FINAL TRANSCRIPT

# iA Financial Corporation

## 2023 Third Quarter Results Conference Call

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to iA Financial Corporation 2023 Third Quarter Results Conference Call. (Operator Instruction)

I would like to remind everyone that this call is being recorded on November 8, 2023.

I would now like to turn the conference over to Marie-Annick Bonneau, please go ahead.

**Marie-Annick Bonneau** — Head of Investor Relations, iA Financial Corporation

Good morning, everyone, and welcome to our 2023 third quarter conference call.

All our Q3 documents, including press release, slides for this conference call, MD&A and supplementary information package are posted in the Investor Relations section of our website at ia.ca. This conference call is open to the financial community, the media, and the public. I remind you that the question period is reserved for financial analysts.

A recording of this call will be available for one week starting this evening. The archive webcast will be available for 90 days, and the transcript will be available on our website in the next week.

I draw your attention to the forward-looking statement information on Slide 2, as well as the non-IFRS and additional financial measures information, and the note regarding 2022 restated results under IFRS 17 and IFRS 9 on Slide 3. Also, please note that the detailed discussion of the Company's risk is provided in our 2022 MD&A available on SEDAR and on our website with an update in our Q3 2023 MD&A released yesterday.

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

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

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

As usual, I will start by introducing everyone attending on behalf of iA. First, 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 and annuities; Pierre Miron, Chief Growth Officer of our Canadian Operations and responsible for Dealer Services Canada and iA Auto and Home; Sean O'Brien in charge of our group businesses; and Mike Stickney; Chief Growth Officer of our U.S. operation and co-head of acquisitions.

Starting with Slide 8 for an overview of our third quarter results. Yesterday, we reported a solid core EPS of $2.50, 10 percent higher than a year earlier, driven by strong profitability in almost all business units. This represents a core ROE quarter annualized of 15.4 percent. A very strong result, which led to a core ROE for the last 12 months of 14.8 percent, very close to our medium-term target of 15 percent plus. Our capital position is very solid with a solvency ratio of 145 percent, and we continue to generate significant organic capital in line with our 2023 target.

Sales momentum continued in the third quarter with double digit growth in many business units. Strong sales, along with good retention of in-force business supported the solid 17 percent year-over-year increase in premiums and deposits, as well as the 7 percent year-over-year increase in the level of assets under management and administration. A very good result given market conditions. Finally, our book value is $65.25, which represent a 4 percent increase since the beginning of the year.

Turning to Slide 9, for our year-to-date results relative to mid-term guidance. The core EPS for the first nine months is 7 percent higher than last year. Core ROE is close to mid-term guidance. The solvency ratio is well above our operating target, and we are well positioned to meet our $600 million organic capital generation objective for 2023. Finally, the dividend payout ratio of 32 percent of core earnings is within the target range.

Now to Slide 10 to look at Q3 business growth. Starting with Individual Insurance in Canada, which recorded another solid performance with sales of $96 million during the third quarter. For a third year in a row, we ranked first for overall company rating in the advisor perception survey, confirming our ability to effectively meet our distributors expectations.

In Group Insurance, net premiums increased by 6 percent to $407 million as sales and in-force business retention were very good. Sales were also strong in the dealer services division, reaching $193 million up 10 percent over the previous year. Our leading position in Canada, our comprehensive product range and our extensive distribution networks contributed to this very solid result despite higher financing costs for car buying customers.

Finally, at iA Auto and Home, direct written premiums reached $142 million for the quarter supported by the strong retention of in-force business. This represents a strong increase of 15 percent compared to the same period last year.

Looking now at Slide 11 to comment on Wealth Management sales results. The sector for which the environment continues to be challenging, we performed very well in seg funds where we remain the leader in both growth and net seg fund sales, with the gross sales up 13 percent year-over-year and net sales of $216 million. While many clients continue to favor cash equivalent products, mutual fund sales were softer, whereas sales of insured and other savings products almost doubled year-over-year, reaching $618 million.

Finally in Group Savings and Retirement, sales of $522 million in the third quarter were up 8 percent year-over-year. This good performance was mainly supported by sales of accumulation products.

Now looking at Slide 12 regarding our business growth results in the U.S. In our Individual Insurance division, strong business growth momentum led to record sales of $44 million U.S. This is a solid 26 percent increase from a year earlier and performance driven by our strong distribution channels and our portfolio of products. This division started growth story confirms the potential of this market as we continue to strengthen our presence in the U.S., for example, with the recently announced acquisition of Vericity.

In the Dealer Services division, third quarter sales amounted to US$248 million compared to US$261 million a year earlier, as higher financing costs for customers continue to have a negative impact on sales. Meanwhile, we are adding dealers and continuing our digital transformation to be ready to seize growth opportunities when the environment will become more favorable.

I now want to briefly comment on the acquisition on Vericity announced at the beginning of October. Please go to Slide 13. Vericity comprises an insurance carrier and a digital agency with synergies in between both servicing the middle market life insurance space. This medium size acquisition with the purchase price of US$170 million presents a strong strategic fit with iA. Among other things, it strengthens our geographic footprint in the U.S, it complements well our existing activities, and it diversifies our distribution capabilities. We expect this acquisition to be accretive to core EPS starting in year two, to increase core EPS by $0.10 in year three, and to rapidly meet our ROE target.

