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iA Financial Group

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PRESENTATION

Operator

Greetings and welcome to the Industrial Alliance First Quarter Earnings Results 2023 Conference Call.

During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. At that time, if you have a question, please press the 1, followed by the 4 on your telephone. If at any time during the conference you need to reach an Operator, please press *, 0.

As a reminder, this conference is being recorded on Wednesday, May 10, 2023.

I would now like to turn the conference over to Marie-Annick Bonneau, head of Investor Relations. Please go ahead.

Marie-Annick Bonneau — Vice-President, Investor Relations, iA Financial Group

Good morning, and welcome to our 2023 first quarter conference call. All our Q1 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 archived webcast will be available for 90 days, and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statement information on Slide 2, as well as the non-IFRS and additional financial measures information, and a note regarding 2022 restated results under IFRS 17 and IFRS 9 on Slide 3. Also, please note that a 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 Q1 2023 MD&A released earlier today.

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

Denis Ricard — President and CEO, iA Financial Group

Good morning, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending on behalf of iA. First, Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer and responsible, among other things, for our US Operations; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Annuities; Stephan Bourbonnais, Executive VP responsible for our mutual fund business and Wealth Management distribution affiliates; and Sean O'Brien, now responsible for our Group businesses.

This morning, we reported our Q1 results, the first ones under the new accounting standards IFRS 9 and 17. And we can now confirm that the transition to these new standards is positive for iA, thanks to our long-term vision and prudent approach.

Please go to Slide 8 while I comment on three key favourable impacts.

First, our business model is enhanced as we can now have much more capital available to invest for future growth and, ultimately, to create value for our shareholders. Indeed, as at March 31, 2023, we have $1.8 billion available for deployment.

Second, as our core earnings power is expected to be higher under IFRS 9 and 17, we're now targeting higher core ROE of 15 percent-plus and a solid core EPS growth with a 2023 target of 10 percent, plus mid-single-digit growth over IFRS 4 2022 results.

Finally, our financial strength is better reflected under the new accounting standards, which explains our increased solvency ratio of 149 percent and low leverage ratio of 14.7 percent as at March 31, 2023.

About the first quarter results now. As presented on Slide 9, we reported a good performance today. Looking at our main KPIs, in terms of profitability, core EPS of $2.08 is 16 percent higher than a year earlier under IFRS 4 and, therefore, in line with this growth target indication given in February. Our ROE of 14.6 percent is close to our midterm target.

Moving to our financial position, as expected, it is more robust under the new standards, with a solvency ratio of 149 percent, and it continues to be supported by good organic capital generation. More specifically, organic capital generation amounted to $125 million in the first quarter.

As we continue to invest in digital transformation and employee experience, two key enablers for sustainable growth, we're happy to also return value to our shareholders through a significant 13 percent increase in the dividend, which is consistent with our higher core earnings power under the new standards.

I also want to comment on book value per share, an important accounting metric. Following our stable book value at transition, growth in book value per share was very good during the first quarter with an increase of 3 percent, supported by the record quarterly net income of $270 million achieved in Q1.

Moving to Slide 10. With the substantial amount of deployable capital of $1.8 billion as at March 31, 2023, it is our intent to continue to invest in our growth, organically and through acquisitions. More attention and energy will be devoted to growing the business, which is one of the reasons for the changes to the Executive Committee announced this morning.

With two Chief Growth Officers, one for Canadian businesses and one for the US, and two Co-Heads of Acquisition, three seasoned executives will be dedicated to the execution of iA's growth strategy. In addition, Mike's increased focus on the US market and on acquisitions will enhance our ability to leverage his expertise and capitalize on opportunities to further accelerate our growth trajectory.

Among the other changes to the Executive Committee announced this morning, noteworthy is the upcoming retirement of Jacques. Indeed, after many accomplishments including, most recently, the transition to the new accounting standards. Jacques will be leaving his position following Q2 earnings disclosure, but will stay on until the end of the year to ensure a smooth transition with Éric Jobin, currently Executive VP, Operational Efficiency, who will become CFO and Chief Actuary in August.

This concludes my remarks. I will now turn it over to Mike, who will comment on business growth. Following Mike, Jacques will provide more information about Q1 results and our capital strengths. Mike?

Michael L. Stickney — Executive Vice-President, Chief Growth Officer US Operations, Co-Head of Acquisitions., iA Financial Group

Thank you. Thank you, Denis, and good morning, everyone. Sales were strong in Q1 for most business units, such as Individual Insurance in Canada and in the US, Dealer Services Canada, iA Auto and Home, and our Group businesses. In light of macroeconomic conditions, we are pleased with Wealth Management's sales results. Only US Dealer Services' business growth is below expectation as the environment continues to be challenging.

Now please refer to Slide 12, as I will comment more specifically for each business unit.

Starting with our Insurance, Canada, Canadian business segment, Individual Insurance sales totalled $89 million, which compares to a particularly strong quarter a year earlier. This year's result is 53 percent higher than the sales achieved in the first quarter of 2021.

