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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Industrial Alliance Fourth Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, February 14, 2019.

I would now like to turn the conference over to Ms. Grace Pollock. Please, go ahead.

Grace Pollock - *iA Financial Corporation Inc. - Director, IR*

Thank you, Frank. Good afternoon, everyone. And welcome to our Fourth Quarter Conference Call.

All our Q4 documents, including the press release, slides for the conference call, the MD&A and the supplementary information package are posted in the Investor Relations section of our website at ia.ca.

The 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 the call will be available for 1 week starting this evening.

The archived webcast will be available for 90 days, and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements at the end of the slide package.

A detailed discussion of the company's risks is provided in our 2018 MD&A filed today on SEDAR and available on our website.

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

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

Good day, everyone. First, I'd like to go around the table, introduce everyone: first, is Jacques Potvin, Chief Actuary and CFO; Renée Laflamme, in charge of Individual Insurance and Annuities; Carl Mustos, responsible for Mutual Fund business and Distribution Affiliates; and Normand Pépin, responsible for acquisition; Mike Stickney, in charge of our U.S. Operation; and Sean O'Brien, in charge of our Dealer Services business.

Our 2018 results clearly demonstrate the progress we made on the objectives presented our last Investor Day, last June.

Our core earnings for the year are up 14% over last the year and was at the top of the guidance we gave the market for the year.

Almost all sectors contributed to this result, but I want to mention Employee Plans and iA Auto and Home, where we are seeing a nice turnaround in profit.

Another sector worthy of mention is the U. S. The business is quickly becoming an important growth engine for the company, especially with the addition of the new car dealer business at the beginning of the year.

2018 was the year that the new capital regime for life insurers came into effect. This new regime recognizes sound risk management, and as such, our capital sensitivity to interest rate movements has been greatly reduced.

Not only have we got capital relief for the lower sensitivity, but we are now generating capital organically as you have seen every quarter this year.

So given our stronger capital situation, we increased our dividend to common shareholders by 11% in 2018 and also we put up in place a share buyback program.

In Q4, we used almost $50 million to repurchase and cancel a little bit more than 1% of our common shares. The buyback will continue to be a component of our capital allocation this year in the absence of other significant deployment opportunities.

I would now like to say a few general comments about the top line. On the whole, sales were generally satisfactory for the year.

In the individual sector, our insurance sales in 2018 were slightly lower than the previous year, as was the industry at large. The decrease came -- comes mainly from excess premiums, which are almost related to larger cases that can be very volatile.

In terms of minimum premiums, which are the true measure of our growth, our sales were up 2% for the year. I would like to add that we are still #1 for number of policies sold in Canada.

Our individual wealth business continues to be solid with gross sales of more than $4.4 billion, despite challenging markets.

Guaranteed products continued to grow rapidly throughout the year as clients look to avoid volatility. Our product is very competitively priced and is used to finance our car loan business.

Our seg fund business is still growing and, in fact, breaking new records. In addition to being #1 in net sales, we just moved up to #2 position for growth sales.

Our mutual fund business continues to book good sales, but net flows are a challenge.

With the completion of HollisWealth integration, we are focused on leveraging our affiliate distribution network and increasing our share of their business.

We are making real progress on this front and that would add that sales to our affiliates are net flow positive.

Turning to our car dealer services, our car loans are still gaining momentum with growth of 46% during the year.

The rest of our Car Dealer Services, that is creditor insurance and extended warranties, continue to maintain a leading market position.

Our Special Markets Solutions continued to grow in 2018, with 11% increase in sales.

As for Employee Plans, which is a little more volatile, sales were slightly lower than last year but premiums were up 14%, which is what we want to see.

In group benefits and savings, we can also be volatile, the top line showed good growth for the year, with an increasing new sales, premiums and deposits as well as assets.

In the U.S. insurance sales continued to show good momentum with growth of 22% in the quarter, and 11% for the year.

And the car dealer business, acquired at the beginning of the year, has delivered above expectations.

