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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance Fourth Quarter Earnings Results Conference Call. (Operator Instructions). As a reminder, this conference is being recorded on Wednesday, February 15, 2023. 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*

Good morning, and welcome to our 2022 Fourth Quarter Conference Call. All our Q4 documents, including press release, slides for this conference call, annual MD&A and supplementary information package are posted in the Investor Relations section of our website at ia.ca. This conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts. A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days, and a transcript will be available on our website in the next week. I draw your attention to the information on forward-looking statements on Slide 2 and on non-IFRS and additional financial measures on Slide 3. Also, please note that a detailed discussion of the Company's risks is provided in our 2022 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. operation and our Dealer Services business in Canada; Alain Bergeron, Chief Investment Officer; Renee Laflamme, in charge of Individual Insurance and Annuities; Stephan Bourbonnais who was recently appointed as Executive Vice President responsible for our mutual fund business and wealth management distribution affiliates; and Sean O'Brien, now responsible for our Group Businesses. Yesterday, we reported solid Q4 results as illustrated by the key metrics shown on Slide 7. Starting with profitability, which was very good regardless of the volatile macroeconomic environment.

Core EPS of $2.40 is 19% higher than a year earlier and within guidance. Core ROE of 14.2% is also within guidance more specifically in the top half of our target range.

Our solvency ratio of 126% remains robust and well above our target range, notably due to the continued strong contribution of organic capital generation. Under the new regime, as Jacques will explain in a moment, the same solvency ratio is even higher and organic capital generation is expected to remain strong as well. As we create additional value, we're committed to returning value to our investors, which we did in 2022, primarily through a dividend paid that was 25% higher than in 2021 and through the repurchase of more than 3 million common shares under our NCIB program. While our priorities in deploying capital are still to grow the Company organically and by acquisition, share buybacks and dividend payments within our target range of 25% to 35% based on our core earnings remain an important component of our capital deployment strategy. I will now comment on the book value per share, an important accounting metric as it is one of the few indicators of the company's unbiased value. According to the most recent estimates, our book value under IFRS 9 and 17 is expected to be at about the same level as under IFRS 4, both at transition on January 1, 2022, and on December 31, 2022. By having a stable book value at transition, I'd like to say that the IFRS 17 accounting regime is basically acknowledging that the past profitability shown by iA Financial Group under the previous accounting regime was appropriate and, that in a way, it is a testimony to our sound and prudent management aligned with our long-term growth vision.

Now moving to Slide 8. We concluded year 2022 with a core EPS of $8.85 and a core ROE of 14.2%, both well within guidance, along with a robust capital position. In addition, strong sales were recorded in most business units, in particular in Individual Insurance. This very good performance is largely attributable to our committed and talented employees and distributors. To attract and retain such talent we need to provide a superior employee experience, which we do by offering flexibility through our Work From Anywhere program, but mainly by providing rewarding careers and opportunities for people development. Our best-in-class employee experience strategy was recently recognized by Glassdoor and Forbes when iA was listed as one of Canada's top employers. We are very pleased that the quality of our employee experience has been acknowledged as it is an important asset in times of talent shortage. In parallel, we also aspire to offer a premium experience for clients and advisers. More specifically, we aim at making it as easy as possible for them to interact with iA. Our efforts were recently rewarded with a top position for overall company rating in the Adviser Perception Survey for the second consecutive year.

Now looking at 2023, we are very confident about our future results under the new accounting regime. In a few minutes, Jacques will be presenting an update of our IFRS 9 and 17 outlook, including the fact that we are now guiding towards a significant increase in profitability in 2023. This is in addition to the very favorable outlook already provided earlier in 2022 regarding the increase in our solvency ratio and our capital available for deployment. In deploying our excess capital, we will exercise our usual degree of caution taking into account a number of factors, notably profitability and the fit with our culture and business model. All these elements are favorable to the pursuit of our growth strategy and the creation of more value for our shareholders.

