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PRESENTATION

Operator

Greetings, and welcome to the second quarter earnings results conference call. (Operator Instructions) As a reminder, today's call is being recorded, Thursday, July 29, 2021.

Now I would like to turn the conference over to Marie-Annick Bonneau, Head of Investor Relations.

Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

Good afternoon, everyone, and welcome to our second quarter conference call. All our Q2 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 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 drive your attention to the forward-looking statements at the end of the slide package. A detailed discussion of the company's risk is provided in our 2020 MD&A available on SEDAR and on our website.

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

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

Good afternoon, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending the call on behalf of iA. First of all, Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer and responsible, among other things, for our U.S. operations; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Annuities; Sean O'Brien, responsible for our mutual fund business, wealth management distribution affiliates; François Blais, in charge of our Dealer Services, Special Markets and iA Auto and Home; and Eric Jobin, responsible of our Group businesses.

I am very pleased with iA Financial Group's second quarter results that were disclosed this morning. With excellent performance in both sales and profits for virtually all business lines, iA had a record quarter in terms of profitability. Each of the 6 main KPIs shown on Slide 4 are extremely solid. Up sharply by 34% year-over-year, core EPS of $2.29 is iA's highest for a quarter. This result, which is above guidance, is even more noteworthy because it is attributable to several sources from different sectors, including the contribution of IAS.

Core ROE of 14.2% is also above guidance and in line with the medium-term target range of 13% to 15% that we announced at our March 2021 investor event. This metric is on a trailing basis and, therefore, reflects the strength of the last 4 quarters. The following 2 KPIs fully demonstrate the ongoing momentum in sales. Premiums and deposits increased by an impressive 47% year-over-year to $3.9 billion, and AUA/AUM of more than $210 billion are up by 16% over the last 12 months. With a 2 percentage point increase, our solvency ratio remains strong at 130%. Added to this is our distinctive protection equivalent to 9 percentage points. Finally, growth in book value, a key measure since it represents the actual value added for our shareholders, grew by 4% quarter-over-quarter and by 11% year-over-year.

Now turning to Slide 5, which illustrates our business mix, starting with our foundation businesses that is those in which we already have a leadership position. These businesses, which include individual insurance, wealth management and Dealer Services in Canada also had very strong sales, and profit exceeding expectations, with experience gains totaling over $0.20 EPS. In our support businesses, which deliver synergies and competitive advantages to other iA businesses, I want to highlight the solid sales in Group Savings and at iA Auto and Home. Our Quebec P&C affiliate also delivered a strong contribution to earnings again this quarter. Finally, our expansion businesses, which are distinctive businesses with high growth potential, continue to add value. In fact, contribution from retail distribution, including PPI, Investia and iA Private Wealth, was better than expected.

Sales and profits for both U.S. divisions were also above expectations. In particular, the performance of U.S. Dealer Services illustrates the merits of our approach to growing in the U.S. auto warranty market and of the IAS acquisition.

During the second quarter, several important strategic projects made good progress. For instance, the integration of IAS is continuing and going well. We have also defined our working capital for the post-pandemic period based on the flexible approach that will allow us both our ambition to be the company that best meets client expectations and be an employer of choice.

To conclude, Q2 results fully reflect the strength of our business model and complementarity between business segments as a driver of synergies. With the very strong momentum of sales and profitability and with a solid financial foundation, iA is well positioned for successful growth in the Canadian insurance and savings market and to become a leader in the North American dealer services market.

I will now let Mike comment further on business growth. Following Mike's remarks, Jacques will provide more information on our Q2 earnings and financial strength. I will pass it over to Mike.

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Thank you, Denis, and good afternoon, everyone. In terms of business growth, Q2 completed the first half of 2021 with impressive sales and double-digit growth in virtually all business lines. This performance is a continuation of the past quarters. Individual Insurance and Individual Wealth Management carried on their strong momentum, while the significant growth of Dealer Services in both Canada and the U.S. further demonstrated their strategic contribution to our growth ambitions. Now please refer to Slide 7, as I will comment on Q2 sales by line of business.

