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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Industrial Alliance First Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, May 10, 2018.

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

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

Thank you, Frank. Good day, and welcome to our first quarter conference call. All our Q1 documents, including the press release, the slides for this call, MD&A and the 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 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 available on SEDAR and on the company's website.

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

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

Good morning, everyone, and welcome to our Q1 conference call. First, I'd like to introduce the people around the table today. Denis Ricard, who has been our COO since November; Renée Laflamme is recently appointed EVP responsible for individual and transient NVDs; Jacques Potvin is joining us as incoming EVP Chief Actuary and CFO; Carl Mustos is responsible for our mutual fund manufacturing arm and distribution affiliates; and we also have Normand Pepin, our EVP responsible for acquisitions; Michel Tremblay, Chief Investment Officer; and Mike Stickney, in charge of our U.S. operations.

So the year is off to an excellent start. EPS exceeded our guidance for the quarter as well as our results in the same quarter last year. In addition to good policyholder experience, we had a strong contribution from HollisWealth as part of our strategy to build distribution as a business. We have also completed 3 more acquisitions since the beginning of 2018, PPI and ABEX in Canada, and DAC in the U.S. All 3 are accretive immediately and we look forward to their future contributions.

This is the first quarter that (inaudible) report their capital ratios under the new formula. All in all, the formula rewards good risk management and is favorable for iA. This is also the first quarter that we are reporting the results of our U.S. operations in a separate line of business. We are providing a breakout of both top line and bottom line for life insurance and for the extended warranty business that we acquired through DAC in January. Recently, we announced our intention to create an holding company. To date, we have received interim approval from the court, and we'll be seeking approval from our shareholders at our annual meeting this afternoon. Assuming that we get the necessary support, we shall be asking the formal approval from the court before this spring. So this is for my formal comment today.

I shall now turn the call over to Denis Ricard.

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

Good day, everyone. I would like to make some brief comments on business growth this quarter that you can follow on Slide #5. Beginning with Individual Insurance in Canada, I would say that we performed very well. Compared to last year when Q1 sales were stimulated by new tax rules, sales stayed at the same level this quarter, which is good news. In the retail insurance market, we're seeing a lot of movement towards electronic underwriting and electronic transactions. Here at iA, our real-time underwriting platform that we call Evo is now being used by all our career agents and 60% of our brokers to issue life policies. Over 50% of our new policies with face amounts under 500k are being issued with EVO. More about this at our Investor Day in June.

In Individual Wealth Management, we continue to lead the market for net sales of 6 funds that were up by 33% over Q1 last year. Lowguarantee seg funds accounted for more than 80% of our growth sales, which is very encouraging from an ROE and risk-management perspective.

On the Mutual Fund side, gross and net sales were solid. We are still seeing redemptions in the Laurentian Bank channel that should run in their course by the end of the year.

In our Wealth Management business, we had a good contribution from HollisWealth that have set the weak equity markets. We are also reporting good traction in the sale of iA portfolio solutions to our affiliates.

In our Group businesses, where quarterly results can vary, Group Savings and Retirement had a strong Q1, driven by growth in insured annuities. Employee Plans sales were down year-over-year, but retention was almost 95% and there is a new business -- there is new business in the pipeline that will show in Q2. Special Markets had a particularly quarter for health and travel insurance sales. Sales in Dealer Services were comparable to the previous year.

In the U.S., Individual Insurance sales were steady over the previous year, while our new business that is accident warranties for vehicle added a solid contribution to our top line.

Finally, growth at iA Auto and Home was a little slower this quarter, reflecting the repricing initiatives in 2017 and 2018.

I'll now pass it over to Jacques.

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

Thank you, Denis, and good day to everyone. In Q1, both our diluted and core EPS exceeded the top of our guidance. Reported EPS of $1.29 was 25% higher than Q1 last year. And core EPS of $1.32 was up by 26%. This includes dilution of $0.01 related to the common equity issuance in the quarter. This growth came mainly from good operating results.

As you can see from our items of note on Slide #7, policyholder experience was very good with a total gains of $0.11 per share. It was a clean quarter with our sector delivering above or close to expectation, with the exception of our U.S. operations that reported a loss of $0.01 due to mortality. Details are shown on Slide 9.

Our second item of note is [starting] our new business. The ratio this quarter was 14%. Unfavorable business mix generated a loss of $0.01 per share versus expectations. This compares with 8% in the same quarter last year, which had higher-than-expected business volume and favorable sales mix. I will add that 14% is more in line with our guidance for the first quarter. Income on capital was $17.9 million in the quarter. Investment incomes include a gain of $0.03 from the sale of a property in the U.S., while iAAH finished in line with seasonal expectations.

