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IAG.TO - Q3 2022 iA Financial Corporation Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2022 / 7:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

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

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

## PRESENTATION

### Operator

Greetings, and welcome to the Industrial Alliance Third Quarter Earnings Results Conference Call. (Operator Instructions). As a reminder, this conference is being recorded on Wednesday, November 9, 2022. I would now like to turn the conference over to Ms. Marie-Annick Bonneau, Head of Investor Relations. Please go ahead.

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### Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

Good afternoon, and welcome to our 2022 third quarter conference call. All our Q3 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 the 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.

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### Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Chief Executive Officer*

Good afternoon, 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 US Operations; Alain Bergeron, Chief Investment Officer; Renee Laflamme, in charge of Individual Insurance and Annuities; Sean O'Brien, responsible for mutual fund business and wealth management distribution affiliates; and Eric Jobin responsible for our group businesses. We reported good Q3 results this morning, as illustrated by the key metrics on Slide 7. Core ROE of 13.8% is well within guidance and core EPS of \$2.29 is 3% higher than last year and only \$0.01 shy of Q3 guidance. These results are quite good, especially in the light of the lower financial markets that are affecting the wealth management businesses. During the quarter, sales momentum continued in most business units, particularly in individual insurance. Also, our individual wealth management sector posted net fund entries, a noteworthy performance given the current challenging environment for this industry.

Our capital position remains robust and stable at 130%. In addition to our sound and prudent management approach, a key factor in the stability of our solvency ratio is our steady and strong organic capital generation, which amounted to approximately \$160 million in the third quarter. Our financial strength provides a solid foundation for the further execution of our growth strategy. To support our future sustained growth, we must evolve with the changing environment. With this in mind, a few years ago, we began a transformation project with an important digital focus. The experience of our clients, employees, and advisers is at the heart of this transformation, which will enhance business growth, client experience, and efficiency. In carrying out this transformation, we are progressing with both business development and back-office optimization initiatives, ensuring that we prioritize based on the value created and remain focused on proper execution.

In addition, in order to provide employees with a state-of-the-art experience based on the flexible approach to the workplace we have over the past few months, redesigned our offices to create an environment with improved technology that encourages collaboration and contributes to an engaging and productive employee experience. Our innovative approach and redesigned work environments are a definite advantage in attracting and retaining talent. I will conclude with a few comments on the share buyback program. When it comes to capital deployment, we prioritize iA's growth, both organically and through acquisitions, but recognize that buying back shares opportunistically is an effective way to increase value to our shareholders. Therefore, we announced this morning the replacement of our current NCIB program with a new program that would allow us to buy back up to an additional 5% of shares through November 13, 2023. This ends my remarks.

I will turn it over to Mike, who will comment on business growth. Following Mike, Jacques will provide more information about Q3 results and our capital strength. Mike?

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

Thank you, Denny, and good afternoon, everyone. Our solid relationships with distributors are an important success factor for business growth. This distinctive strength is even more valuable in times of economic volatility and is a key reason for our continued growth momentum in the third quarter. In particular, individual insurance sales remained very strong, and we recorded positive net sales in individual wealth management. Now please refer to Slide 10 as I will comment on business growth during the third quarter. Premiums and deposits amounted to \$3.3 billion in Q3 compared to \$4.1 billion a year earlier. The unfavorable variation is due to the individual wealth management and group pension sectors as the wealth industry is facing a challenging macroeconomic environment.

All other lines of business recorded a respectable year-over-year increase. As at September 30, 2022, assets under management and administration of \$196 billion compared to \$214 billion last year were also adversely impacted by market volatility and rising interest rates. Third quarter individual sale -- individual insurance sales totaled \$93 million, an increase of 37% over last year. With these strong results according to the latest industry data, iA remains the leader in terms of the number of individual insurance policies issued in Canada. Once again, this quarter, growth was driven by the strength of all of our distribution networks, our high-performance digital tools and our broad range of products, including our part products. We also observed an increase in average premium per policy sold over the same period last year.