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

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

Thank you, Denis, and good morning, everyone. We ended the quarter and the year with strong sales in most business units. Diversification makes our business model resilient in addition to delivering synergies and competitive advantages. Our close relationships with distributors are a key driver of our continued business growth, which becomes even more valuable in times of economic volatility like 2022. Please refer to Slide 11 as I will now comment briefly on Q4. Four of our 5 lines of business recorded a year-over-year increases in premium and deposits. Only the Individual Wealth Management line of business saw a decline as the wealth industry as a whole faced a challenging environment. In total, premiums and deposits amounted to $3.9 billion in Q4 compared to a strong $4.2 billion in 2021. Assets under management and administration totaled $200 billion and increased 3% quarter-over-quarter, while being 9% lower than a year ago as asset growth in 2022 was adversely impacted by financial market conditions and rising interest rates. Q4 Individual sales totaled $95 million, up 9% when compared to a particularly solid quarter last year.

These strong results are mainly driven by the good performance of all distribution networks and to a lesser degree, the increase in average premium per policy sold. Once again, iA's broad range of products, including the success of the PAR products as well as the excellent performance of our digital tools continue to be significant growth drivers for this line of business. Based on the latest industry data, the Company continues to rank first in terms of the number of individual insurance policies sold in Canada. In fact, more than 1 in 4 policies are sold by iA in Canada and, for the full year in 2022, our sales amounted to $387 million, a large 35% increase from the previous year when they were $286 million. For several quarters, Individual Insurance has experienced remarkable growth and in this context, while our distribution networks continue to achieve strong performance, the year-over-year growth should eventually get closer to our annual growth target of 5% to 8%.

Turning to Slide 12 for the Individual Wealth Management. Starting with seg funds, gross sales totaled $702 million and net fund inflows of $172 million were recorded despite a challenging context for the industry. The Company continued to solidify its leading position in the sector and still ranks first in Canada for gross and net seg fund sales.

Mutual fund results in Q4 were unfavorably impacted by market conditions with gross sales of $350 million and net outflows of $290 million. As for sales of guaranteed products, they totaled a strong $408 million, up 79% from a year earlier as clients continue to favor cash equivalent products as markets remain volatile. Finally, sales of Group Savings and Retirement sector totaled over $1 billion in Q4. This represents a solid 65% increase year-over-year driven by the signing of several new large groups during the quarter.

Moving to Slide 13 for the Group Insurance results. In the Employee Plans division, sales were 20% higher than a year earlier and amounted to $18 million. These sales, combined with a good retention of in-force business drove premiums up 11% year-over-year. In the Dealer Services division, sales totaled $296 million, up 11% from the same period in 2021. Good sales results were driven by P&C products and car loan originations, respectively, up 22% and 14% year-over-year. In the Special Markets division, sales of $102 million were up 34% year-over-year, driven by strong sales of travel insurance as travel volumes are returning to a more normal level. As for our P&C affiliate iA Auto and Home, direct written premiums recorded were strong with a 10% year-over-year increase.

Going to Slide 14 for our U.S. Operations. Sales in the Individual Insurance division amounted to USD 37 million and were up 12% compared to the same period last year, with growth coming from the final expense and middle/family market. In the Dealer Services division, fourth quarter sales amounted to USD 241 million compared to sales of USD 255 million for the same period in 2021, a result mainly explained by persisting inventory constraints and higher financing costs for clients. Overall, sales results for the quarter but also for the whole year were quite strong for most business units, which once again demonstrates our ability to grow in different macroeconomic situations through the robustness of our business model. I will now turn it over to Jacques to comment on earnings, capital strength and 2023 perspectives. Thank you.

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

Thank you, Mike, and good morning, everyone. Today, we are reporting very good fourth quarter results in terms of profitability and capital position. Just as importantly, as we move into the new accounting regime, we are presenting a positive updated outlook for our performance in 2023 and beyond. Starting with Slide 16. We are very pleased with our results for the fourth quarter and for 2022. Core EPS was $2.40, which is 19% higher than in 2021 and along with core EPS for 2022 is well within guidance. Core ROE of 14.2% is the top half of guidance. The impact of new business and the effective tax rate were both favorable and the solvency ratio remains robust with continued organic capital generation above target. As a result, all metrics are in line or better than guidance, not only for Q4 but also for the full year.

Slide 17 presents the source of earnings on a core basis. Core expected profit was about the same as a year earlier, being held back by the quarterly adjustment to reflect lower financial market level. Core experience was positive, mainly from favorable policyholder experience in Individual Insurance, including for mortality, morbidity and lapse, from favorable longevity experience in Group Savings and from favorable claims experience in Dealer Services in Canada. Disability experience in the Employee Plan division was also favorable.

