Industrial Alliance Financial Group
Fourth Quarter 2024 Earnings Results
Conference Call Transcript

Date: **February 19, 2025**

Time: **11:00 AM ET**

Speakers:

Caroline Drouin
Head of Investor Relations

Denis Ricard
President and Chief Executive Officer

Eric Jobin
Chief Financial Officer and Chief Actuary

Renee Laflamme
Executive Vice President, Individual Insurance,
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Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Industrial Alliance Financial Group Fourth Quarter 2024 Earnings Results Conference Call.

As a reminder, all participants are in 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:

Thank you, Operator. Good morning, everyone, and welcome to our fourth quarter 2024 conference call.

All of our Q4 documents, including press release, slides for this conference call, supplementary information package, and annual MD&A 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 one 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.

Also, I draw your attention to the forward-looking statement information on Slide 2, as well as the non-IFRS and additional financial measures information on Slide 3. Also, please note that a detailed discussion of the company's risks is provided in our 2024 MD&A, available on SEDAR and on our website.

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

Denis Ricard:

Good morning, everyone, and thank you for being with us on the call today.

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As usual, I will start by introducing everyone attending on behalf of iA. Joining me are: Eric Jobin, Chief Financial Officer and Chief Actuary; Alain Bergeron, Chief Investment Officer; Stephan Bourbonnais, responsible for Wealth Management Operations; Renee Laflamme, in charge of Individual Insurance Savings and Retirement; Pierre Miron, Chief Growth Officer of our Canadian Operations and responsible for Dealer Services Canada and iA Auto & Home; Sean O'Brien, Chief Growth Officer of our U.S. Operations; and finally, Louis-Philippe Pouliot, in charge of Group Benefits and Retirement Solutions.

We're excited to be here this morning to discuss our strong performance in the fourth quarter. We had an impressive fourth quarter for profitability, for capital position, and for growth. These results mark a year of consistent strong performance and are a testament to the soundness of our growth strategy.

Starting with Slide 8 for an overview of our fourth quarter results. Record profitability was achieved in the fourth quarter with core EPS of $3.04, representing a solid 30% increase year-over-year. Also, core ROE for Q4 stands at 16.9% on a quarterly annualized basis. The strong sales momentum that we saw during the first three quarters of 2024 carried over into the fourth quarter in both Canada and in the U.S., leading to an impressive 39% year-over-year increase in premiums and deposits, and an 18% increase in assets under management and administration.

As for our capital position, it remains robust, with a solvency ratio of 139%, well in excess of our operating target. This financial strength is supported by ongoing organic capital generation of $150 million in Q4. Our book value per share reached $73.44 as of December 31. This represents a 10% year-over-year increase. The increase in book value per share is 13% if we exclude the impact of share buybacks.

Going to Slide 9 to look at the Q4 business growth for Insurance Canada. This segment has consistently demonstrated robust performance, with all business units delivering solid sales results once again this quarter. In Individual Insurance, we maintain our leading position in the number of policies sold in Canada, with strong sales of $102 million in Q4. The growth was driven by the performance of our unique distribution networks, our best-in-class digital tools, and our comprehensive product portfolio.

In Group Insurance, premiums and deposits increased by 8% year-over-year, totaling $524 million, driven by strong sales, including record sales in special markets, but also by keeping clients through high retention rates. In Dealer Services, total sales amounted to $176 million in the fourth quarter, representing a 10% year-over-year increase. This performance was primarily driven by sales of excellent warranties and ancillary products, highlighting our diversified distribution model and national presence across Canada.

Finally, iA Auto & Home achieved remarkable sales with direct written premiums totaling $134 million in the fourth quarter. This significant 17% year-over-year increase shows our success in generating new sales in a context of rising premiums.

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Turning to Slide 10 to comment on sales results of Wealth Management. The Wealth Management segment maintains a strong momentum, and this is translating into strong sales in the fourth quarter. iA continues to lead the market in both gross and net seg fund sales. Gross sales of seg funds achieved a quarterly record high of nearly $1.6 billion in the fourth quarter, marking a significant increase of 87% year-over-year. Net inflows amounted to nearly $1 billion, demonstrating the strength of our distribution networks and our growing position as a market leader.

