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IAG.TO - Q3 2018 Industrial Alliance Insurance and Financial Services Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Denis Ricard *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

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

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

Michel Tremblay *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

Tom MacKinnon *BMO Capital Markets Equity Research - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Industrial Alliance Third Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, November 7, 2018.

I would now like to turn the conference over to 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 third quarter conference call.

All our Q3 documents, including press release, slides for the conference call, MD&A and supplementary information package, are posted in the Investor Relations section of our website at ia.ca.

This conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts.

A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days, and a transcript will be available on our website in the next week.

I 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 our website.

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

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Good day, everyone. First, I'd like to go around the table and introduce everyone. First, Renée Laflamme, in charge of Individual Insurance and Annuities; Jacques Potvin, Chief Actuary and CFO; Carl Mustos, responsible of our Mutual Fund business and Distribution Affiliates; Normand Pépin, responsible for Acquisitions; and Michel Tremblay, Chief Investment Officer.

Q3 was another good quarter, in line with our expectations. After the first 9 months, we are well underway to realize our plan for 2018.

Organic capital generation remains strong, and we have the balance sheet strength to realize our growth ambitions. I'll say a few words about the top line, and Jacques will be addressing profit and capital.

In the individual sector, insurance sales in Canada were strong, with growth of 8% in terms of minimum premium. Our individual wealth business continues to be solid, but people are still staying on the sidelines or else moving to guaranteed products. This would explain the 32% jump in general fund sales this quarter as people invest in GICs.

I would add that our product is very competitively priced and is used to back our car loan business also growing very quickly. Seg fund sales continued to grow in Q3 but are at a lower pace than last year because of the consumer preference for GICs right now. The good news is that most of the seg fund sales are going to low guarantee products, which is a positive for our capital position.

Our mutual fund business continues to book good sales. But like the rest of the industry, net flows are a challenge. iA's big competitive advantage is our large distribution network across Canada in both the IIROC and the MFDA channels. That means we are in a privileged place to do what the client wants. We are launching new products like liquid alts and ETFs specifically for third-party advisers. For our affiliates, we continue to develop products specifically for them to increase penetration from the 4% to the 7% over the next 2 years. Traction with them is growing, and we are encouraged by the results to date.

Turning to our group business. In our group benefits and savings, sales are performing well overall despite the quarterly fluctuations that are normal for that sector. In our car dealer business, car loan business volume was up 39% over the same quarter last year. As for the rest of our car dealer business, we continue to remain in leading market position in a very concentrated market.

In the U.S., insurance sales were up 19% for the quarter, with new IMOs signed up in the past 2 years, making a good contribution. As for the U.S. car dealer business acquired at the beginning of the year, Q3 was their best quarter this year. So an excellent result there as well.

I would now like to make a few comments about the litigation in Saskatchewan. As you may be aware, a group of investors has brought a lawsuit against iA as well as 2 other financial institutions by which they are seeking to use insurance contracts sold in the 1990s for purposes not originally intended. The arguments by the opposing parties have been heard in court, and we are now waiting the judge ruling. Our best estimate is that the ruling would be delivered in the next 6 months or beyond.

We've had many conversation with shareholders inquiring about the facts of the litigation itself as well as potential outcomes. While I cannot predict the outcome, I can say the following. We remain firm in our belief that this litigation is legally unfounded. Our defense is strong and that we expect to be successful.

In the event that the judge does not rule in our favor, we will appeal the decision to the Court of Appeal and if necessary, take it to the Supreme Court of Canada. Under this scenario, any decision in favor of Ituna would be put on hold until the Court of Appeal hands down its decision.

Last week, we were pleased to learn that the Saskatchewan regulator published regulations limiting the amount of premiums a life insurer may receive or accept for deposit in life insurance policies and associated side accounts. This is consistent with the position that we took before the courts.

We believe that these new regulations may resolve some of the key issues in this litigation, and we will be asking the judge to consider this. We and the 2 other insurers involved in similar cases have already written to the judge for a case conference, and our goal is to try and get the schedule before the end of the year.

We also gratefully note the intervention by the Canadian Life and Health Association that commended the action of the Saskatchewan regulator and added that the issue was equally relevant in other jurisdictions across Canada. As we await the court's decision, I want to reassure our investors and our clients that we are focused on their best interests and that we are doing everything in our power to bring this to a satisfactory conclusion. We shall keep you updated on further progress.