Moving to Slide 11, where I will comment on individual wealth management. The company continued to rank first in Canada for gross and net segregated fund sales, reinforcing its leadership position in the industry. Gross sales totaled \$782 million and net fund inflows of \$344 million were recorded despite a difficult macroeconomic environment for the industry. Mutual fund results in the third quarter were also impacted by market conditions with gross sales of \$306 million and net outflows of \$171 million. Lastly, sales of guaranteed products amounted to \$326 million, up 52% year-over-year as customers tend to turn to cash-equivalent products when markets are volatile. For Group Savings and Retirement, Q3 sales were also hampered by the macroeconomic environment and totaled \$482 million compared to \$810 million last year.

Turning to Slide 12 for group insurance results. In the Employee Plans division, premiums were up by 11% compared to the third quarter last year due to good retention of in-force business. While vehicle inventories continue to be low, Dealer Services Canada sales of \$301 million were in line with last year's level. Of note, sales of P&C products were up 17% year-over-year. In the Special Markets division, the recovery in travel insurance sales led to 60% growth over the same period last year. At Ai Auto and Home, our P&C affiliate, direct written premiums registered an increase of 5% year-over-year.

Going to Slide 13 for our U.S. operations. Sales in the individual insurance division amounted to \$35 million and were up 3% year-over-year, mainly from growth in the family market. In our US Dealer Services division, sales amounted to \$261 million compared to \$295 million for the same period last year. This result is primarily due to low retail sales of new and used cars, which both continued to decline year over year, especially for retail used cars.

Overall, we are pleased with the sales results for Q3 which demonstrate once again the robustness of our business model.

I will now turn it over to Jacques to comment on earnings, capital strength and IFRS 17 outlook.

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

Thank you, Mike, and good afternoon, everyone. Today, we are reporting good third quarter results despite a challenging market environment for the Wealth Management businesses and adverse weather conditions impacting iA Auto and Home. Starting with Slide 15. Core ROE is around mid-target and core EPS is near the guidance range for the quarter. On a year-to-date basis, Core EPS is well within guidance. Other metrics are in line with or better than guidance. Given this result and the impact of the low market level on the wealth business profitability, we expect core EPS to be within guidance for the year, most likely in the lower half of the target range. For the same reason, we expect Q4 core EPS to be around the low end of the quarterly guidance.

Slide 16 reconciles core earnings with reported earnings. Non-core items adjusted from Q3 reported earnings include the usual adjustments for market, acquisition and the pension plan. In addition, 3 items are noteworthy this quarter, namely the impact of a reinsurance agreement in the U.S., the book value adjustment of software, premises and furnishing and the impact of IASB decision relating to cloud computing arrangement for the first half of the year. The combined impact of these 3 items is a \$0.05 non-core gain. As a result, Q3 core EPS is just \$0.01 short of guidance.

Slide 17 presents the sources of earnings for the third quarter on a core basis. Core expected profit grew at 2% year-over-year growth at 2% year-over-year was held back by lower markets as expected profit on in-force for wealth and group pension declined significantly. Our 3 other sectors, individual insurance, group insurance, and U.S. operations together recorded a significant core expected profit on in-force growth of 13%. Unfavorable core experience, mainly due to the collateral impact of the macro environment was more than offset by favorable impact of new business, which factors into the calculation a portion of the interest rate that has occurred since the beginning of the year. Higher sales than expected also contribute to this gain on new business. Income on capital was below expectation due to the lower revenues from iA Auto and Home, which experienced severe weather events and, to a lesser extent, a higher volume of vehicle thefts. Finally, the tax charge was lower than expected due to a higher proportion of capital gains.

As shown on Slide 18, additional mortality claims were again this quarter lower than the excess mortality protection available and the additional protection for policyholder behavior remain intact. As a result, this additional protection in the reserve totaled nearly \$50 million at the end of the third quarter.