Now I would like to make a few comments about our solvency ratio. At (inaudible) our ratio under the new regime was 121%. The transition was favorable for us as you can see on Slide #10. It added about $100 million to our capital above the supervisory level. The new regime recognized good risk management. For example, we continue to manage our interest rates sensitivity, but for the first time, the impact is recognized in our solvency ratio.

Our debt ratio continues to be low at 23.5% and provides us with capital flexibility, if required. During the quarter, our ratio moved from 120% to 121%, the most important variations came from the issuance of capital as well as the DAC and PPI acquisition. Our target ratio under the new regime will be 112% to 116%, which is about equivalent to the 185%, 200% under the old regime.

As you can see on Slide 10, the new regime is more robust than the previous one. The formula has stricter rules recognition of capital and it is risk-based. Going forward, our capital will be less sensitive to interest rates. All in all, our new target ratio of 112% to 116% provides a higher level of comfort than 185%, 200% under the old regime.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

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

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

Just a question on policyholder experience. Definitely a very good result this quarter. I'm wondering your perspective on how sustainable it is?

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

In fact, we give our best shot with our expected profits. So we were pretty happy with all the good result across-the-board except for the U.S. So we expect to have some -- to continue to benefit from some of the management action taken last year, but there are fluctuations quarter-by-quarter.

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

And just getting into more detail on lapse specifically if you could provide any color. I know the MD&A provided a little reference to lapse looking good this quarter in terms of lapse experience. Can you elaborate a little bit on what you saw there?

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

Okay. For lapse, the $0.04 come close -- it's close to half and half mortality lapse.

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

Okay. And then if I could just ask a bigger picture question. You've done some deals lately in the independent financial advisor channel. I'm just wondering what the attractiveness of that channel is in particular and how you see the different acquisitions fitting together specifically? Is there a connection between Hollis and the PPI deal? And where do you see that going over the next quarters and years?

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

It's Denis Ricard here. The first thing I would say on this is that we're very pleased with these kinds of businesses because we think that distribution in itself is a very good business for us long-term. The one thing that is important here is that once that we have the good foot into the distribution of the life side and the wealth management side, obviously, we can start doing some work on both sides. We have people that work on the life side coming from the wealth and vice versa. So we're trying to also to synergize to some extent what we do on each of the sides. So we're very pleased so far.

Operator

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

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

I have a couple of questions on the LICAT disclosure. First of all, I just had a -- curious about the sensitivity to rate unlike some of the other companies or I think all of the other companies, anyway, when rates go up, your LICAT actually benefits. What's the reason that, that exists -- that situation exists?

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

For interest rates, sensitivity in the ratio, there's a new item that is also affected by interest rate. Then it's the present value of PfAD that is taken as a credit. So this one is negatively correlated with interest rate. So for us, when the interest rate goes up, the net of the 2 is good for us.

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

(inaudible) was negative.

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

The same directly, Gabriel, is that an organization that has a big PfAD, they have a good credit to start with. But when interest rate increase, that credit is going down. So -- but for all insurers when interest rate is going up, the required capital for interest rate is going down. So it just depends upon the size of the basic capital requirement and the size of the credit from PfAD. The net of the 2 for us is positive, and we are very pleased with that because it means that if interest rates were to increase, it's going to be positive on us as it was for the MCCSR.

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

Alright. I think, I might have to revisit that. Then the credit for hedging, you're highlighting not again, it's something that we've been hearing about for quite some time. Is there any indication that you're going to get that soon? And then if it does happen, there's credit for hedging activities, would that cause your LICAT ratio to up? Or is it just the sensitivity that changes in equity market that, that gets reduced?

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

We're working with the financial regulator. The both teams are working closely together and we are targeting to get the credit for the third quarter. However, I don't control the full agenda. We expect a good decrease in the sensitivity to market, and we expect a slight improvement in the ratio.

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

Okay. Got you. And then I guess the holding company structure, is that -- is your intent to have that issue debt and then downstream that to the operating company ultimately?

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

Yes, it's Yvon. So the idea, Gabriel, for sure is to have a level playing field with the big 3 insurers and to have that additional flexibility on where is it that we issue perhaps debt and pref shares and debenture. That's it.