This year's solid level of sales is mainly attributable to the strength of our distribution networks and the excellent performance of our digital tools. Our performance—or sorry, our comprehensive range of products was also a key driver, as sales were notably strong for participating insurance, term, and living benefit products. The Company continues to lead the Canadian market in terms of number of policies issued, based on the latest industry data.

For Group Insurance results, strong growth in sales, combined with good retention of in-force business, drove net premiums up 10 percent, year over year, to reach $407 million. Sales in Employee Plans divisions were nearly double compared to a year earlier, and amounted to $21 million. Sales for Special Markets totalled $91 million, up 23 percent year over year.

In the Dealer Services division, sales amounted to $143 million, up 19 percent from the same period of 2022. Good sales results were driven by P&C products up 31 percent year over year, a solid result, given the current reduced affordability for consumers. As for our P&C affiliate, iA Auto and Home, direct written premiums were also strong, with an 11 percent increase when compared to the same period last year.

Turning to Slide 13 to the Wealth Management business segment. In the retail businesses, although clients continue to favour cash-equivalent products over funds, iA segregated fund sales were doing quite well, as the Company continues to rank first in Canada in gross and net segregated fund sales, solidifying our leading position in the industry. More specifically, segregated fund gross sales totalled just over $1 billion, and net sales resulted in inflows of $368 million.

Mutual fund results were unfavourably impacted by market volatility, resulting in gross sales totalling $479 million and net outflows of $88 million. Together, total net fund entries amounted to $280 million in the first quarter, a very good result in the current context.

For insured annuities and other savings products, first quarter sales reached an all-time high of $716 million, tripling last year's results. We believe that many clients of these other savings products are likely to switch to our seg fund and mutual funds when markets become less volatile.

Finally, sales in Group Savings and Retirement amounted to $787 million in Q1. This represents a solid 26 percent increase, year over year, mainly driven by a large transaction in accumulation products during the quarter.

Going to Slide 14 for our US Operations business segment. Sales in the Individual Insurance division amounted to $42 million and were up 27 percent for the same period of 2022. The solid growth was driven by overall good performance in all of our niche target markets.

In the Dealer Services division, first quarter sales amounted to $230 million, compared to $243 million a year earlier, a decrease mainly attributable to reduced affordability resulting from higher financing costs for consumer and persisting inventory constraints, although the latter has begun to show signs of improvement. In view of the impacts of the prevailing macroeconomic environment on the US vehicle warranty industry in the short term, we expect very modest growth from this otherwise high-potential growth business unit.

In the meantime, we are currently reviewing our business operations to improve efficiency and to strengthen our fundamentals, such as new partnerships and enhancements to our systems for greater efficiency and client experience. This will position us well for rapid growth when market conditions improve.

Overall, we are generally pleased with the sales results for the beginning of 2023, with some areas of very strong growth and others showing resiliency.

Now I'll turn it over to Jacques to comment on Q1 earnings and capital strength.

Jacques Potvin — Executive Vice-President, Chief Financial Officer and Chief Actuary, iA Financial Group

Thank you, Mike, and good morning, everyone. Today we are pleased to report good results for our first disclosure under IFRS 9 and 17. The long-term vision and prudent approach with which we manage the Company have resulted in a smooth transition to the next accounting standards and good performance in the first quarter.

Starting with Slide 16, which presents an overview of our profitability and financial strength for Q1 2023. Core earnings per share is 16 percent higher than the previous-year IFRS 4 result, which is in line with our increased core EPS growth target for 2023. Also, net income of $270 million is a quarterly record. This very good result was achieved from a strong insurance service result and a solid net investment result.

Moving to our solvency ratio which, at 149 percent, is significantly higher following the transition to the new accounting standards, given the better recognition of our financial strength and, to a lesser extent, ongoing organic capital generation.

I also want to highlight our book value which, following a neutral impact at transition, increased by a meaningful 3 percent in the first quarter to reach $60.69 at March 31st. Book value is an unbiased indication of value creation and, as such, it is an important component of iA's investor story, to which we will continue to pay attention.

Lastly, I want to comment on the value return to our shareholders. During the first quarter, we deployed more than $111 million to buy back shares. Moreover, we have announced today a

significant 13 percent increase in our dividend to reflect our increased earning power under the new accounting regime.

Now turning to Slide 17. Let's dig a little into Q1 results through the new drivers of earnings. The core insurance service result increased by 11 percent, year over year, supported by a similar solid increase in expected insurance earnings, which arise mainly from our strong business growth in the last 12 months.

The core net investment result increased by 9 percent for the same period last year, driven by our investment portfolio optimization, which was completed during the first quarter of 2023, and the higher interest rate environment between the two quarters.

Finally, results from non-insurance activities were up 6 percent from very good performance of our wealth distribution affiliates, which was partly offset by soft results from US Dealer services.

Now looking at Slide 18, which presents the performance of our operating business segments.

Starting with Insurance, Canada, which recorded a very solid 17 percent year-over-year increase in core earnings, driven mainly by the favourable impact of our strong last 12 months' business growth on expected insurance earnings and by the favourable experience for disability and home insurance during the quarter.