My final comment is on our new holding company. As of January 1 of this year, iA Insurance and Financial Services is a subsidiary of the holdco known as iA Financial Corporation.

For the year ended December 31, 2018, the results of iA Insurance and Financial Services constitute the results of the holdco. Going forward, we will be publishing 2 sets of financial statements and solvency ratios to reflect the new structure.

We believe that the creation of the holdco will better serve the changing needs of our organization.

Since becoming public in 2000, we have entered the wealth management space, expanded our operations across Canada and the U. S. and generally become a multi-faceted financial services organization.

Since our ambition is to continue growing and diversifying our operations, this new structure is beneficial from a value-creation standpoint.

We shall be providing the market with further details on our new corporate structure as we progress.

That completes my introductory comments.

I'll now pass it over to Jacques.

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

Thank you, Denis. And good day to everyone.

My comments today are mainly on the fourth quarter results. A description of the full year results is available in the MD&A that was posted on SEDAR and our website today.

Q4 was another strong quarter. Reported EPS of $1.36 was 10% higher than Q4 last year. And core EPS of $1.39 was up 9%. This is near the middle of our guidance for Q4.

As you can see on Slide 6, we had a number of noteworthy items. On the left side, adverse equity markets had a negative impact on UL policy, MERs and our hedging program.

We also had some unfavorable experience, primarily for higher debt claims and expenses in our Individual Insurance operations as well as Group Savings and Retirement. Finally, strain was a little higher than expected because of the lower sales volume in the Canadian operations.

On the right side of Slide 6, we see the gain on the sale of a real estate in Vancouver that was our former original headquarter as well its related tax benefit.

Finally, we had an adjustment to the final purchase price of HollisWealth.

On Slide 7, I want to highlight that experience for the full year was positive across whole lines of businesses, including iA Auto and Home. This added $0.34 EPS to our year-end results.

Income on capital was $54.6 million in the quarter. This reflects the gain on the sale of a real estate, additional investment income, a net adjustment to financing and intangibles related to the recent U. S. and PPI acquisitions and good results from iA Auto and Home.

As part of our year-end assumption review, we repositioned our URR by 15 bps, and as I expect a new ASB guideline in 2019.

We also did some model refinement as we completed the immigration to a new valuation software. The impact on earnings was neutral as a result of the positive contribution from the update of assumptions, including mortality rate and some management actions.

We finished the quarter with our solvency ratio at 126%, up significantly over the last quarter and because of a number of positive items.

First, I'm very pleased to announce that we finally, received recognition for our seg fund hedging program. This provided a onetime capital relief of about $200 million of 3 percentage points.

Our year-end assumption review, particularly for the URR strengthening had a positive impact by adding another 2 percentage points to our ratio.

Organic capital generation continues to be strong, and added 1 percentage point to our ratio. For the year-to-date, we have generated about $250 million in organic capital.

Credit spreads widened in Q4, which added another 1 percentage point.

We implemented an investment strategy to further reduce our equity risk. This gave us another percentage point.

As part of our share buyback program, we used approximately 1 percentage point of capital to buyback and cancel 1.1 million common shares.

For the year ended December 31, 2018, we have pegged our core earnings at $5.55 per share, which is 14% above the core EPS for the previous year. This brings me to our guidance for 2019 that you can see on Slides 14 to 16.

Please take note that this guidance applies to iA Financial Corporation, our holding company.

Core EPS is expected to range from $5.75 to $6.15, which is an increase of 10% over the last year guidance at the midpoint.

We are expecting organic growth to be an important driver, along with profit improvement from a variety of sources as shown on Slide 16.

We are also expecting a significant contribution from 2018 acquisitions, including efficiency gains and expense synergies.

Finally, we expect to benefit further from our share buyback program, assuming we do not have any significant alternative opportunities for capital deployment. The lower threshold of our target solvency ratio has been dropped to 110% of for reduced sensitivity.

The range for our effective tax rate has been dropped to 20%-22% to reflect efficiencies from our new whole co structure.

The quarterly run rate for income on capital has been increased from $22.5 million to $25.5 million for higher investment income.