With our strong capital position while investing in our organic growth, we continue to actively monitor opportunities while making smart choices and staying disciplined.

I will now turn it over to Eric who succeeded Jacques as CFO on August 21. Eric will comment on Q3 profitability and capital strength, and we will then take questions. Eric.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Thank you, Denis, and good morning, everyone.

I'm pleased to be here today to explain our results for the third quarter of 2023. These are good results as almost all business units performed well.

Please go to Slide 15 for an overview of Q3 profitability and financial strength. Core EPS at $2.50 is 10 percent higher than during the same period in 2022. This performance was driven by 10 percent year-over-year increase in both core insurance and non-insurance results, which reflect well the strong quality of our operating results. At 14.8 percent, core ROE is also strong and close to our mid-term target of 15 percent and above.

Net income, which is more sensitive to short-term macroeconomic variations under the new accounting standards than it was under IFRS 4 amounts to $55 million. From quarter-to-quarter, core results allow to better assess the Company earning power by removing short-term market volatility while the average reported earnings should converge to core earnings over time.

In terms of capital, our financial position continue to be very solid and flexible. As for the book value, it has increased by 4 percent since the beginning of the year.

Now turning to Slide 16 for results by operating business segments. In Insurance Canada, core earnings of $91 million are 8 percent higher than in the previous year, driven by 9 percent growth in expected insurance earnings. The core insurance experience for the segment was a loss of $6 million attributable mainly to higher P&C claims at iA Home and Auto due to a storm and increased severity of auto claims. It is worth noting that disability and morbidity experience was favorable and that results were slightly better than expected for mortality claims.

In the Wealth Management segment, Q3 core earnings of $82 million were 26 percent higher than for the same period of 2022. In addition to lower expenses, this solid performance was achieved through 16 percent year-over-year growth in expected earnings for seg funds and 29 percent year-over-year growth in core non-insurance activities as our distribution affiliates, once again, delivered strong results. As for our U.S. operations, core earnings amounted to $32 million in the third quarter compared to $26 million during the second quarter of 2023 and $37 million a year ago. Results were quite good in the Individual Insurance division as evidenced by the 9 percent increase in the core insurance service result.

In the Dealer Service division, core non-insurance activities improved slightly during the year, but remain below the previous year level as higher financing cost and vehicle prices continue to affect consumer affordability.

Continuing with Slide 17, Q3 core earnings for the Investment segment were $93 million, which compares to $97 million a year ago. This core results depends, among other things, on the level of interest rates and the yield curve at the start of the quarter. Accordingly, the interest rate at June 30 had a negative impact of $9 million) on core earnings during the third quarter. This more than offset the favorable impact of the portfolio optimization, which took place mainly at the end of 2022, and the good performance of iA Auto Finance. Looking forward, the level of interest rates and the slope of the inverted curve improve during the third quarter, which will be positive factor for the Q4 core net investment results. Finally, our Corporate segment recorded after-tax expenses of $42 million, which is the same amount as Q3, 2022.

Now looking at non-core adjustments, which are represented on the right side of the slide. Most of the Q3 adjustments were due to unfavorable market related impacts, differing from Management long-term expectations. These impacts amounted to $169 million during the quarter. More than half of this adjustment relates to investment properties for which the CAP rate was increased across the board. The specific fundamentals of our investment properties portfolio are very good, and the valuation now reflects current macroeconomic condition inferred by external appraisals. Please see Slide 26 for more details on market related impacts and Slide 30 for information about our investment properties.

Now turning to Slide 18, regarding our robust capital position. Our solvency ratio of 145 percent at the end of Q3 is well above our operating target of 120 percent. Most of the Q3 variation is due to the debenture redemption that occurred in September. The Company organically generated $165 million in additional capital during Q3 for a total of $440 million during the first nine months of the year. We are therefore on track to achieve our $600 million 2023 target of organic capital generation.

Finally, at the end of September, $1.6 billion in capital deployable was available for organic growth, digital transformation, and future acquisitions.

These conclude my remarks. Operator, we are now ready to take questions.

## Q & A

**Operator**

Thank you. (Operator Instructions) Your first question comes from Meny Grauman from Scotiabank. Please go ahead.

**Meny Grauman** — Analyst, Scotia Bank

Hi, good morning. On the subject of investment properties, have you appraised 100 percent of your holding? Did I get that correct?

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Hi, Please go ahead. Go ahead, Eric.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

I said yes, Meny.

**Meny Grauman** — Analyst, Scotia Bank

Okay, great.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Alain, do you want to add color?

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Yes, the one color I would say is that there's a process that looks at the real estate where each property is evaluated once a year. But I would say then when material event arise, then we reflect it in the valuation and that's what happened this quarter with the cap rates.

**Meny Grauman** — Analyst, Scotia Bank

Okay. Just wondering in terms of that $101 million impact, is it weighted to certain geographies or certain types of properties that you're holding if you give us a little more detail in terms of what's driving that impact in terms of the details of your portfolio.