Our solvency ratio presented on Slide 19 is comfortably above our target range at 130%, which speaks to the strength of our capital position. This ratio benefits from our continued strong organic capital generation, which totaled \$160 million in the third quarter. It was also increased by the impact of the reinsurance treaty in the U.S. Indeed, we took advantage of a competitive reinsurance environment to sign a new treaty that not only generate a significant gain in Q3 but also led to a reduction in risk, resulting in a 1 percentage point increase in the solvency ratio.

Moving to Slide 20, which shows our leverage ratio of 23.4% and potential capital available for deployment of \$450 million. As a reminder, the later will be favorably impacted by the transition to the new accounting regime. As such, our flexible capital position allow us to redeem and cancel 1.1 million shares during the third quarter as part of the NCIB program. As we approach the end of the year, I would like to make 2 additional comments. First, the annual review of actual assumption has begun and will be finalized in the coming weeks. As of today, we expect the impact of this exercise on the fourth quarter results to be near neutral.

Second, moving to Slide 21. As we continue to prepare for the implementation of the new accounting regime, we still expect the impact of transition to range from near neutral to very favorable for iA. In addition, based on our most recent estimates, our preliminary expectation is for near neutral

to slightly negative impact on book value as September 30. As for the solvency ratio, as at September 30, we expect that it will be at least 20 percentage points higher under IFRS 9, 17 than under IFRS 4. Given the very strong macroeconomic variation in 2022, these preliminary estimates appear positive. We are particularly pleased with our capital position for which the outlook remains stable despite this high macro volatility.

To conclude my remarks, we are pleased with the results of the first 9 months of the year, with core EPS and core ROE within guidance in a context where market fluctuation weigh heavily under wealth management sector. Moreover, sustained organic capital generation and favorable reinsurance agreement in the U.S. have both contributed to our continued strong financial position.

Operator, we will now take questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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

First quarter -- first question for Denis or for Jacques. We've had several quarters, I would say, miscellaneous write-down to software, technology and not the office space. I guess my question is -- and I get that you're going through an evolution of technology and work from home and all this stuff, are we done with the write-downs? Or is there more that we should expect in future periods? And if you have a 2-second explanation on the IASB impact, that might be helpful as well.

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

Doug, Jacques speaking. About the write-down, we down for everything that we know now, for sure, we are down actually. The work from anywhere, like Denis mentioned, we are very pleased with the program we're putting in place. And when we look at software, I cannot say today that you know that technology evolves. And at one point in time, we may adjust our strategy down the road. But for the moment, we are very pleased with the decision we've taken and everything has been recognized. So for me, it's down it's behind us now. As for IASB, it's really a question of timing. We have to -- we used to recognize -- to capitalize expenses that we will have amortized when the benefit will be leave, would be present. But the interpretation of IASBs, we have to recognize them sooner than expected. So it's really a question of timing. It doesn't change at all the value -- the economic value of the project we're doing. So that's really it Doug.

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

And there's an expense issue or you quantified an expense hit this quarter and for next quarter. But going into next year, is there incremental expense increases that we should anticipate as a result of this as well?

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

Yes, actually, expenses will certainly increase more. You remember that at the beginning of the year, we told you that we factor in an increase in expenses because of inflation. For the SaaS, we will adjust for that for sure as well. And for the technology, we continue to ramp up our transformation. So there will be, I would say, for the next few years because of that timing issue. There will be a little bit more pressure. Like I said, doesn't change the value of the project we're doing. However, we will be under a new regime IFRS 9, 17, and we still continue to guide to an average increase of 10% per annum EPS growth considering that additional pressure on expenses.

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

Okay. And it takes me to the IFRS 9, 17 impact. And I think you talked about it, Jacques, the impact on the book value went from neutral to favorable last quarter to neutral to slightly negative this quarter. Can you talk a bit about -- I assume it's the macro developments. Can you talk a bit about what caused that flip flop quarter-over-quarter?

