iA Financial Group

Financial Update Conference Call Transcript

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Speakers:

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President and CEO

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Operator:

Thank you for standing by. This is the conference operator.

Welcome to the iA Financial Group Financial Update Conference Call. As a reminder, all participants are in a listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star, then zero.

I would now like to turn the conference over to Caroline Drouin, Head of Investor Relations with iA Financial Group. Please go ahead.

Caroline Drouin:

Good morning everyone. Bonjour à tous. Thank you for joining us for today's financial update, The Next Level in ROE Expansion. The 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 and should focus on today's presentation.

Before we start, I draw your attention to the forward-looking statements information on Slide 2. Forward-looking statements made today are subject to risks and uncertainties that could cause actual results to differ materially. These statements are based on certain material factors and assumptions.

I also draw your attention to the non-IFRS and additional financial measures on Slide 3. Today's commentary will also include adjusted financial measures which should be considered as a supplement to IFRS measures. For further details, please refer to today's presentation and our other public disclosure.

Joining us today are Denis Ricard, President and CEO, and Éric Jobin, Executive Vice President, Chief Financial Officer and Chief Actuary.

With that, I will now turn the call over to Denis Ricard.

Denis Ricard:

Good early morning, everyone, and thank you for joining us.

I must admit that since last Thursday, I keep saying we are making history. This moment marks another important milestone in iA's growth journey and in the continued evolution of our company.

We have built iA as a growth organization. Over the years, we've consistently grown earnings, expanded ROE and generated significant capital while remaining disciplined in how we deploy that capital. That track record is not accidental. It reflects the strength of our businesses, but also the iA way. It's how we think differently and make choices that set us apart. It is this combination that has allowed us to consistently raise the bar, and today, we are doing so again.

Turning to Slide 6, let me start with what we are announcing today.

Building on our strong organic growth momentum and the growing contribution from recent acquisitions, we are raising our core ROE target to 18.5%-plus in 2028 from 17%-plus in 2026. The 18.5% reflects the continued strength of our underlying profitability, while the plus reflects the additional potential from deploying the $0.9 billion of capital we already have available because This is a target we would normally have communicated in February as part of our periodic ROE target update. However, the proposed 2027 CARLI guideline published last Thursday is a significant development. If adopted as proposed, the new guideline would increase our capital available for deployment to $2.6 billion on a pro forma basis as at September 30, giving us significantly greater optionality and additional potential to expand our ROE beyond 18.5%. Given this, we felt it was appropriate to update our target now rather than wait until February.

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But let me be clear: more capital does not mean a change in strategy. Our capital allocation priorities remain the same. We will continue to be highly selective in the acquisitions we pursue, and our risk profile is unchanged. Our focus remains on executing our strategy and deploying capital where we see attractive opportunities to create sustainable long-term value for shareholders.

Turning to Slide 7, our track record gives us confidence as we raise the bar once again. Our track record speaks for itself. Over the years, as our businesses have grown and performed, we've consistently set ambitious ROE targets, and importantly, we have delivered on our commitments.

Today, we're taking another step forward with our new core ROE target of 18.5%-plus in 2028. This builds on our proven track record of ROE expansion and sets the stage for the next phase of profitable growth.

Turning to Slide 8, our track record also demonstrates the strength of our earnings growth model. Over the last 10 years, core EPS has grown at a compound annual rate of 12%. This outperformance is well in line with our annual target of an average of 10%-plus. At the core of that performance is strong organic growth, complemented by disciplined capital deployment through acquisitions and share buybacks. Our approach has served us very well. We grow our businesses organically, generate capital and deploy that capital through a combination of share buybacks and value-creating acquisitions. Together, these levers have driven strong and sustained earnings growth and remain central to our long-term value creation model.

Turning to Slide 9, our strong organic growth, complemented by disciplined acquisition, has supported a steady expansion in ROE over time. Since 2018, our core ROE has increased from 12.4% to 17.6%, and over that same period, we completed nine acquisitions, adding to our earnings base and contributing to our ROE expansion.