That concludes my comments. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Meny Grauman from Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Just wondering what drove the adjustment of the HollisWealth purchase price and does it have any impact on your expectations for earnings from that business going forward?

Carl Mustos - *iA Financial Corporation Inc. - EVP, Wealth Management*

Meny, it's Carl Mustos. The HollisWealth adjustment was a series of thresholds for a clawback on asset retention or adviser retention and the first one was at 95%, came in just under that, which caused the onetime gain. It doesn't impact our ability to grow that business in a profitable basis going forward. And I would add, that we're thrilled to have maintained almost 95% of the advisors 16 months on from close.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Okay, and I think I heard it but I just wanted to make sure that you're talking about seeing positive net flows within your adviser base, so you're talking about HollisWealth and and I'll let you sort of clarify that statement.

Carl Mustos - *iA Financial Corporation Inc. - EVP, Wealth Management*

Yes, absolutely. Now it's blended in now within our broader wealth distribution MFDA and IIROC Businesses but those are net positive, including in Q4 of 2018.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Okay. And then, just on the subject of insurance distribution, wondering if you could give sort of an update on performance of PPI and just if you could talk to the retention that you've been seeing, the sales levels, and then just overall impact on expected profit this quarter?

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP, Individual Insurance, Savings and Retirement*

This is Renée speaking. As far as PPIs is concerned, we are very pleased with the acquisition of PPI. As you know, we've been within that business with ownings smaller MGAs in the past. And PPI is performing very well, currently integrating back offices from the smaller MGAs that we have, so we expect efficiency there. We're also happy to participate in that consolidation of the MGA marketplace and we feel that PPI is that we've acquired the best platform.

As far as retention is concerned, I mean, it's a 100% retention, right? All agents that were related to PPI are still with PPI and growing. So again, very, very pleased with the acquisition.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then, if you could just -- so there's a follow-up, talk about the perspective on the M&A front, specifically, in that insurance distribution channel. Are you seeing valuations move higher? Is there a lot of competition for assets that you're seeing?

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP, Individual Insurance, Savings and Retirement*

Competition for assets, there's always competition of assets. We're not necessarily looking -- seeing a lot of increase. We're looking at the market and being very selective in what we're looking at, so I don't have anything more specific to say on this.

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

It's Denis here. Maybe one thing that I will add here is that we have a lot of relationship with MGAs across the country. We're close to them and so to some extent, they are the big consolidators in the MGA world. I mean I would say today that probably we would be more looking at, let's say, the smaller MGAs where we had the relationship that we know them, they have a lot of business with us, those would be our preferred choice, I would say. And so they have -- there is a better chance to get, I would say, at the same time a better price.

Operator

Our next question comes from the line of Gabriel Dechaine from National Bank Financial.

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

Congratulations on finally, getting the approval for the -- or the capital benefit for the hedging. First question, though, is on the subprime auto. Thanks for the additional disclosure on the portfolio size. I'm just wondering do you have any update on how -- what's your upper limit on how big you want that portfolio to get, within your risk limit, given it's growing very fast?

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

Yes. it's Denis here. I think I'm -- we'll leave that question to Sean, which is -- I think Sean is the first time that you're in this call.

Sean O'Brien - *iA Financial Corporation Inc. - Senior VP, Dealer Services*

Thank you. Yes, this is Sean. Yes, we have a limit of -- set at $750 million for that business and as we grow and get closer to that limit, we will definitely evaluate if we need to increase that limit, but currently it's set at $750 million.

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

And what kind of -- when you're modeling out that growth, what kind of loss assumptions -- like what kind of peak losses do you see in this type of business?

Sean O'Brien - *iA Financial Corporation Inc. - Senior VP, Dealer Services*

Well, you see on Slide 7, I think, it was the sort of losses that we disclosed. Yes, those are very much in line with our expectations. Our business has been -- sort of migrating towards a more near-prime business so a better mix of business and the losses you see on that slide are intact with that, actually it's not Slide 7 but, yes, so the losses we're seeing today are in line with expectations. And reflect the better mix of business that we've booking over the last 18 months.

