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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance First Quarter Earnings Results 2022 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, May 12, 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 IR*

Thank you, Frank. Good morning, and welcome to our first quarter conference call. All our Q1 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'll 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 morning, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending 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; Renee Laflamme, in charge of Individual Insurance and Savings; Sean O'Brien, responsible for our mutual fund business and wealth management distribution affiliates; Francois Blais, in charge of Dealer Services, Special Markets, and iA Auto and Home; and finally, Eric Jobin, responsible of our Group businesses.

I will begin today's call by looking back at some of the events of the first quarter, including the invasion of Ukraine by Russia. Today is the 78th day of this war, which creates geopolitical uncertainty and, most importantly, human suffering. We're all affected by this situation and some of our clients, employees, distributors, and partners of Ukrainian or Russian descent are more personally impacted. It was therefore important for us to do our part, and this is why, in addition to a significant donation to the Canadian Red Cross, we joined a group of Quebec companies that will provide employment opportunities and means of subsistence to Ukrainian immigrants. In addition to these human repercussions, this crisis has had many impacts on the economy. Among other things, it has exacerbated an already volatile macroeconomic situation with high inflation and rising interest rates, and further disrupted supply chains.

Moving to Slide 7. It is in this context that we're reporting core EPS of CAD1.79 today. This result does not meet our expectations, and that's why we are taking action to improve profitability for the coming quarters. We are agile. There are things on which we can act, and that's what we are doing. Another key indicator of profitability is core ROE. At 14.1% over the 12-month period ending end of March, it was slightly above the middle of our target range of 13% to 15%. As for sales, in most sectors, they remained strong in the early months of the year. As a result, we ended the quarter with a very solid CAD4.4 billion in premiums and deposits. Assets under management and administration were up 6% from last year, driven by net fund entries for both seg and mutual funds. These results clearly demonstrate the merits of our diversified business model as, in addition to synergies, our complementary businesses are not affected in the same way by external factors. Thus, while in the short-term, Dealer Services sales may still be slowed by the low vehicle inventories and the wealth management industry affected by market volatility, business growth in our other sectors and divisions should remain good.

Our financial position continues to be robust as evidenced by our solvency ratio of 132% in our distinctive protections. Our financial strength, which is the result of our sound and prudent management, and our long-term vision is all the more important in the current context. Together with our strong business growth momentum, it is a testimony to our ability to succeed in evolving environments.

With an increased focus on expenses given the high inflation, we will continue to grow the business with the goal of creating long-term value for our shareholders. In particular, we continue to move forward with our digital transformation while preparing for the transition to the IFRS 9 and 17 accounting regime.

This ends my remarks. I will turn it over to Mike who will comment further on business growth. Following Mike, Jacques will provide more information about Q1 results. Mike?

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

Thank you, Denis, and good morning, everyone. In Q1, business growth momentum continued with strong sales, particularly in Individual Insurance and segregated funds. Diversification makes our business model resilient, in addition to delivering synergies and competitive advantages to other units. As a result, our sales were strong during the quarter, building on the momentum from 2021.

Now please refer to Slide 10 as I will comment on Q1 business growth. Thanks to the contribution of all sectors, premiums and deposits totaled more than CAD4.4 billion during the first quarter, a strong result, close to the record achieved in the same period in 2021. Assets under management and administration grew by 6% year-over-year, powered by net fund entries for both segregated funds and mutual funds. Note that the growth of AUA and AUM for the remainder of the year might be tempered by the volatile macroeconomic conditions.

In Individual Insurance, sales for the first quarter totaled CAD101 million, continuing the strong momentum of recent quarters and leading to a significant year-over-year increase with more than 85% of the quarter sales in capital-light products. Growth was supported by the strong performance of all of our distribution networks, our superior digital tools, and our competitive range of products, including the success of our PAR products. While remaining true to our mass/mid-target market, the increase in average premium per policy sold is also a factor that contributed to the significant increase from a year earlier.

