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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Industrial Alliance second quarter earnings results conference call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, August 2, 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, and good afternoon. 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.

The 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 posted on our website in the next week.

I draw your attention to the forward-looking statements at the end of the slide package and a detailed discussion of the company's risks is provided in our 2017 MD&A available on SEDAR and our website.

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

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

Good day, everyone. First, I'd like to go around the table and introduce everyone. Renée Laflamme, in charge of individual insurance and annuities; Jacques Potvin, our Chief Actuary and CFO; Carl Mustos, responsible for our mutual fund business and distribution affiliates; Normand Pépin, responsible for acquisitions; Michel Tremblay, Chief Investment Officer; Mike Stickney, in charge of our U.S. operations; and Yvon Charest, our President and CEO.

Q2 marked another strong quarter for earnings growth. Core EPS was up 16% over the same quarter last year, which contributes very positively to the 10% annual EPS growth that we reiterated at our Investor Day in June. And for the year-to-date, the core EPS is up 21%. These results are explained by good organic growth, together with the contribution from acquisition.

HollisWealth, acquired last year and now integrated with our wealth distribution affiliates, is driving expected profit for Individual Wealth. Our vehicle warranty business in the U.S. is behind the increase and expected profit for that operation and also delivered an experience gain this quarter. So a very good business for us and one we are looking to grow through bolt-on acquisitions.

PPI, the insurance distribution business just acquired in February, delivered an experience gain for the quarter that is in line with our expectations. This is another business that we want to grow through bolt-on acquisitions.

If we look at top line growth in the quarter, the overall momentum continues to be solid. We had excellent organic growth in Employee Plans and Special Markets Risks. IA Auto and Home also performed well despite the price increases put in place in 2017 and 2018. The U.S. operations had good growth in the insurance business and, of course, the additional sales from the vehicle warranty business -- acquisition, sorry.

Our retail insurance and wealth businesses in Canada delivered solid results. It is clear, however, that volatility in the equity markets is keeping a lot of customers on the sidelines, although they're investing in guaranteed products. For example, in retail insurance, minimum premiums showed modest growth, but excess premiums were off for the quarter. Net sales of seg funds were down in the quarter, but we saw a big increase in the purchase of GICs that went into our general fund.

The trend is similar for mutual funds. Like the rest of the industry in Q2, we were in net redemptions. If we exclude the outflows from the Laurentian Bank channel, we were slightly positive on new business. Most importantly, we continue to have strong net sales within our wealth affiliates, so making good progress with asset growth in that channel.

Last and very important, organic capital generation. The new capital regime is very favorable for iA, and our level of capital has never been so great now that we are less sensitive to long-term interest rates.

In summary, I believe the quarter clearly demonstrates that we are delivering on 2 very key metrics that we gave you at our Investor Day. One is 10% EPS growth and the other being strong organic capital generation.

I will now pass it over to Jacques Potvin.

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

Thank you, Denis, and good day to everyone. Q2 was another great quarter. Reported EPS of $1.44 was 21% higher than Q2 last year and core EPS of $1.38 was up 16%. This compares very well with our guidance of $1.30 to $1.40 for the quarter. The growth came mainly from good operating results. As you can see from our items of note on Slide 6, policyholder experience was the big driver for the total gains of $0.20 per share. PPI contributed $0.02 to these results.

Like the previous quarters, the biggest gains are coming from the individual and group insurance sectors. This quarter, we also add better than expected results from the U.S. and from iA Auto and Home. Details are shown on Slide 7.

Our second item of note is trend on new business. The ratio this quarter was 9% or a loss of $0.02 per share versus expectations. The reason is mainly the product mix. In Q2, we sold less term and had lower excess premiums. Income on capital was $23 million in the quarter. iA Auto and Home performed well with a gain of $0.02, but intangibles were up over Q1 because of the PPI acquisition.

The last item of note this quarter is taxes. Our effective tax rate was 26%, which is higher than our guidance and reduced our earnings by $0.07 per share.

Now I would like to make a few comments about capital. During the quarter, our ratio moved from 121% to 122%, as you can see on Slide 9. We gained 1% from organic capital generation and 0.5 percentage point from the reduction of our interest rate sensitivity. This was offset mainly by the impact of equity markets on our seg funds portfoliothat will disappear when we receive our hedging credit this fall.

As we explained at our Investor Day in June, we expect to generate about $200 million in organic capital under the new regime. In the first 2 quarters this year, we have already achieved about $110 million.

As for the reduction in our interest rate sensitivity, you can see on Slide 11 that we have reduced our IRR sensitivity from $18 million to $11 million per 10 bps in the first 2 quarters. This has 2 advantages. It does improve our solvency ratio by about 130 bps since the beginning of the year and it puts us in a better position for IFRS 17.