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

So what do you have in 2016? More subprime in maybe Alberta or (inaudible) there?

Sean O'Brien - *iA Financial Corporation Inc. - Senior VP, Dealer Services*

Yes. no, the timing was just more subprime. So when the business started originally CTL was at -- more of a peer subprime business and then we've been moving more sort of in line with the TD and Scotia model of full-spectrum near primes, nonprime. So the growth in the business has been in the near prime sector and that's why the losses are reflected in that shift.

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

Okay. Shifting to just another quick one here and, Jacques, I think you -- did you give some indication of where you expect the investment or income on capital would be on a go-forward basis? I heard the tax rate guidance change and I though heard something on investment income as well?

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

Yes, I mentioned that the it's a way -- the run rate will increase by $3 million guidance-over-guidance.

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

Right. okay. So what was it going to look like now?

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

$25.5 million, the new one.

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

Okay. And then, I guess, it's just the guidance that you've provided, very helpful to give the breakdown of all the initiatives underway to get you to the midpoint of next year's guidance and it's clear you're digging out of a hole from where market level ended 2018 and it's laudable that you've got all these initiatives you can pull by. I'm just wondering how easy is it to do these things because it implies a nearly 20% growth off of that midpoint of 2018, just to offset that market impact?

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

That's a good observation, Gabriel. And actually if you recall at the Investor Day, we tabled initiative that was worth 12%, not 10%, for sure with the market drop, we are putting pressure on ourselves to deliver on that 12% and there's good news as well because we made all the analysis for the Investor Day last spring and since that time, there are initiatives that we identified at a time that are worth more money. Some examples investment income on surplus, there are few strategies that we have decided that we can act on. We still and Michel mentioned it's have some hedged AFS gain as well as the tax efficiency from the holdco, so we have quite a few things that we can pull out to work. But we have, definitely, to execute on them.

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

So a few things that are better than we expect and a few other things that you've uncovered or put on the to-do list, I suppose?

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

In fact, it's a -- we didn't add anything else. It's really that few of them are worth more when we look at the end of the year situation compared to last spring.

Operator

Our next question comes from the line of Sumit Malhotra with Scotiabank.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

These first couple are probably for Jacques. Just first, quickly on the tax change, so you slightly reduced the range going forward for the tax rate. I noticed in the book value calculation you had adjustments to retained earnings for revisiting the estimates for future taxes payable. Is that one of the reasons that the rate is down? I'm just kind of curious what happened there. That's the first part.

And then the second part on capital, obviously, some of the items you've talked to us about, the credit for hedging, the reduction of rate sensitivity are helping the LICAT ratio. Just curious with all these things going right, what is the rationale in reducing, albeit slightly the low end of your -- for your target range for the LICAT ratio? If so many things going well, why would you move that low end down?

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

Okay, I will answer the first question. In regard of tax, it's unrelated completely. In fact what happened with the retained earnings, it's related to a position that we took on a specific item that has been challenged by CRA. And we said it was prudent for us to put, because of the complexity that is involved there to make an adjustment.

In regards of the guidance, it's really related of the fact that we will use the holdco to be more efficient on the tax.

As for the capital ratio, you know what? After Q4 when you look at the market drop of Q4, interest rate decrease, we got our seg funds credit that's reduced sensitivity, you know that we are no longer sensitive, if you look at our sensitivity vector, so 110% for us provides a very good cushion.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

110% provides very, (inaudible) I don't want to [believe] for this for a couple of points but I would think just -- and then maybe this is more for Denis, to the extent that your ratio continues to move higher, I would think you would want the floor you managed to come along with that. Is that not the way you think about it?

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

No, in fact, when we look at the capital, we can deploy, at one point in time, the fact that we're very good in generating organic capital, also just recall that we mentioned that we will be reducing the IRR as well that will provide additional capital in the future, so if there's a good opportunity to make a good acquisition, we can go as low as 110%. That's what it means.