As for mortality, higher claims experienced during the quarter were more than offset—more than offset disability and home insurance favourable experience, contributing to a $6 million net insurance experience loss for the segment.

It is worth taking a moment to point out that the new accounting standards recognize mortality claims in P&L, while the corresponding reserve releases are reflected in the CSM, where they generated a gain in Q1.

Moving to the Wealth Management segment, core earnings for the first quarter were 10 percent higher than a year earlier. This performance is essentially due to good results from the distribution affiliates, higher results from Group Savings, and a good growth in expected insurance earnings for seg funds. These are very good results, given that the equity market levels are lower than a year ago.

As for our US Operations, results in the Individual Insurance division were good. However, the result for non-insurance activities was lower than expected, due to an unfavourable business mix and lower sales in the US Dealer Services division. Results were also impacted by higher expenses, mainly attributable to digital investment to improve efficiency and client experience, as well as salary and benefits for employees.

Continuing on Slide 19 with the Investment segment, for which core earnings of $108 million were 29 percent higher than a year earlier. This performance, which was achieved in spite of lower equity markets than a year ago, is the result of the investment portfolio optimization that occurred throughout 2022 and during the first quarter of 2023, and of higher interest rates.

Our Corporate segment reports all expenses that are not allocated to other segments, and it totalled $47 million post tax in Q1 compared to $32 million a year before. The year-over-year increase is attributable to accelerated digital transformation, enhanced employee experience to support talent retention, and regulatory compliance projects, including the transition to IFRS 17.

Finally, in addition to the strong core insurance service result and solid core net investment result, markets-related impacts were favourable in the quarter, pushing net income to a record $270 million.

Now on Slide 20, which shows our robust capital position following the transition to IFRS 9 and 17. At 149 percent at quarter-end, our solvency ratio is well above our target of 120 percent. Organic

capital generation continues to be strong, as it amount to $125 million during the quarter. Our financial leverage ratio, including post-tax CSM at March 31st, is very low at 14.7 percent.

As a result, our business model is enhanced with much more capital to support our growth strategy, with $1.8 billion of capital available for deployment.

Finally, Slide 21 presents the progress of five important key KPIs towards our medium-term targets, showing their favourable position after one quarter.

To conclude, the results reported today confirm that under the new standards, our earnings power is increased, our capital position is better reflected, and the relative performance of our book value is solid.

Operator, we will now take questions.

Q&A

Operator

Thank you. If you would like to register a question, please press the 1, 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered, and you would like to withdraw your registration, please press the 1, followed by the 3.

One moment, please, for the first question.

Our first question comes from Gabriel Dechaine with National Bank Financial. Please proceed.

Gabriel Dechaine — National Bank Financial

Hey. Good morning. Yeah. Just wanted to start with the US business. And when I first saw the profit, the decline there, I thought it was mainly tied to the sales of warranties, but it looks more of an expense issue. And you lay out some of the initiatives that you're spending on. I'm just wondering about

the timeline of this level of expenses. Is it going to persist for a while? Will it come back to a normal level? Or is this a new run rate?

Jacques Potvin

Gabriel, Jacques speaking. Actually, we are transforming our client experience, dealer experience, employee experience. So we are just starting, actually. We did the integration last year and by doing that, we have made some analysis in which we need to develop those systems to provide those better experiences that will support future growth within that business for the long term. That's the way we see it.

Gabriel Dechaine

Got it.

Jacques Potvin

I would expect that it will last for at least a couple of years. And it will—I don't see that as being a run rate because, at one point, investment in technology will have to—will slow.

Gabriel Dechaine

Mm-hmm.

Jacques Potvin

However, the thing that is tough to say today is, if you recall, last year, we discussed about the accounting of, we'll say, IT development. If you use cloud computing and all those kind of stuff, that you can no longer match the expense with the revenue, so that creates some noise.

So bottom line, we will continue to have a level of expenses that invests for at least two years. But after that, the run rate, it's a bit tough to call, but I will say it will be lower than what you see as the total expenses today.

Denis Ricard

Maybe one thing, Gabriel, also, I would like to add. It's Denis here. Hi, Gabriel. The one thing that I would say is that we are, obviously, taking a closer look at our expenses in that particular business, considering the fact that the results are soft this quarter, and so more attention. We believe that there are opportunities to have some gains in certain areas of the operation. So at the same time as we are investing significantly and in technology for greater efficiency and greater client experience, we are also reviewing some of the operations to get some synergies.

Gabriel Dechaine

Got it. Thanks. Moving to the investment experience, positive from interest rates and also positive from equity markets and real estate. I'm just wondering—I mean, I forget the numbers off the top of my head, like $70 million combined—were they all positive this quarter? Because I see that real estate is—doesn't seem like that would be a positive outcome, just on valuation and occupancy trends, which are heading downward.

Alain Bergeron — Chief Investment Officer, iA Financial Group

Hi, Gabriel. It's Alain Bergeron here.

Gabriel Dechaine

Hey, Alain.