The impact of new business result in a gain mainly due to the recognition of a portion of the long-term interest rate increase that occurred during 2022. Income on capital was below expectation due to lower revenues from iA Auto and Home, which experienced an adverse windstorm in December and a higher volume of vehicle thefts. Finally, the tax charge was lower than expected due to a higher proportion of capital gains, dividend and nontaxable revenue. All these elements result in a solid core EPS of $2.40.

As shown on Slide 18, the net impact of our annual assumption review was near neutral on results as expected. Reserve adjustments from the annual update of experience studies were almost all offset by the update of economic assumptions. We have applied our usual prudence to this exercise, the last one under IFRS 4 and, as the new accounting regimes come into effect, we are very satisfied with the level of our reserves. Our solvency ratio presented on Slide 19 is comfortably above our target range at 126%. The contribution of $130 million in organic capital generation was again a positive element. The slight decrease in the quarter is primarily due to management actions and portfolio adjustment in view of the transition to IFRS 9/17. It is important to note that the impact of those adjustments will be mostly reversed under the new regime.

Also, although our calculation of 2022 parallel results under IFRS 9/17 are not finalized, we expect the ratio under the new regime to be at least 20 percentage points higher than the 126% ratio presented today. In fact, the application of the capital standard under the new regime further recognized the robustness of our capital position and balance sheet. As for organic capital generation, it totaled $550 million in 2022, which exceeds our target range for the year. We expect organic capital generation to remain strong under the new accounting regime.

Slide 20 presents the most recent information about iA favorable positioning under IFRS 9/17. While the finalization of the financial statement at the transition date is still in progress, we expect the impact on our book value to be neutral at transition with an increase of about $10 million and the level of our CSM to be at $5.5 billion. As for 2022 parallel results, we currently expect the book value at year-end to be similar to the one disclosed today under the IFRS 4 regime. We also expect several key metrics, such as Core ROE and Core EPS results as well as organic capital generation to be favorably impacted. In addition, as mentioned previously, the solvency ratio should be materially higher under the new regime, which will translate into a very high level of capital available for deployment to support future growth and the value creation for our shareholders.

And now looking to the future, we confirm that we are maintaining our midterm target of 10% plus Core EPS growth on average per annum. In addition to the solid 10% plus growth target, in 2023, we expect additional onetime mid-single-digit growth from the favorable impact of the new accounting regime and of the recent increase in long-term interest rate. This Core EPS guidance for 2023 takes into account higher expenses due to the continued investment in our digital transformation and growth expectations for our various businesses in the current environment. We have often mentioned our conservative management approach, including additional protections and profit recognition. This prudence allows us to start 2023 under the new accounting regime with our book value maintain at transition with a very high level of capital available for deployment and with a very favorable outlook for core EPS growth.

In conclusion, we are pleased to invite you to a virtual information session that will be held on March 28. Among other things, we will then present our key performance indicators under IFRS 9/17 and our midterm term targets, and we will further discuss our growth outlook. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) One moment please for the first question. Our first question comes from Meny Grauman with Scotiabank.

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

Just a question on the U.S. Dealer Services business. You highlight inventory constraints and higher financing costs as being adverse forces this past quarter. Just wondering -- I mean both of those things are not in your control, but I'm wondering if there are certain mitigation factors that you have in order to deal with these issues and just more broadly, how you see those 2 factors developing as you look to '23?

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

I guess, Mike, do you want to go on that one?

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

Sure. Yes. Thanks, Meny. Yes, those things are as you said, they are pretty much out of our control. And basically, what -- we follow a lot of whatever industry forecast and data. And so far, it appears that 2023 is not going to look that different in the automotive sector compared to '22. There is signs of more inventory coming out. So that kind of makes it hopeful. But on the other hand, interest rates are higher and that could affect consumer demand as well. The key measure is looking at month-by-month car sales, and there -- so far, they're running flat. But maybe it picks up. In the meantime, we aren't standing still for sure. We are very focused on organic growth as a priority for us. We've been adding new accounts through '21 and '22, but you don't really see much of the effects of it because the market has been soft. But it's something we monitor carefully. And we set an objective for 2023 in terms of signing new accounts of basically 2.5% to 3% per quarter. So obviously, if we annualize that, you're up to 10% to 12%. So that's what we're working on, and obviously, looking for better results.