Now turning to Slide 11 for Individual Wealth Management. New records were set in the first quarter for segregated funds with gross sales of CAD1.5 billion, up 9% year-over-year and impressive net sales that surpassed CAD1 billion. With these results, the company ranked first in Canada for gross and net sales, solidifying its strong leading position in the industry. As with Individual Insurance sales, distribution networks and digital tools have been key to our success. In mutual funds, in the context in which the industry is experiencing a slowdown, the company recorded good results with net inflows of CAD83 million and gross sales of CAD691 million. Lastly, guaranteed product sales for the quarter amounted to CAD239 million. In Group Savings and Retirement, strong sales of CAD625 million compared with a very strong quarter of CAD693 million last year.

Turning to Slide 12 for Group Insurance. Good retention of in-force business and employee plans division led to premiums to increase by 12% year-over-year. As for sales, they totaled CAD11 million during the quarter. In Dealer Services Canada, total sales of CAD298 million increased by 29% from a year earlier, a very good performance in the context of vehicle inventory shortages driven by P&C insurance sales and car loan originations. In the Special Markets division, the pickup of travel insurance sales led to a significant year-over-year increase of 57% from the same period a year earlier. For iA Auto and Home, our P&C affiliate, direct written premium continued their steady growth and increased by 5% year-over-year.

To complete my comments, I will turn to Slide 13 for U.S. operations. Insurance sales of CAD33 million were up 6% year-over-year, mainly from the growth in the family and the government worksite markets. In the Dealer Services division of our U.S. operations, sales for the first quarter were 4% higher than a year earlier, which is a good performance considering that the dealerships are being more heavily impacted by the new and used vehicle inventory shortages than in past quarters.

Overall, we are pleased with the sales results for the beginning of 2022 with some areas of very strong growth. I will now turn it over to Jacques to comment on Q1 earnings and capital strength.

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

Thank you, Mike, and good morning, everyone. The profitability of the first quarter was not as high as desired. This is essentially due to 3 factors: macroeconomic variations, inflation, and statistical fluctuations in policyholder experience. These factors do not affect our fundamentals, which remain strong and present.

Starting with Slide 15, which compares our results with the guidance that was provided at the beginning of 2022. With the exception of core EPS, which is below the Q1 target range, all other metrics are in line with or better than guidance. Core ROE is in the middle of the target range and is a smooth reflection of recent quarterly profitability. Also, organic capital generation was good again this quarter.

Slide 16 compares core earnings to reported earnings. Non-core items adjusted from Q1 reported earnings include charges related to recent acquisitions, which were lower than expected this quarter, in addition to CAD0.17 for unfavorable market-related impacts.

Slide 17 presents the source of earnings for the first quarter on a core basis. Expected profit was 10% higher than a year ago on a reported basis and 9% higher on a core basis. Please note that the expected profit on in-force growth by line of business may vary significantly from quarter-to-quarter, primarily due to revised seasonality and to the recent evolution of business. In these cases, the expected profit on in-force growth usually stabilize throughout the year to reach the targeted annual growth by year-end. Additionally, expected profit on in-force for the wealth management sector is updated quarterly to reflect changes in the stock market and net fund entries.

Looking at experience gain and loss now in the first quarter. We had CAD0.09 experience loss due to unfavourable policyholder experience, which we consider to be temporary deviation. In addition, as we continue to invest for the long-term growth of all our businesses, expenses were higher than expected, primarily due to higher professional services in an environment of talent scarcity and high inflation. Strain on new business was within our target range, only slightly higher than expected. This result does not take into consideration the first quarter increase in long-term interest rates. However, the Q1 interest rate increase will be factored into the strain calculation for the remainder of 2022. Income on capital was higher than expected with a positive contribution from iA Auto and Home and higher investment income. Finally, the tax charge was lower than expected. As a result, core EPS for the quarter was CAD1.79.