Mutual fund gross sales for the quarter totaled $597 million, up 52% year-over-year. We saw a substantial improvement in net sales with outflows reduced to $33 million during Q4. Sales of insured annuities and other savings products reached $434 million during the quarter. This is a positive result in an environment where investors are more optimistic about riskier asset classes.

Finally, sales in Group Savings and Retirement exceed $1.8 billion. This is about three times the result for the same quarter last year. This impressive performance was driven by a major insured annuity sale in excess of $0.9 billion, and a strong 39% year-over-year increase in sales accumulation products.

Turning to Slide 11, outlining our sales results in the U.S. In 2024 we have allocated capital to grow and scale in the U.S. Life sector. In Individual Insurance, sales remain strong, totaling US$68 million. The 55% year-over-year increase reflects a consistent overall performance, reinforced by the addition of sales from Vericity.

In Dealer Services, fourth quarter sales reached US$274 million, representing a 21% increase compared to the same period last year. This outcome is noteworthy as sales traditionally experience a dip during the fourth quarter due to seasonality. This performance highlights the quality of our products and services, particularly in a more favourable context where dealers are integrating more F&I products into vehicle sales. The strong sales results we are seeing in our U.S. business units demonstrate the value of our unique, diversified business model, and growth potential in these markets.

Turning to Slide 12, we share some of the key highlights and progress for the year. In light of our great results, it is evident that 2024 was a standout year in all aspects. Profitability soared to record levels, with core earnings exceeding $1 billion, and an expanding ROE. In 2024, our core EPS increased by 20% compared to the previous year, while our EPS grew by 31% during the same period. This performance was driven by fundamentals, such as a 22% growth in core insurance service results, and 15% growth in core non-insurance activities.

Our business growth momentum accelerated in 2024, ultimately generating a 22% increase in premiums and deposits, and an 18% increase in assets. All business units contributed to these outstanding results with strong and sustained sales.

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Our capital position remained strong throughout the year, supported by a continuous high level of organic capital generation. In 2024, we deployed significant capital investing in our organic growth and our digital transformation, while successfully completing three acquisitions and repurchasing over $600 million in shares. On top of this, we maintained financial flexibility and paid a dividend that is 13% higher than what it was in 2023. These initiatives demonstrate iA's ability to create and return value to its shareholders.

Finally, our book value grew by 10% in 2024, and we closed the year with a $12.5 billion market cap, today being at $13 billion. The rise in our market cap represents an important milestone for iA. Our 2024 performance highlights our strong foundation, the soundness of our growth strategy, our prudent financial approach, and dedicated efforts of our employees and distributors. We are moving into 2025 with confidence and momentum, and we are set up well for continued growth.

Let's move to Slide 13 to review our performance against the financial targets set at the beginning of 2024. I'm very proud to announce today that we have successfully met all our objectives for each of the five metrics outlined in our guidance. Our core EPS has seen a 20% increase, and core ROE has reached 15.9%, along with other remarkable results that meet or exceed targets.

We invite you to join our Investor event scheduled for next Monday, either in person or virtually. During this event, we will introduce our new market guidance. Our Executive Management team is fully engaged, and will be presenting on the key objectives of our Canadian businesses and an in-depth review of our U.S. operations.

I will now hand it over to Eric, who will comment further on the fourth quarter profitability and capital strength. Following Eric's comments, we will take questions. Eric.

Eric Jobin:

Thank you, Denis, and good morning, everyone.

I will start with Slide 16 for an overview of Q4 profitability and financial strength. In Q4, our quarterly annualized ROE reached an impressive 16.9%. The positive results in Q4 elevated the core ROE for the full year at 15.9%, making our medium-term target of 15% plus. Strong earnings, combined with the strategic capital deployment initiatives, played an important role in the expansion of the ROE.

Core EPS at $3.04 represents a notable 30% increase year-over-year. This strong performance is supported by growth in core insurance services and growth in core non-insurance activities. With core earnings of $287 million in the fourth quarter, we are happy to report that we have now surpassed the $1 billion core earnings mark for 2024. This solid performance was supported by the increase in premiums and deposits, as well as asset growth attributed to sustained sales momentum.