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Sure. Meny, it's Alain. I'll take this one. In terms of the cap rate increase, it was across the board of our office property and of course you know that's about 85 percent of our portfolio is in office. Now most of our office are in Quebec and in Ontario, not exclusively, but mainly. The reason I say across the board and rather than specific fundamentals of specific properties, I think the best way I think to make the point is to give you an example. We have a property in the province of Quebec. It's all leased to provincial government. We have a lease with them until 2047, and the cap rate that we got from the external appraiser is similar to the rest of the portfolio. I think that just gives you a sense of what's really happening this quarter in the portfolio.

Maybe a sub-bullet of this of course is, I've said a few times we've put that in our slides, that the quality of the portfolio is relatively high when it comes to our office, it’s unlevered, 99.8 percent is in Canada. The occupancy is higher than the market rate, long-term lease. The reason I bring this up is then when you link it to an increase in cap rate, when you have a high quality portfolio an increase in cap rate that means one a decrease in valuation today, and that's what you're seeing. But also means an increase in economic expected return in the long term. Hopefully that helps give you a bit of context around this quarter on investment properties.

**Meny Grauman** — Analyst, Scotia Bank

Yes. Thank you. Then just a question on the Q4 actuarial review. I'm wondering if there's any outlook you can provide at this stage in terms of what to expect and maybe start there and I have a follow up on that.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, Meny. Thanks for the question. In fact, we are still working on it, as you may suspect, we're not done yet completely. Right now, what I'm looking at is mortality. The big question is what has happened since the beginning of the year with respect to mortality in Canada? We're happy to see that we had a turnaround in Q3. I will look carefully at this one for year end to see if I need to make any adjustment to that. That's still an unknown. The next couple of months will provide guidance to what we need to do with this.

The other indicator that I look to make up my mind is the gain and loss. When you look at the insurance experience this year, we have slightly negative gain and loss since the beginning of the year. When you look at gain and loss on the CSM, it's neutral. The way I look at this at 30,000 feet is that I am expecting some things slightly negative for year end in terms of basis change all inclusive.

**Meny Grauman** — Analyst, Scotia Bank

Then just to follow up, just in terms of conceptually, am I right to think of, and I think we talked about this in the past, the change in IFRS 17 for you, giving you less ability to offset actuarial charges. Just wanted to understand if I have that correct in terms of this new reality for you.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. In fact, what is happening, Meny, is that all economic change of assumptions goes to P&L every quarter. This item is now removed from the radar of basis change at year end. What will happen with basis change, that will be reflected in the CSM. It'll not be, or maybe a small part in P&L, but most of the basis change that will be happening at year end will go through CSM and it'll reflect the contingencies on insurance risks.

**Meny Grauman** — Analyst, Scotia Bank

Thank you very much.

**Operator**

Your next question comes from Doug Young from Desjardins. Please go ahead.

**Doug Young** — Analyst, Desjardins Capital Markets

Hi, good morning. Alain, maybe back to you just on the investment property. Thanks for the response to the first question and the details. But I think last quarter you talked about pursuing value creation opportunities with this portfolio. You've obviously made a mark in terms of the cap rates. You didn't elaborate last quarter. I'm just wondering if there's any updates on what that value creation opportunity would be or your thought process around that.

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Yes, sure. Happy to give also more context on that. Good current recollection, by the way, for the comment of last quarter. Yes, high level we continue to work on, I would call it significant. We're working on significant opportunities to create value with some of the buildings, essentially changing the entitlement for more density. Various projects or various properties are at various points of the approval. Some are closer than others. Although there's no certainty, I think we're optimistic and some are progressing well. Within the next two years, we expect that this would favorably, if they go forward, which we expect it would, favorably affect the valuation of these properties.

But I don’t think I can tell you there’s not enough progress between now and the last quarter. I don’t think I can give you more, but I would say this is very nice that despite the headwinds that there are these this potential tailwind with that portfolio and frankly, kudos to the team that has found some of these exceptional I would say opportunities. I look forward, Doug, to give you updates as these materialize.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay. But there's nothing, I guess more the point is this is year plus…

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Nothing imminent.

**Doug Young** — Analyst, Desjardins Capital Markets

Yes, nothing imminent. Okay.

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Nothing imminent.

**Doug Young** — Analyst, Desjardins Capital Markets

Appreciate the color. Then just, maybe Eric on core expenses down quarter-over-quarter, is this a blip? Is this a new run rate? Is there anything unusual in that expense line? Can you maybe elaborate a bit?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, Doug. On this one I remind you that we've been trending well since the beginning of the year on overall expense management. When you look at this corporate expense segment, it's just one part of the equation. When I look at expenses since the beginning of the year, we've been trending just slightly under plan. We've done that by making choices along the year. You remember that we had some regulatory and compliance project to complete for September. When we make those choices along the year to stay within our envelope, those choices sometime impact more corporate expense segment. Sometimes it's more OpEx than CapEX. This is what is bringing a little bit of volatility when you look at this segment. But I prefer to look at the overall picture, which to me encompass everything.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay. It sounds like this is more of a normal as we think of trying to put something in for this line item for in our models. You've gone through some of the bigger bumps in expenses. This quarter is more normalized. Is that a way to think about it?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. That's okay. That's a good way to look at it.