As for our sensitivity to equity markets, we are currently in the final phase of having our seg funds model approved by our regulator, and we are hopeful to receive our hedging credit before the end of the year. That means a significant reduction in equity market sensitivity and more good news for our capital position.

That concludes my comments today. 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 rate sensitivity, and I was just wondering -- we talked about it at the Investor Day, but under what circumstances would you reconsider your plan going out to 2020? If the Bank of Canada became a lot more aggressive, would that change anything? Curious to hear your thoughts on that.

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

I'm sorry, Meny. Could you repeat because we have -- as it was difficult to hear you at the end.

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

Sure. It's just a question on your plan to reduce the IRR rate sensitivity and just what would need to change for you to reconsider that decision. Is there anything on the policy front -- monetary policy front or any other economic development that would cause you to look at this again or, for that matter, change that decision?

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

That's a very interesting question, Meny. Thank you very much for it. Actually, I would draw your attention to Slide 19. You see there that we have been reducing our exposition to IRR for quite a few years. We told you at the end of the day that we would reduce it to 0 by the end of 2020. That was the only new thing because we have been reducing the IRR. And there are 2 important things with that. First, with the new capital regime, we're getting paid to do it because we -- since the beginning of the year, we have $90 million -- of capital relief. And the second thing is, really, it puts us in a much better position for IFRS 17. So we will continue on that pace.

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

Okay. And then just a question on the outflows, the mutual fund outflows. You gave a little bit of a flavor. But just wondering if you could go into more detail, specifically what's driving that in your expectations going forward. Specifically, is there anything company specific that impacted the flows this past quarter?

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

Thanks for your question. It's Carl Mustos here. Against the backdrop of a difficult industry, we're actually reasonably pleased with our quarter. If you take out the LBC effect, we were net positive and we're starting to see some traction on our global mandates, which is a theme that's very current. So we're quite encouraged by that. But net-net, our affiliate channel continues to drive strong growth; whereas the third party side, it's performing more like the broader industry.

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

And could you talk about the HollisWealth and the performance you're seeing there and relative to expectations?

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

Sure. From a revenue side, we're very pleased. Revenue and adviser retention on the assets, we're quite pleased versus expectations. Our expenses are a little hot, but we'll have it under control, mostly IT related, but we're working at that.

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 got a couple simple ones here. First on the P&C, you had positive experience. So I guess, it would imply about $2 million to $3 million of pretax profit ahead of your expectations, if my math is correct. Does that imply then that what you've been modeling was a fairly significant ramp-up in the second half in pretax profit? And are we possibly ahead of schedule then because of what happened this quarter?

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

Hopefully, I understood your question well because the sound is not that good. I mean, the result that we're having this quarter is a reflection, as I mentioned at the Investor Day, of the fact that we've changed some of the pricing in that business, and we see the benefit right now. And we do expect that over the next quarters, it's going to continue. You have to remember also that there are some volatility per quarter of the results. And as the year goes, the experience tends to be better.

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

Right. Q3 is usually a good quarter for you on P&C, so I'm expecting to see -- or it implies that it's going to be materially better than what we've seen in the last few years?

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

We never know. We never know each quarter. Something could happen. I mean, the weather -- but certainly, with the actions that we took here is putting us in a good position in terms of profitability.

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

Okay. And then my last one here is on the rate sensitivity or the reduction in IRR sensitivity, the $90 million offsetting capital benefit. If you hadn't done that -- just the mechanics of it, if you hadn't done what you've done, the base solvency buffer would be like $70 million to $80 million higher than what it is, actually? Is that about right? I'm just trying to figure out how to model that over time.

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

Gabriel, I'm not sure I understand well your question. But the thing is that if we will not have reduced that IRR since the beginning of the year, that $90 million of capital relief will not have existed. So our capital will be $90 million lower. I hope it answers your question.

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

Well, the denominator in the calculation would have been higher, correct, in the LICAT ratio? So the base of your interest rate risk would have been about $70 million, $80 million higher than what it is?

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

Yes. The denominator will be lower. The [cushion] will be lower, yes.

Operator

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

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

Just in your experience gains, you mentioned the inclusion of the PPI management acquisition was included in there. When -- I don't think I saw a press release. When did that deal close in the quarter?

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

February 28. It closed that -- we bought and we closed during the same date, and it was not part of our plan. That is the reason why it is shown as a gain.

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

Okay. The way it was written, I thought it closed during Q2, and that's why we show it as an experience gain. Now that you own this business and it was in for the full quarter, does that -- for the balance of this, it's just geography of earnings. But going forward, does that shift into being included in expected profit? Or will it be an experience item throughout 2018?

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

Throughout 2018, it will be an experience gain for next year -- it will be part of expected, for sure.