Alain Bergeron

So your numbers are right. But you have to look at and think about this as a diversified portfolio, if we focus on the equity and investment properties. So there are some headwinds that this office portfolio is subject to, like in the sector in general.

Gabriel Dechaine

Yeah.

Alain Bergeron

But I think in the past, and you see that in the slides, there's many characteristics that show that this is a fairly defensive or fairly high-quality portfolio. That's number one.

But number two, the exposures are fairly broad. So you'll see in our—or I don't think you can see from the disclosure—but on our private equity, on our infrastructure, we had very solid returns. So net-net, it shows the power of diversification and the quality of the assets that we have.

Gabriel Dechaine

Okay. Organic capital generation, is this more of a ramp-up to the—because the $125 million times 4 is $500 million, so that would be shy of the full year target. But are you expecting that's a ramp-up over the course of the year?

And I guess, tying into that, given the comments I just heard about expenses and maybe some other headwinds, is still the 13 percent, 18 percent EPS growth—you're still confident in that range this year?

Jacques Potvin

I will take those two. Gabriel, so Jacques speaking. So the way I look at our results in Q1 there, I will—on the returns side, earnings side, I will say three buckets. I split that in three buckets, things that we strongly believe will continue during the year, things that are statistical fluctuation, and a comment on expenses, would be the third elements.

So for things that we expect to continue, there are two positives and one negative. Actually, the disability experience that showed through the Canada Insurance bucket will continue to be positive. We're

expecting that the market conditions will hurt us more, and now we're confident we will continue to have positives during the year.

Affiliate distribution in Wealth will continue. We will continue to do well above what we're expecting. And the US, we expect that what we have had in Q1 will continue throughout the year. So bottom line for those three buckets, it's a slight positive, and we expect that to continue.

When I look at what I call statistical fluctuations, so experience gain and loss, the one that we've been hit on during Q1 is mortality. And mortality, if we were under IFRS 4, we will have had the impact of CSM and P&L all in the same—in the earnings, and it will have been a slight positive. Okay? But here, with the geography of that new standard, it just—the impact on the claim that happened there, and it's a negative for us. It's a significant negative, actually. And we had some small positives.

So for the moment, I see that completely as statistical fluctuation. We just increased—just make a business change according to our mortalities today. So this, I will expect it will reverse back during the year because I don't expect it's a trend that's stuck on those different elements.

And on the expenses, we were expecting, and we told you so at the investor event, that expense would be higher. During the quarter, there are a couple of things that are one-time elements and some of them, I will say, related to the huge stock performance during the quarter. And there are elements, I will say, probably, of $5 million to $7 million, that it's just a question of timing. They will revert back in the future.

So two elements that's been negative in the first quarter, that I expect to be much better in the future, and the permanent one, the slight positive, I expect it to be there. So to answer your question, yes—

Gabriel Dechaine

Okay.

Jacques Potvin

—we still believe what we said at the investor event, so that 13 percent to 18 percent to be at the bottom—we said it would be more the low end of that range, so we still strongly believe in that. And about the capital organic generation, Q1 is always a softer quarter than the other ones. So we still believe in the $600 million, for sure.

Gabriel Dechaine

Okay. So that's the ramp-up for capital. Anyways, I'll leave my questions there. And, Jacques, I'll wish you good luck in retirement, I guess, on the next call. I'll leave it for then.

Jacques Potvin

Yeah. Let's wait the next call.

Operator

Our next question comes from Meny Grauman with Scotiabank. Please proceed.

Meny Grauman — Scotiabank

Hi. Good afternoon. Just to continue on the discussion of the US Dealer Services. So it sounds like you're pointing to some improvement in the inventory picture but, still, the overall outlook doesn't seem to be improving, based on your previous comment. So I'm just wondering what you see as sort of offsetting that inventory improvement. Is that just a comment on the rate environment? Or is there something else going on? Or is it also just a comment, also, on the elevated expense level continuing? Just wanted to clarify the outlook there.

Denis Ricard

Yeah. I think at this time, I'll leave it to Mike to comment on the business.

Mike Stickney

Sure. Yeah. Good morning, Meny. Yeah. The inventory situation, as you said, is improving a bit. It's not—we're not back to the old days or anything, but it is showing signs of improvement. But the offsetting issue, or the thing that I'd tell you we're dealing with now is kind of an odd combination of a slowing economy in the US, higher interest rates, and high car prices.

And you can just think of a financial equation going on there, where someone's trying to buy a car, and it's quite—it's not happening all the time, but it's quite possible that the F&I product or the financing in the F&I product is getting squeezed out of the equation. And that's basically what's going on, so that's a fairly material headwind that's hitting us.

And it's not just us; it's hitting the whole industry. We've seen, I guess, some reports from industry sources that are commenting on this issue. The CEO of Lithia made a comment about F&I revenue being down in Q1 for them. So it's an industry-wide issue and, to be honest, I've never seen it before. Usually, when you're going into a slowdown or recession or whatever, you get higher interest rates. You get the consumer being more worried. But usually, car prices are quite reasonable during that period, and that's not what we have right now.

