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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's call is being recorded Thursday, February 15, 2018. Now I'd like to turn the conference over to Grace Pollock. Please go ahead, ma'am.

Grace Pollock

Thank you, Tommy. Good day, and welcome to our fourth quarter conference call. All our Q4 documents, including the press release, the slides, the year-end MD&A and supplementary information package are posted in the Investor Relations section of our website.

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 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 2017 MD&A that was filed on SEDAR today and is available on our website.

I will now turn the call over to Yvon Charest, President and CEO.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Good afternoon, everyone. With me at the table are Denis Ricard, who is our Chief Operating Officer as of November; Normand Pépin, Assistant to the President; Michel Tremblay, Chief Investment Officer; Renée Laflamme, who runs our Group Business; and Carl Mustos, responsible for our Wealth Management Operation.

As you know, this is the last conference call today for René Chabot, our CFO and Chief Actuary, who is retiring after 35 years of dedicated and passionate service and for which I thank him on behalf of the board and management. And you have to know that this is a special moment for me because I was his first boss when I was 25 years of age and René was 22. So we have been together for a long time.

Our new Chief Actuary would be Jacques Potvin who has been with iA for the last 27 years. And you should know that René was Jacque's first boss when he joined the company so that the tradition continues. I wish both all the best in the years ahead.

Now for the results. 2017 was a good year for both our top and bottom line growth. Our reported EPS was well within the guidance we gave to the market for the year, and our book value per share was up a solid 8% again. Dividends paid to common shareholders grew 13% over the previous year, and our stock price closed the year, up 12% compared with 6% for the market. So these measures point to strong execution of our 2017 business plan.

On business growth, our results were equally strong for all segments. And again, in Q4, total premium and deposits grew 7%. I want to highlight the performance of Employee Plans that had an excellent year for both sales and profit improvement. In our Mutual Fund business, both gross and net sales exceeded our expectations, and our seg fund maintained the strong momentum in gross and net sales that we have seen in the past 3 years now.

Dealer Services continue to deliver solid growth as did our Special Markets solution. As expected, our retail insurances in Canada were down over the previous year because of the tax changes that came into effect on January 1, and that caused a spike in sales leading up to that date. However, if we compare this year's sales to 2015, annual growth was 5% that is a normal rate for us.

2017 was also a good year for strategic initiatives. We concluded the acquisition of HollisWealth in August, which puts us at the helm of one of the largest nonbank independent wealth distribution networks in Canada. More recently, we completed the acquisition of DAC in the U.S. That increased our footprint in that market as well as giving us a strong footing in the extended warranty market that we know so well in Canada.

Distribution is the strength of this company, and we shall continue to pursue initiatives like these that strengthen our distribution network in our retail markets in Canada and the U.S. This is and will always be the backbone of our growth strategy.

That being said, last week, we announced our intention to adapt our corporate structure to the changing needs of our organization. Since becoming public, we have entered the wealth management space with the acquisition of iA Clarington and more than 20 wealth advisory firms. We have expanded our insurance operations across Canada and into the U.S. We have grown the product shelves of our Dealer Services segment and its geographic reach. We are still at the beginning of the process to change our corporate structure and shall provide the market with further details as we progress. However, I can assure you that our current shareholders and debt holders are receiving our utmost consideration, and we'll retain all the rights and benefits, which they now enjoy. This is an exciting time for our organization and on behalf of Denise Ricard and all the members of our senior management team, we remain committed to remaining a leader in value creation for all our stakeholders.

René Chabot will now comment on our fourth quarter results.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Good afternoon, ladies and gentlemen. In Q4, we reported EPS of $1.24. Without the impact of the year-end review, reported EPS would have been $1.34, which is at the high end of our guidance. On a core basis, EPS was $1.27 or 11% higher than the same quarter last year. All line of business reported profitable results in the fourth quarter if we include market-related gains. If we look at policyholder experience alone on Slide 10, it was another clean quarter with all line of business delivering above or close to expectation, with the exception of Individual Insurance that had a $0.05 EPS loss for lapse.

The Group Insurance sector reported experience gains in both Employee Plan and SMS. Another item of note was strain, a new business that was 6% of sales because of the lower sales volume in the quarter.