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

Yes. Actually, you're totally right, Doug, is really the macro. And when I look at that, and I take a step back is really were, I would say, negatively correlated to increase in short to midterm interest rate, positively correlated to increase in long-term rates and positively correlated with market movement. I'm speaking about risk-seeking assets or maybe non-fixed income asset. And here, we have a quite diversified portfolio, real estate, private placement, et cetera. So overall, when I look at that, and that's why I said in my allocution that we told you we told the market over the past quarters and years that we will be much more volatile under IFRS 17. But so far, our estimate when we look at that, I'm very pleased. When you look at the market movement this year, it's impressive that we can still achieve a solvency ratio that stayed there and a book value that just slightly, I would say, near neutral to slightly negative. So it's really macro-related, and it bodes well for the future.

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

And then just I just sneak another one in, Jacques, just the U.S. reinsurance agreement, obviously, you're upfronting the profit. I assume this is -- if you can talk about the structure of it, but I assume this is on mortality. What are you giving up in future profits from this? And obviously, from your comments that you continue to target 10% EPS growth, you're not expecting this to have a negative impact on future profit emergence, but there must be something that you're giving up to upfront that profit with this U.S. So can you talk a bit about the agreement?

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

Yes, that's a good point. And I would say for IFRS 4 regime. So just for Q4, if we still on IFRS 4, actually, it's an impact on profit of \$0.01 that we can expect a lower profit of \$0.01 coming from that. However, when we look at it under IFRS 9, 17, it will be built into the CSM. So it won't have necessarily a big effect because it would just be the amortization of expected versus amortization of CSM. So it will be very negligible year in, year out. However, when we look at those kinds of opportunities, we have to factor in, there are 3 elements at play here. There's a future profit we will have left on the table for sure. But at the same time, there's a view of the reinsurer versus our own view about Mortality and on this one, when we strike deal is because the view of the reinsurer is more aggressive than our own view. So we're very pleased with the additional profit that we were not expecting. And also, don't forget, we released capital as well. So the ROE of this transaction was really great for our shareholders.

**Operator**

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

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

First question on the non-prime, near-prime whatever you call it, the auto lending business. I see the loss rate ticked up to 2.6%. That's a trailing 12-figure. So if I try to back into the in-quarter loss rate, is it in the mid-3s, 3.5% or so if I just looked only at the quarter?

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

Gabriel, on the top of my head, I cannot answer that question. But you're right saying it's a moving average. It's a 12-month average, yes. The bottom line. Go ahead.

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

No, no. The bottom line. That's what I was going.

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

The bottom line, we're very pleased actually with the profitability of that line. And maybe one thing for that line of business that doesn't necessarily show that much because -- and I mentioned it in Q2. When I look at the overall dealer businesses, both U.S., Canada, of course, we are negatively impacted by the sales level of the U.S. It's an admin fee business. It's a fee business in the U.S. and sales are the key there. However, when we look at Canada, the price of used car is really helping. And there were provision that we have to put into our balance sheet for a litigation that can sell out. But when I remove that provision, the profit of the dealer business for the P&C claim and the profit on iA Auto finance would have been \$0.03 better than expected, which is kind of a natural hedge, I would say. So as long as used car value stay high, we will be good. So we feel really good with that business.

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

And do you expect the loss rate to move back to the 5.5% level that we saw running pre-COVID? And is that in the foreseeable future?

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

At one point maybe, but at the same time, we are optimistic, it won't go back there because we improved the risk profile of the underwriting we've taken since the pre-COVID. So we are really optimistic in regard of the fact. It will certainly continue to increase with moving out of the COVID situation. But at the end of the day, it will not go to the 5.