Looking ahead, we see a clear path to further ROE expansion. The continued growth of our businesses, the contributions from recent acquisitions and the deployment of capital generated by our businesses are expected to bring core ROE to approximately 18.5% in 2028. This is the foundation of our new target.

On top of that, the plus reflects the additional upside potential from deploying the $0.9 billion of capital we already have available as at September 30. In other words, our underlying growth gets us to approximately 18.5%, while the $0.9 billion gives us the potential to go beyond that level.

Let me be very clear about the role of the proposed 2027 CARLI guideline. It does two things. First, if adopted as proposed, it would increase our capital available for deployment from $0.9 billion to $2.6 billion. That makes the potential upside beyond 18.5% even greater and gives us much greater capital optionality. Second, it prompted us to update our ROE target now rather than wait until February.

With that, I will now turn it over to Éric Jobin, who will explain the proposed CARLI changes and what they could mean for our capital position. Éric?

Éric Jobin:

Merci, Denis, and good morning, everyone.

Let me begin with Slide 11 to provide some context on the proposed 2027 CARLI guideline.

Our regulator, the AMF, updates its capital framework every year to proactively improve the risk-based capital formula. These updates aim to ensure a consistent treatment of comparable risk, better align capital requirements with underlying risk and reflect structural differences across insurers' business models.

The proposed 2027 CARLI guideline is another important step in this evolution. It addresses structural constraints in the current framework that are particularly relevant to iA's business mix. Over the next few slides, I will explain these constraints and what the proposed changes could mean for our capital position.

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To understand the implication of the proposed changes, let me first explain the different purposes of the total ratio and core ratio on Slide 12.

The total ratio is consistent with a liquidation basis. It is designed to protect stakeholders in the event of a wind-up, and it considers all available capital resources, including Tier 1 and Tier 2 capital, and is calibrated to the most severe scenarios.

The core ratio serves a different purpose. It is consistent with a going concern basis. It focuses on an insurer's highest quality capital resources and is calibrated to less severe stress scenarios. In my own words, the solvency ratio is there to determine the quantity of capital necessary, and the core ratio is there to determine the quality.

Given these different purposes, you would normally expect capital requirements on a total basis to be higher than on a core basis. However, for iA today, the opposite is true, and as I will explain on the next slide, this is largely a consequence of our business mix.

Moving to Slide 13, our business mix is important in understanding how some capital requirements apply to iA. We have a higher relative proportion of long-term duration in-force insurance policies and individual segregated fund assets under management. Under the current framework, these characteristics are treated conservatively from a capital standpoint, resulting in a more binding core capital constraint.

As a result, capital requirements are higher on a core basis than on a total basis, exactly the opposite of the relationship we would normally expect. This reduces our leverage capacity and limits our flexibility to deploy capital. It also means that capital requirements do not fully reflect the underlying economics and risk profile of these businesses.

Two factors account for most of this outcome: first, the treatment of negative reserve, and second, cash surrender value deficiencies, or CSVD as you will see in the deck.

As of September 30, negative reserves represent $4.6 billion of deductions, while CSVD represents another $0.9 billion, for a total of approximately $5.5 billion. These deductions explain most of the core capital constraints shown on the right side of the slide.Taken together, these factors explain the unintended outcome under the current framework. And as we will see on the next slide, the proposed 2027 CARLI guideline would address this structural constraint.

Turning to Slide 14, we can see how the proposed guideline would address this situation. The expected relationship between the two ratios would be restored under the current proposed guideline, with total capital requirements once again higher than core requirements. This would better align capital requirements with the underlying risk of our businesses.

Importantly, the current outcome is specific to iA business mix. As shown on the right, our peers already have core requirements below total requirements. The proposed guideline would therefore bring iA to a capital requirements profile that is more in line with this peer group and reflective of the underlying risks.

Turning to Slide 15 to conclude on the proposed guideline itself, we commend the work done by AMF to further refine the risk-based capital framework. Overall, the proposed changes would better align capital requirements with the underlying risk of our businesses. By removing the deductions related to negative reserves and CSVD, the guideline would better recognize the economic value of long-duration businesses and address the structural constraints we have discussed.