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

I'll take that as a yes. The last question I've got and I apologize if this is going too granular, but it's on the P&C business. I think most of us would've adjusted the last forecast and the (inaudible) on the bad weather we saw during the quarter, could you walk me through what the -- and then ultimately you did better than I thought you would have. Can you walk me through the month-to-month experience just to see how we can grow from a -- what's still a pretty big loss $6 million to achieving a $3 million pretax profit for the full year?

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

[Actually], if you look at [Slide 16] you get the run rate. And the seasonality is higher than it used in the past because of the big winter storm and so on, and you have to recall all the management actions that were taken last year.

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

And like the monthly run rate and to get to that $6 million, did you lose money in January, February and make money in March just to kind of get back on track with the quarterly run rate?

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

Well, Gabriel, it's Yvon Charest. The winter is always tough. So it's tough at the beginning of the year, but this being said if you were a manager in that line of business, you will know every weekend, you know every Monday morning, you come at the office and you look at what happened during the weekend. So fluctuations could be material. So just to give you some flavor for the first quarter this year, January was such a bad start but March was fantastic. So the net of the 2 was you know that we were on our expected profit. But normally, you expect loss in Q1 and Q4 and you make no profit in Q2 and Q3. So this is the rule. But as I mentioned, every Monday morning could be a surprise.

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

So you're still confident in that $3 million?

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

It's Denis Ricard here. One thing that you have to keep in mind is that the price increases is the main driver of this reversal. And we've increased it by double-digit.

Operator

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

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

Just a couple of questions here. I was looking at the expected profit in Canadian Individual Insurance and it was in fact down like $8 million quarter-over-quarter and down year-over-year as well. And that's sort of despite the fact that I would've assumed with higher interest rates, your PfAD would've unwind a little faster, so maybe you got a little bit mpre expected profit that way or -- and you had a contribution I assume from PPI. So if you can help me understand what's happening there, that would be great.

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

Tom, actually, we feel that we overstated last year our expected profit for the -- in that line of business and it has shown with loss we suffered during the year. This year, we're pretty confident with expected profit. So -- and you have to remember that there's seasonality between quarter as well.

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

Okay. So it sounds like last year's was a little bit more aggressive and this seems to be a better view on it then. Is that despite the fact that we've got a better interest rate environment and higher equity markets?

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

That's a good way to summarize it, Tom.

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

Okay. How -- going forward, how should we model iA Auto and Home? I think you talked about a run rate of $3 million a quarter, $12 million annually. We've lost $6 million in the first, does that mean we should be looking at positive $6 million for the rest of the year for each quarter? Or any guidance there would be very helpful.

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

Well, Tom, we have not changed the guidance for the full year. So if you take the run rate that is on Slide 16, I believe, and you could see there on Slide 16, we are talking about $3 million per quarter. So our guidance for the full year is still at $12 million.

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

Okay. So that's going to imply $6 million per quarter for the next 3 -- that's going to apply $18 million you're going to make on this thing for the remaining part of the year, does that seem fair?

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

Well, I just answered the question about the guidance for the year. Everything else is up to you, yes.

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

Okay. So that simple arithmetic would imply that you're going to be making $18 million on this thing for the rest of the year. And then finally, with respect to a -- your LICAT ratio. Are you able to share with us how much kind of LICAT capital you are able to release each year? Like, does your business model actually annually release LICAT capital? How much is that? Or, like, you generate LICAT capital each year and how much is that in terms of free capital generated?

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

Tom, I would draw your attention to the slide showing the sensitivity of our -- the new capital regime, which is Slide 12. When you look at that, you can -- and I will add to that slide the fact that with the new hedging -- when our internal hedging program will be recognized, the sensitivity to market will be lower than that. So knowing that over the past 5 years we've been hit by microeconomic (inaudible) environment and looking at the sensitivity of those factors with the new regime, we expect to be in a pretty good shape there.

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

Okay. So if we were to assume then just normal business that you're on -- that you're doing and markets go up 10%, you actually free up 1 LICAT point annually. Is that a good way of thinking of that?

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

Yes.

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

Okay.

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

If I may, Tom, I'd like to draw the attention here on Slide 11 because people are -- everyone is wondering how is it that you move from the old regime to the new regime. So we might have been the only company to calculate at the same date, what was the ratio under the old and the new regime, so you could see on Slide 11 that the 209% at year-end 2017 translate into 120%. And when we look at the other (inaudible) reporting last week, we said, okay, we better have to show both regime at the same dates so that people could translate more easily what should be the ratio under the new regime.