My final comment is on capital. Since the introduction of the new capital regime at the beginning of this year, our level of capital has never been so strong. As part of our overall capital management, we announced a normal course issuer bid this morning to repurchase and cancel up to 5% of our outstanding shares over the next year depending on market conditions and alternate opportunities for deployment. This program will begin on Monday, November 12.

That completes my introductory comments. 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. Q3 was another strong quarter. Reported EPS of $1.50 was 11% higher than Q3 last year, and core EPS of $1.46 was up 8%. This is near the top of our guidance for Q3. The growth came mainly from good operating results, which continues the trend from the first half of the year.

As you can see on Slide 7, policyholder experience provided gains of $0.07 per share, including $0.02 from PPI acquisition and $0.01 from the DAC acquisition. For the year-to-date, gains from policyholder experience has totaled $0.38, and I am pleased to note that all sectors contributed to this good result. In addition, iAAH has been performing better than expected.

The second item I want to comment is strain on new business. The ratio this quarter was 9% or a loss of $0.02 per share versus expectations. The reason is mainly product mix. Like in Q2, we sold less term than expected.

Income and capital was $30.5 million in the quarter. We had a gain of $0.02 from higher investment income that was partially offset by higher intangibles related to the PPI acquisition. iAAH performed as expected despite severe weather events in the Gatineau area.

Now I would like to make a few comments about capital. During the quarter, our ratio moved from 122% to 120% as you can see on Slide 9. We continue to benefit from organic capital generation that added 1% to our ratio. But I would like to highlight a couple of other items.

First, we redeemed a private debenture due in August that used $100 million in capital, which corresponds to a reduction of 1.5% in our ratio; and second, we invested in some real estate that took another 1.5% of our ratio. These were multiple transactions started in Q3, and that will be completed in Q4 without any further impact on the ratio.

You will note on Slide 17 that our IRR sensitivity declined in this quarter. This was mainly related to the increase in interest rate.

Organic capital generation continues to deliver as expected or even a bit better. For the year-to-date, we have generated $100 million versus our annual target of $200 million.

We are very confident to get our hedging credit in the fourth quarter. A simulation at the end of the third quarter will have increased our solvency ratio by 3%. This credit will also significantly reduce our sensitivity to equity markets.

On that note, I'll now turn it to the operator to take your 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*

A question on the buybacks, the question being where do buybacks rank relative to M&A in particular? And as a secondary question, do you have the capacity to do the full 5% as you see it now? Or would you be more cautious about that if you had M&A opportunities in front of you?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Denis Ricard here. Let me say this very clearly. What we're doing with the NCIB right now, we think it's the right thing to do now given where the stock price is and also our strong capital position. So let me just be clear. But what we would really want to do, and I'd like to remind you on that, is that our first choice would be to deploy capital to grow the business. And we've mentioned that at the Investor Day in which sector we would like to grow. So basically, first, we would like to grow, but it is, we think, the right thing to do now. Now in terms of the size, if we have said 5%, it's because at the end of the day, if we think that there is an opportunity, we can go as high as 5%.

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

So okay. And then just in terms of the legal case in Saskatchewan. So it sounds from your commentary that you will be trying to get the case thrown out based on the regulatory changes that was announced last week. Is that the correct sort of definition of what you're saying?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Well, absolutely. Certainly, this is a new input into this litigation, and it's an input that is in favor of the industry. It's pretty clear that the regulator has reacted very quickly because they feel that this is the right thing to do, and we're going to ask the judge to consider that in his judgment.

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*

Let me just follow up with those if I could to start. Just on the NCIB, Denis, I don't think this company in the decade or so that I've followed it has ever repurchased stock. So you talked about where the stock price is trading right now, which if we're talking valuation is in around book value. Is that the fact? Is there a certain valuation point that gets you actually transacting on this? And maybe more specifically, I think you're able to do this starting next week. Is it your intention right now to be in the market immediately as soon as you get the approval?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Listen, Sumit, I think I made myself very clear that now is a good time for us to do that. It certainly has an impact, and the fact that the stock price is where it is has an impact. And if next week stock price is where it is, I mean, there's no doubt that for us, we will start deploying this tactic.

