simple answer then.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

There is no indication, it's Denis here. There is no indication that there's going to be any delay. In fact, the industry would be very upset if there was to be any delay, which is different than, let's say, 3 or 5 years ago where the industry wanted to have some delays. Now it's time to implement that. It costed enough money. It's just accounting, right? I mean it's just accounting at the end.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Okay. That's fair. That's fair. And my next question, could you just talk to the decline in the capital available for deployment versus last quarter? I think last quarter, you guys (inaudible) and this quarter, it's $900 million. I'm just a little bit surprised to see a decline in a quarter where the company generated $150 million. Like is that all related to Surex and, I guess, some of the buybacks or? So just help me bridge the gap there.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Okay, Jacques speaking. Actually, the acquisition of Surex has used $100 million there. So that's part of it that went there. Also, we are in a situation in which one of the constraints, which is Tiers 2 capital, you cannot recognize more Tiers 2 capital than Tiers 1 capital. So we are a little bit limited on that. This situation will improve under IFRS 17. So this is the reason why it has not increased as much even if our capital ratio has increased.

Operator

We have a follow-up from Darko Mihelic with RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Apologies, I'm still hitting that mute button a little too often. I just wanted to come back to one last question. Maybe you can help me understand something just from a technical perspective, Jacques, on the URR under IFRS 17. It's my understanding that it's frozen until October of 2023. But it is a URR that's way out there, like year 70. And so my suspicion is that I think that the maximum move is 15 basis points either side. My suspicion would be that if you're going to change it, they're going to change it by 15 basis points either side. So first is, can I just take your 10 basis point sensitivity and consider it linear? And secondly, is there still a chance that the URR can be changed before implementation? Because my understanding is people really want to change it. But maybe you can just give me some ideas there on the URR.

Jacques Potvin - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

The only thing I can say, Darko, at this point is that sensitivity of URR under IFRS 17 would be different from what we are showing under IFRS 4. And about the setting of URR, my understanding is that it is set like you said, and we will see where it will it go. And here, we're really speaking, not about the URR of iA, we're speaking about the CIA,I suppose you're speaking about the CIA guideline here, but I don't know. I'm not close enough to that to see what will happen there.

Operator

Mr. Ricard, there are no further questions at this time. Please continue with your presentation or closing remarks.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes, I'm not sure if I should talk about IFRS 17 in my ending remarks. It's been a great discussion today. Well, the one thing I would like you to keep in mind is that in my career, it's the third time that we're changing accounting regime. And each of these 3 times, I mean, the company has adjusted and accounting is accounting. The true value is really through the pricing of our products, the management of the company, management of the investment strategy. And this is what we're doing. We've been doing that forever.

So I think the investors should be reassured that we can see today that going forward, even under IFRS 17, our main metrics are in good shape. So I think that's the message I would like you to understand today. That includes the fact that we've increased the core ROE target from, I mean, to a range of 13% to 15%, which is a great achievement.

So with that said, thanks a lot, guys.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Have a great day, everyone.