**Doug Young** — Analyst, Desjardins Capital Markets

Okay. Then maybe lastly Denis for you, just on Vericity, thanks for the accretion numbers. It's helpful to think about, but $0.10 core EPS accretion in year three. Can you talk a bit about what's driving that accretion? Is this all revenue? Is this all expenses? Are you redoing reinsurance treaties? Can you talk a little bit more about this? Then my overarching question is how do I think about this, because if I look at the economics, it looks like it's a 4 percent return on capital deployed three years out. But maybe I'm missing something. I know there's a lot there, but just hoping to get some color.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Yes. Thank you for that. I might ask Mike to provide more insight but let me just first say that this is very consistent with our strategy right now in terms of developing the U.S. life business. In the U.S., obviously, I mean, distribution is something that we're all always looking at. In particular, this Company has a specific expertise in terms of digital, I would say capabilities in terms of distribution. It was quite attractive for us to get into that, and at the same time inherit some manufacturing capabilities as well. But at the end of the day, it is a mix of both increase in revenue. It's a growth story basically. Mike might want to comment on that. It's a mix of growth and a mix of expense synergies that is bringing those accretive over the years.

Mike, you might want to comment about the overall strategy here.

**Michael Stickney** — Executive Vice-President, Chief Growth Officer US Operations, Co-Head of Acquisitions, iA Financial Corporation

Sure. Thanks, Denis. As Denis saidand the way I think about it, the most important thing here is that we want this to be a growth story. From a whatever marketing and strategic standpoint, it gives us exposure to a digital, state of the art digital platform, distribution platform. Secondly, we believe we can grow the business. That's why we want to do this. In many ways it actually reminds me of American-Amicable and I'll go on a bit of a segue here for a minute. As many of you know we acquired American-Amicable 13 years ago now for $145 million. It was a small company back then, did about $25 million of sales, had private equity ownership, and the owners did not want to put more money in it, so the sales were flat. When we showed up, we said, we want to grow this business and management went to work on that and have done a great job. (That business was break even for the first few years.

But today when I look at it, we've grown sales by more than multiple of 6 times and the earnings, as you know, are pretty good. We've got pretty good margins. Turning to Vericity, it's quite a similar situation. Their sales are about $40 million and are flat primarily because of capital constraints. The majority owner is a private equity firm and did not want to put in more capital. As many of you pointed out, the business is breakeven. In terms of moving forward, our number one priority is (audio interference). The math is simple. If you can grow revenue faster than you grow expenses, you're going to create margins. That's what happened with American-Amicable, and that's the plan here.

Beyond that, the second issue we expect to generate some expense synergies, sort of in the neighborhood of $5 million to $6 million by the third year. We also expect to generate some gains by improving their capital management activity. They've been using primarily reinsurance, and that all needs to be reviewed. One other thing to keep in mind when you look at the results is they paid $20 million in COVID claims from 2020 to 2022. Having said all of that, the biggest contributor I expect will be growth. But yes, we're optimistic, I hope that helps.

**Doug Young** — Analyst, Desjardins Capital Markets

Appreciate the color. Thank you.

**Operator**

Your next question comes from Gabriel Dechaine from National Bank. Please go ahead.

**Gabriel Dechaine** — Analyst, National Bank

I'd like to follow on that line of questioning, actually. You mentioned that American-Amicable is nicely profitable, but can you put a number on that just so we can give a bit more weight to this previous acquisition as a case study? Then the things that you mentioned there, the expense synergies, the reinsurance recapture, which seems like a likely strategy. Are those things included in your current accretion figures?

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Sorry. It's Denis here. We don't disclose specifically the results in the U.S., maybe between, let's say the dealer business and the live business. But certainly, when I look at the individualized business in the U.S. in terms of target ROE and actual ROE from that business, it's higher than our targeted ROE. We're very pleased with that business. Could you repeat the second part of your question, Gabriel?

**Gabriel Dechaine** — Analyst, National Bank

The second part of the question, it'd be helpful if we can get those numbers at some point on American-Amicable and the dealer services profit split. The expense energy number that you put out there and the reinsurance recapture, these are in year three. Are those in the $0.10 accretion figure?

**Michael Stickney** — Executive Vice-President, Chief Growth Officer US Operations, Co-Head of Acquisitions, iA Financial Corporation

I can take that Denis if you want.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Yes, go ahead.

**Michael Stickney** — Executive Vice-President, Chief Growth Officer US Operations, Co-Head of Acquisitions, iA Financial Corporation

Yes. Expense synergy, yes. Reinsurance no. Reinsurance needs more work. We didn't have the time to work through it. We've got to talk to a number of people to sort all that out. It's relatively complex, but my gut take is there's room for improvement.

**Gabriel Dechaine** — Analyst, National Bank

How long are those contracts typically?

**Michael Stickney** — Executive Vice-President, Chief Growth Officer US Operations, Co-Head of Acquisitions, iA Financial Corporation

I can't tell you right now, and that's probably confidential anyways.

**Gabriel Dechaine** — Analyst, National Bank

Okay. Just switching over to the mortality discussion, we saw a couple quarters, the first half there were losses, and then this quarter had gains. Sounds like you're still keeping an eye on it. Makes sense to me. I'm just wondering, what are some of the observations that you've been making? Because it sounds like there's some, maybe this quarter was good, but might not be sustainable.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, I'll take it, Gabriel, on this one. Mortality can fluctuate from quarter to quarter, we've seen it in Canada, so for the U.S. it's the same thing. We're happy and I'm confident right now with our expected assumption. When you see fluctuation around, it's just statistical in the U.S. to me.