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

Okay. I got a question for Mike. But before I jump to him, I want to stick with you, Jacques, the write-down related to software, premises and furnishings. The premises part, it sounds like you're reducing your real estate footprint, unless I'm mistaken there, for obvious reasons. Is this -- I think you own most of the real estate that you -- in which you have offices? Or is this outside of Quebec or even Canada, it is not your own real estate that you're exiting?

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

I would say for most of them, we own them. And but for some, we don't own them. And the way I see it is like we have new spaces available for rent. So this is really positive. We don't need to invest to develop those spaces. So they are there and Alain's team will certainly work out to rent them. So it's a positive down the road.

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

So it's not a major square footage.

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

No. This is not a major at all.

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

Got it. And then for Mike, my question is on the warranty business. We're seeing the sales volumes dip that's probably going to continue. I'm wondering about something that the FTC has proposed some legislation to pretty much increase transparency of what customers are paying for when they buy a car, at least that's my read on it. Does that impact at all your outlook for warranty sales in addition to just what's going on generally on the volume side?

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

Yes. I don't see that, at least at this point, having a big impact. The FTC you mentioned having a big impact on warranty. Their focus tends to be on lending rates and disclosure of all that kind of stuff. They may pull in some, let's say, disclosure on warranty sales as well. But I personally don't see it having a big impact. Right now, as you know, the market is soft and it's, I think, gradually improving. Looking ahead, I'm actually optimistic. The OEMs are starting to produce more cars, and we're building up a pretty good pipeline of new accounts that started this year. It takes a few quarters for them to come on stream. And I guess the other factor is the price of used cars are coming down. So that should help car sales as well. But yes, it's obviously a tough market.

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

Well, hopefully, I can finally get my pickup truck.

**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

Jacques, I appreciate the near-term guidance on Q4 regarding core EPS. At this point, could you maybe provide us certain factors that gives you that new detail on the low end, maybe specific issue like strain that should be positive, but on the negative side, maybe expenses while iA Auto and Home or anything like that?

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

Thank you, Scott, for the question. I will say that just mention one, the -- which is the provision for litigation that is a one-off. Also about the experience iA of Auto and Home the weather condition has been very high during the quarter. Actually, my expectation will be more something in the minus \$0.03%-ish in regard of Q4. That's really what I'm expecting. And after 1 month, actually month of October, we are minus \$0.01. So we're directly in line with what would be the expectation. And some expenses will come -- will be there, will continue to be there. We know experience has softened a little bit. There's some inflation on repair. So that's why we believe it's more reasonable to be in that range at the minus \$0.09 that we have experienced. And also we are also already active in regard for pricing where we see that there are issues in regard to profitability of product. And apart from that, from the other line of business, I will say that they are good things and there are other elements, there's always volatility from one quarter to the other in regard of experience. But I don't see additional negative thing coming in Q4 compared to what we had in Q3. So that's really where I'm sitting right now.

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

Okay. And maybe for Denis. Last quarter, I think you suggested that you may provide an updated LICAT targeted ratio post-IFRS 17. And just wondering if you thought about that and could offer any new perspective?



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**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Chief Executive Officer*

You mean the targeted ratio, or you mean the minimum or the targeted one?

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

Yes, the target is currently 110 to 116, but if there's anything different that you see on...

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**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Chief Executive Officer*

Yes. We are in the process right now to review that ratio. And as I would say as a principle, if -- it will depend on the level of volatility that this will bring volatility of the ratio. So the higher the volatility, let's say, the higher the targeted ratio. But so far, so good. The preliminary numbers that we have are such that we might not have to increase it significantly, but we're still in the process of calculating it right now.

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**Operator**

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

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

I think the -- are you still looking for an additional 20 points when you -- in your solvency ratio when you move to IFRS 17? And I think, Jacques, you had mentioned that would be an additional \$1.4 billion in excess capital. Is that still the case this quarter as well?

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

Yes, Tom. Jacques speaking. Yes. It's still the case.

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

Okay. So the way we would want to look at your -- if you have potential capital for deployment now of \$450 million, we're talking like \$1.9 billion when we get into IFRS 17. Is that correct? Over \$450 plus 1.4 million.