For the full year, strain was 5% versus our target at 6%, so a good result there for the year. Income on capital was in line with expectations. We are pleased also to report positive results for iA Auto and Home for the second quarter in a row. As part of our assumption review and in light of the unfavorable lapse experienced every quarter this year that caused us a total of $0.20 EPS, we repositioned our lapse exemption at year-end. This action will improve visibility of earnings in 2018. The net impact of the year-end review on EPS was $0.10 per share as a result of positive contribution from the update of other assumptions, including mortality as detailed on Slide 11. This review takes into account the result of our own internal studies that are more recent than those of the industry.

Our solvency ratio at year-end was 209%, down slightly over the previous quarter because of the decrease in long-term rates during the quarter. The conclusion of the DAC acquisition, subsequent to year-end, will have a downward impact of 8 percentage points to the ratio.

For the full year, core earnings were $4.88 per share, which is in the middle of our guidance. This result is 4% higher than 2016 that was a very strong year. This brings me to our guidance for 2018. As you can see on Slide 14 and 15, core EPS is expected to range from $5.20 to $5.60, which is an increase of 11% over the last year guidance. We are expecting organic growth to be an important driver, along with profit improvement in both our insurance and wealth management businesses.

In addition to improved results from our Auto and Home subsidiary, we are anticipating a solid contribution for our 2 most recent acquisitions being HollisWealth and DAC. We have kept strain position at 6% for the year, with quarterly fluctuation from 0% to 15%. The top of the effective tax rate range has been increased to 23% because of higher marginal tax rate on higher earnings.

With regards to the U.S. tax reform, it will provide us with a recurring gain of $0.05 of EPS per year starting 2018. The quarterly run rate for income and capital has been increased to $22.5 million, reflecting higher expected result from iA Auto and Home, with the usual seasonality that we experiment in that line of business. The other elements of our guidance, ROE and dividend payout, all remain unchanged. That concludes my comments. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll proceed with our first question on the line from the line of Gabriel Dechaine from National Bank Financial.

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

My first question is on the guidance for income on capital there and specifically, the iA Auto and Home where you expect quarterly run rate of $3 million. So you're basically saying you're thinking to make $12 million in business next year?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. This is basically what we are saying. We have done many price adjustment in 2017, and we expect that some -- that all of them will get some traction in 2018.

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

So what's the 0.5 2017 correlated rate because it wasn't anything close to that. If I just divide the annual loss by 4 quarters this is not -- it's a negative number. I'm just trying to incorporate some of that.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. The 0.5 of last year?

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

Yes.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

It was last year expectation basically. I was expecting $2 million last year and I'm expecting $12 million this year.

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

Got you. Got you. Okay. That was -- that's just borrowing numbers one. The corporate structure. So that was an interesting announcement. I get why you're doing it. I'm trying to get the motivations, what's more important. So is it for greater tax efficiency? Or will -- or maybe having a separate U.S. sub, which might be part of the picture here to improve your financing options if you want to be more to be -- still be more inquisitive in the U.S., or is it something else?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Gabriel, to start with, it's simply to provide us more capital flexibility. So with such a system, we would be in a position to issue pref share or debenture either at the Holdco level or at the operating entity. That's basically it. Once it is going to be done, perhaps we could find some other potential, but the driver here is just capital flexibility when we have to raise capital.

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

And is that a signal that you're going to be as acquisitive in the near term as you have been in the last year or plus because I would assume you're busy integrating those deals?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

No, there is no message about whether or not we will be more aggressive on acquisition because of that deal. It's mainly a function of the growth that we have had during the last few years. We realized now that with the various entities, with the market cap, we are now at the stage that the next logical step is to have that capital flexibility.

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

Last question is on lapse. I'm wondering René, if you can, you did allude to an internal lapse study that you relied upon in order to quantify this couple of charges, nearly $500 million after tax. In 2015, the message was you put the issue to rest and then we learned this year that is wasn't the case. Like how can you convince us, I guess, that this is finally something that you've cleared off as a risk. Is there some sort of metric? You were assuming lapse rates of x back in the day and at the start of this year. Now you're assuming lapse rates of y. Is there something you can help out with that?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

You're right, Gabrielle, that in 2015, we have act on that issue and we have act at the moment, on the fact that we know. And in 2015, the fact that we have on the table what this new study published by the Canadian Institute of Actuary at that time. So we act at that moment on these metrics. In 2017, we also act on information that we have. And what is the new information that we have is all the year 2017 losses that we have -- we have losses every single quarter in 2017 totaling $0.20 EPS losses, vis-à-vis, $20 million losses down the road. So that's the information I use. I just embedded that new information into my evaluation of the lapse situation, and that's the reason why we have that element this year. I cannot totally predict what's going to be the future, but has the outgoing actuary, as you know I tried to let the house as clean as possible and this is what I want to do.