As shown on Slide 18, additional mortality claims during the first quarter were higher than the additional temporary COVID protection in Canada, but they were lower in the U.S. The extra mortality in Canada was recognized in the result as an experience loss, whereas the excess provision in the U.S. is carried forward. This favourable impact was therefore not recognized in the Q1 result. As for the additional protection for policyholder behavior, it remains intact.

Moving to Slide 19. Our solvency ratio stands strong and comfortably above our target range at 132%. Also, the solvency ratio continues to be supported by ongoing organic capital generation, which totaled CAD100 million in the first quarter.

The different metrics presented on Slide 20, combined with our solid solvency ratio, are indicative of our robust overall financial position. In particular, our distinctive macroeconomic protections are worth the equivalent of 8 percentage points added to our solvency ratio. Also, the macroeconomic sensitivities of our ratio has been updated and they remain low, as presented on Slide 37 in the appendices of the slide deck.

I now refer you to Slide 21. As we mentioned at the beginning of this year, we are already managing the company on the basis of the upcoming IFRS 9 and 17 accounting standards. We want to provide you with an update of the outlook at transition communicated last February. As you know, the underlying economics of our company under the new accounting regime will remain the same as today. A different accounting regime simply looks at the results through different lens. In this sense, we can say today, based on the currently available information, that the first quarter results will have been better under the lens of IFRS 9 and 17 compared to the current regime. Therefore, the changing environment during the first quarter, mainly the rise in interest rates, has reinforced our confidence in the quality of our balance sheet at transition as well as in our outlook. In summary, we still expect impacts ranging from near neutral to favorable for all 6 key measures presented on the left side of Slide 21. This outlook remains preliminary and is subject to the economic environment, taxes, and capital formula. Our favourable position is mainly the result of our long-term management approach and sound risk management.

Slide 22, one last comment on IFRS 17 on Slide 22. We posted this morning on our website an information capsule to explain some basic IFRS 17 concepts. This capsule is available in French and in English. There will be additional education initiatives related to IFRS 9 and 17 and their application to iA later this year.

I will conclude by mentioning that with our robust balance sheet, strong capital position, and good organic capital generation, we have a stable foundation to pursue our growth strategy in an environment of macroeconomic variation, and high inflation. In addition, for a financial institution with long-term obligations such as our, the recent rise in long-term interest rate is a very positive development that creates value for shareholders, even if the benefits are not immediately reflected in the results.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Gabriel Dechaine with National Bank Financial.

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

Yes, just a quick one on the expenses. I get the causes for the deviation there. I'm just wondering, is this something that you do view as transient like isolated to this quarter because it sounds like it could persist for a little while as far as the needing consultants and wage inflation and things of that nature.

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

For sure. Gabriel, it's Jacques. Certainly, you're speaking about the trend here. And like Denis mentioned, we are transforming. We are on our journey to the digital transformation. So it's putting some pressure. So we will certainly continue to manage our expenses in a way that we would get value for the project we're working on, as well as being mindful about the operation we have. And when I look at the differences in experience loss, you can notice that it's mainly for the shortest line of business that we have the largest differences, because we had good growth in the other lines of business. So having more expenses to support growth for us is not an issue whatsoever. And for the other one, you have pricing power to pass some of those expenses. So for the moment, we are fine with that. And on long-term, if we believe that, I would say, inflation is there to stay for a long time. It would just continue to have impact on long-term interest rate, which is very positive for us.

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

Maybe one thing, Gabriel. This is Denis. Maybe one thing that I would add is the good news about expenses is that it is under the control of management. So this is something that we're looking very closely. We already had in our guidance some kind of inflation that was already embedded. There were some additional costs during the quarter, like people on contracts that was a bit more expensive. But the good news, again, is that we're looking at our investments and making sure that they deliver on the benefits that we expect from them.

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

Well, okay. It sounds like you can manage it but maybe not in the very near term, like Q2 or Q3, whatever. But if I look at that trend with markets falling, in the amount they have so far this quarter, how are you thinking about your full year guidance at this point for EPS?