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

Yes, our first choice -- it's Denis here. Our first choice is really to grow the company and if we can find the right acquisition for the right business, that will be our first choice. And so as Jacques mentioned, we will be prepared to go, within the range of the -- I was going to say the MCCSR, but I mean the solvency ratio. And we -- you know that we also have some leverage capabilities as well on the debt side and pref. So we are in a very, very good position right now, and one thing that I'd like also mention about the ratio is that the 110%-116%, if we look at the equivalent under the previous ratio, the MCCSR, it used to be 180% to 220%, right? Sorry, 200%. Yes. So if you look at it, 180% to 200% is the same as 110%, 116%. That's why when we looked at it, and in fact keep in mind that at the time the 180%, 200% it was under a regime, that was much more volatile, much more volatile. So we are very, very pleased with the 110% right now as the minimum and the 110%-116%.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And I did -- thanks for that. I did see your slide when you take leverage into account, you're thinking about your deployable proceeds at north of $1 billion.

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

Exactly.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. My last question just to get back to the business is for Renée. Both on an earlier question and then also at Investor Day, you spoke about the number of initiatives that the Individual Insurance business has underway. The thing is, when we look at the trend in sales, numbers have been down for a couple of years now, expected profit was flat on a full year basis, so not just a short-term phenomenon on -- for that line. When we look at 2019 and then specifically for those 2 metric sales and then the expected profit, what gives you confidence that we'll see a more normal level of growth for iA in terms of the kind of growth this business has produced for you in the not-too-distant past?

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP, Individual Insurance, Savings and Retirement*

Yes, thank you. So 2 things, let's talk about growth for -- to start with. Actually if you look at the numbers, the minimum premium is growing at 2%, which is a little bit lower than the 5% we've experienced in the past 5 to 6 years. However, it is positive and it is much more positive than the industry. More volatility comes in excess premium where we have the larger cases and that can be volatile. You would note, also, that we have gained market share in both in terms of premium and number of policies and the recurring premium is growing at 4%. Now going forward, there is a lot of initiatives on the growth sides whether it comes from product, adjustment pricing or straight other type of initiative from a digital perspective. So we're confident in continuing to grow that business at 5%. As far as now profit is concerned, our cost reduction, as mentioned by Jacques before, I can mention 3 initiatives: the integration of iA Excellence's operations within iA would provide some efficiency gains; predictive analysis used into the underwriting of life insurance; as well as the in-depth reviews of our processes being straight-through processes. We are expecting some cost reductions from there. So all in all, I think that the strategy we have with our distributors, the growth that we've been able to show in the past and the initiatives you have in terms of cost reduction is showing great expectations for 2019.

Operator

Our next question come from the line of Paul Holden with CIBC World Markets.

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

Just want to ask a question or 2 on, a, Home and Auto to start. So obviously, an excellent result in 2018, particularly compared to historical. So wondering if the profit improvement plan is complete? And what the strategy is going forward then?

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

So it's Denis here. The answer is very simple. I mean, we have -- we were amongst the first to reprice our products when the experience deteriorated in the industry. As you know, the frequency and the severity have been unfavorable in that business. After years of very, very good profits then those 2 deteriorated for various reasons that we may discuss at another point. But we were the first to -- amongst the first to introduce price increases along the -- our product line and we are only benefiting right now, from that. And we've seen last year, in terms of -- I mean, we focused on basically on profit. So the number of policies we sold went down last year. The premiums was up and we were pleased with the end result and we will continue on the trend that we're having right now. And, in fact, you have to know that, that business is very, very key to us, it's a business that we used in, I would say, same combination to other lines of businesses with some referral programs. So the -- it's a really strategic line of business for us.

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

Okay. And then, just a follow-up to that. Would you be able to give us any kind of statistics to help us understand the profitability of that business, whether it's combined ratio? Or ROE or return on invested capital?

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

The one thing that I would say is that, our target ROE is between 11% and 12.5% and we are able to get over that threshold for sure.

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

Okay, great. That's helpful. And then, next question, going back to the near prime auto loan business. I guess what people are concerned about is how that business may perform in an economic downturn to realize offers look fine today but as the economic situation becomes more dire, what would your loss expectation be in that type of scenario? How much does it change?