Importantly, the underlying economics and risk of our businesses do not change. What changes is how they are reflected in regulatory capital requirements.

The proposed guideline would also bring our capital requirements to a level more comparable with peers, improving comparability while preserving the risk-based nature of the framework.

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Beyond these elements, the guideline includes other adjustments that are expected to have relatively minor impacts.

Moving to Slide 16, we can now translate the proposed changes into their impact on our capital position. Based on our financial position as of September 30, 2026, the proposed guideline will increase our total ratio by 3 percentage points to 134%. Our core ratio would increase by a significant 48 percentage points to 118% on a pro forma basis. The much larger impact on the core ratio reflects the release of capital currently constrained by the treatment of negative reserves and CSVD that we discussed earlier. As a result, our capital available for deployment would increase by $1.7 billion from $0.9 billion to $2.6 billion on a pro forma basis.

Overall, $2.6 billion of capital available for deployment gives us significantly greater financial optionality to support growth and pursue attractive opportunities while maintaining the same disciplined approach to capital management.

Moving to Slide 17, let me bring these elements together and show what they could mean for our core ROE trajectory.

Starting from a core ROE of 17.6% as of September 30, 2026, we expect organic expansion, including the deployment of organic capital generation and contributions from recent acquisition, to add approximately 1 percentage point and bring core ROE to approximately 18.5% in 2028.

Beyond this underlying organic trajectory, we already have $0.9 billion of capital available for deployment, providing additional potential for ROE expansion. If adopted as proposed, the CARLI guideline would add another $1.7 billion, further increasing that potential.

For illustrative purposes, deploying $1 billion of capital could, under the right circumstances, add approximately 1 percentage point to core ROE.

Overall, these drivers give us a clear path to achieving our new core ROE target of 18.5%-plus in 2028. Our strong underlying trajectory provides the foundation while the capital deployment potential provides meaningful upside and reinforces our confidence in the new target.

With that, I'll turn the call back to Denis.

Denis Ricard:

Thank you, Éric.

Now, please turn to Slide 19.

As Éric has shown, the proposed changes would give us significantly greater capital deployment capacity. What I want to emphasize now is what we intend to do with that capacity and, just as importantly, what does not change.

Our priority is to deploy capital where we see the most attractive long-term returns. This starts with profitable organic growth and is complemented by disciplined acquisition where we have a strong track record of creating value. At the same time, dividends and share buybacks remain tools to return capital to shareholders.

So, having more capital available does not mean changing our strategy or accelerating deployment. It gives us greater optionality to execute our strategy while maintaining the same discipline that has served us well over time.

Turning to Slide 20, returning value to shareholders is an important part of our capital allocation approach. Over the years, we have consistently returned capital through regular dividend increases and share buybacks while continuing to invest in profitable growth. In fact, over the last five years, we have deployed 95% of the capital generated organically through acquisitions, dividends and share buybacks. This demonstrates both

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our disciplined, pragmatic, multi-levered approach to capital deployment and our commitment to both creating and returning value to shareholders.

Looking ahead, you should expect us to continue using a combination of share buybacks and acquisitions. It is not an either/or decision. We should use both levers depending on the opportunities available and where we see the best returns.

Turning to Slide 21, acquisitions have been an important part of our growth strategy for many years. Over the last 25 years, we've completed more than 70 acquisitions across different businesses and market environments. Over that time, we've built strong capabilities in identifying, executing and integrating acquisitions that strengthen our businesses and creating value. And throughout that history, our approach has always been disciplined. We look for businesses that fit well with our strategy and where we believe we can create value over time.

Recent acquisitions, including Vericity, RF Capital Group and Global Warranty, are good examples of how we have used M&A to strengthen our existing businesses and accelerate growth. With greater capital optionality, we have the capacity to continue pursuing attractive opportunities while maintaining the same discipline.

Turning to Slide 22, acquisitions will continue to be an important contributor to the growth of our organization going forward. We have the appetite and the capacity to make more value-creating acquisitions. With our strong capital position and increased optionality, we are well positioned to pursue attractive opportunities as they arise.