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Organic capital generation remained strong in the fourth quarter, enabling us to meet our annual target of over $600 million set at the beginning of the year. Our book value per common share has increased by 10% over the past year. Excluding the impact of the share buyback, the book value increased by 13%, reflecting our ability to create and return value to our shareholders. Also, it is important to notice that, on a quarter-over-quarter basis, book value has increased 3%.

First, in Insurance Canada, core earnings for the quarter reached $116 million. This represents a significant 49% increase year-over-year. This growth was fueled by higher expected insurance earnings driven by strong sales and favourable insurance experience, notably lower claims at iA Home & Auto. In addition, core non-insurance activities showed higher results, driven by good performances from dealer services and distribution activities.

In the Wealth Management segment, fourth quarter core earnings were $112 million, marking a robust 23% increase from the previous year. This growth comes from higher CSM recognized for service provided, and a higher risk adjustment release coming from remarkable net fund sales. This segment also benefited from a 27% year-over-year increase of core earnings of non-insurance activities coming from very strong performance from our distribution affiliates and iA Clarington. Lastly, favorable macroeconomic environment continued to positively impact this segment.

In our U.S. operations, core earnings for Q4 totaled $26 million, in line with last year's performance. The addition of Vericity and Prosperity blocks of business had a positive impact on expected insurance earnings, while favorable mortality experience contributed to positive core insurance experience. Core non-insurance activities declined slightly compared to the previous year, reflecting the impact of the distribution activities of the Vericity acquisition that are performing in line with expectations.

Now turning your attention to Slide 18, starting with the investment results. Expected investment earnings rose by 12% from the previous quarter, attributed to the favourable impact of the steepening interest rate due to the long-term nature of our businesses. This, coupled with strong performance from our high-quality investment portfolio, led to a 28% increase in core earnings compared to the previous quarter. However, the credit experience resulted in a $7 million loss, preliminary due to higher impacts from downgrades than upgrades in the investment portfolio, and increased allowance for credit losses at iA Auto Finance.

In the Corporate segment, core other expenses totaled $82 million before tax, $69 million after tax. Those numbers include an $18 million charge related to variable compensation resulting from the Company's outstanding performance in 2024. I would like to call out that, excluding this charge, the Q4 core other expenses would have been $64 million pre-tax, is well aligned with our quarterly target of $65 million plus or minus $5 million. Our focus remains on operational efficiency, cost conscious execution, and disciplined project and workforce management.

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Turning to the non-core adjustments on the right of the slide, net income to common shareholders was $220 million. Adjustments leading to core earnings include impact of favorable market-related variations, the impact of year-end assumption review and management actions, non-core expenses related to acquisitions and pension plans. Additionally, adjustments were made for specific items, including an $8 million tax adjustment for previous fiscal years, $9 million software write-down in Insurance Canada, and $16 million provision for outstanding balances related to accounts receivable in the U.S. operations. The latter adjustment relates to old accounts following Management action and a prudent risk management approach.

Please refer to Slide 19 to look at company robust capital position. Fourth quarter results are solid and aligned with the performance seen throughout the year, reflecting a flexible balance sheet and sound risk management practices. Our solvency ratio as of December 31 stands at 139%, well above our operating target of 120%. The 1% point variation during the fourth quarter was driven by the impacts of non-organic items, including the annual year-end assumption review and management actions; macroeconomic variations; capital deployment initiatives, such as share buybacks; IT investment; and investment portfolio as well. These items were offset by strong favorable impact of the $400 million subordinated debenture issuance and strong organic capital generation of $150 million during the fourth quarter.

Organic capital generation in 2024 amounted to $635 million, meeting our target of $600 million-plus for the year. We have included values on a pro forma basis to account for the three material items subsequent to the quarter. These items include the acquisition of Global Warranty, the impact of the AMF-revised CARLI guideline as of January 1, and the redemption of subordinated debentures. Therefore, on a pro forma basis, the solvency ratio is 133%, the capital available for deployment totals $1.4 billion, and our financial leverage ratio is 15%. We will remain disciplined in our capital deployment, preserving our financial strength and flexibility in the current environment.