So I think what's going to improve the situation, what needs to happen—obviously, inventory getting better will help. But also, something to watch for is factory incentives or OEM incentives. They used to be very prevalent before COVID. They've kind of wound down to small numbers in the last three years. And there's rumours that they're going to increase, but it's just early days on that issue.

Meny Grauman

That's great colour. And then just as a—go ahead.

Denis Ricard

No. I was going to say that—it's Denis here. The one thing that I would add is that we are getting prepared for a rebound. I mean, it might happen, you know, and wherever it happens, in two quarters or three quarters, whatever, at some—I mean, there is a pent-up demand. And at some time, there's going to be more cars being sold. I mean, there is certainly a pressure right now. But we are getting prepared. We are investing in the business. We believe in the business. And whenever the market reverses, we'll be in a very good position, based on the platforms that we are investing in and the products we have.

Meny Grauman

Got it. And maybe a related question. You were talking about sort of the investments you're making in that business, that two-year process. I was just trying to get a better sense of what you're trying to accomplish there in terms of those tech investments. What's going on under the hood that the tech stack there is just not up to snuff, and so you're bringing it up? Or are you investing in more cutting-edge types of capabilities? If you'd give us a little sense of what exactly the investments are aimed at? What are they trying to achieve for the business?

Mike Stickley

Yeah. It's more cutting-edge, basically trying to be a leader in customer experience and service to dealer and all that kind of stuff, with improved technology. That's where we're going with it.

Meny Grauman

Thank you.

Operator

Our next question comes from Scott Chan with Canaccord Genuity. Please proceed.

Scott Chan — Canaccord Genuity

Yeah. Thanks very much. According to the new business CSM, at your last update, you kind of targeted high single-digit growth. And when I look at this quarter, under IFRS 17, I see it at $168 million. That was down $17 million, year over year. Just wondering what factors kind of drove that this quarter?

Jacques Potvin

Hello, Scott. Jacques speaking. There's two elements there, actually; one on the life—our Insurance bucket, and one in the Wealth Management. In the Insurance bucket, we have to remember that we are comparing a very good sales quarter to an extraordinary sales quarter in 2022. So that's why there's a decrease. Normally, we would expect to grow sales every year, but it was extraordinary, the level of sales last year. So that's what explains a part of it.

And the other part of the CSM growth that is lower is really—has to do—and guys, this is one thing that I hate about CSM—these seg funds. If you sell seg funds, you will create CSM. However, nowadays, people move to cash equivalents and to GICs. They are not IFRS 17 products; they are not deemed insurance products. They are investment products, and there's no CSM created for that.

However, we made very great business during the quarter there. Profit will flow, but we have not created any CSM. So this, I will say, growth that is not there, is not really an issue. But unfortunately, we have to live with those kind of metrics with that new regime.

Scott Chan

Okay. Got it. And a last question, and it's a two-part question, maybe tying in expenses. If I look at your consolidated core earnings, like the largest variance by far is total other expenses. That was up 26 percent, year over year. Maybe kind of tie that in, outside of the US?

And then I also noticed your employees were up 4 percent, quarter over quarter. I don't know if that's part of the digital transformation or something else in terms of any of the segments that you have.

Denis Ricard

Well, I'm not sure I understood your question, to be honest. Could you repeat the question?

Scott Chan

Yeah. No. Firstly, just your employees were up 4 percent, quarter over quarter. I don't know if that's tied to digital. And then, on your core earnings consolidated, your core expenses were up 26 percent, year over year. It was a massive variance in terms of the absolute core earnings in the quarter. And just wanted to see if anything out of US drove that.

Jacques Potvin

Actually, Scott, Jacques speaking here. We mentioned it at the investor event, that we are ramping up our transformation not just in the US, but in some other divisions. So a large part of that increase comes from that.

And I will also mention—I mentioned it in my note earlier—that there's been some compliance projects, and investment in employee experience is also part of that. We've developed tremendous offices in Quebec City. We continue to deploy that. Great investment for our employees. However, on the financial results, it just cost a little bit more, present, compared to last year. So those are the reasons that expenses are there.

And I made a comment earlier about a part of—some expenses that we revert back, but the other ones, they were expected. It was part of our business plan.

Denis Ricard

Yeah. And maybe one thing I would add is the guidance incorporated that. Was already included, the fact that we were to, let's say, speed up our investments in technology to support our business. So it's not on top of the guidance. It's embedded in the guidance. So we do believe in the 13 percent to 18 percent, more so on the low end right now, but it certainly includes that.

Scott Chan

Okay. That's helpful. Thanks.

Operator

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

Tom MacKinnon — BMO Capital Markets

Yeah. Thanks very much and good afternoon. Just a couple questions. The first is with respect to your tax guidance. I think you talked about core taxes, before it being in the 21 percent to 23 percent range. They were just about 24 percent in the quarter. Now was there anything unusual in the quarter that moved that core tax rate up? And should we be still looking at the 21 percent to 23 percent going forward? And I have a follow-up. Thanks.