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

Got it. And the number that you gave us today, that's a full quarter number because it was in for all of Q2?

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

Exactly.

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

Okay. Then on to the actual business. Your seg fund sales in the quarter were a lot lower than we've seen in quite some time. This has obviously been a very good area of strength for the company. Just wanted to get a little bit more explanation. It seemed like you were pointing to market volatility, although I don't know if you're talking specifically about Q2, but it seemed like market conditions were quite favorable. Maybe more than just the specific quarter, are you seeing more competition in seg funds where you've had quite a strong performance and industry-leading performance for some time? Or do you think this was just specific to the market conditions in this particular period?

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

This is Renée speaking. I guess, it was more specific to this quarter. We are still #1 in net sales. We've been having a strong quarter in GICs. So really it's more specific to Q2. And the strategy hasn't changed, and we're still strong in the growth of seg funds.

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

And competitive perspective, I mean, it's been an area where maybe some of your counterparts weren't quite as aggressive in market share. Are you seeing your industry peers fight back against your position? Or has competitive behavior been relatively rational on your area?

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

It has been relatively rational, as you say.

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

Okay. And last one, maybe this goes to Denis as far as the interest rate sensitivity is concerned. You're talking a lot about how reducing some of the sensitivity, the macro factors, either rates or equity markets, is going to be positive for capital, though you're also telling us that for where your capital position stands right now, and for that matter, I can include the leverage as well, you have a decent amount of flexibility. What's your thought process on this trade-off, if you will, in terms of saying we want to have an even stronger capital position? Is there some deployment angle that you have in mind? Or under your leadership, is it reasonable to think that IAG is going to manage capital at a higher level than has been the case in the past?

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

So let me reiterate what I said at the last Investor Day. It's pretty clear that the first choice is for us to grow, and to grow organically first and second by acquisition. So we are very pleased to the capital position we are right now. And the fact that we can generate the capital organically because it gives us more ammunitions for any acquisitions in various sectors that we want to grow, and those are the sectors that we mentioned at the last Investor Day. So we -- I mean, certainly, we said that 112, 116 was our target. It is still our target. And hopefully, we are able to deploy that capital through acquisitions.

Operator

(Operator Instructions) Our next question comes from the line of Doug Young with Desjardins Capital Markets.

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

In the experience gain section of the release, you -- in the individual section, you talked about $0.08 positive impact from mortality and lapse. And I'm just hoping, can you break it out between mortality and lapse?

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

It's half and half. It's $0.04 for both.

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

Okay, easy enough. And then second, Carl, just, I guess, you talked a bit about elevated expenses. You mentioned it related to technology. Can you maybe kind of flesh that out a little bit? Was this regulatory related? Was this integration related? And then I think in the mutual funds' net outflows, you mentioned without Laurentian Bank, you were positive. Can you maybe quantify the drag on net flows from the Laurentian Bank?

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

Sure, thanks. First, the IT expenses, they were just integration related. There was no particular regulatory response that we had to adapt to. So it's something that we think is quite manageable, and we'll get through that this year. On the Laurentian Bank drag, it's consistent with what we've said in the past. We've identified about $25 million to $50 million per quarter period. It's consistent with what we've experienced in the second quarter as well.

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

Okay. And that integration or elevated expenses, this was just this quarter? You don't foresee that happening in Q3, Q4? Like is this done essentially?

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

We're working our way down. We're working our way down over the next quarter or 2.

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

Okay. So this could repeat?

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

I think it's moving directionally in a very positive way.

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

Okay. And then just lastly, I guess, for Renée, group employee benefit plan sales, up 95%. And I guess, they can -- sometimes, there's big chunks that come in from time to time. But if we go back a few years, we have seen periods where Industrial Alliance had pretty significant group employee benefit sales. Subsequently, the experience deteriorated. And you did a lot to turn that business around through pricing actions and whatnot. And so we're here again and sales are pretty significant. Can you give us some details maybe to give us comfort that we're not going to see a repeat of what's happened in the past and maybe how you're approaching this differently, maybe how you're doing to ensure pricing is sufficient? Maybe if you can give some details, that would be helpful.

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

Yes, yes, sure. So as I said at the Investor Day, we have a very good momentum in terms of top line and bottom line. As you said, there is volatility from quarter-to-quarter because sometimes you get a larger group in one quarter, and this is what happened. We are very confident that we can maintain the top line. We have the technology. We have the strategy. So we're very -- we have a great momentum, and we are confident. In terms of bottom line, and maybe Jacques can give more flavor to this, but mainly management actions are really making the difference and especially on the claim side and on the long-term disability claim side. And we are also confident that we can sustain that, so I don't foresee any issues in the following quarters.

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

And so where were the sales? Was it concentrated in Québec? Or was this more outside of Québec?