Operator

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

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

So just a couple quick questions here. First one is with respect to individual insurance sales. As you pointed out a very good quarter relative to peers. And I just want to make sure I get the story straight. So it sounds like you're gaining market share and that's specifically in policies under 500k because of your electronic underwriting capabilities. Is that correct? Or is there anything else to the story as well?

Renée Laflamme - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP of Individual Insurance & Annuities*

This is Renée speaking. We are having success with the automated underwriting with our EVO platform. What you need to keep in mind is that if you compare this quarter to the last quarter, we are doing pretty flat. There has been situation -- tax situations that has inflated the sales last -- at the last quarter last year. So we're doing good, very, very good as compared to the competition. But market share to gain is still on the radar. We still are working on it.

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

Okay. And is there any way to help us think about the acquisition of PPI and ABEX more recently in terms of helping those market share gains? Like, how would you frame that scenario for us?

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

It's Denis Ricard here. It's too early to tell right now. Obviously, we're working with the team at PPI and certainly the doors are open when we go there, when -- we have a certain penetration rate right now on the high-end, which we will continue and hopefully, when we get to the life insurance for they, let's say, the mid-market, at some point we'll be able to get a better penetration because obviously, the doors are open. And it's not only on the life side but also on the seg fund side. So there is a capability for us to increase on the seg fund as well.

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

Got it, okay. And then a quick one on DAC. And I realize you just closed the acquisition, but wondering how long would you want to have this business under your belt before you start getting more serious about (inaudible) acquisition opportunities?

Michael Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of U.S. Development*

It's Mike Stickney. Good question. There as you -- probably reason you're asking the question, there are -- there's some activity in this market in the U.S. So I have got a few calls, but we're not working on anything yet, I'd say probably a year from now would be a -- the earliest. So we have some work to do in getting this under our belt, as you say.

Operator

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

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

Could I go back to Q4 for just a moment. When the lapse reserves were strengthened, did you strengthen the best estimate or the PfAD for those?

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

it was best estimate, Mario.

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

And when you released the mortality reserves in that quarter, did you release best estimate or PfAD?

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

It was both.

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

Both.

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

But mainly best estimate.

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

Okay, so the reason I'm asking the question that way is the reduction in the expected profit in Individual Insurance from [80.8 to 76], I think I understand what you're saying, you want to be a little more conservative on your provisions and maybe that's why we'll see some limited experience gains this quarter. But was there -- is there any truth to the notion that part of what we're seeing is the release of the mortality PfAD that went into the best estimate for lapse, is that part of what we're seeing as well?

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

Actually, I will say that the mortality for sure, there's a lower PfAD that is released during the year. However, it's not that material. The decision we took with our expected profit is really with overall assumptions. And we adjust all those stuff and you know that even if you don't move your PfAD, one PfAD on an assumption may not come up -- the release of PfAD is not the same for all assumptions every year. So there may be timing effect more than the release of PfAD.

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

Okay, that -- so you're saying it's the desire to be more conservative and also as you suggested a smaller PfAD from which to release this year because you released some last year, and are you also saying then that the -- there will be greater volatility in the release of PfADs and therefore the emergence of expected profit throughout 2018? Like, we could see quarters when it sort of pops back up again, is that what you're suggesting?

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

Actually, I would say no on that. The reason is quite clear. When we provide our expected profit, we always try to strive for a 50-50. We're giving our best shot at the best estimate. So according to the view we had at the moment.

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

So expected profit in Individual Insurance will not exhibit big jumps and volatility throughout the year? That's a fair statement then?

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

I -- there would be fluctuations like in previous years, but in the previous year there was a negative trend coming from lapse.

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

I understand. And then finally by definition if you're being more conservative with your expected profit, should we see -- all -- everything else equal, should we see better experience throughout the year?

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

Like I said, it's 5050. When we see -- we feel we are more conservative, I will expect that yes, but it's our best shot and we don't know the future unfortunately. I would like to know the future, but it's our best shot.

Operator

Our next question comes from the line of Sumit Malhotra from Scotia Capital.

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

Just wanted to ask you about strain. You're obviously presenting it now on a total company basis including the U.S., and we're seeing different numbers, thank you first off for restating it for the previous as well. But even on that basis, the 14% level that you had in Q1 was decently higher than we had seen over the past year. Could you just help me think through it? What was it specifically this quarter in terms of sales mix that pushed the overall strain level higher?