Jacques Potvin

Tom, Jacques speaking. Yes. We continue to believe in that 21 percent, 23 percent. And it's like in previous quarters. There's always, with tax, some situations in which in one quarter, it will be higher; sometimes, will be lower. So it's normal. But we believe the 21 percent, 23 percent, it's still the good KPIs to keep in mind.

Tom MacKinnon

Right. And then the second question's with respect to the mark-to-market impacts. I know you did some portfolio optimization, and I think the bulk of that was done in the fourth quarter of 2022 and the first quarter of 2023. And I think part of the portfolio optimization was to make results a little bit more balanced under IFRS 17 and less volatile.

And I appreciate that probably wasn't—I'm looking at some of the mark-to-market impacts that happened in 2022 versus the first quarter of 2023. Now I assume the more stability—are we seeing more stability, to some extent, in 2022 and the first quarter of 2023 in that regard, because of the impacts of that portfolio optimization and then making that number less volatile? Am I correct in that assessment?

Jacques Potvin

Tom, Jacques speaking, I would say you're correct in saying that nowadays we are very pleased with where we are, where we're standing, and we've provided a lot of sensitivities in our slide deck, so you can look at the sensitivities. And we committed to have a strong asset liability matching.

And 2022, we mentioned it at the investor event, we have to forget about it. We were—we had to deal with moving out of IFRS 4, while at the same time preparing for IFRS 17. And we completed during Q1, so there's been some effect in Q1 as well. However, they've been put non-core.

So the best way to look at our position is really the different sensitivities we're providing. We are working our ALM within some limits, and that's where we will be. Hope this answers what you're asking.

Tom MacKinnon

Yeah. That's good. And then, sorry, if I could just squeeze one in here as well. I think you talked about a 28 percent lift in the LICAT, that might have put it at around 156 percent. You had better reported number as well, but the LICAT's 149 percent. Is there any reason why it might be a little bit lower?

Jacques Potvin

Yeah. Actually, if you look on the slide, you see the math behind that. So the 28 percent, it's 27.5 percent. So it's the 28 percent that is there. The transition was really what we said.

We've deployed capital to NCIB. We deployed capital also with a pref share that we have not replaced. And if you look at the organic capital generation, Q1, like I answered Gabriel earlier, it's always softer.

And you see the macroeconomic environment that costs a little bit this quarter and also the transactions. And this is something that we will have to get used to. Like I said earlier, we will manage our asset liability matching within some limits, some threshold. And there will be transactions to rebalance.

And Alain explained it very well during the investor event, that situation is fluid and we will always do that. So we expect that number of portfolio rebalancement to be, on average, zero and to turn around zero, but there will be some minus and some plus in the different quarters. So this is really the way we look at the solvency ratio.

Tom MacKinnon

Okay. Thanks.

Operator

Our next question comes from Doug Young with Desjardins Capital Markets. Please proceed.

Doug Young — Desjardins Capital Markets

Hi. Good afternoon. Just looking on the shift on Page 20, this evolution of the CSM, there was a negative $18 million related to experience. And I'm hoping, Jacques, maybe you can unpack that because I think there was negative lapse experience, but I think that was offset by positive longevity gains.

And so, if I'm correct, can you break down the numbers behind that? And talk a bit about—I understand the longevity side, but if lapse was an issue, can you kind of talk about that?

Jacques Potvin

Yeah. It's not longevity here. What happened on the CSM, there was the mortality in insurance that the reserve release goes through the CSM. So I said earlier that if we will have been under IFRS 4, our mortality experience for the quarter would have been slightly positive. But we had, under this current regime, a loss in the P&L and the benefit in the reverse in the CSM. So it has held the CSM. So what we have had during the quarter, negative on the CSM growth for, I will say the in-force, I already answered Scott about the new business.

It's really the fact that for seg funds, we are expecting subsequent deposit. It's part of the model. Our assumption is based on pre-COVID long-term assumption. And what is happening today, people are not investing in seg funds. They are investing in other types of business. So that has reduced—that has a negative impact on the CSM growth. And also, we have some policy holder behaviour, some lapses in life insurance.

And here, it's important to make a comment as well that it's different for us compared to the previous regime. We have to remember that CSM is the present value of future profit on the business, i.e. was not front-ending profit under the previous regime. So if I look at the lapse experience under the previous regime, we will have had the slight negative impact, slight loss.

But today, under the CSM, as you front-end all the future profit of that business, the number have amplified. However, you have to remember that the amortization of the CSM will be over close to 30 years. So this is what is happening. So you look at CSM, but always remember the amortization period is very long.

Doug Young

And can you quantify like what the lapse kind of would have been? And I may have to follow up and follow with you a bit, but I think I got it, but I may have to follow up with that. But can you quantify what the lapse it would been in the CSM?

Jacques Potvin

For me to understand the result, I did that math to be able to gain an understanding of the result. And it would have been probably a cent or 2 negative experience loss in the quarter, if we were under the IFRS 4 regime, so nothing to worry about at this point.

Doug Young

Okay. And then, second, if I go to the drivers of earnings, there is an impact of new business, negative $14 million in the quarter. And maybe this is related to your comments about front-ending profits and whatnot. Can you talk a bit about what drove that $14 million negative?