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

All right. That gives me a little bit more. And then just secondly, the follow-up on your press release last Tuesday after the announcement for the Province of Saskatchewan. In your view, does this move by the province prohibit these investors, as you call them, from topping up their investment? In other words, does this change by the province retroactively prevent these individuals from adding to their side account investments even though their policies were purchased many, many years ago? Is that your interpretation?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Well, when you read, when you go through the regulation, to me, it's pretty clear that it is in favor of our case in this particular situation. And we are going to, obviously, go to the judge. The industry is going there. You have to know that this is the whole industry, and we will -- I mean, the companies that are involved but also the industries supporting us, that we will obviously make the case that this goes with that, yes, yes.

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

Okay. And last one for me. Back to the actual business for a second. Just wanted to make sure I have those numbers right, that Jacques mentioned in terms of the credit for hedging. Jacques, if I heard you correctly, you expect we'll see the benefit of that credit reflected along with the Q4 results? You said it would be 3 points on the solvency ratio. Was that the right number?

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

In fact, Sumit, I'm very confident to get it in the fourth quarter because we still need to get the final regulatory approval and a simulation at the end of the third quarter gave the number of 3%. So as market moves, the result can be different in the fourth quarter, but I will expect to be in that same range.

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

And what's the -- you said it would be -- it would reduce the equity sensitivity. What's the number that you provided there? So -- and sorry, I'll let you say it first.

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

Yes, I didn't mention it. Thank you for the question, Sumit. Actually, on this one, if you recall, in Q1, we provided a vector of our sensitivity to a market downturn. And there, we produced that 30% market downturn has an impact of a decrease of 4% on our ratio. A simulation at the end of the third quarter recognizing the hedging credit, it will require a market downturn of 35% to get a 1% decrease in our ratio. So that's a significant reduction in our sensitivity to market downturn.

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

So previous was a 30% decline would have an impact of 4%, and now a 35% decline would have an impact of 1%?

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

You're totally correct, Sumit.

Operator

Our next question comes from the line of Scott Chan with Canaccord Genuity.

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

Just on the car, the nonprime origination growth. It goes up 39% year-over-year and also almost 10% quarter-over-quarter. Can you maybe just talk about the growth on that platform? Are you kind of happy with that growth and as part of the credit cycle?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

We are absolutely comfortable with that. In fact, this is a business that we want to grow because we've improved significantly, let's say, our underwriting of that business. When we look at our loss ratio, we are very, very pleased. And in fact, as we build scale, our expense ratio is obviously improving a lot. So yes, we are very, very pleased.

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

And in your opening remarks, you talked about liquid alternatives and ETFs. Just on the liquid alternatives side, is this a product that you'll manufacture yourselves or sub advice with another party?

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

It's Carl Mustos here. Thank you for your question. We're still in development on that with a lot of options that are available. We'll have to update in the future.

Operator

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*

Just a few maybe clarifications. Jacques, I mean, I look at the S&P/TSX being down about 1% sequentially. I would have expected a bit of a drag on your results. But I was surprised actually that there was a positive impact, whether it be on your MER or on the UL policies. And on the UL policies, I think it was around $0.02. So unless I'm missing something, you can correct me if I'm wrong. I'm just trying to figure out why that would be given where the market was. Is this a function of just the return on the underlying portfolios? Maybe you can kind of flesh that out for me.

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

You're totally right. That's the answer. Actually, it's the fact that the performance of the manager has been different from the indices here. That's the explanation.

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

Okay. So the market was down a little bit but you've -- so thinking of car loans and portfolios, they've actually outperformed relative to the market?

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

Exactly.

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

And then there was also a $0.02 gain mentioned in individual wealth related to an accounting adjustment from IFRS-15. Can you explain that?

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

In fact, it's DSC. In fact, we align ourselves with the industry, okay? It's the amortization of DSC. So we decided to take it on our retained earnings of $20 million. And there's no longer any amortization of DSC charge every quarter.

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

Okay. So you already took that charge and as a result, there's no DSC any longer that's weighing on the results, and that difference is $0.02 essentially? Is that right?

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

Exactly.