Our preference remains to build our businesses where we already have a strong presence through consolidation opportunities and adjacencies. Our key areas of interest include Canadian wealth management, life insurance in Canada and the U.S., as well as Canadian distribution. In Dealer Services, our focus remains on creating synergies across our North American platform and driving profit growth.

In the near term, our transaction focus remains on Canada and in the U.S. Over time, we would also consider establishing a presence in a new geography if we identify the right strategic opportunity.

As we consider these opportunities, our disciplined approach will remain unchanged. We will continue to focus on transactions that are strategically aligned, meet our financial criteria and remain within our risk appetite. Ultimately, our objective is to strengthen our businesses, expand our earnings base and creating sustainable long-term value for shareholders.

Turning to Slide 23, let me conclude by coming back to the three key messages from today.

First, we're raising our core ROE target to 18.5% or more in 2028, supported by our strong underlying path.

If adopted as proposed, the 2027 CARLI guideline provides further upside potential and significantly greater capital optionality.

And, importantly, our strategy remains unchanged. We will continue to execute with the same discipline, deploy capital where we see the best opportunities and remain focused on creating sustainable long-term value for shareholders.

Thank you. Operator, we're now ready to take questions.

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

The first question is from Doug Young from Desjardins. Please go ahead.

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Doug Young:

Hi. Good morning. Just quickly, on the $2.6 billion of deployable capital or the $1.7 billion increase, can you just define how much of that is actually excess capital versus debt capacity?

Éric Jobin:

Hi, Doug. It's Éric. It's roughly 50/50, meaning $1.3 billion of excess and $1.3 billion of additional financial flexibility.

Doug Young:

Okay. Then, Éric, my understanding is this impacts available capital, just basically where it goes between Tier 1 and Tier 2. Do I have that correct or is there an impact on the capital required? I'm just trying to look at, on Slide 14, how you show this versus my understanding that it's more of a top line impact versus a bottom line impact, but maybe I've got something wrong there. I'm just hoping for a little bit more colour.

Éric Jobin:

No, you're absolutely right, Doug. It's a question of capital. In fact, what happens is that, as you mentioned on Slide 14, it's the Tier 1 definition that is changing on the numerator of the ratio, so with no impacts on the capital requirements.

Doug Young:

Okay. I might come back on Slide 14, maybe, just top line to understand that. Then, does this factor in all the changes to seg fund capital rules? I assume all of this—there's nothing else that's coming down the pipe that impacts the CARLI rules around seg funds. Is this fully baked in?

Éric Jobin:

Yes, actually you're absolutely right. There is a small impact with respect to what AMF is proposing to change with seg funds. It's slightly negative, but it's been integrated in the assessment that we provide you today. It's a net increase.

Doug Young:

Okay. Then, just lastly, Denis, obviously, going from $0.9 billion to $2.6 billion—big, big change. Does this make you more willing to go after larger deals? I understand your strategy, what you're looking for and all that doesn't change, but are you looking to go after bigger deals here?

Denis Ricard:

Like I said before—thank you, Doug, for the question. Like I said before, it does not change our strategy. It does not change our appetite. What it does change is really the cost of capital of a larger acquisition if we were going to do one.

Before, if we had, let's say, a $1 billion acquisition, one might expect that some of it would be financed through Tier 1 equity. But today, when you think about it with $2.6 billion, it might be the case that we would not necessarily need to raise any equity for such a deal, so it really decreases the cost of capital for a potential acquisition.

Doug Young:

Thank you for the colour.

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Operator:

The next question is from Tom MacKinnon from BMO. Please go ahead.

Tom MacKinnon:

Thanks very much. Just a couple of questions. With respect to this $2.9 billion that you have now in capital for deployment, presumably, you developed that with some sort of target leverage ratio. By that, I mean debt plus preferreds and some sort of target total solvency ratio as well. Would you be willing to share those two targets with us?

Éric Jobin:

Yes, Tom. First, just to clarify, it's $2.6 billion total. Yes, $2.6 billion. Second, you're absolutely right. This $2.6 billion is underlying our target financial leverage ratio, which is now aligned with peers. That's how far I would go today. You see the peers' average financial leverage ratios and our target is aligned with those.