Jacques Potvin

This is the onerous product you're referring to. So it's part of the business. Most of that amount comes from Group Insurance, where the business model is that you price a group or you renew a group, say, knowing that they will last, they will stay with you for four or five years.

However, the accounting regime asks you to recognize 100 percent of the acquisition cost over one year. So it creates, I will say, a kind of a loss in the first year. And future, when you will renew, it would create positive CSM. So they would be in the CSM creation. So it's all good. It's normal business.

And when you see that, our sales actually, of Employee Plan has been much bigger than last year. So that's why you see a $14 million, greater than a $10 million. So it's—

Doug Young

Okay.

Jacques Potvin

—a good news, actually.

Doug Young

So this isn't you're writing a bunch of UL policies that are onerous and taking upfront hit. This is kind of more related to the Group side?

Jacques Potvin

Yeah. Actually, when you sell policies that are not onerous, you will create CSM. You front-end—

Doug Young

Yeah.

Jacques Potvin

—you will front-end the profit. So it's not on—

Doug Young

Yep. Okay.

Jacques Potvin

—that line. It's really in the CSM.

Doug Young

Okay. And then just lastly, Jacques, I think you've always given guidance moving forward. I didn't see guidance given this year. And then just wanted to kind of verify that and then, usually, you do it on a quarterly basis, but.

And then seasonality under the old accounting regime, Q1 to Q4 was quite wide. Is there any reason to believe like seasonality from Q1 to Q4 changes materially under IFRS 17?

Jacques Potvin

I will use the mortality as an example. Okay? If you look at the first quarter, we've been hit in the P&L, has a good growth in the CSM. So it kind of creates noise compared to the previous regime. So I would say that it's early to tell what kind of seasonality you'd take.

I think the basic seasonality of businesses still remains, so the underlying fundamentals will be there. But there would be some element triggered by the geography of that accounting regime.

Doug Young

Okay. Thank you.

Operator

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

Paul Holden — CIBC World Markets

Yeah. Thank you. Want to go back to the discussion on the US Operations and, I guess, quickly drill down on the core non-insurance income line. Big year-over-year decline is highlighted, and I think you mentioned mix playing one factor, and I'd like to understand that mix change a little bit better.

And then second factor you mentioned was lower dealer volumes, which we can see in your reported numbers. But what I want to understand there better is, like, how quickly do those lower

volumes flow through the earnings? Because my understanding is earnings is more of an amortization function, based on historical sales, and so it flows through slowly over time as sales grows. But it looks like the impact this quarter is more than I would've expected under that convention.

Jacques Potvin

Paul, thank you for the question. Actually, in the US, we have to remember that it's more service fee than anything else, so the impact is directly affected, actually. As soon as your sales are lower, you don't make—because most of the administration you provide to the dealer on which you're making your profit, your margin, happen when the sales happen, so that's why the impact is almost immediate.

If you look at on the insurance path, you're right. That is amortized, but we reinsure—90 percent of the business is reinsured, so this is really the mathematics behind that.

Paul Holden

Okay. And then just the change in mix?

Jacques Potvin

The change in mix is really, I think—I will let Mike answer that one.

Mike Stickney

Sorry. I was on hold or on mute, rather. Yeah. The change in mix relates to just a shift in our sales, basically making more non-affiliate business and less affiliate. Affiliate is where we basically are administering the policies and insuring them, I guess. And non-affiliate, we're just the insurer only, so the margin in dollar terms on non-affiliate is not as good as affiliate business, although it's very profitable business on its own.

Paul Holden

Understood—

Denis Ricard

And I would add that we saw a fluctuation, a statistical fluctuation for the quarter. We don't see, at this point, that this is a trend that is going to last forever.

Paul Holden

Got it. That was going to be my follow-up question, is what is—

Denis Ricard

Yeah.

Paul Holden

—the outlook for affiliated versus unaffiliated? At least, maybe—I mean, I understand that, maybe, there might have been some deviation in the quarter and long term it should return to normal, but what about short term? Are the factors that impacted Q1 maybe also relevant for at least the remainder of '23?

Mike Stickley

Yeah. I mean, I think—I know we made a comment somewhere along the way there that the outlook is—we're sort of taking the position the outlook is kind of soft and, probably, what we're seeing will continue for a quarter or two.

I'm hopeful it will return. I think, just talking to industry people, that inventory levels are improving. And if the OEMs provide some, let's say improved incentives, I think sales could pick up. There's a lot of pent-up demand out there in my mind.

Paul Holden

Okay. Great. And then I see you updated and changed your disclosures, I think, around the car loan portfolio. But just to get clarity, if we were to look at sort of the loss rate on the way you used to

report it, I think, if I understand your disclosures correctly, it would have been down quarter over quarter. Is that correct?

Jacques Potvin

Yeah. I would say slightly down.

Paul Holden

Okay. Okay. That’s helpful. And then final question for me because I think I understand your messaging on expenses and, again, going back to if we were still under IFRS 4 accounting, I think your message is expense experience would have been close to neutral. Is that correct? You’re saying expense growth is high, but it was expected to be high, so it’s not impacting the guidance or the expected earnings. Is that correct?