Moving on to Slide 20, we present the results of our year-end assumption review and Management actions. The completion of this annual process resulted in slightly positive overall impact of $9 million pre-tax during the fourth quarter. More specifically, the year-end review had a negative impact of $22 million pre-tax on fourth quarter net income, and positive impact of $31 million pre-tax on future profits. The result of the process was positive for morbidity, policyholder behavior, financial, and expenses assumptions, while negative for mortality assumptions.

A number of management actions had a negative impact. One of the main actions relates to adjustment to MERs of segregated funds. Minor model refinements across all segments were overall positive to net income, but negative on the CSM.

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With solid profitability, significant capital available for deployment, and higher expected investment earnings, we concluded 2024 on a solid note and entered 2025 with continued confidence in our strategy, our capabilities, and our path to delivering long-term sustainable growth.

These conclude my remarks. Operator, we are now ready for the question period.

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 speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two.

The first question comes from Tom MacKinnon from BMO Capital Markets. Please go ahead.

Tom MacKinnon:

Yes. Thanks, and good morning.

Two things. First, the Canada Group business, the strain seemed to be lower than what we've seen in the fourth quarter of 2023. Can you remind us of the seasonality associated with that? And the fact that sales were up and net premiums were up and the strain was down, how should we be reading that and how should we be thinking about this strain number going forward? Thanks. And I have a follow-up.

Eric Jobin:

Thank you, Tom. I guess I will take the question. It's Eric. Thank you for the question.

I will say that the strain in Q4 for Group businesses is slightly lower. It's lower than last year, mostly for the fact that we had less proportionally onerous renewals for in-force business. That's what explains the big difference. Last year, we had a big chunk of business that renewed in Q4, and that resulted in higher strain than we normally see in Q4, so that's one piece.

The second piece to your answer is what you see in terms of premiums in our disclosure is really the premiums that are in our books right now, and the strain has to do with confirmed business. So the strain for new business that comes from Group sometimes takes a while. Remember, I said that there's a lag effect between the implementation and the confirmation, so for the new business part of the strain, it has to connect with the confirmed sales, while what you see in the reported premium growth is the implemented sales and what we have in the books.

Tom MacKinnon:

How should we be looking at this strain going forward? Is 2024 a little more higher than it would normally would have — is 2024 kind of in line with what we should be thinking about that? Was the fourth quarter in 2023 a little bit of an outlier?

Eric Jobin:

Yes. I would say that, yes, we would expect it more in line, but we never say no to business growth. When we have good ROE, Group Insurance is kind of lumpy. As long as the ROE and profit expected on the Group is appealing to us, we will book the sales. Remember that this is a lumpy business, that brings on some fluctuation, but you're right that 2024 is more aligned with the past and '23 was more of an exception, but we will never say no to good business growth that are profitable.

Tom MacKinnon:

Okay. The follow-up, just a quick numbers question, the tax rate here is just a little under 20%. I think you've been kind of running 22% to 23%. How should we be thinking about core tax rate going forward?

Eric Jobin:

My guidance for you, Tom, would be 21% plus or minus 1% going forward. Q4 was slightly lower for two reasons. Our CIF, the Canadian Investment Fund, for our status of multinational insurer, has been favourable in the quarter. Also, we had a larger portion of investment income that were not taxable. So those were slightly higher than usual, but the guidance for me would be 21% plus or minus 1%.

Tom MacKinnon:

Okay. Thanks.

Operator:

The next question is from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman:

Hi. Good morning.

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Denis, I'm curious, from your perspective, how should we be thinking about the impact of tariff risk, especially on your various auto-related businesses? That's one area that I'm trying to think through. Obviously, a lot of uncertainty, but I just wanted to get your perspective on that.

Denis Ricard:

Yes. Thank you, Meny, for the question.

Let me say first that, since we don't produce goods, the tariffs don't have any impact directly to our business, but it might be that there are some indirect impacts. Then you mentioned the auto business. The one thing that I believe is that, at the end of the day, the American government, the U.S. government, is trying to, at the end of the day, put more money into the pockets of their citizens. I believe that they would want to avoid inflation. They would be responsive to the financial markets at some point. There's a lot of noise in what they're saying but, at the end of the day, when we look at the long view, because we are in the long term business at the end of the day, we believe that whatever they're going to do at the end of the day will not be detrimental to their economy. It could not be the case, because they will face an election at some point.