**Gabriel Dechaine** — Analyst, National Bank

Okay. Final question, could you quantify the amount of negative experience in the P&C business this quarter?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. Gabriel, it's Eric again. It's about $9 million overall.

**Gabriel Dechaine** — Analyst, National Bank

Okay.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Six million out of the nine coming from the bad weather that we had in July.

**Gabriel Dechaine** — Analyst, National Bank

Got it. Thank you.

**Operator**

Your next question comes from Tom MacKinnon from BMO. Please go ahead.

**Tom MacKinnon** — Analyst, BMO Capital Markets

Yes, thanks very much. Two questions here. One, really on the CSM. If we look at the impact of new business, it was $134 million. That's the lowest we've seen in the quarter so far in 2023 and was certainly lower than the $152 million we had in the third quarter of last year. This comes despite the fact that you appear to have better sales, better insurance sales. What's driving that?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, thanks, Tom, for the time. I will say two things. First, remember the business change that we made at the end of last year, those changes were negative. It is a bit of a return to normal for the CSM reflective this year of those basis change. To another extent, the CSM when you think about it, is the present value of future profit. That present value is done using the locked-in curve from IFRS 17. When the rates are going up, the locked-in curve goes up and the present value goes down. It's just a question of geography in presentation. We do not worry that this number is going down, because keep in mind that long-term rate is good in our business, it'll just show up elsewhere and at some other point in time. When you look at the CSM reconciliation, you have a line that talks about organic financial growth, that decrease over time with the increase in interest rate should result into an increased number over the coming quarters and years.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Tom, just, sorry, it's Denis here. Yes, just one thing to add on this. Whenever internally we talk about CSM, I would like to remind people that the CSM is not inclusive of every business we're in. For example, the fact that there—we have more customers moving into GICs from, let's say, seg funds, and I mean, obviously it does not help in terms of the CSM, but at some point, people will come back. We always have to keep that in mind. Thank you.

**Tom MacKinnon** — Analyst, BMO Capital Markets

Yes. The negative three million that was there, there was some negative experience in the CSM, what was that related to?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. When you look at the gain that we had on mortality in Canada, we mentioned in the previous quarters that sometimes the geography of gains and loss is different than under IFRS 4. We had a little gain on mortality in Canada on the P&L, and that resulted in a little loss on the CSM side.

**Tom MacKinnon** — Analyst, BMO Capital Markets

That was mortality or?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, that was mortality. Sorry.

**Tom MacKinnon** — Analyst, BMO Capital Markets

Okay. If we net them together, you would say your mortality experience was neutral?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. That's a good way to look at it.

**Tom MacKinnon** — Analyst, BMO Capital Markets

Okay. Then the last is on Slide 18, the macroeconomic variations that hurt your capital available for deployment by $200 million. If I look at the mark-to-market impacts that you outlined, of the 169, the bulk of that was the decline in investment properties. Am I to then infer that the bulk of the $200 million decline in capital available for deployment was as a result of that investment property mark as well?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, I would say it's all inclusive of macroeconomic things that happen in the third quarter, stock market stumbled a little bit, real estate impacted and interest rate change should say, it's reflective of everything altogether.

**Tom MacKinnon** — Analyst, BMO Capital Markets

If I could squeeze one more, your interest rate sensitivity would imply that you would've had a much bigger hit as a result of the big spike in interest rates than you actually had, in terms of their marks with respect to interest rates. I think it was only like $14 million, yet your sensitivities would imply that number to be probably at least north of $75 million or something like that, just given the jump in rates. Why was that different?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. That's another good question. When you look at the sensitivity page, it says that it's for parallel interest rate shift and we've seen lots of yield curve change since the beginning of the year. That's really what's making up the difference.

**Tom MacKinnon** — Analyst, BMO Capital Markets

Okay, thanks for that.

**Operator**

Your next question comes from Lemar Persaud from Cormark. Please go ahead.

**Lemar Persaud** — Analyst, Cormark

Yes, I just want to continue along the discussions on CSM here from Tom. Just thinking about the impact of new insurance business in your CSM, the $134 million there. You did make some refinements to what goes through this line last quarter and again this quarter. Do these changes impact the outlook for new business CSM growth? Or is high single digit growth still appropriate? I understand what you guys are suggesting that this might be a bit lower in the near term, but what I'm really trying to get at is, is the longer term expectation for high single digits still appropriate?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. I would say that if everything else stays the same in terms of macroeconomic, you're right, we should still expect to see that high single digit increase.

**Lemar Persaud** — Analyst, Cormark

Okay. Then I just want to come back to the potential for M&A and U.S. Dealer Services. We haven't really seen much consolidation in the space post the IAS deal. Wondering if maybe we could spend some time talking about, maybe the long-term attractiveness of this business. Wouldn't you want to consolidate in the space when it's a little bit out of favor, or is a long-term view on this business somewhat impaired?