Jacques Potvin

We said it will have been negative, expecting to reverse back because of the question of timing. So we can say, for the year, pretty close to expectation but for the quarter, slightly negative.

Paul Holden

Understood. That’s all the questions I had. Thank you.

Operator

Our next question comes from Lemar Persaud with Cormark Securities. Please proceed.

Lemar Persaud — Cormark Securities

Thanks. Let me come back to expenses. Jacques, would it seem reasonable that expenses—and I’m talking about at a consolidated level—could be up 20 percent versus 2022? Full year 2023 versus 2022? Does that seem reasonable to you?

Jacques Potvin

According to our business plan and the investment we're making in our digital transformation, yes.

Lemar Persaud

Okay. Thank you. And then I'm wondering if you could quantify the negative impact of the higher mortality claims in the Canadian Insurance business and offsetting gain in the CSM. I'm really trying to understand both what the core earnings growth would have been in the Canadian Insurance business, and what the experience losses would have been in the CSM otherwise. So that, I think, negative include there?

Jacques Potvin

I just hope that I remember the number well, Lemar. I think it's $13 million pretax on the P&L and $15 million on the CSM. So that's really what happened. What I don't recall if it's pre or after tax. Sorry for that.

Lemar Persaud

Okay. Okay. If you could circle back to me about that after—

Jacques Potvin

Yeah.

Lemar Persaud

—this call maybe? All right, then. That'd be perfect.

And then, what was the—so now that we have that negative insurance experience excluding the mortality benefit, what was that driven by?

Jacques Potvin

We thought mortality would have been positive because the net of insurance sector was $6 million negative. And I just mentioned we have the $13 million. I don't know if it's tax, pretax. So the other element on the sector was positive for iA Auto and Home and some other small items.

Lemar Persaud

Okay. Thanks. That's it for me.

Operator

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

Darko Mihelic — RBC Capital Markets

Hi. Thank you. Maybe my first question, just going back to the tax rate, Jacques. You don't have to answer it now but, maybe, it would be helpful for like an idea of the tax rate per segment because there's a lot of volatility in some of the segments. So if you can come back to me, that would be very helpful for my modelling.

And my other question, though, really is for Jacques and Alain, and it has to do with Page 10 of your supplemental, just the—or 11 in the PDF file. This would be the core net investment result. And before I ask this question, I will say honestly that I have an idea of the answer, but I would like to just ask this for you on the record.

If Denis Ricard came to you, Jacques, and you, Alain, and said, give me a forecast for this segment, how would you go about doing it? And what would the number be, for 2023? Looking at—

Jacques Potvin

The question, it's a good question, Darko, especially with the fact that under that regime. And we provided—and I believe you have the information in that slide deck, but at the investor event where

we demonstrated that more businesses are affected by the economic environment. So it means that next quarter, core EPS are affected by the macroeconomic environment.

Darko Mihelic

Right.

Jacques Potvin

So that will be the first answer. We will have tell Denis that, yes, we do our best with the ALM, et cetera, et cetera, but there are things that are not under our control that we have to live with.

However, I would say that we are—the margin, okay, the margin that you will see there is really the earning expectation on our asset portfolio over the rates, the yield curves used to value the different liabilities, plus investment on surplus. So this is what is there. So it's mark-to-market for assets and mark-to-market for liabilities.

So our expected—I will say you saw the growth that we have here. You see what is happening, and I think you can expect that it will grow at probably, I will say, 8 percent to 10 percent, maybe a little bit more than that. It will grow with the business, actually, because it's a spread over the assets and liabilities, but assets and liabilities are affected by economic environment.

Darko Mihelic

Okay. Thank you very much for confirming that. Thank you.

Operator

Mr. Ricard, there are no further questions at this time. Please continue with your presentation or closing remarks.

Denis Ricard

Yeah. Thank you. I guess, Jacques, since we announced your retirement, people are asking all the questions to you. They want to take advantage of you. Right?

Anyway, I'd like to thank you, all of you, for attending this meeting. I'd like to thank also our employees who worked so hard on IFRS 17. It's been, I think, the highlight of this quarter and the highlight of the questions as well, because we all need to find some benchmark, and I guess it's going to take a couple of quarters for sure.

So I guess I'd like to highlight a couple of things that are very important for us. The fact that we truly believe in our earning power, and we've increased our dividend by 13 percent a quarter is a testimony of that.

The fact that we've increased the EPS by 16 percent versus last year IFRS 4, and we are still believing that—we are confident that we can deliver on our, let's say, the low end of the 13 to 18 percent that we provided—is also, I think, a good testimony.

And also, always keep in mind that the transition to IFRS 17, for us, has been positive in terms of book value and also expectation of EPS going forward.

And finally, the fact that our capital for deployment—we've said it so many times, and now it's reality—we've got $1.8 billion of capital to deploy, and we're very pleased with that.

So with that said, thanks a lot, and see you next time. Bye.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.