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

To the best of your knowledge, this issue is dealt with, but realistically, we can't tell if it's gone completely. It still could be an issue next year.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I would like to be able to predict everything that's going to happen in the future. I just can't. I'm acting on facts and on elements that I have in my hands, and what I'm just repeating a bit myself here. The only thing I could provide you today is to tell you that I have act on the fact that I have seen in 2017. And I want to left the house as clean as possible.

Operator

And we'll get to our next question on the line from Meny Grauman from Cormark Securities.

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

I just had a pretty remarkable run over the past few years in terms of strain. And when I look at your guidance for 2018 on strain, it seems to suggest that past is now sort of plateaued. I'm just wondering your perspective on that. And if you look at the issue, strain isn't such a big benefit to over the past few years. Where would the next leg come from? Is it just you've hit sort of the limit in terms of the structure of your current business?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I think we probably reached the limit on the strain side. We are at the level that is pretty low, and we are quite pleased with all the action we have done out there. And there is other area that we want to continue to work on. So we do believe that recently, we have made significant acquisitions. We still believe that there is lots of potential value creation out of these acquisitions, so we will try to generate something out of them.

Operator

We'll go to our next question on the line, from the line of Doug Young from Desjardins Capital Markets.

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

On Page 11, the economic assumptions, the $168 million, I've got a few questions around that. First, the URR alignment. Does that mean that you've released the 10 basis points of excess URR cushion that you had?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes, Doug.

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

Okay. And then so if I look at the IRR reduction, I look at the URR reduction and I use the sensitivity, I get to about 100 -- call it, roughly $130 million, and I know I'm going to be off there, but what else went through the $168 million, if you can maybe provide a little more detail around that number?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

What get into this number is exactly what we disclosed to you in Q3 and probably all-year long. So basically, you mentioned the first item, which is the URR. You also see on Slide 12 that we repositioned our margins on the IRR at the level that we are used to be, so that's the second piece that was out there. And the rest of it is the investment gains created all-year long to the active management of our portfolio of assets backing our liability. And basically, this is it.

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

The remainder was just essentially, the investment gains that you accumulated throughout the years? That's about $30 million, $40 million or whatever the number would be.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Whatever the number it is, it's embedded into that.

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

And then just on Page 12, if I look at that interest rate protection, I mean, you brought it down to 43 basis points. If I go back to 2015, '14, '13, it seems like you want to keep it in and around 40 basis points. Why is that? Is there a reason why it's around 40 basis points? Or would you be willing to take it lower? Just wanted some color on that.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

The reason why we have that margin was that the interest rate was quite a journey to a certain extent. There have been so many movement in these rates and I remember these days when they kick 1.5. That was a bit -- I wouldn't say scary, but that was a bit demanding on that organization. So basically, the fact that we have that cushion helped management to manage, I would say, in an orderly fashion and transact their portfolio in a orderly fashion. So when we have done our internal risk analysis of this potential decreases in rate, we feel that to have about 40 basis points margin was something that we feel was realistic and safe enough to make that orderly action happen.

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

So has that view changed going forward? And I guess, I mean, because you call it interest rate protection, but if you're not willing to take it below 40 basis points, then there really isn't much in terms of cushion left, or has that view changed as you look forward?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

For so many years, people were saying that this rate has to go up. All the economists were saying this every single year over the last 5 to 7 years. In that quarter, I lost 25 basis points. It was unexpected, and it bounced back 2 weeks after the year-end close, which was unexpected too. So the reality is that we get modest quite rapidly on rates. And the reality is that once till we don't have additional clarity that these rates going to go up and go up significantly in terms of the trend, we prefer to maintain these margins.

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

Okay. And then the policyholder -- adverse policyholders experience in individual insurance, $0.04. That was lapse. Is that correct?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes, that's correct. So -- and that's the reason I tell you that for the year overall, we lost $0.20 on lapse and individual insurance this year, which was quite an important element.