Tom MacKinnon:

What about your solvency ratio? Do you have a target ratio for that?

Éric Jobin:

Oh, yes, and it's unchanged. It's 113% at the holdco level. Nothing changed there.

Tom MacKinnon:

Okay. All right. Thank you. Secondly, Denis, with respect to Slide 17, if we look at this 18.5% before any of the plus stuff, all organic expansion, how much of that is related to, or what sort of share buybacks do you have in that 2028 target?

Denis Ricard:

The way to look at it, Tom, is really to look at the fact that the underlying assumption of the 18.5% is that all the capital generated year after year, let's say the equivalent of the $700 million that we do generate, will be invested either in buyback or through acquisition. It could be a mix of both. It could be only one of it. But the guideline I gave is pretty much close to...

When I look at the next years, I don't know if it's 2 to 5 years, I keep saying that you might expect something that we've seen over the last five years, which is a combination of both buyback and acquisition. Not probably, but we never know in terms of acquisition. Let's say that we've seen 50/50 over the last five years in terms of deployment on both sides. It's difficult to say because acquisitions, you never know if you're going to do them. To do one, you need to work on 20.

But the point to keep in mind is that the 1% organic expansion includes the fact that the organic capital generation is being deployed.

Tom MacKinnon:

Okay. Thanks for that.

Operator:

The next question is from David Andrich from Jefferies. Please go ahead.

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David Andrich:

Good morning, everyone. I'm just wondering, in terms of last year, you gave some guidance at your Investor Day around the ROE on new business. It sounds like at the total core capital or core ratio level, there's not a huge impact coming from these changes. It's more the underlying mix. But I guess I was just wondering, do you see this having impact on the ROE for new business going forward? I think before, Canada was 20%, U.S. was 17%. Then also the drag on ROE of 3.5% that you flagged at the Investor Day as well.

Éric Jobin:

Thank you, David. No, we don't expect any change out there. The new business profitability is delivering already in excess of the new target, so we don't see any consequence out there.

David Andrich:

Okay. Thank you. Just in terms of—it sounds like this is still under the consultation phase. Given that you're coming forward with these new targets and this calculation around the available capital increase, I guess it's likely that you're highly confident that this will go through essentially as is, maybe some minor tweaks or changes.

Denis Ricard:

Yes, we're very confident that this will go through. But keep in mind that notwithstanding the change in CARLI, we would have come next February with the same target, 18.5%-plus. It's just that here, the plus is a bigger plus.

David Andrich:

Understood. Okay. Thank you very much.

Operator:

The next question is from Paul Holden from CIBC. Please go ahead.

Paul Holden:

Thank you. Good morning. Maybe you can give us a better sense of what products have the negative reserve built in for? Really where I want to go with that question is, you've suggested it levels the playing field with the OSFI-regulated lifecos. Does it give you better organic growth potential, i.e., lower cost of capital on specific products and how you can compete more effectively?

Éric Jobin:

In fact, there are many questions, Paul, in your question. I'll try to clarify most of them. If needed, come back and tell me.

The contracts that are impacted here in a material manner are the long-duration life insurance contracts that we sell in Individual Insurance. That's one piece. The other piece is segregated fund guaranteed product as well. Those two generate negative reserves, so they are highly impacted by this change.

On top of that, if you're asking—the organic capital generation is not affected by this as we were already assessing the organic capital generation with the solvency constraint, so no change there.

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Finally, in terms of competing, here what's at stake is that our average cost of capital with the increased financial flexibility is improving. That's what's at stake, but we don't measure it at the product level. It's an overall company cost of capital that, given the fact that we have more financial flexibility, the weighted cost of capital will be lower than before.

Paul Holden:

Okay. I guess really where I want to go with that—seg funds, you're already outperforming the industry, so I don't think there was any limitations there in terms of prior capital requirements. But maybe in individual life, was there any kind of limitation in terms of how fast you could grow in that business, whether against particular products or just in general, because of the prior CARLI requirements? Then it also brings me back a little bit to an Investor Day objective, which was to get bigger at the mid-market individual life business in Canada. Does it unlock further growth potential there?