So yes, there's a lot of noise right now, but I think mid-term, long-term, because what I said, it's going to be okay. Now, in the short term, there might be some disruption, but the one thing I would say is that we have a diversified business throughout all our organization. We've gone through some kind of recession in the past. It might trigger some slowdown in the economy, but because of our diversified business, the fact that we're doing business with distributors, it kind of gave us, I would say, good hedge against the recession. That's what we've seen in the past. So we're not that concerned about the tariffs, as far as our business is concerned.

Meny Grauman:

Then a related question, just in terms of any change to your M&A outlook, again, more the indirect side of things in terms of how you're viewing the outlook here. Does that change any priorities on the M&A side for you?

Denis Ricard:

It does not at all. We see the U.S. as a great place to invest, and so we're looking at opportunities on both sides of the border. So it hasn't changed anything.

Meny Grauman:

Thank you.

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Operator:

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

Gabriel Dechaine:

Good morning. I have a numbers question and then more of an outlook type question.

The numbers one, I don't want to get too into the weeds here, but if I look at the CSM recognized for any given period, it was up 16% year-over-year for 2024. But if I look at that number as a ratio of the actual CSM balance, it's like there's an increasing ratio, meaning you're releasing more CSM since IFRS 17 was adopted. I'm wondering if there's any explanation you can provide there. You've been selling more short-term product that amortizes into income faster, or what we can expect from that line item? Because it's been growing pretty nicely.

Eric Jobin:

Yes. The CSM, Gabriel, is amortization is increasing for mostly two reasons. The first one is that Renee's team are doing an exceptional job on the sales side, the market. The net sales are growing, so it has a direct impact on the CSM being recognized.

I would say the second thing is the market-related impact. Twenty-twenty-four was a great market performance year. That resulted in increase in the funds under management. And with the CSM and IFRS processes, what happens when the market is better is that we need to keep the same amortization schedule as the beginning, and so that tend to increase the CSM amortization in dollars.

Gabriel Dechaine:

Okay. Then I guess the outlook type question, I know you're doing your Investor Day next week, but if I just take a high level view of the last couple of years, and Denis, this year I think he called it astounding or exceptional, which definitely I agree with that. But it's also a contrast against 2023, where that year ended up not being as strong as you anticipated. I guess my question is you had one so-so year, one great year. At this point, do you think investors should temper expectations a little bit, given that—I'm just talking about two years, but there's some variability of outcomes certainly. Should we temper expectations, or are you still really bullish that what we saw in 2024 is repeatable?

Denis Ricard:

I have to disagree with the word you're using, Gabriel, because in the word exceptional, there's another word that is exception. So exception means that it's not going to happen again.

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Gabriel Dechaine:

Yes. I forget which word you used. Maybe it was astounding.

Denis Ricard:

Yes, I know. I'm getting sarcastic here.

Gabriel Dechaine:

Yes. Yes.

Denis Ricard:

2024, to me, is not exceptional. It's an excellent year. That's the way I would qualify it. It's repeatable. We're confident in our business model. In fact, we are trying to accelerate, and we are having strategies to accelerate our development. Deployment of capital is one key thing there. Next Monday, you're going to hear our recipe. You're going to hear our recipe for success and you will feel, hopefully, that the Executive team is quite confident about the outlook going forward.

Gabriel Dechaine:

Okay, great. I look forward to that next week. Thanks.

Operator:

Next question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young:

Hi. Good morning.

I'm not sure if this question is for Eric or for Sean. Just on the U.S. business, I'm just hoping to understand the provision for outstanding balances related to the accounts receivables. What does this relate to? I assume it's related to the Dealer Services. Is this part of the affiliated side of the business? Can you quantify it? I'm just hoping to get a little bit more detail.