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

Yes. No, that's fair. And then the 201% MCCSR, maybe that's -- would be for Yvon. As you think about, and I know you're comfortable with 175% to 200% , but as we've skated closer to 200% before the market tends to get a little skittish and I know you're changing your corporate structure. How comfortable are you with your -- where you sit on the MCCSR?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

You know that there will be a new journey in 2018 with a new capital regime. So we will stop talking about 175% to 200%. But internally, we have done some -- our risk analysis and in May, we will disclose to you the threshold of the range at which we are at ease with the current regime. But I will repeat myself in saying that when you look at the visibility of the earning in this company and the fact that core earnings has always been close to the reported earning, we feel that the best source of capital is profit. And that we are able to deliver steady profit. And that's the main reason why I've always been at ease with the range of 175% to 200%.

Operator

And we'll get to our next question on the line, from the line of Nick Stogdill with Crédit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

My first question is just on the expectation for the run rate of investment income in 2018. In 2017, the average I think was a little over $36 million. You're projecting, I guess, $35.5 million per quarter this year coming up. I just want to get your thoughts on why it could be lower, given sort of a stronger rate environment? And anything you can add to that.

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - CIO and Executive Vice-President*

Yes. It's Michel Tremblay. Well, we disclosed for instance, last quarter, we had some exceptional gain on the real estate sale, and we saw some special activities in 2017. Some of that can be repeated, some will not be repeated. So this forecast of $35.5 million run rate for 2018 incorporate the fact that some of the special gains won't be repeated, some will be repeated, interest rates are slightly higher, the portfolio is slightly bigger, so it's a combination of all of these factors.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Great. My second question just on the EPS guidance. You talked about having organic growth being important part of that as the driver. If you kind of walk through the moving parts, it looked like HollisWealth would have contributed $0.26 if you had it for the full year. You're going to get a few pennies from the DAC acquisition, the tax rate. To me it looks like you're already at the low end of your guidance, implying organic growth at the midpoint is actually quite low. So I just want to get your thoughts on the guidance for 2018.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Maybe I could give you 3 additional information here on that element. So basically, if you look at our guidance for the current year and for the sake of the discussion suppose I use the midpoint, which is $485 million, okay? This is the guidance 2017. And then I use the guidance of my next year, which is midpoint for 5 40. So we are talking about $0.55 of additional earnings out of that guidance. So we could divide that number into 3 parts. We expect about $0.25 coming from our insurance business, all our insurance businesses, okay? So depending on the one either to P&C, either SAL, either SMS, either Group Life, either insurance. We know that in many of these lines of business, we have done some repricing exercise, and we do expect some additional business out of these repricing exercise. So we expect $0.25 coming from this. We expect another $0.10 coming from our wealth management businesses from the market growth as well as the net sales activity that happened in 2017. And finally, we expect about another $0.20 coming from the 2 acquisitions that we had in 2017. The DAC acquisition as well as the HollisWealth acquisition. So if gives you in a nutshell, the 3 key elements that we think where we are positive on that guidance that we provide to you.

Operator

We'll get to our next question on the line, from the line of Sumit Malhotra with Scotiabank.

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

First, probably for Yvon. Going back to the change in the holding structure. When I read the release last week and then you talked about want to be on the same playing field as your Big 3 competitors and growth ambitions, both Canada and the U.S. it did, at least to me, sound almost like you're seeming to us that part of the structure changes is to perhaps facilitate a larger push into the U.S. and the DAC acquisition might be part of that. Is that the right way to think about this? Or in your view, is this just a step to level the playing field and give you flexibility?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

It is the latter. The latter is just to give us capital flexibility. Please remember, 2 years ago, we told you that we were willing to spend $500 million to do a wealth management acquisition in Canada. We are willing to double the size of our first acquisition in the U.S. The first was USD 150 million, and we said that we were willing to buy up to USD 300 million in the U.S. So our acquisition set the agenda fact that we were prepared to do bolder moves. We're already on the table. So the holding structure is just to give us the capital flexibility. In terms of the acquisition appetite it was there, and it is still at the same place.

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

So meaning $300 million in the U.S., I guess you could say that the DAC purchase is around CAD 200 million, maybe a little less than that. That in terms of where we go from here, that $300-ish million is still the high end of what you would look at on a U.S. deal?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

For the moment, yes. Let's see that in 2018, our game plan is to digest that. Make sure that the integration is going smoothly. That we are in good control of that operation. And then, we'll see what we go next. But for the time being, I've seen the U.S., remember the same amount, USD 300 million.