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

So, interestingly, Sean O'Brien was around when the crisis hit in 2008, so I will leave. Sean, comment on that.

Sean O'Brien - *iA Financial Corporation Inc. - Senior VP, Dealer Services*

Thanks, Denis. I mean it's -- it all depends on the type of recession we see, but there is a -- sort of -- kind of a weird effect because when the economy turns down and the banks tend to tighten up, you exactly -- it fits a better credit quality consumer at the better [merge] and than you see in good time. So you're -- you typically pick up better originations and you can build a better portfolio, but while that's happening losses do -- will come up. Our consumer tends to be a little more resilient just given that they tend to live somewhat in the personal recession, multiple jobs and they're fairly resilient in it and it's only a single vehicle for a single household. So you tend to -- what I saw before in 2008 was it wasn't a big increase, it was actually more of an impact on the prime portfolio. So -- but, again, it very much depends on where the recession hits. So we're modeling sort of our expectations around how that will hit but it's also a really good time to grow our portfolio, if you're confident in the underwriting.

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

Okay. And then, final question in terms of your organic capital generation targets. So was or maybe is still $200 million. I guess in 2018 you kind of -- you blew through that target, does that target something higher in 2019? Or is there something unusually good in 2018 that accounted for the better-than-expected number?

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

No, we will target something between $250 million and $300 million for 2019.

Operator

Our next question comes from the line of Thomas MacKinnon with BMO Capital Markets.

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

Just following on that capital generation. That to $250 million to $300 million for 2019, is that similar to a point each quarter? Or what would that translated into a LICAT point each quarter?

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

$280 million is 4% so, yes, you can say it's above 1% per quarter.

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

Okay. And then, are we then to assume that you would have a point taken off from that if you continue to buy back stock at this pace per quarter?

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

Of course, if we continue to buy back, we will have to take that into account. And like I mentioned, we buy back $1.1 million and took off 1%?

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

Yes. So where I'm going with this is, your 126% to LICAT ratio if you're going to generate a point and take off some organically and take off some for buybacks, you're still going to be well north of your 116% by the end of the year, even though, you have a -- that 110% to 116% target. Are we then to assume that -- like what's the priority in terms of deploying that excess capital? What things are you looking at? And what kind of time frame would you look at before you -- in terms of an acquisitions before you would maybe look to some other means?

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

So it's Denis here. We have not changed, let's say, the priorities of the businesses that we would like to grow by acquisition, certainly, in the U. S. is key. We've got distribution as well, which is our -- the top 2 sectors that we have targeted and as you are -- I'm sure that you know to get one you have to work on many, so we have many situation on the table that we look at as usual, I mean, there's nothing new here. And, hopefully, and we're confident that at some point we're going to be able to close one of these. And we're not in a position right now, to speculate as to what we will do if, for any reason, we don't get there. I mean, we are working very hard to be able to close some deals and increase our business as I mentioned, our focus is on growth.

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

Okay. And then, the final question is, with respect to Individual Insurance, in the quarter you noted $0.03 negative impact from higher expenses, can you elaborate as to what those were really acquisition related? Or maintenance costs? Or additional project spends? And how should we think about that going forward?

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

Jacques speaking. In fact, I spoke earlier about the position that we've been challenged by CRA and it has affected the return earning, but it has also affected our income for the year, so it's $0.02 for the end of year that we book in Q4. So $0.02 out of $0.03 is coming from that.

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

Oh. So that's not a -- that's -- is that the contingency that you booked? What is that?

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

In fact, it's the fact that it's interest on the position, okay? We took a position earlier, and we're still challenging, one thing that I should mention we're still challenging CRA. However, we decided to put a provision there. And as we continue to act on our first position, we are booking, I would say, see it as booking an additional reserve only to be prudent on that one. We see it that way. So we put it in expenses.