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Eric Jobin:

Yes. I will take it, Doug. It's Eric. That provision has to do with—you're right, it's in the U.S. Dealer business. Since Sean took over last year in the fall or at summertime, with his new Management team, he undertook a lot of management actions to improve the situation. One of those management actions was to go after some amounts that were accounts receivable from dealers. Those had to do with chargeback to dealers, and while they were doing that job in the fall, we realized that our provision for the potential recovery needed to be strengthened. That's what took place in Q4 in terms of putting the provision at a prudent level so that we put this thing behind us.

Denis Ricard:

Yes. It's Denis. I'd like to add something about it.

In terms of the U.S. business, you might recall that I got several questions in previous calls about have we turned the corner there, and I was quite prudent in the past, saying that we still have a few quarters to go. We knew at the time that we needed to look at those provisions, and we didn't know exactly what would be the end result, so we were prudent. Now we know, we put it behind us. If you ask me,"have we turned the corner there? "We're closer to turning the corner than we were in the last quarter, for sure, but I would still be prudent. We've got a Management team right now that is really focused on improving the situations, and you'll hear on next Monday, because we spend more time next Monday on the U.S. business. I'm confident that you'll have more confidence into the strategies in the U.S. when you hear my people.

Doug Young:

Just a follow-up, is this related to the affiliate business, where you have reinsurance with the dealers? Was it related to some form of them compensating you back for certain things? I'm just trying to understand, and I can take this offline or wait until Monday, if that's better. I just figured I'd ask.

Eric Jobin:

This specific item, Doug, is not related to the reinsurance deficit. It's really chargebacks that were due by dealers that we decided to write-off.

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Doug Young:

Okay. Then just on the capital, I just want to understand, I'm a little slow today, but you went from $1.7 billion to $1.4 billion of deployable capital. I'm just trying to understand the mechanics on that. I can see on Slide19 the ins and outs, but the one item that catches me is the non-organic variations, that 5.5 points off it. So just trying to understand how to think about that movement from $1.7 billion to $1.4 billion. I get one percentage point of about $180 million related to the recent acquisition, so I get it's more $1.5 billion versus $1.7 billion, but just if you can walk me through that.

Eric Jobin:

I would say, essentially, Doug, three things happened in there on the non-organic side. First, the annual change of assumption impacted the non-organic growth. Second item is some changes that took place in an adjustment in our investment portfolio to manage interest rate risk, so that contributed to some additional capital as well. Finally, the other item is some deployment of capital in more yield-rewarding investment on Alain's side, so that resulted in a bit more capital deployment, but it will come with improved investment earnings in the quarters to come.

Doug Young:

Appreciate the time. Thank you.

Operator:

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

Paul Holden

Thanks. Good morning.

I guess a couple of modeling questions, maybe starting with the topic of investment earnings to come, since that's where we left off. Maybe you can talk a little bit about where the yield curve ended Q4 versus where it ended Q3, and what the implications are for Q1 investment income. Then sort of maybe part of that yield curve has moved a lot in the last month or so, and maybe what that implies for the go-forward investment income.

Eric Jobin:

Yes. Sure, Paul. It's Eric again.

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What happened in Q4 here is a steepening of the yield curve, like we mentioned in the document. That steepening was very favourable to us, particularly between one and seven years. I would have to remind you, we have to remind, let's say the challenge we had a year and a half ago when we had the inverted yield curve. It was a challenge and a headwind for investment return. So now, we're just returning to a more normal situation, and we're getting back on track with, I would say, a more normal steepness in the curve.

In terms of outlook for Q1, you're right that it's still improving a little bit. We see that as a potential positive with respect to our investment results. But Q4 is a good guidance for you to think about investment earnings in the nearest quarters.

Paul Holden:

Okay. That's helpful. Thanks for that. I'm kind of curious on what you're seeing in terms of flows in the Wealth side. When I say that, I guess I'm referring specifically to GICs. I can't remember what it was. It was year ago, two years ago, we had some conversations on the amount of money that was flowing in the GICs, because the rates were quite attractive at the time. I imagine some of that's reversing, or at least probably start reversing this year. So, A, can you verify whether that's a correct assumption. Then I'm assuming that's going to benefiting the seg fund sales in particular, and maybe the mutual funds sales as well?

Renee Laflamme:

Hi. This is Renee speaking.