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

Okay. And then, either for René or maybe for Michel. If I go back to your Investor Day in 2016, the company spent a good deal of time talking about investment strategy. As always, we moved from the very low rates to thinking about higher rates quite quickly in this business. You talked a lot about the shifts that you've enacted in your asset mix to try to protect IAG and your investment portfolio from low rates. And we went through a few different pieces whether it was nonfixed income, real estate, alternative assets. As we move to this new capital regime in LICAT, obviously, we've done a lot about the fact that those nontraditional classes don't have as favorable capital treatment and one of your larger competitors has made some moves to reflect that. How are you thinking about your investment mix. And do you anticipate having to make any changes in your portfolio to adapt to LICAT?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - CIO and Executive Vice-President*

It's Michel. Based on the calculations that I've done so far and the extra return we may generate from some of these asset classes, considering the fact that we are not too exposed in this asset classes, at this moment, we don't envision to make major changes to our asset mix and investment strategies. Bear in mind that we introduced some of infrastructure investments and these investments, to some extent, even though sometimes it's not constituted by the capital regime, these investments are very much interest rate-sensitive and they do match perfectly well our liabilities. Bear in mind also that we have a highly performing real estate portfolio that will generate good cash flow, and again, it's very correlated to the liabilities. So at this moment, after all the reviews, after looking at the capital numbers, we don't expect to make any significant changes in the investment mix over the next couple of years. The changes that have to be made in the past have been done with respect, for instance, to mortgages. And that goes further in the future, but we don't expect to make any significant changes to answer the question.

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

And look, the numbers aren't huge, but you did detail to us how private equity had become a bigger piece over time, real estate had increased somewhat. So maybe you don't sound like you're looking at divesting of anything. But as you go forward, and you add to the portfolio, do you anticipate keeping the nontraditional fixed income piece at a similar weight, or is that going to decline as a percentage of your investments going forward?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - CIO and Executive Vice-President*

For the time being, we don't expect to exchange, for instance, the percentage of these investments with respect to the long-term liabilities. That's how we look at it. And for the next couple of years, we don't expect to change that significantly. Maybe it's going to be plus or minus 1%, depending on the opportunities. So we have to be opportunistic, but from a strategic point of view, we don't plan to change the asset mix of the portfolio.

Operator

We'll get our next question on the line from Tom MacKinnon with -- for BMO Capital Markets.

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

René, I wanted to -- just taking to Slide 11 again, and I think you did some detail on the economic assumptions kind of break down. But what about the mortality and morbidity break down? I'm wondering if you might be able to share with us what the contribution was from the new CIA table and then what the residual amount was?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Basically, most of the piece that is presented on there is coming from the new mortality CIA table out there, Tom. I would say there's probably $50 million coming from the morbidity assumption review and the rest is on the mortality side.

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

So most of the piece is coming from the CIA table. Does that mean like 50% or 75%?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

What I'm just telling you is that I just used the new standard published by the CIA. This is what I have done. I align myself with the new standard, and this is the major piece of the number provided on that slide.

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

Okay. And in terms of the -- how would this reflect your ability to be able to -- if we would look at this going forward, does that mean that we would have fewer -- the likelihood of having a policyholder experience against related to mortality and morbidity, would you say that there would be less or more, or about the same as we've currently seen as a result of this move?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I will say about the same as we are currently experiencing. The most important impact on that change is on my year-end review. So you talk about experience gain. So experience gain, I will say, is business as usual, I would say. What changes is the year-end review. Because it's my 5-year rolling average process that has an impact here. And I know that when I'm going to do the year-end review next year, I will have less room that I was used to have usually, when I'm doing these 5-year rolling average process.

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

So -- did I hear right? You would have less room if you were to do this next year then? Right?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. So in short, the major impact is on the year-end review process. So if I was used to start the year with, for example, $50 million pretax gains on that 5-year review process, I would probably now have half of it.

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

Okay. All right. And then, why did -- I don't know if this was asked, but why did you actually bring down that extra margin on the IRR? Maybe the question is why did you increase it into 2016? And then why did you bring it back when the rates went up, and then you brought it back down when rates went down?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. I will explain. It's all related to 2016, Tom. You remember the Trump election in 2016? In 2016, so these rates went up like crazy. And I say, all year long, it was so tough on the rates that wait in a minute, before I release all that stuff, I would like to see the dust coming down. And seeing where they're going to land. And I say temporarily I increase my provision to 75 basis point, waiting for additional clarity on this. So we passed all-year long 2017 with these rates moving. Less sharply than they had been in other years, and we decide to bring back the level at the level that we feel comfortable about, which is 42 basis points. And it has been mentioned many times.