In Individual Insurance, sales totaled $73 million during the second quarter, a notable 38% year-over-year increase. As you know, sales growth is rooted in 3 factors: the strength of our distribution networks, the superior performance of our digital tools and our comprehensive range of products.

Now looking at Group Insurance, employee plans sales amounted to $14 million compared to $23 million for the same period last year. As you know, sales in this sector tend to vary considerably from one quarter to another due to the significant size of the contracts sold. In the Canadian Dealer Services operation, sales were up 64% from 2020, mainly driven by P&C sales and car loan originations. New as well as used car sales fared well in Q2, supporting the strong result.

In the Special Markets division, sales were about the same level as last year. People are starting to travel again. And with the easing of travel restrictions, we expect to rebound in travel medical insurance sales in the latter half of 2021.

In the U.S. now, sales were quite good in Individual Insurance with a 12% increase year-over-year. As for the Dealer Services division of our U.S. operations, sales were 113% higher than a year ago. I will comment further on this division in the next few minutes.

Now turning to Slide 8 for Individual Wealth Management. Guaranteed product sales continue to be robust, totaling more than $220 million. Looking at segregated funds, the company continued to strengthen its position in the industry and was still ranking first in year-to-date gross and net sales as at May 31. Gross segregated fund sales exceeded $1 billion, up 75% year-over-year, while net sales totaled $673 million for the quarter, an impressive increase of 61% year-over-year. As with the individual insurance, our distribution networks and digital tools have been key to our success.

Moving to mutual funds, gross sales were up 48% year-over-year, and net sales recorded solid inflows of $272 million for the quarter, showing continued momentum in bringing net sales up to $650 million for year-to-date. In Group Savings and Retirement, sales were also significantly higher than a year earlier, up 85% due to the signing of new groups with substantial assets.

Finally, direct written premiums in our P&C affiliate, iA Home and Auto, continued their steady growth and increased 11% year-over-year. Overall, premiums and deposits totaled more than $3.9 billion during the second quarter, driven by our excellent sales results. As for assets under management administration, the growth of the financial markets and solid net inflow of funds resulted in a 16% increase over the last 12 months.

To conclude, I would like to draw your attention to Slide 9, which focuses on the sales results for our U.S. Dealer Services division, including those of IAS. As illustrated by the graph on the left side of the slide, sales in this division were particularly strong in Q2. This can be explained by the resilience of U.S. car sales and also because of the diversification of our sources as 50% of our business comes from the used car market. Also, the synergies between IAS and DAC are producing more and more positive outcomes as the integration progresses well. All in all, with the support of our strong F&I development team, we are well positioned to mitigate the impact of new car inventory shortages in the coming quarters and then benefit from the sales recovery in 2022.

I will now turn it over to Jacques to comment on Q2 earnings and capital strength.

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

Thank you, Mike, and good afternoon, everyone. I would just say, we have some technical difficulty here in the room, so I hope that you hear me okay. As Denis mentioned, our second quarter results are very positive. Slide 11 compares them to the guidance that was provided at the beginning of the year and demonstrates their overall robustness. EPS, ROE, strain, solvency ratio and capital generation are all in-line or better than targets. Most notably, thanks to our solid performance over the last 12 months, core ROE now exceeds our target range. As for the dividend payout ratio, it reflects both the effect of current regulatory restrictions, prohibiting dividend increases and our good profitability.

Slide 12 presents the reconciliation of core earnings with reported earnings. The first adjustment related to financial markets, which were favorable again this quarter. The second adjustment is for IAS integration costs, which were $0.03 EPS higher than expected, mainly due to the accelerated integration of corporate function. Finally, the other 2 adjustments were as expected, one for the amortization of acquisition-related intangible assets and the other one for non-core pension expense.

Now moving to Slide 13 where our Q2 results are presented on a core SOE basis. First, expected profit of $246 million is up 29% year-over-year and is supported by strong organic growth from all sectors as well as the addition of expected profit from the IAS acquisition and the favorable impact of financial markets and high net funds entries.