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

This is correct.

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**Operator**

Our next question comes from Mario Mendonca with TD Securities.

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

Jacques, can we go back to your comment about the neutral assumption review in Q4, just given where rates -- how rates have moved, I would have expected the IRR charge to be in the hundreds of million range, maybe \$350 million. I haven't updated the math just yet, but your comment

about the assumption review being neutral would suggest that there are other things going in the other direction. And it's hard for me to imagine what could be so significant as to offset the potential IRR charge. Am I misreading what you're suggesting?

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

Yes. IRR maybe a little bit too high with the number you're providing. Yes, actually, there's one thing that I mentioned maybe when we -- I was speaking about IFRS 17 in previous quarter, one of the element for which our transition to IFRS 17 doesn't affect our book value is that we have a very conservative way of provisioning for financial guarantees. So those guarantees were in the money last year because interest rates were so low, but interest rate has increased significantly this year. So those guarantees are out of the money. And this is certainly a good source of financing. And there are a few -- a couple of other elements that are there to help as well. So that's really what's behind it.

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

Jacques, I understand that. I understand that the company has the protection. But I thought that was a day 1 adjustment. And I don't want to put the finer point on this, but the assumption review should be a December 31 balance sheet. And then the IFRS should be a January 1 balance sheet adjustment. How are you getting those 2 to coincide with each other?

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

Okay. I would try something, Mario, to make sure I understand well the question. Actually, the comment I made about this exchange were really under the IFRS 4 regime because we have to conclude year-end with IFRS 4. So my comment saying it's a near neutral, it's IFRS 4. And for that, I'm still working with the same one I was working in previous year, except for one big thing. We told you 2022 will be a transition year. So we decided to move right away in Q4 2021 in regard of taking risk on the IRR because it was putting us in a better position to transfer IFRS 17 -- 9, 17. So for that, I'm willing on the economic side of IFRS 4 to recognize some conservatism that we were holding in the past that we will no longer need to hold. As an example, those macro protection will no longer be needed.

But we took the decision at the beginning of the year to expose ourselves to IRR. So I feel very comfortable using that margin. It was the decision that we took at that time. When I look at business changes under IFRS 17, those one will be published more in March, April next year. And those one will be exactly -- it will be consistent with what we're doing under IFRS 4, but they will have different impacts. Some of them will affect CSM, some of them will -- I will just use expenses as an example. In IFRS 4, we provisioning for all expenses under IFRS 17, we won't provision for unattributable expenses. So there would be a few differences. I believe it's too complicated to go over that on the call, though. So we will provide more information about that. But one thing that I can tell you guide you to, there will be a negative impact on the CSM with the business change under IFRS 17. However, the EPS won't be affected. The EPS growth for 2023 won't be affected.

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

Jacques, can we go back to the question I was originally asking, which is maybe with asset, is there an IRR charge in Q4 '22, whether it's \$300 million or \$200 million, is there an IRR charge in Q4 '22?

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

The IRR has been paid for by the protection during the year. So if ever IRR moving such a way that were no longer provisioned, yes, they will affect. But for the moment, that's not where we are. So we will completely deplete provision before That. And like I said, I have other margin that would be used as well. So that's why I'm very confident to guide towards a near-neutral approach under IFRS 4.

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

Okay. Let's flip over if we could then to experience. I think you might have been addressing this a little bit. The experience that the company has reported has been volatile lately. Do you expect -- and I'm talking about policyholder experience now, I'm not talking about macro items. Under IFRS 17, would you anticipate the policyholder-related experience to be as volatile? Or is there an opportunity here to change the way you account for policyholder?