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

You're totally right, Gabriel, for the wealth division, like any company operating in that space, there's pressure on the revenue for the rest of the year for sure. The thing, though, is that we have a blip, we had negative experience during Q1, but most of them,almost all of them, we think they are blips for the moment. And even in April, we already have some positive experience for some of those that have performed poorly in the first quarter. So when you speak about guidance, minding the pressure on the market for the other business, we still believe we will be able to deliver within. That's what we're aiming for. So that's where we are.

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

And Gabriel, I would refer you to, we have one slide, I think it's Slide 35, which shows the sensitivity. So I guess it will give you the proxy as to how the market could affect our profit.

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

Okay. And just to put a fine point on the IFRS 17, your book value of CAD61.04. If you were under IFRS 17 today, you'd be very close to that number, maybe a bit above, maybe a bit below, but not materially different?

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

You're speaking about the book value, so I will encourage you to look at Slide 21. So Slide 21, we're providing for 6 metrics what we are expecting there. And you can see there that near neutral to favourable for the book value and all the other. So we're still positive on that.

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

That's it for me.

Operator

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

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

Just going back to Slide 19,or no, pardon me, Slide 17, where you talk about unfavourable policyholder experience. I think Gabe covered some of the CAD0.05 in the higher expenses you got in the quarter and how sustainable those are. What about this CAD0.09 in unfavourable policyholder experience? It seemed to be related to like morbidity and lapse in individual life, mortality and long-term disability in dental with respect to group. What gives you the impression that this is mostly statistical fluctuations? And how should we be thinking about these items, which probably caught everybody off guard in the quarter? What is your impression of the sustainability of those kind of higher charges?

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

So maybe, Jacques, you can comment on mortality and the lapse assumption and maybe leave Eric on the disability side. Yes, you can go on.

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

Okay. Actually, yes, there's fluctuations, statistical fluctuation, and we have to go back maybe in Q3 and think about that all the stars were aligned and we have positive experience on almost all assumptions. And this quarter, it's like that it's the reverse has been aligned, and most of them have been negative. So it's normal that we have such fluctuations, statistical fluctuation. But for us, I don't see at this point in time that there are trends that are developing, okay? It's very early in the year to see that.

And when we look at the mortality for sure, our financial statement has been hit by (inaudible) during the quarter. Mortality in Canada was up for both Group and Individual. But in the U.S., it's been positive, and the positive has been carried forward. So CAD0.02 has been carried forward for the future. So the net-net for mortality is just a CAD0.02.

You spoke also about lapse. Lapse was quite great during the quarter, so in line with expected. What happened policyholder behavior is more, I would say, additional premium -- excess premium that are put on in-force business has been lower than expected, some more changes from nonsmoker to smoker, some face amount that has been changed. So those were things that has affected the policyholder behavior during the quarter. Will it be something that will repeat? I don't believe so at this point. I see the first quarter really as being a blip.

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

Okay. And then, Denis...

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

On disability, Eric, do you want to comment.

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

Yes, pardon me. There's one more to follow up with the LTD, sorry.

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

Yes. Quickly on disability for Group Benefit. Remember, in Q4, I mentioned that the stars were not aligned and all. The parameters went in the wrong direction, but I was confident that things would improve. And that we saw in Q1. Despite we still seeing a loss, all the parameters on long-term disability improved. Incidence is going down slightly. The termination rate is going up slightly as well. And we still see short-term disability to be stable. And that's very good news for the future of long-term disability because it's a good forecasting indicator of future experience on long-term visibility.

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

Okay. And I think, Denis, you started the call by saying you're not happy with the results and you're taking actions to improve profitability. Maybe you can elaborate on what you're doing here because it seems like some of the, expected profit was in line. And that's usually a good indicator of good visibility in earnings growth. So what actions are you taking here to improve profitability? And what about capital generation? Are you still on track for your CAD450 million to CAD525 million target for the year?