Very favorable policyholder experience contributed greatly to the strong profitability of the second quarter. Solid experience gains were recorded from almost all business units, including our Dealer Services divisions in Canada and in the U.S., Individual Wealth and Individual Insurance. Please refer to Slide 21 in the appendices for more details.

The impact of new business generated a gain at issue equivalent to 1% of sales. This result, which can be explained by the high sales volume, is within our guidance range and is slightly more favorable than expected. Income on capital was higher than expected in Q2, resulting in a $0.06 EPS gain. This result is mainly attributable to the experience at iA Auto and Home, which continues to be very favorable with lower claim ratios for both auto and home insurance. On the other hand, we recorded an IT software write-down in the normal course of business.

Finally, income taxes were near the top of our 20% to 22% guidance range, resulting in a 2% EPS loss due to the true-up for the 2020 tax period, which was partially offset by a few favorable deviations. Taken together, these items drove core earnings to a record level of $2.29 EPS, well above our guidance range.

Turning to Slide 14, where you will find an update regarding our additional protection in the reserves for pandemic uncertainty. Overall, the excess mortality protection was sufficient as mortality experience was favorable in the U. S. but slightly higher than expected in Canada. As for adverse policyholder behavior, the additional protection remains intact as no adverse experience was recorded during the quarter. This protection will be kept for potential use in future quarters.

Let's now look at our financial strength on Slide 15. Our solvency ratio increased by 2 percentage points during the quarter to a very healthy solvency ratio of 130%. increase the is supported by strong and continued organic capital generation and favorable market-related variation. Our capital position is even more robust when considered together with our distinctive market protection.

As shown on Slide 16, it is currently worth more than the equivalent of 9 additional percentage points of solvency ratio. Finally, organic capital generation was again very strong at about $100 million during the quarter.

This leads me to conclude my remarks with some observations on the year-to-date results and to make some comments regarding our expectation for the second half of the year. Our very strong results for the first 6 months of 2021 can be attributed mainly to 4 elements: solid sales, supported by smart digital choices; favorable policyholder experience in almost all business units; the favorable impact of financial market; and our prudent approach to managing the pandemic, including additional protections in the reserves.

We expect business growth and experience to remain generally favorable during the second part of the year. Assuming that the financial market and the evolution of the pandemic also continue to be favorable, we believe that our Q3 and Q4 core EPS should be towards the upper end of our guidance range. This should generate enough organic capital for us to exceed the top of our annual target range of $325 million.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll get to our first question on the line from Meny Grauman from Scotiabank.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

You referenced strength in the distribution side of your business. And I'm just wondering if you could go into a little more detail both on the Insurance and the Wealth side. I mean it wasn't so long ago when we were talking about a goodwill impairment at PPI. I'm just wondering if you could give us a little more. Specifically, any metrics in terms of the transition from face-to-face meetings to digital meetings and also related to the high-end portion of the PPI business in particular.

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

So Meny, if I understand well your question, what you want to know is to what extent -- it's Denis here. Thanks for the question. You want to know to what extent there's been changes in the way distributors have been doing business with their clients like face-to-face and how this has evolved. Is that what you're saying?

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Yes. I can understand, it seems like, the pandemic presented some challenges to that distribution model, but it looks like those have been overcome. So I want to see to what extent that's permanent? And any sort of interesting dynamics going forward in the distribution business that you can highlight, either positive or negative, going forward?

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

Okay. I'm going to ask Renée Laflamme to answer your question. Renée?

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

Yes. Thank you very much. You're right that the distribution has overcome and that people are now familiar with all the tools. They are becoming more and more efficient. And we're entering into a phase where digital tools are very well used and accepted, and then combining that to the consignment and meeting clients. So the outlook is positive. The distribution networks have adapted very well. So to your question, yes, the outlook is positive, and I think we'll get the best of both worlds.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And then just in terms of the high-end business at PPI, how has that evolved? And is it back to normal there? What's the outlook for that specific niche?