Denis Ricard:

Yes, Denis here. You should not assume that there's going to be, let's say, more growth of our products because of that change. In fact, when we evaluated the return on the pricing side of that business, in the past we never incorporated the limitation that we had at the corporate level. There's always a target leverage that is being used for pricing, and that target leverage is more consistent with where we are today.

Paul Holden:

I understand. Okay. Thanks for that.

Just one last question for me, if that's okay. In terms of the changes taking place with CARLI, does that bring it effectively in line with OSFI in terms of this treatment of negative reserves, or is this more favourable now versus the OSFI requirements?

Éric Jobin:

In fact, it is a good question. Our regulator, AMF, they update their capital framework on a yearly basis. Last year, OSFI announced, I think at the request of the Canadian insurers, a freeze on the capital framework at the federal level for a few years.

The objective of the regulators is to be aligned most of the time, so here, it's not—I would describe this as a desynchronization for some time. But they will—the intent, from our understanding, is to resync at one specific point in time.

Denis Ricard:

One thing that I would add is something very important to keep in mind here. The idea was not to add a competitive advantage to iA Financial Group. It was to remove a competitive disadvantage to iA Financial Group.

Paul Holden:

Understood. Okay. That's it for me. Thanks for hosting this call, by the way, and thanks for taking my questions.

Operator:

The next question is from Bart Dziarski from RBC Capital Markets. Please go ahead.

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Bart Dziarski:

Great. Thanks for taking the question. Good morning, everyone. Slide 22 talks about maintaining discipline on potential M&As. I understand the strategic and financial discipline. Can you just provide more colour on the risk discipline—the operational, regulatory, IT, cyber—that you'd look to maintain on a potential deal? Thanks.

Denis Ricard:

Okay. Thank you for the question, Bart. Your question is so broad when you think about it. Obviously, when we look at an acquisition, we have a, I would say, inventory list of things that we really take care of.

I would say number one is—we've learned from a few acquisitions in the past—I think the first one would be culture. You did not label that one, but I think this is probably one of the most important ones. We look at culture, and obviously, then second, we look at—technology is now front and centre. In fact, I have to tell you, we closed the deal last year because when we did, well, "hack" the company, just to test their systems, we realized that there was a big risk for us there, and then we just closed the file. Technology is really, really important because obviously, there's a lot of investments required on that side.

Obviously, the risk in terms of products, distribution is key in the whole evaluations. But I think what you have to keep in mind is to what extent there is a fit strategically. After we looked at, let's say, the fit on culture, is there a fit strategically of the business that we buy versus what we're doing?

We just want to add on this. We are not in a position, but we don't want to get into, let's say, a completely new field. Not right now, in fact. Hopefully, I was able to answer your question here.

Bart Dziarski:

Yes, that's helpful. Thanks, Denis.

Then on the target sectors identified, one of them listed was Dealer Services, so lots of focus there, and you talked about focusing on creating synergies. Could you give us a sense of maybe what type of synergies you're trying to unlock with a potential deal in that sector? Thanks.

Denis Ricard:

In fact, when I look at the Dealer Services businesses in Canada and the U.S., there are a lot of similarities. There's a few differences, but not that major, so we're thinking about in terms of systems, in terms of even distribution.

In Canada, we've been very successful in penetrating OEMs, and it's not something that we've done in the U.S. Once you have got the contact with the OEMs north of the border, we would like to do the same on the south of the border. There are a couple of areas where we could find some synergies and add value to that business before we go bigger, let's say, on acquisitions.

Bart Dziarski:

Got it. That's helpful. Thanks for taking my questions.

Operator:

The next question is from Mario Mendonca from TD Securities. Please go ahead.

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Mario Mendonca:

Good morning. One of the things that I always find challenging with the lifecos as they report is that the life insurance companies tend to calculate excess capital and deployable capital in different ways, so I try each quarter to try to normalize at least so I have a perspective of it on my own. Just a couple of questions to understand your approach to deployable capital.

I think, Éric, you said that the holdco LICAT target is 113%. It's not materially different, but it is a little higher than the 110% I hear from the other life insurance companies. Is there something specific about the 113%?