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

Okay. So that's -- it's nothing in terms of higher-than-expected maintenance expenses or higher-than-expected acquisition expenses or expense gap related or anything like that? It's truly a onetime in nature, assuming that your position in this doesn't change?

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

Yes. In fact, it would be recurring, though, next year and this year in 2019 we will continue to take that provision and we really expect when we'll go in court with CRA, we will win that one back.

Operator

(Operator Instructions) Our next question comes from the line of Mario Mendonca with TD Securities.

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

You may have already addressed this in response to Tom's question but where I was going with this was the [ERV] negative expense -- the expense losses in individual insurance but you had a strengthening, a rather -- yet a strengthening of expense assumptions in the exemption review. So what I'm trying to figure out, if those 2 are in any way connected, it doesn't sound like they are based on your answer to Tom's question.

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

Yes, in fact if you look at that slide, 2/3 of that -- the unknown that is there is coming from other refinement. So 1/3 only is related to expenses. And as already mentioned, we are investing, we are investing in technology and by investing in technology on the reserve side, I want to take the prudent approach and not recognize our future productivity gains. So there's some conservatism that I'm putting there. So there's a top of it, what I explained to Tom is $0.02 out of $0.03 so there's some additional expenses that have been recognized there. I hope that it answers well.

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

I think so now. So when I think about the $115 million, is there a period over, which that $115 million pretax would be released back into core earnings? What I'm getting at is, what would be the duration of those reserves? Would it be several years? Or is it something that would come into earnings quickly?

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

I'm sorry, Mario, but could you tell me what $115 million is coming from?

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

I'm referring to the expenses in other that you booked as strengthening the reserves in the quarter. I guess, what I'm trying to get at is, whenever I see big -- a reserve strengthening like this, my first thought goes to, well, when am I going to see this back in the core earnings, as it's released? And the question I'm getting at here is how soon would we see this get back into core earnings?

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

Okay. Sorry because I always work with after tax numbers, so that what -- it doesn't ringing a bell for me there. No problem there. Actually on that one from model refinement, you know what? Reserve only transfer the profit from one year to the other, okay? That's what it means. So there's no change in my total reserve, the business change has caused -, so future profit would stay the same, so at one point in time, the fact that they've been put into the reserve will come back to us for sure. However, if you look at the total, it's 0.

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

All right. Let me move -- other -- different type of question, the financing cost in the earnings on surplus with down, noticeably in the quarter. Now I know that you're guiding for the $17 million going forward, so no change in that respect. But what would you attribute the decline to, this quarter?

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

In fact, it's in regard of the DAC acquisition, according to the accounting standard, we have 1 year after an acquisition that we can readjust the purchase price amount. And that's what we've done. It has been audited and here we have lengthened the number of years on, which we can amortize the acquisition.

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

So it's the -- then why does the cost then go right back up in 2019 to $17 million, quarterly, if that's a long-term amortization schedule that's been reduced?

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

Just one point that -- it I would like to add to Jacques' point so in 2018, the adjustment that he did was in the last quarter. If you look at the whole year, if you look at the whole year, the number is -- there's no, let's say, special amount in any quarter. It's just that if you look at the whole year, the number is the right one. So the question, Jacques, that the -- so if you want to normalize 2018, you need to take the average, let's say, of the four quarter to some extent, so it's not like $13 million to $17 million, you have to take kind of an average.

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

Yes, I think that gets me close to my understanding.

Operator

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

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

Well, I'll be brief here. In a very challenging year that we saw in 2018, especially in December, when you look at the results of iA Financial Group, there are 3 things that really stand out. The first one is that last year we're able to deliver on top of the 10% EPS growth that we -- or 12% that Jacques referred to. At 14% core EPS growth is a great great results. When you look at, let's say, our balance sheet, our -- the solvency ratio, very very strong, low sensitivity. And I would say the last thing that is very important, it's on the growth side, the expansion of our organization in the U. S. has been a great success so far.

So with that, I would like to thank you very much.

Operator

Ladies and gentlemen, that does concludes the conference call for today. We thank you for your participation and ask that you please disconnect your line.

Have a great day, everyone.