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

And just as a follow-up, I'm curious how that relates to your willingness to do M&A. You talk about bolt-on acquisitions. You'll have a lot of excess capital once IFRS 17 kicks in, even more excess capital. And I'm just wondering whether the outlook that you have for the business makes you more cautious about deploying capital or anything you need to see change in that environment before you'd be willing to pull the trigger on any bolt-on acquisitions?

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

Sure. I'll start. Denis might want to tip in here. We remain bullish on this business in terms of the long term and looking ahead. And we -- basically, we're in a position at this point where we want to start looking at acquisition opportunities in 2023. We've been through a lot with COVID and then the integration with DAC, and we ended up doing some upgrades to our system as well. But at this point, we're ready to move forward on acquisitions and starting to look for opportunities, but it's early days in that process.

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

Yes. Just I want to add like Mike said, but at the end of the day, we'll also do it in an orderly manner. I mean in a disciplined manner. But certainly, this is an area where we are putting some attention as we speak.

Operator

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

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

A couple of questions. One, on the nonprime auto lending, just to confirm, you had like just about a 4% loss rate this quarter, and you're describing that ratio is about what you expect the post-pandemic norm to be, if that's correct, please let me know. And then two, there is -- if we do get a recession, that could still move higher than that, right?

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

Yes, you're right. This is pretty much what we expect. We believe we return back to prepandemic level. And our near-prime portfolio, we mentioned it many times during the year, we have improved the underwriting of that portfolio over time. So that's why we don't expect at all to return back to that -- the 5% plus we were getting prepandemic. And you're right, that thing could go more sour there. But one thing that I want to put to your attention is the fact that in our IFRS 9/17 metrics we're providing, we are building within those numbers. We are building the provision for the car loan according to the rule of IFRS 9. So it means that all the recent credit experience has been factoring into the provision as of December 31, 2022. So I just want to let you know that.

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

So that loss rate isn't the actual losses that includes the losses on performing loans as well that you're... under IFRS standard IFRS 9?

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

Yes. Actually, IFRS 9, not only you need to recognize the experience, but you need to assume that, that experience will last forever until the end of the loan. So that's difference between IAS 39. That's why the provision is larger.

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

If you don't mind, Gabriel, I'd like to just add on this. I mean, we're very pleased with -- we've been very pleased with that business for, I mean, many years. We bought that business in 2015. And we've improved the quality of the portfolio since then and profitability is pretty good. There's going to be some, obviously, cycle along the way. But at the end of the day, I mean, we are very disciplined in the way we underwrite that risk. And the profitability is rewarding our investment very significantly. So I mean, obviously, there is an appetite for that business up to a point, and we are reevaluating as we go like we have a maximum of $1.5 billion right now in terms of outstanding loans. We might revisit that at some point. But right now, this is the appetite that we have for that business.

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

Okay. Great. then -- I mean, I got to ask the P&C business. I get the weather event, but there's a big uptick in cars thefts I mean I know that happens, but I've never seen it called out like that. How was this like a unusual surge? Like how out of that work

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

Actually, since the fact that there is less new car, we see value of used car has increased and it trigger that kind of behavior, unfortunately. And it's an issue that's not related just to iA, but is the whole industry facing that, which is a good thing in regard of the fact that we -- when I say it's a good thing. It's a good thing that it's the industry, it affect all industries. It's not a good thing that people are stealing car and don't get me wrong here. But... The thing is that you can reprice your product. I think that's a good thing there. And also, there's a coalition between insurers to try to help with the police to try to get rid of those kind of people.

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

Okay. And then I guess my last one here on the -- well, the excess growth that you're guiding to, the 5% on one hand, higher interest rates, I guess, where would we see that if it was the SOE kind of framework? And then can you specify a bit more on some of the favorable accounting changes that are giving you that onetime boost?

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

That's a good point. About the interest rate, it would be expected profit for sure that will show that. And particularly, it would be for our long-term businesses. So both in the life insurance in Canada, U.S. When you speak about regime switch, I would say there are many different things, okay? The construct of the 2 regime, IFRS 4 compared to IFRS 9/17, the construct is quite different. And there are a couple of things. I would say that one, that affect negatively maybe more our peers than us is certainly the strain profit recognition on new business. We're not negatively impacted on that at all. And I can give you another example, seg funds. Seg funds former regime didn't allow you to defer your acquisition costs, while the new regime is allowing you to do that. So we're doing that for the new sales. So there are many different things like that -- and overall, it's positive for us.