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

Well, yes, that's a good question because at that time, at one point, if you remember last year, probably around this time, we had no more fluid tests happening because of confinement. This is now back to normal, and we see the pipeline of high net worth business building. So yes, we're back to where we were before.

Operator

We'll get our next question on the line from Gabriel Dechaine from National Bank.

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

First question is on capital as the dry powder number keeps growing and you're talking about potentially exceeding your internal capital generation target for the year, which looks like you're in a position to do. Just wondering how that affects your perspective on possible acquisitions. I believe, last time you were hinting more at tuck-ins than anything large, if we could start there.

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

Yes, Gabriel, it's Denis here. No change in our strategy right now. Our focus is on organic growth, including investment in technology. Second, obviously, it's about the dividends. And we're looking forward for the regulators to lift the restrictions on dividends. And once they do that, obviously, we're going to resume or increase. And we're strongly thinking about basing our dividend payout ratio based on the core earnings as opposed to the reported earnings, FYI. And also acquisition, bolt-on acquisition, we still have some in our baseline here. But nothing major in terms of acquisition at this point. And NCIB, opportunistic if, for any reason, there is an opportunity, but it's really the last resort.

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

Okay. And just to clarify that payout ratio comment you made, I think I asked you about that previously, you said it was based on reported, but you're shifting that to a core measure?

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

As I said, we are strongly considering doing that over here.

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

Okay. Got it. IAS, and maybe, I hope I'm not reading too much into this, but it sounds like you're more confident in the second half outlook than you were through a combination either of better sales, or more participation in the used auto car sales and dealers under pressure to generate revenue, so they're incentivized to sell more warranty products. And then plus sounds like some additional synergies you're getting out of IAS and combining that with DAC. Are those all factors that have helped to increase your confidence in the full year outlook?

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

Yes. It's Denis here. Absolutely. And I will leave the sales part to Mike, and I'm sure that Jacques will want to comment on the profit as well. So Mike, maybe for you here.

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Sure. Thanks for the question. And you did a good job of listing off kind of what the positive issues are through the first half of the year. It's gone well, it's probably better than expected. And it does make me more confident about the second half of the year. I still expect a bit of a slowdown in car sales. The inventories are dwindling. But there's a number of factors at play and it's a very fluid situation.

I read stuff almost daily. The Biden administration has been lobbying the chip manufacturers to kind of ramp up and make automotive chips a priority. So I think that's having some impact. The chip manufacturers are ramping up. And so yes, overall, we're feeling better and very pleased with the results of the first half.

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

Great. And then my last question will be on the P&C business. I mean this one is continuing to exceed my expectations, probably others' as well. I'm just wondering, are we in a victim-of-its-own-success situation here? When conditions normalize, is it likely that that business has negative growth, let's say, in 2022, not because it's anything bad, it's just things are as good?

François Blais - *iA Financial Corporation Inc. - EVP, Dealer Services & Special Risks*

I can answer. This is François here. So in terms of future growth, I think the future growth is protected. But you're right that as driving will come back to a new equilibrium, we will see claim frequency going back to normal. We need to keep in mind, though, that the last 3 quarters prior to the pandemic, we were already seeing strong underwriting results from that business. And we don't see any indication that it will be otherwise. So we should then see continued strong results from iA Auto and Home for the next few quarters.

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

Okay. Yes, it might be worthwhile to throw combined ratio information in the slide deck somewhere.

Operator

We'll get to our next question on the line from the line of Tom MacKinnon with BMO.

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

Yes. Question was with respect to the group business, the group life health business. Really big growth in expected profit year-over-year and quarter-over-quarter. So is there any seasonality at play here? And any other general overall comments about the really good results you're getting in your group life and health? And I have a follow-up.