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

No. Q2 was outside of the province of Québec.

Operator

Our next question comes from the line of Darko Mihelic with RBC Capital Markets.

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

I'm going to ask a relatively detailed question. So if you believe this is better taken offline, please let me know. I'm looking at Page 13 of your management's discussion and analysis, your MD&A, and I'm looking specifically at the solvency. And I'm looking at the third line, it's called surplus allowance and eligible deposits. Now my understanding is Industrial Alliance rarely uses reinsurance. So when I look at this line, I kind of look at it as a bunch of PfADs. And these PfADs have declined since the beginning of the year. They've gone down about $147 million since January. So my question is -- there's a couple of questions embedded here. The first is, I would have thought that this would rise. And the reason why I would have thought that this number would rise is because of new business and because interest rates are actually down. But it's actually fallen. So the question is -- first question is, is it fallen because you have released these PfADs because you have reduced your interest rate sensitivity?

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

I will take it off. It's too technical for that. I would have to be better prepared to make sure that I give you the right answer on that one.

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 quick questions. You talked about a gain with respect to PPI of $0.02. Now what is that? Is that -- what does that relate to? And then I have a follow-up with respect to the capital relief associated with hedging the IRR.

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

Okay. Actually, for PPI, like I said earlier, PPI was not included in the plan. So for us, we acquired it in Q1. So all the profits on PPI will be considered a gain for 2018.

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

Okay. So that's just -- these are real earnings? These aren't related to policyholder experience or any other kind of gain? Would the PPI run rate be expected to be $0.02 a quarter going forward or even grow from that?

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

Actually, it's $0.02. You must consider, though, that there's amortization of intangible in the surplus that is there. And like Denis mentioned, it's according to our expectations for Q2.

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

Okay. And the amortization of the intangible, is that $0.01?

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

Exactly.

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

Okay. So the actual potential lift from PPI earnings could be $0.01 a quarter? $0.02 less $0.01.

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

I would say, yes, 2 minus 1. It's $0.01 per quarter. That's what we're expecting, Tom.

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

Yes, I know. It's just that these are being flagged out as -- I mean, this is an integral part of your business now. It's not flagged -- it's not an outside gain, if you will. But nonetheless, at least you're disclosing it here in that case. And then did you -- if I look at what you're getting as -- in terms of capital relief, you got $90 million so far and you're going to expect -- this is as a result of hedging the IRR risk. And then you're going to get another $100 million going forward or $100 million-plus going forward? Is that the way we should be looking at that, so $190 million by the end of 2020 in terms of capital relief?

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

Yes.

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

And how many LICAT points is that?

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

$200 million is 3%.

Operator

(Operator Instructions) 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 first question I want to ask was on Group Insurance where you're seeing some very good gains and net income, and that's probably due to experience and very positive experience now for, I think, 3 quarters in a row. So the question is, is there something systemic you think that's going on with the experience gains that maybe eventually ends up rolling into expected profit?

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

That's a really good question, Paul. Thank you. Actually, we have, this quarter, all benefits, everything went well everywhere. But like Renée mentioned earlier that we have improved our management of claims, especially for our long-term disability. So I'm expecting that half of it will be recurring.

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

Great. That's helpful. And then I wanted to ask you on the trend for the average credit loss on car loans. So we've seen a tick-up now a couple of quarters in a row. Is that just related to the mix of loans? Maybe you can clarify that and just comment on where you think that ratio might go given the change of mix?

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

Denis Ricard here. You're absolutely right. It's because of the mix. As you know, we've decided several quarters ago to stop originating the prime loans. So you should expect quarter-to-quarter to see an uptick in the credit loss, but it's only because they are in our portfolio, the proportion that is increasing on the nonprime side. So it's just, as you said, the mix of the business. But just for your information, this quarter and, in fact, probably for year-to-date, the credit loss is as expected.

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

Okay. And any kind of color you can give us in terms of how long this quarter-over-quarter tick-up should occur or at what level it should settle down?

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

Well, you probably should expect to go higher, I mean, gradually, smoothly over, I would say, probably another 4 years because the term of the prime business will expire at that time. As to the ultimate level, we will see then how the experience goes.

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

Okay, fair enough. Last question is related to DAC, so positive experience at the DAC this quarter. Maybe you can just give us a little bit more granularity behind the factors driving that experience?

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

Actually, DAC is a fee business. So we had very good growth, so -- and provides a good profit. Also, 2 other items, we have better experience as well as lower expense.

Operator

Ms. Pollock, there are no further questions at this time.

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

Well, in that case, we'll end the conference call today. We'll follow up with Darko at the end of the call. And if you have any further questions, you can call us at (418) 780-5945. Enjoy your long weekend. Thank you.

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.