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

Yes, that's a really good question. And for -- if we all remember, in the past, we had a methodology, which was a \$0.04 that were used to eliminate some of that volatility because we are trying to look at very precise number, line of business, by line of business, assumption by assumption, quarter-by-quarter. And you know what? There will be volatility on that side. So when we manage the company, its long-term business, short-term business, but we don't manage micromanage that. We look at trends, we look at assumption, overall, et cetera. So I think that you're right, you're raising a very good point that it's very difficult to predict quarter-by-quarter those assumption by assumption. So we need to think about something. It just brings noise.

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

Yes, it's something that probably you should revisit because it's creating experience volatility that may not be indicative of the underlying performance of the company.

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

I agree, Mario, what you said.

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**Operator**

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

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

Continuing with IFRS 17, a couple of questions myself. So I appreciate the answer you gave to Doug on the book value implications and the change from Q2 to Q3. And then just wondering, given that was related to market impacts, what then gives you the confidence that on transition, neutral given obviously the market impacts are very difficult to forecast?

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

Thank you, Paul, for the question. It's because transition is at January 1, 2022. So it's already behind us. So those calculations have been down. So that's why we're confident with those calculations, they are already behind us. So don't -- it's important to recognize that transition doesn't happen at January 1, 2023, it's 2022.]

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

I see. So it may end up being on Q1 '23, depending on market conditions would be...

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

Yes. Actually, Paul, that's why we're providing estimate at this point, those are estimate, but we are providing some color in regard estimate for quarter-by-quarter, and we follow that. And that's why I think the answer I provided in regard of our exposure to risk movement negatively correlated to short midterm, positively correlated to long-term rate and to market. I believe that's the best way to look at macro-wide, the way we -- our results will...

**Denis Ricard** - iA Financial Corporation Inc. - CEO, President & Chief Executive Officer

Yes. Maybe just a way I look at it, Paul, is that after 9 months, a very difficult economic environment, we're still in a very, very good position in terms of the impact of IFRS 17. So I guess it's a testimony the resilience of our balance sheet.

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

Understand Okay. And then, you'll also be adopting IFRS 9 in 2023 and that will require the establishment of some performing credit allowances across your entire portfolio but including the auto loans book maybe just kind of give us some thought how your key in establishing that, there some potential for, the establishment, the original establishment of credit allowances sort of the historic earnings numbers in that first quarter for maybe it's not material enough, maybe some help there.

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

That's a pretty good question. For sure that the result we're providing IFRS 9, 17 are inclusive include the impact on that. And we will see how it will evolve. But our estimate for Q3 is a very small amount. Actually, it would be something around \$0.05-ish. The impact if we will have been because you've seen and Gabriel referred to it, the 2.3% to 2.6%. So it increased a little bit the unfavorable experience. So we will have had to book a \$0.05 for that point, but it includes the overall view of IFRS 9, 17. So it's not that material.

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

And then going back to the experience. On one segment we have seen experience this year has been on the U.S. operations, but consistently moving in the wrong direction, again, maybe not a huge amount, but at least negative. How do you think about that and the potential to update assumptions, particularly to...

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

Yes. Actually here, what's really at play is really fee business because it's a tendency that we are earning on contract. We are not that exposed to the underwriting risk because we reinsure most of that business. So really, profitability will be linked to return to normal sales when there will be more cars available for sale. So that's really the metric behind the U.S. dealer division.

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

And the message there is you're not planning to change your sales assumptions. That's the messaging Mike said, the outlook is getting incrementally more conservative.

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

Exactly.

**Operator**

Mr. Denis Ricard, there are no further questions at this time.

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Chief Executive Officer*

Okay. Well, thanks a lot. So good results for this quarter. I think the one thing to keep in mind is our strong capital position, the ability to generate capital generation \$160 million. And we are also continuing on the sale side, we haven't got too many questions on the growth side, maybe a bit -- but when you look at it, we're very pleased with where we are in terms of growth, and that it's very important for our organization. We are in a growing mode, and we have capital to grow. So thanks a lot for attending this call, and see you next time.

**Operator**

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines. Thank you.

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