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

Yes. Well, in terms of initiatives, I would say that the one that we have the most control is really about expense. So being disciplined on the expense side is the most important initiative that I guess that we're going to take. In terms of capital, we're happy about our capital generation. We generated CAD100 million this quarter, and we're in line with the target for the year. So quite happy about that.

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

So it doesn't sound like there's any action in terms of lapsing unprofitable group business or changing your underwriting stance with respect to individual life or any of those kind of things.

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

Sorry, I interrupted you. Sorry, you can go on.

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

Yes. So it doesn't seem to be any changes in your business mix or lapsing unprofitable groups or anything like that. It's just really just sharpening your focus on the expense line. Is that really the actions to improve profitability?

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

Yes, because I guess the other ones are really part of our business anyway. This is continuous improvement that we're making in terms of profitability. We are fine-tuning products. We do that all the time. That's what we're doing basically. But on top of that, and it's on my personal radar, is to make sure that on the expense side that we are disciplined.

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

Okay. And you're still on track for your guide for capital generation CAD450 million to CAD525 million?

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

We are, yes.

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 continuing on the expense discussion. Just wondering if you could go into more detail in terms of where you feel you can generate expense savings. Are we talking about taking projects and scaling them back or even delaying them? How far do you expect to go in terms of trying to get expenses back in control here?

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

Okay. So let's say first, we should not conclude that expenses are not in control. I just want to emphasize that. It's more the fact that -- I'll just go back to the strategic plan that we are executing right now. We've tabled that plan in 2019. It was a 4-year plan. There were a lot of initiatives, massive investments in digital to improve our operations. And what we realized basically is at the end of the day, sometimes when you have so many of those initiatives, it can create some bottleneck in some areas. So I guess what we're trying to do here is to make sure that we prioritize those projects so that they deliver the value, and we're not stuck in bottlenecks in some areas. So I guess it's efficiency in the execution. That would be the way I would describe what we're doing here.

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

Okay. And in terms of the auto business, still suffering from a lack of supply. But are you seeing any sign, especially partway through Q2 that demand is weakening? Any concern about that? Obviously, the market is starting to worry more about recession. And so I guess a more fundamental question is how does that business perform in an economy that is decelerating? And what's your view of that, specifically the U.S. business in particular?

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

Meny, it's Mike Stickney. We don't see any signs of slowdown. Obviously, it's slower than we would like, but it's running flat right now is my take on it. We keep hearing reports of improvement in chips supply, I guess, and inventories probably in the second half year and into 2023. So right now, we're not seeing it. I think there's pent-up demand for cars. And even if there is somewhat of an economic slowdown, I don't see it affecting us that much.

Operator

Our next question comes from Doug Young with Desjardins Capital Markets.

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

I guess this is for you, Mike. We hear about car sales being down 20%, 30% and used car sales being down. And it's always tough to get a sense of how that impacts the U.S. extended vehicle warranty business. But I do see in the U.S., the dealer service sales are up 4%. So it seems to be a bit different than the underlying trend. So I'm just hoping you can give a little bit more color what's driving the sales increase, if you can break that down a little bit more.

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

Sure. Yes. Obviously, there is a slowdown in sales. But offsetting that is a couple of things. One is that and this is normal when things slowdown in the automotive market is the dealers' penetration of insurance products picks up. They've got more time to sell insurance products basically, and they want to make some money. And then secondly, we've been picking up some new accounts along the way, which obviously helps as well. So basically, any of the slowdown we're feeling or seeing, we're able to offset with these 2 things.

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

And can you maybe just flesh out the penetration rate, like what is the revenue you're seeing per car sold, like what it would have been last year? Because I've heard that, and I'm just trying to get a sense of how meaningful that is.

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

It's very meaningful, but I don't have the numbers at my fingertips. But it's something dealers measure monthly and try to improve it regularly. So it's a key performance indicator in the dealer environment. And it is that for our salespeople, too. Part of the role we play is we help measure that for them and do whatever is needed to help improve training or whatever. So it is very key in the business.