Éric Jobin:

Absolutely not, Mario. We're doing our own internally. As you know, this is a risk-based target ratio capital determination process, so it's just based on our risk profile and as a result of the work we're doing.

Mario Mendonca:

Then on the core, what target would you use on the core? Seventy percent for other life insurance companies. Is it a little higher or lower for Industrial?

Éric Jobin:

We don't disclose that target. Sorry, Mario, but we don't disclose that target. What we said in the past is—remember that three years ago, there was a change in the way that holdcos were treated by AMF. Before that, they were treated like opcos in terms of capital requirement, and now they remove the constraint. The regulatory minimum is 55%, and we have a target based on our assessment that is higher than that.

Denis Ricard:

Maybe one thing I'd like to add, Mario, is that the core ratio was the constraint in the past. It was very clear, and the change in CARLI removed that constraint, so the core ratio is not going to be the constraint going forward.

Mario Mendonca:

Yes, I can see that. When you shift—I think the number is, what, about $5 billions-plus from Tier 2 to Tier 1. That's roughly the right number, right?

Éric Jobin:

Yes, exactly.

Mario Mendonca:

When you make that change, I can see now that the core ratio clearly can't be the binding constraint. It's got to be like that. But another ratio that is still a binding constraint, if you will, when you're trying to calculate a company's excess capital is the leverage ratio. Industrial Alliance has always talked around 21%. That's the number I have in my mind. I have it on my spreadsheets when I look at this. It sounds like that number is changing. Is it fair to say, when you say that's similar to your peers—your peers normally talk about 25%. Am I in the ballpark there?

Denis Ricard:

Mario, it's Denis. You are in the ballpark.

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Mario Mendonca:

All right. That takes me to the final question I want to get into.

From listening to everything and reading this presentation carefully this morning, what I'm coming away with is that your debt capacity is now a fair bit greater. There's no doubt. If you go from 16.5% to, let's call it, the 25% I propose, that is a lot of additional debt capacity for this company based on the way I'm doing the math. Is the right way to think about this that Industrial Alliance would use that debt capacity in the context of a large deal, but not for the purposes of buying back stock? There's sufficient capital generation for this company to buy back stock. You don't need to raise debt for that purpose. This is deal-focused debt. Would that be correct?

Denis Ricard:

It's Denis here. I don't think I would say that, Mario. Certainly, the one thing that I would say is that it's very clear that, let's say at an extreme, if we had a $2.6 billion acquisition, theoretically, we would not have to issue, let's say, equity. I'm not saying we would not. I'm just saying that, theoretically, we would not have to do so. The cost of capital is going down for a larger acquisition versus before, for sure.

Now, with that said, this is new, okay? We're evaluating the impact going forward. It might be that gradually over time, there are more financing being taken and some buybacks, additional buybacks. I'm not saying we will do it. I'm just saying that it's an option that we have going forward. That's why I would not be categorical in my statement and saying that we will never do that if we don't have an acquisition. It might be that we do it.

Mario Mendonca:

Okay. That's interesting. Then finally, this notion of... Sorry. No. What I wanted to get to in my final question is the nature of how valuation—Industrial Alliance is price-to-book at 2.5, trading north of both Manulife and Sun Life both on a price-to-book and price-to-earnings basis. How does valuation feed into your decision to buy back stock? Does it matter? There was a lot of buybacks this year. Does valuation have a role to play here?

Éric Jobin:

At some point—it's a good question. Mario. The way I tend to look at this is look at the overall capital deployment for the year. If you look last year, we deployed capital through a combination of NCIB and then we purchased RF in the second half of the year, which resulted in more deployment than our yearly organic capital generation.

This year, we deployed about the same amount as last year, but a different way. We did not make any big acquisitions so far. I would like to, but it's not the case. The reality has been different slightly, so we deployed more through NCIB. That's one thing.

The second thing about the valuation, you are right. Remember that we have capital from formula—not a capital formula, an NCIB formula that is based on a number of parameters, including the valuation, that self-adjusts on a daily basis—like a discount with peers, the valuation of the Company. So, there are many factors at play that determine the amount bought on a daily basis. We adjust it a few times a year to make sure that it aligns with our capital deployment priorities a few times.