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

Okay. Yes, Tom, Jacques speaking. You're totally right with seasonality. If you recall well, in Q1, we had a negative growth of the expected profit on in-force. And the question was asked, and I mentioned at the time that for the whole year, we are expecting for that division to have an expected profit on in-force growth of 9%. So it's really seasonality. And when I look at that, we're improving every year. Our team are improving the prediction on a quarterly basis. And we're very pleased, I would say, with the results we're having there. And about those results, this quarter, for sure, the P&C claims of the Dealer division has been tremendously good for the quarter as well as iA Auto Finance. So that's really the story of that line of business.

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

Should we be looking at expected profit growth for the full year being greater than 9%, especially given that your guide for that business, especially given the fact you're guiding overall for the overall company earnings to be towards the top end of guidance for the rest of 2021?

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

I would say that when I mentioned that we are targeting to be at the top of the guidance, I certainly have in mind iA Auto and Home. This is a given. We spoke about the good result of IAS as well. So we now expect, if you remember well, we have $0.39 to $0.44 target for the year that we mentioned in Q1. Our view was we will be within that guidance. And now we're confident to say we will be at the top end, even maybe exceed that part. And also, we have to consider also favorable markets that are helping the Wealth division in all those different businesses.

When I look at Auto Finance in the Dealer division, for sure, when I look at the credit risk, as long as government programs are in place, as long as the lock down, I think people are paying their debt instead of spending their money as well. So that's what we see. So at one point in time, it will probably come back to normal. But we are, I would say, positive on that, but maybe a little bit less than the first 3 factors I spoke about.

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

Okay. And then as you look towards the end of the year when you do your actuarial assumption update, is there anything you can share with us now? Traditionally, what it's been is some pretty big moving parts but being able to offset that with investment gains. Is there any way you can frame our thinking for how the year-end might shake up in terms of actuarial assumption changes. What you're looking at? Where you might see some red flags? And to what extent you'd be able to offset that with investment gains?

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

That's a good question, Tom. It's very early in the year, so I don't have anything. The only thing I can tell you is I'm not worried at all about year-end at this point in time. So I don't see any trend. There's no negative trend at all. So I'm very, very confident in regards of what is happening.

Operator

Let's get to our next question on the line from the line of Doug Young from Desjardin Capital Markets.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Maybe just starting with IAS and maybe just kind of throw the theoretical question here. If I were to think of new car sales dropping by an amount but used car sales actually picking up by the same amount, so like the mix shifting towards more used cars versus new car, and if you kept the same attachment rate on the sales of the warranty, would that not have a net-net positive impact on IAS' results? Is that the way to think about it?

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

I don't know, Mike, if you want to comment on that one? Impact on used versus the new?

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Yes. Sure. No, the way I look at the business, Doug, is that we're relatively neutral, used versus new, in terms of our margins and that kind of thing. So I don't think there's a big advantage if it's a car for a car, 1 less new car versus 1 more used car. And so yes, I think it's obviously, we're happy to picking up the used car business, but I don't think we're going to gain from it.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

What I was getting at is I thought -- and you can correct me if I'm wrong, that if you sell a new car or warranty on a new car, it doesn't really go through your P&L until the OEM warranty has gone. And whereas, if you sell it on a used car, it starts to immediately flow through the P&L. Is that not the way it happens?

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

There's a bit of a timing issue there, you're right, that would benefit us, but I don't think it's material. Depends on the term of the various products. I mean we sell a lot of ancillary, too, which are shorter term, and obviously on new and used. So it's quite a mixed bag when you get into the details.

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

Then maybe the other thing to keep in mind is that a lot of our business is on the fee business model where the underwriting profit or loss, whatever, is being taken by the dealer. So it brings some kind of stability in our results.

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Yes. I mean the revenues recognized, they're amortized over time. And so that smooths things out.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. And then just a few clarifications, and probably for Jacques. If I look at Slide 29, it shows the S&P TSX level where the LICAT falls to 110%. That's 400 points versus 2,900 points last quarter. What's changed?

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

Two things, Doug. The solvency ratio increased by 2%, and the stock market protection increased by 4%. So the caution has increased a lot. It's protection.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So that's increasing by that amount, okay. And then individual insurance, and I know you've had decent lapse experience since you adjusted your lapse assumptions not long ago. But it seemed like there was a slight deterioration in individual insurance lapse experience this quarter. Can you delve into what caused that?