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

And then you say you're picking up new accounts. Can you talk about, I assume that's new dealerships or dealership groups. Can you talk about the pickup or the increase in the number of dealers that you're dealing with?

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

Yes. I was just in a meeting over this. We mostly measure it by additional revenue. And so it's, last quarter, I can't remember exactly, but let's say, 3% to 5% in terms of revenue. It was a very good quarter. And it's something that we obviously are trying to grow every quarter going forward.

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

Okay. And then maybe just quick for Jacques on the profitability. And I apologize, I think I'm doing the numbers right, but I may not be. But if I start to back out all of the unusual items or I know you don't back out all the experience, but if I backed out the experience and the expenses, I'm not sure I'm getting into the profitability range or the guidance range that you talked about for the quarter, or else it would be at the lower end. And so I'm just wondering, even backing out some of this experience items, like is there anything in addition to the expenses and the policyholder behavior, is there anything else that's been weighing on the profitability?

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

I will guess it's the market-related impact, minus CAD0.17 on the reported because if you remove that, you will end up certainly within the guidance. Yes, on a core basis, if you adjust for the experience loss and the expense, you will be way within the guidance for sure.

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

Okay. I must be missing something here. So I apologize. That's it for me.

Operator

Our next question comes from Mario Mendonca with TD Securities.

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

This question is for Jacques. I don't think a call is necessarily the right place to ask you to go through your entire Q4 '22 assumption review. But there are some really important directional things we have to consider. In Slide 26, you demonstrate that the effect on net income from a 10% parallel variation in rates, so this is the IRR, would be a CAD25 million charge or a 10 basis point increase. We know, of course, that Quebec 30 years is up about 140 basis points. So we're looking at a very significant hit if you were to adjust just the IRR. It could be upwards of CAD300 million, CAD350 million, very significant for Industrial Alliance. So Jacques, what would be helpful from you is if you describe all the things that could go towards offsetting that, like, for example, could there be a change in the URR? Are there excess mortality reserves, investment income? Like could you change your investment portfolio to offset that? Expenses, so again, I'm not asking you to go through our entire assumption review, but help me understand where the offsets are.

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

Actually, that's a pretty great question, Mario. You're totally right that when we look at basis change, it considers everything and management action on the investment strategy is certainly part of it. And that has been a big part of our business change over the past few and recent years. However, I would say that 2022 is a different year for one reason because we said it at the end of the Q4 call -- during the Q4 conference call, we're transitioning to IFRS 17. And it is very important today to acknowledge 2 important elements. The first one is that the underlying value, the economic value of iA, just think about long-term interest rate, where they were at the end of the year and where they are today. The pressure on URR that was existing that is nonexistent right now it just increases the value of iA. However, because of the accounting rule, I don't expect CIA to increase the URR at the end of the year. So it won't be available under IFRS 4. But what will be really important at the end of 2022 will be the balance sheet under IFRS 17, IFRS 9.

And what happened in Q1 has been positive. Actually, our metric has improved during the quarter. We will see over the year how they will evolve, but we have made move on our investment strategy that we knew will create volatility and fluctuation under IFRS 4, but we had the protection, the macro protection that were there to sustain and absorb part of that volatility. But the thing is that it prepares and it protects the balance sheet under IFRS 17. So if I have, if ever, okay, considering everything, I need to strengthen the reserve for interest rate, at the end of the year, it will completely reverse and come back in the book value under IFRS 9, IFRS 17. So this is the most important thing for us.

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

That's an important point for me. So the trouble that we have with it is when the company reports Q4 '22 results, assuming nothing else changes and you were to adjust for it, there would be a big charge. We all know that one day later, January 1, 2023, it's back to somewhat, it's back to normal because of the construct of IFRS 17. How do you present this so that you don't have a really abrupt reaction to this what would almost invariably have to be a significant hit on that final day of the year?