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

Okay. And then the final thing is, the company prides itself on being able to deliver steady profit. And if I look at couple years ago, we did a $568 million pretax revision with respect to lapses. And then 2 years later, $675 million with respect to lapses. And -- just in 2 years, you had significant deterioration in experience, and these are sizable reserves builds. How -- what does that say about, I mean, the ability to deliver steady profit also kind of somewhat would insinuate that your reserves would be adequate, but how should we be looking at that in that context?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

I think I mentioned it quite in detail in previous comments. I mentioned that in 2015, I was acting on the new CIA study that was providing information till the year 2012. And I have my own experience. In 2015, I have seen some differences in my own experience compared to that study. So I have 2 choice, either I close my eyes and I say, oh my experience is not credible enough and I don't pay attention to it, but I would continue to carry on that loss. So I prefer to act and I prefer to give more recognition to my own experience, and so that it's fresh information, it's better information, and it's preferable to avoid adding something that's going to be bigger down the road. So that's the reason I decided to do so.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

My understanding is that in 2 years, it's like we have updated the last assumption for the last decade. Because in 2015, we were talking about industry data for many years up to 2012. And this year, we were talking about the last 5 years own company data. So I don't believe that people should say that this happened over 2 years. In fact, over 2 years, we have updated 10 years of experience.

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

Okay. And this is primarily with respect to level cost, level COI Universal Life. Is that correct?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

That's correct.

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

And what would be some of the ultimate lapse rate you're using with respect to this business now?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

It's pretty low, Tom, and this is something that we don't disclose.

Operator

And we'll get to our next question on the line from Mario Mendonca with TD Securities.

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

Could we go back to Page 11? Before you sail off into retirement, just a few more sort of tougher questions around this. When I look at this slide, I'm never sure whether I should really be impressed with the excess reserves you have, or whether I should be concerned that this impacts future profitability. So this is sort of similar what Tom was getting at. And I want to go about it this way. When I look at these releases and strengthenings, are we seeing changes in best estimate assumptions? Or at any point has a PfAD been impacted here?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

The PfAD has not been impacted. This is the best in an assumption that, that being impact. And basically, what I'm doing, Mario, I'm recognizing, I'm repositioning long-term best estimates basically here.

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

Okay. So in theory, expected profits should not be impacted positively or negatively. And that's I think that was the point you're making to Tom that there really shouldn't be any ongoing effect other than a little less flexibility at the next assumption of you. Is that essentially the point then?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

This is exactly the point. This is exactly the point and this is what I thought to bring into the mind of all the investors many time. I knew that sometimes that's a complex issue, but this is what I try to do all the time. And it's very beneficial for 2018 and that's the reason I mentioned in my opening remarks that the advantage of this is that it increases visibility of our earnings in 2018 because it protects the guidance that I provide to the Street.

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

All right. That's beneficial. And so far as future what would have otherwise been experience losses associated with lapse will not be there simply because you strengthened the best estimate. Is that -- that's the fair -- that's the right interpretation?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. That's the right interpretation.

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

Okay. If we could go to the Holdco structure, the notion that there will be a Holdco structure going forward. Yvon, should I interpret this as the company will start issuing Holdco debt? And sort of on a related note, the existing leverage, does that become Holdco debt? Or does that stay with the operating company?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Yes. Good question. Because I will use the opportunity to give comfort to the current debt holder and to the pref shares holders. So there is no consideration to move whatsoever the current pref shares and debt. It will remain in the insurance entity because we have to be quite honest with all the people that have bought into those types of instrument. So the holding structure would give us the flexibility for future capital issuance.

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

So is your expectation that on a go-forward basis, debt leverage will be issued from the Holdco?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Well, in fact, we do all that work to give the capital flexibility. And it's certainly the main, the first and main idea that we will look back once we will have the holdings structure.

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

That's helpful. And René, let me remind those sentiments that people described. I really enjoyed all our conversations over the years.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Thank you, Mario. It was the same for me.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

And I guess. It's Yvon Charest. With all the question you had on Slide 11. I guess, I will be asking the analyst to all sign that sheet and send it to René for as retirement gift.

Operator

(Operator Instructions) We do have another follow-up question from the line of Gabriel Dechaine from National Bank Financial.