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

I think I'm going to take that one. It's Denis here. That business right now is going through obviously some big initiatives in terms of conversion. For example, our integration that when we bought IAS. We have invested significantly in technology to improve the operations. I would say the motto is really to do the organic growth in this difficult environment right now. We are seeing an increase in financing costs for the customers, and obviously it puts pressure on sales. The focus right now is truly on organic growth. Let's say profitability is back to the would say the standard or I would say the target that we have, we might go further and maybe look at some acquisition at the time because, still that market is fragmented. There are opportunities, but we're not going for the big fish right now. We might do some, let's say, tuck in acquisitions, but for the time being I would say over the next maybe 12 to 24 months we want to make sure that we are going back to the level of profitability in line with our target.

**Lemar Persaud** — Analyst, Cormark

Okay. Then last one for me, can you guys just touch on the elasticity of expenses? If the operating environment is tough, do you guys have the flexibility to slow expense growth? Did that play into the lower expense growth this quarter? Thanks.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

You talk about elasticity of expenses; it's been a while since I heard that word. Thank you for that. To what extent we're about to absorb expenses, I think that that's the question you're asking here. Inflation right now is obviously a challenge for any organization. It forces all organizations to make smart choices in terms of where they invest and all those things. At the same time, we can adjust some of the pricing of our products going forward. At the end of the day, it's for us, we believe that we can still maintain our 10 percent EPS growth. When I look at it, at the very high level, with the level of inflation that we're going through right now and the fact that interest rates have increased and accordingly, which is very positive for us. When I look at all the impact of everything here, we are confident that we can increase our EPS midterm by 10 percent plus.

**Lemar Persaud** — Analyst, Cormark

Appreciate the time.

**Operator**

Your next question comes from Paul Holden from CIBC. Please go ahead.

**Paul Holden** — Analyst, CIBC

Thank you. Good morning. I'm going to continue with the expense line of questioning and maybe try to get a little bit more specific here. I guess looking at the U.S. segment to start, those core other expenses were down quarter-over-quarter for the second consecutive quarter, yet as you've highlighted, you're making investments in the warranty business. Just wondering if this is due to some seasonality, if there's been some costs reduction actions or maybe again, costs were just simply elevated in the first half of the year and should be more similar to Q3 going forward.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. It's Eric. Paul, thank you. Two things happening here. First, Mike mentioned it, the team is really working hard in terms of expense improvement and improving our operating expense. That's one item. The other one that is, it's not a seasonality, but it's a yearly review. There is a variable compensation item related to the performance of a U.S. dealer. This reevaluation is happening in July. You see the positive effect, if I can say, of this reevaluation on core and other expense of the U.S. divisions on this item. This time it's a positive in terms of core expenses. Yes, that's what I wanted to say about those two items.

**Paul Holden** — Analyst, CIBC

Okay, understood. Then going back to the core other expenses on the Corporate segment, pretty big decline from Q2, but maybe Q2 is just simply elevated. Again, I guess similar question there, is there any cost reduction actions that have taken place since Q2? Or is there just simply a lower run rate for some of these projects you've highlighted?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, in reality, like I mentioned earlier, Paul, we're tracking expenses since the beginning of the year, and it's been trending about the same percentage under our plan since the beginning of the year. It's just a question of geography here and decision taken along the year that sometimes impact numbers like in the core expense segment, you see a bit more volatility. But when I look at the overall expense situation of the Company, it's been very stable and according to our plan since the beginning of the year.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Paul, if you don't mind, Denis here. I just want to add some flavor on what Eric has mentioned, which is very good. The way I look at it is that when I look at the last two years, like 2022, 2021, for various reasons, like more regulations, additional digital investments, the general expenses that we incurred, was higher than our budget each year. But I must say that this year I'm very pleased because I guess we put an additional level of, constraint in our operations in a sense that we stick to our budget. There's no way we're going to go over this year. I don't like to say more discipline. It's not the right word, but certainly there is more attention put into our expense management.

**Paul Holden** — Analyst, CIBC

Got it. Understood. Okay. Then last question for me is related to a comment Eric made earlier regarding interest rate impacts on the business. Again, going back to the CSM discussion of the new business impact on CSM going lower because the PV, but then we should expect interest rate benefits elsewhere. Really the question is where should we expecting those interest rate benefits? Because I would expect it one of those areas to be the core net investment result. When should we expect that to get better for higher bond yields and where else on the ROE statement should we be expecting to see the positives?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, Paul, if you look at the CSM reconciliation of our supplemental information package, I will guide you to the line just under the impact of new insurance business. It's called organic financial growth Page 27. Yes. This line should increase at a faster pace going forward because of that increase in interest rate. But you are correct that core net investment results should benefit a little bit of it as well, because in the overall, it's good news for us that interest rate increase in the end with the product that we sell, and we have in our in-force.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Denis here. Thank you for that question. Actually, that was the question. I did ask that question myself to my management team. I wanted to make sure that, okay, we're saying that interest rates is, I mean, long-term interest rates increases positive. Where do we see it? My conclusion is that we should see it in the net investment results from one quarter to the other. That's basically it. Eric just also added some color on the CSM.

**Paul Holden** — Analyst, CIBC

Okay. Sorry, just to clarify, that really that's going to be a matter of when they don't call normalization, but a shift in the yield curve that's more favorable, then it'll really come through, correct?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes.