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

Yes. Maybe one thing, Gabriel, I'd like to mention because I mean, we acknowledge that it is very difficult for you financial analysts, for investors to gauge how IFRS 17 is going to influence and change the outlook going forward. So that's why we provided this additional guidance for 2023, the 10%, which is the regular one, plus this, let's say, onetime just to -- as a kind of a reset. And we debated internally, I mean where do we go in terms of disclosure. And I guess my point would be that if I had to choose a range, let's say, for 2023, I would have gone as far as seeing that it could be between 13% and 18% increase in EPS versus the 2022 IFRS 4. So we are seeing like 10-plus mid-single digit, but you can translate that into between 13% and 18%.

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

So that's of the 8.85 of this year, Okay.

Operator

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

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

I guess this is probably for Jacques, but it looks like you released all the downside market protection with the year-end actuarial review. And it was my understanding that this was part of the buffers that was going to be released on transition. That was one of the reasons there was going to be a book value hit a transition come Jan 1, and there's going to be a positive impact on the LICAT ratio of 20 points. So now that it was released at year end before the transition happened, what's supporting the book value and the LICAT ratio at transition? Like, I guess there's another item and is it rising interest rates and just trying to figure out what I'm missing here, if anything?

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

Yes. That's a good question, Doug. Actually, transition happened as of January 1, 2022. And since that time, you have to consider that both regimes are acting independently. So when we provide you a number under IFRS 9/17, it's really calculated according to the standard, all liabilities, all assets so they are calculated by themselves. What remains a big constant there is the underlying business is the same underlying business. And we've told you many times, we're trying to do our best in regard of managing our risk. So on an economic basis, and for us, that's really the value. So after that to calculate the different number according to the 2 regimes. So the macro protection, what they help to do is really to help to transition at January 1, 2022, without having a negative impact on the book value. And since that time, you're right, long-term interest rate increase is certainly a positive for our performance under IFRS 17. However, market has not been positive. So it has been a drag on the IFRS 17, IFRS 9 and short-term interest rate midterm has been negative in 2022. So -- and bottom line, though, it's positive. Hope this gives you more color.

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

Yes, maybe I can follow up. But is it essentially the long-term interest rates, so the discount rate you're using to calculate the liabilities has gone up, I would assume. And is that -- that's more than offsetting the negative impact from lower stock market protection. Is that possible?

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

you had come... Yes, the rate the valuation rate under IFRS 17 is higher, recognizing actually the illiquidity of our portfolio and build according to the IFRS 17 standard.

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

And that would be the main driver. I'll leave it at that. We can maybe follow up and I wouldn't mind getting into some technical stuff offline. But then second question, it looks like the portfolio adjustments in advance of the IFRS 17 transition boosted the individual insurance results. And I'm trying to kind of understand 2 kind of components here. I mean what were these portfolio adjustments? I mean, I think you might have been lengthening asset duration, so maybe there's less mismatch reserve. I think you've kind of changed over and more to corporates than governments. And so maybe that had a positive impact on earnings yield enhancement. And then on the flip side, because you're owning less risky or more riskier assets, your LICAT ratio is negatively impacted. Do I have all of that correct? Or is -- maybe you can kind of opine on that.

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

Yes. Actually, it depends how you look at it. If you look at this under IFRS 4, I would say what you said is correct. We have improved, and we mentioned it with transition. In 2022, we are very proud to where we are right now. But in 2022, we really transitioned our asset liability management into a global ALM strategy coming link all our liability together. So it allows us to do a much better job on that risk on the ALM risk. And it allows us to take more credit risk on the asset without increasing the risk profile of the organization as a whole. So it was a great strategy for us, and it brings value. If you look at results under IFRS 4, so those are the results that are affecting Q4. So it's improving, it's giving some return on the income, but affecting negatively the LICAT ratio. However, like we said, it will reverse under the IFRS 17 calculation of the ratio. We said to everyone, we were fortunate enough to start 2022 with a strong macro protection. And with that strong macro protection and strong capital position, we were able to do smoothly the transition over all the year 2022. And we knew that it will reduce the macro protection. It will have some impact on the ratio. But bottom line, today, we are under IFRS 9/17, and we are very pleased where we are in regard of risk management.

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

And how does that reverse, Jacques? Like so -- so you've had to put aside or you had a negative LICAT impact as you've gone into riskier investments and I get that. But then why does that reverse under IFRS 17?