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

Just a question on the -- quick one here. CTL. I noticed you're -- the origination is down 34% year-over-year. The number below that, the receivables, are those all the car loan?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - COO*

It's the new to car. Yes, it's all the car loans. And you have to remember that we took the decision in 2017 to terminate -- to not originate on the prime side. So now we are only on the nonprime side or nonprime car loan has increased significantly in 2017. So the picture that you see right now is a melting part of both the prime and nonprime.

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

Okay. So -- yes 2016, you would have had some prime in there? And if I look at just nonprime versus nonprime, would you be up or flat? Or something like that?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - COO*

So up until -- I think it was April 2017, we originated prime business. So let's see, we'll remove the prime. We have the -- I have the number with me, but it will be over 20%, if I recall correctly.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Yes. I think the need was about 25%.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - COO*

Yes. 25% increase in nonprime car loan.

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

So how the -- I mean, obviously, you like that business, so losses can't be that bad. But I recall shortly after you acquired it, you had to write-down the goodwill because losses were trending higher. So that's been fixed now? Or what was -- let's take a trip down memory lane a little bit here and tell me what happened then, and what did you do to fix it, and things are pretty clear standing now?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Yes, Gabriel, it's Yvon Charest. Everyone realizes though that I badly wanted to answer this question because we have not done the write-down because of bad losses. I told you that when we booked for the transaction, we have been extremely optimistic scenario, concerning the speed at which we will grow the income. And we decided to set the goodwill accordingly and 2 years after, we realized, no, we would not grow according to the optimistic scenario. We will grow according to the realistic scenario and then we made that decision. We had no option then to move the goodwill down. As we decided early on to use the more realistic scenario, you will have never heard about a goodwill write-down. So it has nothing to do with that experience. It had to do with the fact that we decided to look for the optimistic scenario because the pricing model was such that the seller will have an earnout. So we booked for the most possible aggressive earnout, and we realized 2 years after that no, it's going to be a realistic earnout. So please, don't have this idea that it's because of bad credit loss experience.

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

It wasn't credit loss. It was -- modeling, I guess, that was too aggressive.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Exactly. The modeling was just too aggressive.

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

Got you. But back to the underlying question, I guess, there's no -- are there any pockets where you're seeing any deterioration in that business?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - COO*

Absolutely not.

Operator

And we'll get to our next question on the line from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Just a quick question on the strain guidance. So René, how should we think about the sensitivity to higher interest rates? What should we look at? And so for example, could you say if the longer, the current went up by 50 basis points, you're strain would drop 2x? Is there something you can provide for us?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

The reality is that in our model, Darko, we throw the interest scale at year-end. So what's going to happen if these rates go up will be an indication the year after of what's going to be the new strain equation because these scale are frozen at year-end.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

And are there any pricing actions that are being considered today because of LICAT or interest rates that we should be aware of?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

None that I'm aware of.

Operator

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

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

Just a follow-up. I'm looking at Slide 14. René, you were good to show us the delta from 2017 to 2018 in terms of the insurance and wealth and the contribution from the acquisitions. How would -- if you were to conjecture in your retirement how those numbers would look out from the 2018 into 2019, which one of those would you expect further growth from any one of those buckets? Or would it just be safe to say that we would just increase that delta sort of proportionately in each one of those?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

Tom, you could do what you want with respect to this. What I will tell you is that at the Investor Day in 2016, we provide guidance for the next 3 years to 2019. And you see that currently, our plan is articulated towards that, I would say, that commitment that we took. Basically, this year we are at $0.05 ahead of that commitment. And we gave you some of the details by line of business. You will have to wait for next year to see further detail, for 2019.

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

And I think it was like 8% kind of growth organic and then 10% if you added on acquisitions. So if you got the acquisition in '18, should we expect sort of a 8% organic into 2019?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP, CFO & Chief Actuary*

We gave you a pretty good bucket stories. So just look at them and you -- make up your own mind.

Operator

Thank you, very much. And Ms. Pollock, we see -- have no further questions queued up on the phone. So I'll turn it back to you for any closing remarks.

Grace Pollock

So that will conclude our conference call for today. If you have any further questions for René on Slide #11, you can call us at (418) 780-5945. Thanks for joining us.

Operator

Thank you, everyone. Thank you very much. So ladies and gentlemen, that conclude the call for today. We thank you for participation and ask to disconnect your lines. Have a good day, everyone.