**Paul Holden** — Analyst, CIBC

Yes. Okay. Thank you. That's it for me.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Yes. I see that as a future tailwind. At some point the yield curve is going to go back to some more normal, and that's going to be a tailwind for us.

**Paul Holden** — Analyst, CIBC

Understood. Thank you.

**Operator**

(Operator Instructions) Your next question comes from Mario Mendonca from TD Securities. Please go ahead.

**Mario Mendonca** — Analyst, TD Securities

Good morning. My question it's similar to what you just discussed with Paul. When I try to look at your net investment income, it's one line, the disclosure is not quite as detailed as others. The Company's done a good job of explaining why that's the case, but when I try to model up this number, when I think about this number, I'm not seeing the returns on this line consistent with the change in interest rates. I paid attention, obviously, when you talked about how it's last quarters interest rates or the quarter ending that affects this quarter. Let may ask it this way. When we see interest rates move higher, when we see the long end of the curve move higher, in let's say during Q3, is the message then that a shift up at the long end of the curve necessarily benefits the next quarter and a shift down at the long end of the curve necessarily hurts the next quarter? Is it really just that straightforward?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, you are right, Mario. The long term rate direction that you mentioned is correct. What I would add on your previous comment about what happened since the beginning of the year, it's been a bumpy road on the macroeconomic side since the beginning of the year. I've seen more things happening in nine months on the macroeconomic side and yield curve than I've seen over the last 20 years. When I look at and you try to understand what is happening on core net investment results, Q1 was a decrease of interest rate, the curve went down, then it became inverted in Q2 and then the long end of the curve raised with removing a little bit of the inversion in Q3. Lots of things happen that kind of created noise on the core net investment result. That's really what's happening there.

**Mario Mendonca** — Analyst, TD Securities

I understand. Now, going back to the investment properties for a moment, I can't help but think that there was, this was a bit of a cleanup quarter because the size of the charge was so great relative to any experience I have with Industrial Alliance. Was there something about this quarter that really, was it just the move in rates or did the Company really go above and beyond and try to really clean up your valuation so that you could put this issue behind you? Am I characterizing that appropriately?

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Hi, Mario. It's Alain speaking. I could see why you may think that it was the case, but that would not meet the accounting standards and the auditors to try to do a cleanup. I know this is a common practice in all the institutional portfolios, but when it comes to public company and we have to reflect independent valuation or inputs, it's either externally appraised or infer from the externally appraised. We can't be biased one way or the other. We're really reflecting the information that we are hearing from or the actual evaluation from our third party.

The one thing that you—maybe one thing you're thinking of is, I'm not sure the extent to which everyone is subject to. If you look at institutional portfolio or even the MSCI REALPAC index, you're not seeing too much of that movement that suggests to me, and that perhaps it's because many institutional portfolios they're really being properly, fully appraised in Q4. There may be others that may have an okay Q3 and then have to take a Q4, but just let me to be as clear as I can. Our goal was to take the information from the external appraiser and apply it to the overall portfolio so that we're not sitting on information today that we know would affect the mark-to-market in Q4. But that being said from that point on, the Q4 results and the Q1, Q2 in the future they will be driven by how the market conditions change. We haven't put an extra buffer in that.

**Mario Mendonca** — Analyst, TD Securities

Okay. That's clear. Then Eric, maybe one question for you. Since this conversion to IFRS 17, the spread between your reported and your core earnings has been particularly wide. Now I get it, it relates to the conversion IFRS 17 and the unfortunate coincidence that conversion happened at the same time that macro volatility reached some historic levels. The question I have for you is, will there be similar changes, differences to the positive when we eventually see a more constructive market? What I'm getting at is I want to make clear that there's no bias to the negative, that the core will always be greater than the reported, or is it sort of symmetrical going forward?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, good question, Mario. You are absolutely right. We will see, just a question of time. I can't say when, but we will see quarters where we might have $400 million profit. It's very volatile. What we expect is that the report will fluctuate around on both sides, and it should converge toward our core earnings over time.

**Mario Mendonca** — Analyst, TD Securities

Yes, please go ahead.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Yes. Denis here. I was going to make a prediction that we're going to come up with a quarter with the EPS of over $4 or $4.50, in the near future, when the market, let's say, come back and it's related to your point. To me, the way I look at it is that we as Management, we are creating value for our shareholders for the long-term. Now, unfortunately, and we said that many times, the accounting regime, the new accounting regime, delink the asset and liabilities. Under the previous regime, all the changes that you've seen today would've flowed through the liability and that it would be a very, very minor impact. The core earnings that you would've got under the previous regime would be very similar to what we are getting under the current regime.

If we did believe in the core earnings over the last, I don't know, 15 years, we should believe that the core earnings today is good. Now the problem is the reported earnings, because as you said, we're going to see fluctuation and I don't think, and Eric has confirmed here, I don't think there is a bias that the reported earnings would be lower than the core earnings all the time. That we have some bias that we built in our process to make it attractive or always positive.

**Mario Mendonca** — Analyst, TD Securities

Yes…

**Alain Bergeron** — Executive Vice-President and Chief Investment Officer, iA Financial Corporation

Can I just add one thing, Mario, just because it's the third quarter today where we're under IFRS 17, so it's a very small sample. But nonetheless Q1 actually reported was higher than core. I know it's a small sample, but it is just one example.