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

It's just a calculation. It's just the calculation. It's really technical, Doug but it's calculation. The way that both regimes are calculated are different so this is different than that.

Operator

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

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

Just a couple of questions here. Denis, you just said sort of mentioned you expected core EPS in 2023 to be 13% to 18% higher than 2022. And then in the release, I think you talked about not issuing guidance for 2023 until you have this investor session about 6 weeks from now. What's going to happen over the next 6 weeks? And why not issue the 2023 guidance now? And is it going to be I mean you've already suggested some number. Is that kind of what we see edging towards here?

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

I mean when we debated internally about disclosure, we felt that at this point, because there's going to be a lot of information that will be given on March 28 other than the, let's say, the Core EPS guidance, but we felt that because of the information that we are right now, where we are in the process in the calculation and the information that we have internally that we had an obligation to be more specific about where this was going because whenever we spoke with either analysts or investors, it was very difficult. It was all over the place in terms of predicting where IFRS would go. So we felt that it was appropriate in terms of our obligation to disclose to be more specific. That's why we did it, I would say, probably a bit earlier than what we had expected.

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

Okay. And second question is with respect to the $550 million organic capital generation in 2022, it appears to be redeployed kind of equally between buybacks and your dividend. Should we expect that same kind of redeployment in 2023? And why not kind of rejig that ratio and put more into the dividend and less into the buyback, but just curious as your thoughts here.

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

Yes. Good question. Thank you, Tom. Actually, I mean, as we mentioned, we want to grow the organization organically and by acquisitions. So we need some dry powder for that. But at the same time, our excess capital position is so great that I mean, we returned some of the excess capital, not only through dividends but through NCIB. I mean my view right now is that stock is undervalued, and it's a great opportunity for us to buy back at this point. So we are continuing doing what we were doing over the last few months, and we're buying back shares as in the current price, we believe it's undervalued. So you should expect this to continue in the current condition.

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*

Doing just a follow-up on the 13% 18% kind of initial growth guidance you see to get to the high end, like what kind of factors you get there? Is it higher interest rates for longer? Or is there other factors to think about on that?

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

Well, I would mention 2 things, and Jacques will complete if he wants. But I would say that, first of all, I mean, it's term of growth. I mean, if, let's say, the market was to be more favorable in terms of, let's say, on the wealth management side, for example, in the -- and let's say, that our growth story would be even better than what we expect. That would be one of it. And obviously, I mean, we know that for iA, the interest rates -- the long-term interest rate is a catalyst also. So in a higher interest rate environment, it would be beneficial as well.

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

Okay. And just on -- just going back to auto for a second. You talked about the near prime but do you have an approximate split on what that portfolio is with subprime and near prime? And on the originations or recent originations, is that more favored towards near prime rather than sub-prime? Any color would be helpful.

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

I think I'll be very clear here. We don't do subprime. We are in the near-prime business.

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

Okay. Near prime business. Okay. Okay. Thank you very much.

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*

So I guess where I want to start is going back to the U.S. segment and vehicle warranty specifically. So Michael, I understood you correctly, what you're saying is industry volumes might be flat year-over-year in '23, but given your growth in dealer relationships, you would expect 10% to 12% growth. Is that -- I just want to clarify, is that the right takeaway here?

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

Yes. That's a good way to describe it. It's certainly our objective.

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

Okay. Understood. Then just going back to the IFRS 17 and the 2023 guidance, just to get a little bit more specific here because you posted abnormally large new business gains in the individual insurance segment. And my estimate would be that contributed 3% upside to full year earnings in 2022. And we know under IFRS 17 that won't repeat, and I can't imagine you're expecting those types of gains at the beginning of the year. So I guess my question is, why hasn't your estimated EPS impact from IFRS 17 moved lower maybe from a slight positive to neutral because of that factor? Like what's the offset here?

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

That's a good observation, Paul. Jacques speaking. You totally right. And I believe I mentioned it on one of the calls this year that we have even not factored in and recognize other interest increase in our in calculation in 2022. We used the rate, I believe, at the end of April, and we didn't -- we stick to that rate because of the volatility of that long-term rate during the year. But you're right. Technically, this one is a small headwind. The reality is that long-term interest rates, like I said, is one of the element that has impacted also our inforce business, the different trade we made during the year are also increasing. So there are many other positives that are compensating for this one, but this one is a small negative into the calculation. You're totally right.