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

Yes. You know what, Doug, it's $0.01. We didn't have any experience loss in Q1. So for me, $0.01 off, I'm not worried at all about that. So we will see what will develop in the future. But I'm very confident that the changes we brought last year-end and in previous years were the right ones. So for me, it could be just statistical fluctuation.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So there's nothing you're seeing in the book then?

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

No.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And then just lastly, in the individual insurance experience, there was a mention of included unfavorable impact on the level of assets backing Individual Insurance reserves of $0.02. Can you maybe unpack what that is?

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

Yes. Actually, it's something we associate with instantaneous market impact. And you've seen that over, if you look at the rolling nine, you will see that almost every quarter, there's an impact coming from that. The liability value is equal to the value of the asset needed to support and to mature all cash flow. So it's quite technical. So everything that moves, if it's market, if it's spread, if it's interest rate, it has an impact on the market. So what we're capturing there is really what is not, I would say, what we don't consider core business but what is affected by those movement. It's really the level of reserve that move and it doesn't impact on P&L. That's really what we capture here.

Operator

We'll get our next question on the line from the line Paul Holden with CIBC World Markets.

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

So I want to go back to the capital allocation discussion, Denis. And you gave a pretty comprehensive answer. And just the one thing I want to follow up on is with respect to the NCIB and being a lower priority, and that's consistent with iA's history. But I think there might be an argument or I would argue you're putting up fantastic organic growth today, yet still generating excess capital. So if that continues to be the case and given where your stock is trading, like, why not be a little bit more positive on the NCIB?

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

Thank you, Paul, for the question. It could be that in the near future, we decide to look at NCIB more positively. But I mean before we get there, we will certainly sit down and see to what extent we could increase the size of some of the acquisition that we will be targeting. So our preference has always been and continues to be on growth first. So before we go to NCIB, we would certainly put much more thoughts and resources in growing the business either organically or through acquisitions.

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

Okay. I got it. Next question, maybe you can give us a quick update on early delinquency experience with respect to auto loans. I believe the deferral programs have expired. I'm assuming the delinquency rates are pretty low, but maybe you can confirm that. And then just quantify what you have left on the balance sheet in terms of the extra provisions you provided last year?

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

Jacques speaking. During the quarter, we released the equivalent of $0.02 coming from that. Actually, it's really people that took a deferral last year and have started back to repay their loan. So what we have remaining on the balance sheet is the equivalent of $0.025, close to that. So we will see what will happen with them.

But like I said earlier, with government program, the fact that people are paying their debt much more, if you look at the slide showing the credit loss experience, it's simply amazing, the number we see there. So will it change in 1 quarter, we don't expect so. So I feel pretty confident about the fact that that provision won't be needed, but we never know what will happen with that crisis, okay? That crisis is not completely behind us, unfortunately.

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

Okay. And last question is with respect to the IT write-down you took this quarter. I think this is the second time we've seen that in the last few years. I can't remember if the last one was last year or the year prior. Is there a potential for more coming? And I guess, to better understand that answer, kind of what drove this most recent write-down?

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

Okay. Maybe I will answer it in two, Jacques speaking again. This one, it's related to our strategy to protect against cybersecurity treat. So our strategy has evolved, and we will never compromise on protecting our clients' data. So this is what happened during that quarter.

If I look forward, you know that at the Investor Day, we presented that we want to ramp up our digital transformation, so investing $500 million over the next 5 years. And you can be sure that doing transformation at such a pace, it may happen, it will probably happen again that we may decide that we will let go of 1 software because we improve, we want to go quicker on a new idea with our software and so on. So it may happen again. That's the way I look at it.