**Mario Mendonca** — Analyst, TD Securities

The advice for me outside looking in is I have to measure this over an extended period of time. Whether that's several years from now, I can look back and say, yes, it was the accounting essentially or nothing more, that would be your advice to me then, look at it over the long term?

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes, exactly, Mario. That's what I mean when I say that the average should converge toward the core.

**Mario Mendonca** — Analyst, TD Securities

Okay. I'm sure I'll be around long enough to see that. Thank you.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

So do we.

**Operator**

Pardon me. We have one more question from Darko Mihelic from RBC Capital. Please go ahead.

**Darko Mihelic** — Analyst, RBC Capital

Hi, thank you. Can I please ask a couple of questions with respect to capital and looking specifically at Slide 18. The first question is a very simple one. If you can just help me understand why the capital required for organic growth is much lower than the last couple of quarters.

**Eric Jobin** — Chief Financial Officer, iA Financial Corporation

Yes. Two things that go on that front. I would say that that happened—the business mix or the product portfolio mix was slightly favorable in Q3. That has mostly to do with respect to the lower sales that we had on the SPIA [single premium insured annuities] side of group savings. Those sales comes usually with investment that consume a bit of capital. If you connect with the sales that we made in the quarter, it kind of gave a break to required capital this quarter. I would say the second item is related to group insurance. It's the fact that most of the business renewals are go in-force in the first half of the year. Again, it's a question of seasonality on this one, because most of the business require capital goes into our books, if I can say in the first half of the year.

**Darko Mihelic** — Analyst, RBC Capital

Okay. I think I'll have a follow up for you afterwards on that as well as the organic CSM growth which was a little bit light, but I guess the net of my real question where I really want to take this is, once we consider the acquisition of Vericity let's call that CAD 230 million, and we take into account the NCIB which depending on where your stock price is, we can sort of come up with a number, let's say that's another $500 million of capital, we get to the point where we're under $1 billion left for deployment. The question for Denis is really somewhere around, given your earlier commentary that you might be looking for tuck-in acquisitions, but certainly nothing significant in the U.S. Is it fair to say that we really should be looking at a company that's essentially going to be buying back stock aggressively in the current environment and that you can actually—165 of organic capital generation this quarter, you can essentially pay for that with the organic capital generation quarter in quarter out. Am I thinking about that correctly or is there a possibility that you would consider even larger buybacks given that we aren't looking for larger acquisitions and perhaps bring down the capital even more aggressively? Am I thinking about that correctly, Denis, or maybe you can give me some idea or conceptually about how you're thinking about the NCIB?

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Yes, thank you for the question. Actually, this is one scenario. One scenario would be that if we are not able to find at the right price, right targets, that are sizable, obviously, we will be more aggressive on the NCIB because at the end of the day, we want to give the back the value to our shareholders. Now, our preferred route is really to grow the Company and more so on the individual insurance side right now in the U.S. or there might be other opportunities in other sectors. Like I said on the U.S. dealer for the time being, we're on hold, but there might be some other in other sectors that comes up. The size might be high. It could go, let's say, close to what we did for IAS, we could go as high as that. If we truly believe that there is a strategic fit and it's good for us, we have the means to do that right now, and we are generating a lot of excess capital. I don't want you to think that we will only do tuck-in acquisition, but we will stay very disciplined, I must tell you that. We want to make sure that we return value, and we build value to the shareholders.

**Darko Mihelic** — Analyst, RBC Capital

Okay. I think that touches on everything that I wanted to get from that conversation, which is good. Thank you for that, Denis. But just to be clear, your strong capital generation, a function of that is actually that your required capital is low and your organic CSM growth is low. Is that something that I should think about as changing going forward? In other words, we should see more required capital for organic growth. The $39 million is low, and I should think more in the lines of something around $140 million to $150 million per quarter of actual capital generation. Am I correct in thinking it that way?

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

No, I think that we put a lot of attention to be as capital efficient as possible, and as far as I'm concerned, we're generating around $600 million right now. This is a reasonable level right now, we do not intend to, let's say, unless the market changes, obviously, you never know. There may be some competitive reasons for that, but everything else being the same you should not expect the 600 to go down.

**Darko Mihelic** — Analyst, RBC Capital

Okay. All right. Fair enough. Great. Thank you very much.

**Operator**

There are no further questions at this time. I will turn the call back over to Denis Ricard for closing remarks.

**Denis Ricard** — President and Chief Executive Officer, iA Financial Corporation

Thanks a lot. It was quite a quarter with all the macroeconomic environment, and I think we made it very clear to all of you that this Management team is really here to build long-term value for the shareholders. The short-term fluctuation does not distract this Management team. We are focusing on our core KPIs, whether it's the ROE, whether it's the generation of capital, which I would say are the two most important with the KPIs for us. Good quarters. When I look at all those KPIs, ROE quarter let's say annualized over 15 percent, generation of capital in line with the target. At the end of the day growth is important. The last thing is that we've seen significant growth in almost all of our businesses. We're very proud of that. The Company is doing well, and we continue to do so going forward. Thanks a lot for attending this call. See you next time.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining and you may now disconnect your lines. Thank you.