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

Actually, there's a big, big if in what you're saying, Mario. And if ever we get there, because I think protection are quite good as we speak today. And if ever we go there, you can be sure that we will disclose IFRS 17 at the same time. So we will show the full picture because what's important for our shareholder is really to work with the long term. It's a long-term business. We're there to protect, to be there to pay the claims to our client in the future. We are very proud to have moved our investment strategy, and that's what we should continue to do. So that's the way we will go about it, Mario.

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

Okay. So I understand that. One final thing then. What is it about the IFRS 17 regime or policies that would result in that potential book value, and I understand there's a big if here, but that potential book value hit associated with the increase in the IRR, what is it about IFRS 17 that would allow that to come back in?

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

Yes. I would say,I will answer it differently. I would say what's not in IFRS 4 that create that issue? And what is not in IFRS 4 is really the fact that the URR pressure is completely off. At the end of the year, the interest rate long term was at 1.80% and URR at 2.85%. So a headwind, potential headwind of 100 bps. When I look at the rates last week, they were at 3.05%, so a positive 20 bps. And for us, it's worth a lot of money. It's, I believe, after-tax something like CAD55 million, CAD60 million after-tax value. So IFRS 17 is recognizing some of that value. So that's what is really happening here.

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

Got it.

Operator

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

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

My first straightforward question for Jacques is, if you use the more current interest rates during the quarter for strain, what would the impact have been?

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

For Q1, if I recognize, the interest rate at the end of March, it would have been CAD0.05 on the first quarter, and interest rate has continued to improve for Q2. But at the same time, there were some pressure, competition pressure on term products. So we have adjusted our price. So net-net, even for Q2, I'm really expecting a positive in those same kind of magnitude.

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

You mean the repricing is another CAD0.05?

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

No. The repricing, it's repricing for competition. So it means that it will increase the strain. However, interest rate has increased even more to compensate for it. So that's why I think that net-net, -- the 5% of Q1 should be added, that should be a little bit higher than CAD0.05 for Q2. That's what I would expect.

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

Okay. Great. And then now just a more fundamental business question. I think this is for Denis and maybe even for Mike. The CSA and the CCIR put out something for comments. And it effectively looks like for the seg fund industry, it looks like CRM2 [went through with] mutual funds. First thing is then, do you think it's a good idea, the new disclosure requirements?

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

Actually, this is a discussion that has been going on forever. And the answer is yes. I think it's good for the customer. The industry is supporting the disclosure. But the reality is that the industry also wants, the insurance industry wants this amortization with the mutual fund industry to be done at the same time because on the mutual fund industry, they're talking about total cost disclosure, whereas right now, it's like a partial cost disclosure. And so whenever the total cost disclosure is effective, and we still don't know exactly when, we'll be 100% behind the idea of disclosing it to our policyholders.

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

And Denis, in advance of CRM2, many banks and other mutual fund players preemptively lowered their expense ratios, their MERs. Do you suspect that something might happen here as well with the seg fund industry?

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

It has already happened because, obviously, pressure comes from all over the place, from distributors, from clients. And so it's not the disclosure that has really been the trigger. It's more the fact that there's been innovation in the industry like ETF and products like that. So it has nothing, as far as I'm concerned, I don't think it's a big issue.

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

So you don't expect any real big pressure on MERs in seg funds for the next 3, 4 years?

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

The pressure has already been there. So I don't expect additional pressure than what we already had got.

Operator

Our next question comes from Scott Chan with Canaccord Genuity.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Maybe just a follow-up question to Darko's question on strain. Jacques, is it typical that you don't factor in interest rates? Or there's a lag effect? And I guess in terms of timing, are you still on track for your [0%] guidance for 2022?