Operator

We'll go to our next question on the line from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

My question is, I hate to do this to you, but I'm going to bring you back to capital one more time. And I'm looking at Page 16 and potential capital deployment of $800 million. Now that's up from $500 million just 1 quarter ago. It's a 60% increase quarter-over-quarter. And I can see that you generated $100 million in the quarter. So the question is a few things. First, where do the other $200 million come from? Is it some sort of actuarial black box thing you did in the quarter or some sort of new measure? And could it happen in reverse? Could we have a big decline like that in a quarter or 2 on the potential capital deployment?

And if it is, in fact, sort of permanent and can sit there, did you kind of go on hurry-up offense for some reason? So those are my questions around capital. And I might sort of have some follow-ups. But maybe if you can just sort of first walk me through how it came to be you had a 60% increase Q-over-Q, which is very rare amongst the companies I cover, and then talk through sort of the permanence of it and whether or not you really went scratching for it for a reason.

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

Really great observation, Darko. It's Jacques speaking here. I'm really happy that someone asked that question actually because you're totally right that it increased a lot during the quarter, $300 million actually. $150 million is really normal profit. And the other $150 million is not black box, it's really, we did something, though. We have optimized okay, the capital treatment of the options backing our long-term liabilities. Because in the capital formula, there's 2 ways that we can reflect that. We used one way before, and we decided to move to the other way.

And there are 3 consequences, okay? The first consequence it has a near neutral impact on the total ratio, slightly negative. On the core ratio, though, it increased the core ratio by 2%. And it increased, on a permanent basis, the deployable capital by $150 million. And when you look at what happened with the change of the regulator in regard of the goodwill treatment for us, for sure, we are looking at the formula is there way for us to optimize the way we use the capital? So that's something we found that quarter. So it was not something that will repeat. We may find other avenues to increase it. But for this quarter, we're very proud of bringing it up to the table.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

And how does it happen that it only. I mean so your LICAT ratio went up just 2 percentage points, I'm a little bit, maybe we can talk offline about some of the puts and takes there on that capital. And maybe -- there's no earnings impact either, Jacques, just to be clear? I mean, you said...

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

No. No, nothing fundamental. We didn't change the underlying the economic. We didn't change anything. It's only the only thing which, we changed the way we calculate the capital for those options.

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

It's Denis here. Let me put it another way. This improved the core ratio, didn't change the total ratio. And because some of the constraints for excess capital or deploying capital was the Tier 1 capital, it improved the deployable capital.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. The next obvious question is are there other opportunities like this that still exist?

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

Maybe, maybe not. We will see. My team is working. This is when we have identified and we've been able to execute on. So you can be sure that my team is doing a great job looking at that and trying to optimize the value for our shareholders.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. And with respect to the last thing on the Slide 16, which is with regulators' instructions, the thing is you guys have a different regulator. Is it possible or probable? Or are you pushing for your regulators to say OSFI is too concerned and overconservative, you guys go ahead. Is that, you think that's even possible?

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

I think it's very unlikely. It's Denis here, Darko. The regulators in Canada are talking to each other all the time. And they're probably listening to this call anyway. But the, I mean, they work in sync. So I would be very, very, very surprised if they would move differently. They move in sync when they decided to make the restriction, and I believe that they will move in sync for lifting the restrictions.

Operator

We'll get to our next question on the line from Lemar Persaud of Cormark Securities.

Lemar Persaud - *Cormark Securities inc.*

Maybe my question is most appropriate for Mike. I just want to square up some of the discussion on U.S. Dealer Services and the impact of the new car inventory shortage. So if you could help us understand, how do you see U.S. Dealer Services sales evolving relative to the $285 million on Slide 9 for the back half of the year.

And I'll tell you there's 2 real reasons I'm asking the question. First, I'm wondering is there anything onetime in nature given the very strong sequential growth? And then secondly, we're seeing support for used car sales with increasing prices. So I'm wondering, is the growth or strength in used car sales going to be enough to offset the slowdown in new car inventories? I apologize if this has been asked. I had a communication issue earlier, so I dropped off for a bit there.