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

Okay. And then just lastly, LICAT, you mentioned that there was a 1.5% impact from deploying funds into it sounds like real estate or higher-yielding investments. I mean, I would expect that to mean higher credit risk, and that's what the impact on LICAT would be. But then I look at your credit risk component to the solvency buffer, it declined sequentially. So I'm just trying to figure out what I've missed there. Why would the credit component decline sequentially? And where did that -- what caused the negative impact on LICAT as a result of the change of where the funds were invested?

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

That question is technical, but I can answer it. In fact, it shows under market risk. Credit risk is related only to bonds. My understanding, it's only to bonds. But when you have an NFI, nonfixed income asset, it's included in the market risk category.

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

Okay. So is part of the coming down of the credit risk maybe just assets coming out of bonds and going into real estate. So it's just basically going from one component -- and I can follow-up if it's easier afterwards, just going from one component to the other. Is that the way to think of it?

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

I'm sorry. I missed your question. But...

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

I was just going to say I can follow up. Don't worry about it.

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

Yes, okay. Good.

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 a question on the same kind of line of thinking as Doug asked for Q3 and the market impact on earnings and AUM. But a question, I guess, more specific to Q4 and what happened on October. Like what kind of impact should we be expecting there assuming the markets maybe are flat from here to the end of the year? Just generally, how should we think about it?

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

Okay. I'm looking for the number of the slide. There's a slide in which we're showing the sensitivity, which -- and if you look at Slide 16 of our slide deck -- 18. Actually 18, you're right, Denis. So in Slide 18 of our slide deck, you can see there what we're expecting for Q4.

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

Okay, okay, got it. So that doesn't impact your guidance at all. I don't think your guidance for Q4 changed at all.

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

No.

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

Okay. And then you mentioned that strain was higher than expected because of change in mix and specifically, less term sales than expected. Maybe you can walk us through the reasons for term sales being lower than expected.

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

This is Renée speaking, Renée Laflamme speaking. So we're expecting -- the sales mix is fine with us. We are looking at more -- we have more UL and more term. So, so far, things are well, and we're happy with the sales mix. We'll see going forward in 2019.

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

Okay. And then final question with respect to the year-end actuarial review, and appreciate you don't expect it to be material. But are there any particular items of focus this year? Last year was obviously lapse. So I'm just wondering if there's anything in particular you're honing in on at the end of the year.

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

Nothing. There's nothing for the moment on that, and I'm not expecting anything. There's nothing under my radar.

Operator

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

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

A couple of housecleaning questions really and pursuant to the question on the actuarial review. I didn't see the lapse experience mentioned anywhere unless I missed it. Does that mean this quarter was neutral, which I think it would be?

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

That's it. We expect a neutral impact.

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

Okay. And then is Carl there?

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

Yes.

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

Okay. Again, it's something I looked for and I couldn't dig it up but used some external sources, but can you help me with some rough numbers on your AUM mix that is comprised of like Canadian equity or Canadian balance funds?

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

That's a good question. I don't have that at my avail. We can get it to you afterwards, but we'd obviously be dominated more by domestic from our history, domestic equity and balance and then increasingly fixed income. Our biggest growth of late has been on the global side, but I don't have the numbers with me. I'll get it to you later.

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

To what extent? Like -- and that's sort of the number that I'm seeing, is the skew more towards the domestic stuff. That's been -- how much of that is playing into the flow trend we've been seeing over the past few quarters?

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

Well, that's a good question. I think the flow trend is really dominated by the industry experience. Broadly, the industry is down as we are, but what we're encouraged about is our affiliate sales continuing to grow and are counter to the industry trend. And we're also encouraged by our #1 seller now is actually on the global space. So our sales on a go-forward or a continuing basis are very much more global oriented, which will help adjust our asset base over time.

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

Okay. We'll talk about the AUM mix off-line then, and just one -- is Michel around?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes, I am.

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

Michel, and I missed the change in -- well, I saw the mention of some higher-yielding assets and, I guess, is that real estate investments that you made during the quarter?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes, it is in real estate, and most of it will be closed at the beginning of the fourth quarter, okay? Adjusted, yes.