Mario Mendonca:

Thank you.

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Operator:

The next question is from Gabriel Dechaine from National Bank. Please go ahead.

Gabriel Dechaine:

Good morning. I just want to follow up on an earlier question there as far as future regulatory changes. We've had a few of these announcements over the past few years. We're into over $2 billion of excess capital from CARLI changes. So, that's pretty much it as far as materiality goes going forward?

Éric Jobin:

In fact, I mentioned in my speaking notes that the AMF reviews this guideline on a yearly basis. There's always something to improve in a capital formula, so we cannot guarantee anything with respect to that. We know that there are a few things always that they are thinking. It's evolving as the Canadian industry is evolving as well. That's what I can say. I can't promise anything, Gabriel.

Gabriel Dechaine:

Got it. To put a finer point on the ROE upside, you said, just helpful, that if you deploy a billion on that $2.6 billion, it would increase your ROE potential by 100 basis points. We think about acquisitions as an easier thing to think of as far as delivering that kind of outcome.

Just wondering if you can refresh us on your timing expectations for accretion to both earnings per share and ROE. Some of your past deals have been a bit shorter in terms of how quick they were to deliver, others a bit longer, like American-Amicable, which is very profitable, but it took a while.

Denis Ricard:

Yes. It's Denis here. We want to be accretive on EPS not later than in the second year. That's guide I would give you right now. When we bought the American-Amicable, that's what we wanted. There was a target. It took a bit more time at the time. But you look at the RF Capital, we said the second year, but it just went accretive in the first year. As a guideline, I would say not later than the second year.

In terms of the ROE or the ROI of the acquisition, obviously, we want as much as possible to meet the target. But if we were to find, let's say, an acquisition, very strategic, sometimes we might go even lower than the 18%—now it's 18.5%—because if it's accretive, if it's strategic, as we put it in here, the 18.5% is something that is only—if you look at Slide 17, the 18.5%—let's say forget the plus for the moment—it's just on organic expansion and some deployment for the, let's say, $700 million that we currently have as organic generation.

But when you think about the excess, even if you do a, let's say, very strategic acquisition at the ROE that is lower than 18.5% but, obviously, much bigger than your cost of capital, it's accretive to shareholders, that's something that could happen in the future. It's really case by case.

Gabriel Dechaine:

Okay. My last question revolves around Slide 22. Dealer Services—target sectors, Dealer Services. Are you saying that whether Canada or the U.S., especially the U.S., you're still thinking about potentially increasing that warranty business' size?

Then the geographic priorities, the longer term, establish a presence in a new geography. I believe you've floated that idea in the past, but can you clarify if there are any types of activities and which regions might be of interest? It might be something you already have a few thoughts on.

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Denis Ricard:

Thank you for the question. Dealer Services, if I understand correctly, you want me to give more colour on that part? Is that what you're asking for here?

Gabriel Dechaine:

Yes. If you would do another DAC or IAS deal, essentially.

Denis Ricard:

Well, no deal for the moment, on the Dealer Services part. We're focusing on the organic growth. That's really where the focus is in synergies. That's the answer.

On the geographic priorities, you should not expect anything in the short term. We are at the phase where we are thinking about it—only thinking about it—how we are going to proceed. Probably do some research. I have absolutely no clue which new geography we would go at this point, so don't expect anything in the short term or even midterm.

Gabriel Dechaine:

Okay. Well, I'll have to keep apprised of your vacation schedule here. All right. Thanks a lot.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Denis Ricard for any closing remarks.

Denis Ricard:

I'm going to be very short. I would like to thank everyone for attending such an early Monday morning meeting that was for such a historical moment for iA. Thanks a lot and have a great week.

Caroline Drouin:

Thank you, Denis. The presentation, the news release and the recording of this conference call will be available in the Investor Relations section of our website. And we remind you that our 2026 fourth quarter results are scheduled to be released on Tuesday, February 16, 2027.

Thank you again, and this concludes our call.

Operator:

This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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