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

It's, yes, Mike Stickney here and no problem. Basically, the way I'm looking at it, it's going better than I would have guessed at the start of the year. But the issues around the chip shortage and the inventory situation are in the press every year. And I still think we're going to have a slowdown during the second half. It's probably not as bad as I would have guessed at the start of the year or even 3 months ago, but I think that is basically what's coming. It's probably not going to be as deep as what I would have guessed 3 months ago. And it is mitigated, especially for us, with used car sales. And we've got 50% of our business tied up in the used car market, so that's helping us. But I do expect it to slow down.

Overall for the year, I think we're going to end up in line with expectations, which I feel pretty good about. But yes, I think it will slow down a bit.

Lemar Persaud - *Cormark Securities inc.*

That's helpful. And then my next question is just based on the comment earlier on switching the dividend to being on core versus reported for the dividend, it sounds like you're suggesting a higher dividend would be more appropriate. Is there any potential to move the targeted payout ratio higher?

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

It's Denis here. We have no intention to change our target range, which is between 25% and 35%. The only suggestion I made was that it's the basis on which it's calculated that we are strongly considering changing.

Operator

We'll get to our next question on the line. It's from the line of Scott Chan, Canaccord Genuity.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

I just wanted to go back to your nonprime auto book. And I see that it exceeded $1 billion this quarter, up 26% year-over-year. And I recall in the past that you talked about perhaps constraining growth within this portfolio. So I was wondering is that still applicable? Or does the pandemic create a market opportunity there?

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

Yes. It's Denis here. Let me answer that question. It's a great question. You're right, in the past, we've set some limits. And one of the reasons why we set those limits is because when we bought CTL in 2015, we wanted to make sure that we would grow that business smoothly over time and gradually and learn through the process because that was a new business for us. So we basically increased year after year. When we hit the limit, we were more comfortable. We would increase the limit approved by the Board.

But now also what we did is that we looked at the overall for the organization to what extent we were, I would say, ready to support kind of a shock to the experience of credit and moving from over $1 billion, which we did, is still within the limit of the tolerance or the appetite of risk that we have in the organization. So we feel comfortable with where we are today. At some point of time, we will revisit that limit. It may be that we hit a limit where we will decide not to go over, but we are not at that point right now.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Okay. And just lastly, Jacques, you talked about core EPS guidance for Q3 and Q4 coming at the upper end of the guidance range. And I think I kind of pieced together you talked about that because of IAS and iA Auto and Home. But was there anything else that gives you kind of confidence to kind of hit those targets in the back half of the year?

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

I missed a few words, Scott. I will try. Actually, the other thing is if you look at the market and strong net sales in the Wealth division, it will certainly be something that I'm expecting to be higher than the guidance provided at the beginning of the year, for sure. And I mentioned there may be some part also from iA Auto Finance that can contribute to that. Did I answer your question?

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

I would just add. Yes, I think you did Jacques, because the question was about what is it from now until the end of the year that makes us confident other than a couple of things he mentioned. I would say that in general, I feel quite confident also because when you look at the sales across the board, they have been very, very strong. And AUA/AUM has been very, very strong. And that makes us very confident that we can be at the top of the range for the end of the year.

Operator

An Mr. Ricard, we have no further questions on the line. I'll turn it back to you for any closing remarks.

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

Okay. Sorry, I didn't push the button, thought I did. Okay, thanks a lot. Listen, we've got a great quarter, outstanding quarter. Certainly, a couple of things that I'd like to say. First of all, I think that we are quite confident about the results going forward, which is I'm sure of interest from you. And we've been very, very clear that up from now until the end of the year that we believe it will be at the top of the guidance. Our generation of capital, organic generation of capital is still very strong. Our profitability across the board has been outstanding, and we are confident that this will continue going forward. And lastly, our growth has been quite excellent during the quarter, I mean, since the beginning of the year, for sure, and we have a momentum right now. So we are confident that this will continue going forward.

So I think it's been quite a good quarter. And the next quarters, we are quite confident that the good results will continue. Thanks a lot.

Operator

Thank you very much. And that does conclude the conference call for today. We thank you for your participation as you disconnect your lines. Have a good day.