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

The strain -- it's -- we are off only $0.01 compared to what was expected. And in fact, we have to remember that last year, there was tax changes that affect the sales of our first quarter, so the strain last year in the first quarter was a little bit off compared to what we used to have. So there's seasonality in strain and the first quarter is usually our highest strain. In 2016, actually, if you look at Q1, we had a strain of 19%, which is more in line with the 14% that we're having in 2018.

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

So in your view, the 8% -- again I'm looking at your Slide 15 that's restated this, in your view the 8% in Q1 '17 on this new measure, that's more of the outlier than what we're seeing this quarter?

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

Yes.

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

And did you -- have you -- I think you give this to (inaudible) -- what is your full year estimate now and where strain will come in on this new measure?

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

It's 6% or 8%. The strain actually -- it's for -- the strain would be between 0 and 15%.

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

0 and 15%.

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

It would be between 6% or 8% -- our target for the year will be between 6% and 8%.

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

Okay and (inaudible).

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

Okay, I'm sorry, I will just add with fluctuation from 1 quarter to the other.

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

Yes, I'm sure we'll talk more about that as we go to Investor Day. I wanted to ask about your retail mutual fund business in Canada. If we go back a couple of years, there was certainly a lot of interest on our part on flows trend and how the changes you'd made in that business would return you to positive status. You've gotten there over the last 2 years, but it certainly seems like after that initial period of increase, the absolute level of flows started to trend lower again. I know that's been -- it's been a lot of conversation across the industry about passive and active, some of the forces at play. But just wanted to ask you, is there a risk in your mind that flows start to trend into a negative place again? And now is it specific to iAG? Or do you feel this is just industry dynamics at play?

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Thanks for the question. That's -- there's a lot there. So back to the industry overall, I think it's been a tougher period for the industry, it's been more volatile. And I think also been a shift within the trade. There was a lot more income sales, which we captured and now it's moving more global. So we're developing our line up in that respect. But underneath all this, we're really quite pleased with the progress we've made with our affiliate channel. We moved into more managed solutions there and increasing our capture rate there. So underneath it all, we're confident, but no doubt it's a volatile environment.

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

And from a -- you've done the Hollis transaction. I'll just ask you because at least from a net basis it doesn't seem like we've seen a major change in mutual fund flows. How are you measuring the success of what the Hollis has brought up? I know it was mentioned in the press release, but as I say, the net number this quarter and this is your RSP quarter so when I look at overall sales for mutual funds being down pretty sharply year-over-year, how are you measuring that success for what Hollis has brought to the company?

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

That's a good question. I think on a basis, it's up significantly from last year. It's just that it was a very, very low base. So in terms of an absolute amount, it's still pretty small, but directionally, it is -- it's very, very encouraging.

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

Sorry, what is up significantly, because the net was, am I looking at this right? Net was down year-over-year.

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Sorry, I said the Hollis sales are up significantly year-over-year. Before they were with us and now with us. It's just they were coming from such a small base, that it's not yet a material amount. But directionally, we're very pleased with how the Hollis is making use of our iA solutions.

Operator

Our next question comes from the line of Doug Young with Desjardins Capital Market.

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

Maybe Carl, just while you were here at the mutual fund net sales, I think you mentioned -- or someone mentioned that Laurentian Bank was a bit of a drag. Can you quantify the outflows that came from that channel? And the dollar value that's left still within Clarington?

Carl Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Yes, sure. Thanks. The last quarter was about $46 million net drag, which is consistent with the last 3 quarters and is about $270 million left in assets.

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

Okay. And then just maybe Jacques or Yvon, the LICAT sensitivity to higher rates, and I understand the PfAD impact, but I do believe and maybe you can help me think about this, there is also an impact from bonds that are in surplus and as rates go up, those unrealized losses that go through AOCI or impact the available capital. I just want to confirm and I'm sure it is. I just want to confirm that sensitivity you gave includes the PfAD impact, but also the AOCI impact. And if it is those 2 competing forces, can you kind of quantify the amount that's coming from just the AOC impact? Which I think would be negative and then obviously the positive would've (inaudible) on the PfAD side. Any color you could give on that, that would be helpful.

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

You're right saying that those bonds are overall moving in that direction. I don't have the numbers on that, but it will be immaterial.

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

Okay.

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

(inaudible) PfAD and the interest rate risk on life insurance.

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

So the drag is immaterial from the AOCI side?

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

Yes, the drag is immaterial.

Operator

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

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director, IR*

So that's it for our conference call today. If you have further questions, we will be happy to take them off-line. The number is (418) 780-5945. Thanks a lot, and have a good day.

Operator

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

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