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

Okay. Understand. We keep referring to long-term rates, and I assume what we should probably benchmark to get a sense of that directionally is kind of just tracking the 10- and 30-year rates and particularly Government of Canada and provincials? Is that -- are those the right benchmarks?

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

Yes, it could be. It is, I would say the only thing is that in 2022, we're in the transition year. And like I said, we wanted to do those transactions in an orderly manner. As we speak today, we are less, I would say, exposed to both of those rates. We still have some exposure, but our goal is to manage our risk profile accordingly, but those will be the 2 metrics.

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

Okay. Got it. And then last one is just observing very strong results in the group insurance business with expected profit up significantly for the full year. Just maybe you can get more specific in terms of what lines of business are driving that growth? And more importantly, what is the outlook for those lines of business for '23?

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

Jacques speaking, actually, the dealer division in Canada has been very profitable, and it has a lot to do with the value of used car. Actually, the P&C claims on that business has been simply much better than what we were expecting at the beginning because of that. So looking forward, it will -- there will be a return to reality at one point. So that's what we're expecting, but we're still benefiting from that used car value.

Operator

Next question comes from Lemar Persaud with Cormark Securities.

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

I'm wondering if we could go to the corporate EPS chart on Slide 20. I'm really trying to understand that mid-single-digit onetime Core EPS lift to 2023. Now on that chart, you're clear in suggesting that 2023 is compared -- 2023 is under IFRS 17 at 9 has been compared to the 8.85 under IFRS 4, but we know the impact of the new accounting regime on 2022 Core EPS is expected to be favorable. It's right in that table kind off to the left. Would it be fair then to suggest if you compare 2023 to 2022 results both under IFRS 17, the 2023 EPS growth arguing be closer to 10% versus the 13% to 18% you referenced in this Q&A session?

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

Jacques speaking, there actually, we're providing you those slides because of at the public number you are having. We're still working with estimate for IFRS 9/17. Our team are presently working out to complete the exact calculation so that at the end of March, we'll be able to provide you the real number of 2022 under IFRS 9/17, and we will be able to show the growth over that. However, I can give you kind a little bit of color in regard of the fact that 2022 was a transition year. Interest rate has increased during the year. So you can expect a higher than 10% growth IFRS 9/17 over IFRS 9/17. But we will provide you details at the end of March.

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

Okay. Okay. And then just on the prior slide there, can you just guys talk about the 3-point temporary hit on the LICAT ratio in Q4. Is that going to reverse immediately under IFRS 17? And is that accounted for in that greater than 20 percentage point lift in the LICAT ratio 17?

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

You're totally correct for both.

Operator

Our next question comes from Mario Mendonca with TD Securities.

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

Jacques, maybe to go to you for a moment and actually Denis as well. The 13% to 18% outlook you just provided, I want to be clear that, that's growth from the $885 in core earnings that you reported in 2022. Is that right?

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

You're totally right, Mario.

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

Okay. Now if I could ask you, Jacques, to go back to IFRS 17, and let's assume for a moment, we were looking at IFRS 17 in 2022 and 2023. And maybe you've -- I think you've given us some indications here, but I want to understand where that growth would come from? Would it come through the insurance service result? Or would it be more likely to come to the net investment result or some other business altogether?

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

It could come from net investment results for sure and some insurance results as well.

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

And in the net insurance result, where would we generally see this? Would it come through the risk adjustment release? The CSM release? I'm trying to get an understanding of like when we see this growth emerge in 2023, I want to make sure I understand what I'm looking at.

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

Okay. Mario, I will ask you to wait for March 28 to get those information because I will -- I need, I would say a visual support to be able to explain that well to the people. It will be too confusing just doing it verbally.

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

Okay. One other thing. In your response to Tom's question, no, no, sorry, it wasn't Tom it was Gabriel. I think your response to that question about the auto finance, I almost got the impression that you've already applied IFRS 9 in the results you presented today, but is it more -- isn't it more appropriate to suggest that the IFRS 9 will be applied -- we'll only see it when you report your Q1 '23?

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

No. Actually, for the IFRS 4 results, we're still under IAS 39. But when we guide you with our estimate of the book value under IFRS 9/17 at the end of 2022, we factored in the reserve for loans under IFRS 9. That's what I meant.