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

I would say that when we calculate the strain, I want to make sure that I'm very confident that the interest rate at the end of the year will be the one that I'm using every quarter. So when we close our book for Q1, I was not completely certain about the recent rise in interest rate. But with the last movement of the Fed and everything that's been said and thought about that, I feel pretty confident now to recognize it. So that's really my mindset about that. I just want to make sure that I'm giving the strain according to the [year-end] assumption. So yes, we're still quite confident about the guidance still.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Great. And maybe just lastly for Denis. Just in terms of capital priorities, lots of changes intra-quarter in the public markets and your stock price. And just wondering an update in terms of priorities, maybe specifically towards your NCIB program and M&A opportunities?

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

The priority has not changed. First and foremost is organic growth. Our business model not affected by what's going on in terms of macroeconomic environment right now. We're having great sales and growth. So that's really the priority at first. We're looking at acquisition all the time. And if we have an opportunity, we'll get into that. Dividend, we have our target range. And lastly is the NCIB, but I must admit to you, with the crazy price that our stock right now obviously, the NCIB is something that I guess it's being bought right now as we speak, based on the price that we're seeing. So whether or not we're going to be more aggressive in the future, we'll see. But at the current price, certainly it's a great deal.

Operator

Our next question comes from Paul Holden with CIBC World Markets.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

A couple of quick ones. First, you mentioned increased competition impacting strain. So wondering if you could talk about which products are being impacted by the increased competition and where that increased competition is coming from.

Renee Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

Yes. This is Renee speaking. The increased competition is mainly in the term products. So we have seen adjustments in pricing. And as Jacques mentioned, we did our adjustment as well. Still being very disciplined and well positioned in every cohort of pricing. So this is where the pressure is coming mainly in the marketplace right now.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And is that coming mainly from existing large competitors? Is that fair?

Renee Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

It's a fair statement.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Yes. Okay. Great. And then I wanted to ask a follow-up question with respect to the seg funds obviously an important piece of the growth story for iA for a number of years now. I'm wondering if you can give us a good sense of what proportion of your sales in AUM is with affiliated distributors versus third-party channels.

Renee Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

This is Renee speaking, again. You know we're very strong in all our distributors. So we don't necessarily would give the proportion of who's selling what. But there's no high dependence, I would say. So independent advisers as well as more affiliated advisers are contributing to the growth. So I hope I understand your question properly.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Yes. Well, I'm just trying to get a sense with the regulatory changes taking place as well as also I think DSCs are going away very shortly. My view would be to the extent you're selling it through affiliated distribution, you have a little bit more control over how the channel handles the additional disclosure as well as the ban on DSC. So if you have any additional thoughts there would be helpful.

Renee Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

Well, I can start, and I'm sure that Denis would have a view on this as well. Of course, with our affiliates, we do have different strategies that we can deploy, and they will sell our product. But again, this is not, it will definitely have an impact. The DSC does not have a big impact, but other banning of upfront charges could have an impact.

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

Yes. If we go back to the banning of the DSC, which is to be effective June 2023, the market will adjust to that. And I think the industry is okay with that. The other consultation that the regulators are making is about the high and low type of commission on those products. It's for consultation. As we know, the regulator is having consultation next fall. And the industry will make its case that the access to the adviser to advice is very important. And the whole distribution model and the whole model in the Canadian industry is such that a large proportion of sales come from those high-end low commission. And hopefully, we're going to have some good discussion with the regulator on that. We'll see.

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*

So thank you all for all your questions. I think I'm going to summarize at the end with saying that when I look at what's happening right now in terms of volatility in the market, for us, really, there's no change in our business model. We continue to be focused on what we need to deliver. We have a long-term vision. So we are quite confident in our business and our outlook, especially in the IFRS 17 context. We're very pleased of our position where we are. We've renewed our positive outlook. You've seen that we've got a very great financial strength in terms of capital position. And lastly, in terms of growth, we've been able to deliver, and we'll continue on delivering our growth, so that we are still committed to our 10% EPS growth going forward. Obviously, sometimes there are ups and downs for volatility, either in the contingencies or in the market. But at the end of the day, we've delivered in the past and confident we will in the future. So thank you all, and have a great day.

Operator

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