You're right to think that the money is reversing into the segregated fund business on our side. Of course, with the performance of the market, also with the long-term view that our advisors are bringing to the client, the money is not going into the GICs, given the market is going into the segregated funds. We've been also able to recoup some of that business that was put into GICs and now is flowing back into the seg funds. Just for a better comprehension, when we talk about GICs, we also refer to the HISA, the High Yield Savings Account. I hope that answers your question.

Paul Holden:

It does. Sorry, I just want to ask a follow-up to that. How should we think about the impact that has on profitability? I imagine it's positive, but maybe you can provide some thoughts there as well. Thank you.

Eric Jobin

Hi, Paul. It's Eric again.

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I will say it clearly, I much prefer the seg funds than the GICs. Those are more profitable than GICs. But, that being said, we prefer to keep the client at the end, so we accommodate them when they are in times when they want to have more security with GICs. But in terms of profitability, segregated funds are better.

Paul Holden:

Got it. Thank you for your time.

Operator:

Once again, if you have a question, please press star then one.

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

Mario Mendonca:

Good morning. Eric, probably first for you, I want to make sure I understand this investment income dynamic well. The increase in expected investment income from $113 million in Q3 to Q4, you're saying that relates to the steepening of the curve in Q3 in the one- to seven-year duration. That's the message, right?

Eric Jobin:

Yes. Part of it, Mario. On top of that, there's some improvement as well on iA Auto Finance, but there's a big part that has to do with the steepening of the yield curve.

Mario Mendonca:

But clearly, it's the steepening in Q3 that impacted Q4?

Eric Jobin:

It's the steepening that happened in Q4.

Mario Mendonca:

Oh, so the steep—it's not—

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Eric Jobin:

Yes. Remember that we changed our formula for interest rate last year, and we now take a monthly rate. That took, I guess, the rates at the beginning of each month in the fourth quarter. So we removed what we called in the past the lagging effect that we had with respect to what you were suggesting.

Mario Mendonca:

So the impact on core earnings now is no longer lagged by a quarter? It's what happens in the quarter, including what happens with interest rates? It's not like everything that happens in the quarter informs that quarter, is that the right way to look at it?

Eric Jobin:

Exactly, Mario.

Mario Mendonca:

Okay. Sort of a follow-up question to this, if nothing were to change in Q1, nothing changes at all, that $127 million that appears there as expected investment income, that becomes the base from which you grow. So, if your assets grow, you can grow from $127 million, but if nothing else changed, that is the appropriate starting point. Was that your message to Paul?

Eric Jobin:

Exactly.

Mario Mendonca:

Okay. Then maybe a question for Denis. All around, very strong quarter, but one thing that clearly has started to attract my attention, and this is true for a lot of insurance companies, is that that spread between reported and core earnings is really starting to grow again, and it really does detract. At least for me, it detracts from the story, because it impacts book value growth and everything else. The question I'd like to ask is you have expressed in the past that you'd expect there to be—it should be relatively neutral. Not over a short period of time, but over long periods of time, reported shouldn't be much lower than core. There should be plenty of quarters that go back and forth.

Is that still your view, that we're going to see quarters where reported is materially higher than core, offsetting a quarter like this? Because when I look at the year, when I look at 2024, in total, reported earnings were 12% lower than core, but I'm curious what your outlook is on this.

Denis Ricard:

No. I mean, I'm at the same place, Mario. When you look at the last eight quarters, three out of eight, we had reported higher than the core. Looking forward, my expectation, our expectation is that the difference should be very minimal, even being zero. If I remove, for example, the amortization of intangibles, my expectation is that this should be zero over time. I recognize that this year, because of Q4 adjustment, it might have been a bit higher, the difference, but our guidance would be that it would still be neutral over time.

Mario Mendonca:

Okay. Thank you.

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:

Yes. Okay. I'm quite excited, because next Monday we're going to host you for the Investor event. You're going to hear about us, about why we have outperformed the market, and also why we're so confident about our business model and we're going to continue providing outperformance going forward. We had a great year in 2024, thanks to all my team and my employees. Guys, I'm very optimistic about the future.

So, that's it. Have a nice day. Thank you.

Operator

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

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