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

Okay. I got it now. So under IFRS 9, you're going to build reserves presumably for -- or you have built reserves for the auto finance business. Can you talk about what level of allowances you're setting up for the auto finance business? And what I'm getting at here is in my research of the banks, it's pretty clear where our PCLs ratio is and where the allowances are in at and compare those to. So is that something you can speak to today, like where those allowances are relative to the amount of PCLs you're currently incurring?

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

Actually, we can provide more details on March 28. But maybe one thing I will draw your attention to is that the near prime loan react differently from normal bank loan, I would say. The reason why is the duration of the loan is much shorter. There's a good proportion of borrower that are there temporarily to improve their credit rating. So when you look at, I would say, a provision IFRS 9 provision for those kind of loan compared to a normal loan, you won't have the same kind of effect. But we'll be able to provide maybe more details on March 28.

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

I think the point you're making there is often is because we're looking at lifetime losses, if the lifetime is necessarily shorter than call it, a mortgage, then by definition, the allowance has to be less. Is that the message you're sending?

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

Yes, that's -- yes.

Operator

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

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

Thank you. I wanted to return to the car warranty business. And Mike, I think in your response, you talked about your objective to grow organically. I guess the question I have is, I mean, can you speak a little bit more to that. When I read your 2021 annual report. In the end, it says 700 people are employed there, 7,000 dealerships. And those numbers are exactly the same with the annual documents you reported last night. So in essence, I don't see growth in dealerships or even the number of employees. So what is it that is going to change in 2023 that will create organic growth in the dealerships and granted car sales are still important, but my own simple thing is if you're at 10,000 dealers by the end of the year, you'll have more growth. So can you just give me a hand with what it is that happens in 2023 that actually kick starts organic growth?

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

Sure. Yes. First of all, Darko, the numbers you're referring to in the document, I guess, is they're rounded. So another thing to bear in mind is in basically, the business we acquired from IAS is there's a lot of what we call ancillary accounts there and ancillary products are the smaller ones, insure your key fobs one, they're quite good at a lot of business with tire and wheel coverage. And so we have a lot of dealers under contract, and we have an opportunity to sell a lot more business, other products, primarily warranties, obviously, that's a much bigger product and better margins. So you have to bear that in mind. So to answer your question, for me, I've been managing sales operations for a long time now. A lot of it is focus. And we kind of got distracted with new owners, integration, blah, blah, blah, and have really, really pushed for people to have focused on growth for 2023. And it sounds too simple. I get it, but it's really important.

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

And what about -- I mean one of the things that I see that's developing in the industry, you mentioned key fobs and tire wheel. I'm seeing phones. I'm seeing electric vehicles. Where is -- is there anything new on the horizon for your business in the U.S. that would also cause an acceleration in growth?

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

Yes. I think the EV developments in EV is certainly an opportunity. And I don't know that's necessarily an area of growth, but people who do it better, do it well are going to be beneficiaries. And so that is certainly one development. And apart from that, nothing else is coming to mind immediately.

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

And then maybe one thing, it's Denis here that I would add on this is that our team was also quite committed to, I would say, develop the income development, let's say, a division of our operation, meaning that like training F&Is and helping them being more productive within the dealership sort of coming of what we do in Canada with an F&I school. So that's an area where we believe that we can add value to the dealers and at the same time, increase in our sales. So that should also help in terms of development in the U.S.

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*

Okay. Thanks a lot. I mean I'm sure that you've realized that IFRS 17 is a very important aspect of the disclosure of this quarter, and we try to be more specific because of the need to do it at this point, and we're very proud of the results that we have. We are very proud of the positioning that we are under IFRS 17, whether it's in terms of the EPS growth in terms of the capital for deployment, which is very significant with the new regime, it will allow us to deploy that capital in various ways. And so we're very pleased that we can create value to the shareholders. And also, you've seen that even in the more difficult times like for some of the businesses we're in, I mean, like the wealth management I mean when we look at the sales for the most part, we've been quite strong during the year. And it's -- I think it's a merit of the diversification that we have in our Company. So we -- it helps in terms of resiliency, in terms of more difficult times. And -- but we are quite confident that we can grow going forward on the 10% plus and even more in 2023. So with that said, thanks a lot for attending this call. And I think we've got Marie-Annick going to have the last word here.

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

Thank you, Denis. Before we end the call, I just want to remind you that as we are now operating under IFRS 9 and 17, we will be holding a virtual information session on March 28 at 9 a.m. So this concludes the call. Thank you, everyone, for attending.

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.