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

Okay. So what are you buying? I'm asking only because there's a lot more attention being paid to the commercial real estate space these days. I'm curious about what -- where these buildings are if they're buildings, what kind of LTVs if they're commercial mortgages, and what's your view on that asset base right now, given where they are?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

Yes, Gabriel, I will certainly not give the address of all the buildings, but I can give some more color on why we're buying some real estate. When we're investing, there are several factors we take into consideration. One, for instance, is what is the risk-adjusted economic return to the assets compared to others. Another one is what is the contribution to the P&L of the assets we're buying. Another one is how much does it contribute to the risk profile of the balance sheet. Sometimes, it's even fiscal considerations, and sometimes, it's the return on the required capital from a regulatory standpoint. So we take all these considerations into factors. And as we said at the Investor Day, for us, considering the level of real estate on our balance sheet, our liabilities on the balance sheet, we consider that right now, it's a good opportunity for us on all these metrics buy a little bit more real assets. It's just that it happens all in the third and fourth quarter. Generally, it's more spread out during the year. But the opportunities occur in the third and fourth quarters. That's why it happened at that time.

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

I'm not asking for the addresses, but is it Quebec or outside of Quebec? Is it industrial or office building? What are these purchases?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - Executive VP & CIO*

It's office building all outside of Quebec.

Operator

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

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

Can we go quick just straight to the auto loans, the originations. So the number is about $250 million right now. When you look at these assets internally, what sort of rating measurement do you use to sort of to gauge risks? Specifically, do you have like an average FICO score or something you can refer to that helps us understand the risk posture here.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Well, I mean, it's -- as you know, we're talking about nonprime. So there are various measures that are being used. The traditional one for the prime business, for sure. But certainly, there are more emphasis, let's say, put on the credit score, obviously. This is the main one that is being used. But there are like the LTV, there are a couple of additional measure that is being used on that business. And you have to know that to run that business, you need a special expertise. So you don't run that business like you run the prime business. We used to have a prime business, and they were different teams and because it's different expertise for that business.

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

So all subprime. When you think about accounting for these, do you account for these loans in the traditional loan accounting sense the way a bank might? Or do you use the approach that a life insurance company would use like the com, for example?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

My understanding is that we don't use com for that business.

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

So you record a spread on the business.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

It's like a bank.

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

Okay, that makes sense. And so presumably, you're provisioning something right now. You're setting aside reserves for these loans. And where I'm going with this is where -- at what level are you provisioning for these loans relative to expected losses in a subprime portfolio?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

It's a very complicated formula, I must tell you. But, in fact, we look at the history, history of people getting into a delinquency period for 30 days, 60 days, 90 days. And there's a rollover. So we really look at the history of delinquency, how people behave during the process, how much of them go back to, let's say, a paying mode. And those historical data are being put into the model to forecast what is it that we should get as a provision. It's being audited. It's state-of-the-art. It's similar to what the banks are doing basically.

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

Okay. And have you disclosed the allowances you're holding on this business against the $250 million?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

No, we don't disclose that information.

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

Okay. And then just finally, right now, the $250 million or so, that equates to about 8% of your Tier 1 capital. Where I'm going with this is it'd be helpful to know what would you be comfortable with, with this portfolio. Are you comfortable with this perhaps being 20% of your Tier 1 capital? Do you have an internal limit that you think of where this would be just about enough?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Good question. Right now, we have some limits in our investment policy. And as we grow, we are reviewing it, obviously. But as we grow, I mean, we'll see. So far, the business has been quite stable. It had weathered very well during, let's say, the last crisis. And for us, at some point, we are far from the limit. I think this is what we have to remember. We are far from the limit that we would be comfortable at this point.

Operator

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

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

Two quick questions here. The first one, with respect to the adoption of IFRS-15 and now that you're going to expense DSC and no longer have the DSC amortization, going forward, does that have any kind of material impact on your earnings going forward?

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

It's $0.01 per quarter.

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

$0.01 per quarter and to the negative or to the positive?

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

To the positive.

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

Okay. So -- and presumably, that starts to decline. What percentage of your sales would be DSC?

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

Our DSC is about just under 5%. Our load overall with loan load is about 13.

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

Okay. And so we should see a benefit to earnings of $0.01 per quarter for the next couple of quarters, but that should start to fall off?

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

Tom, I will try something here. I just mentioned that we had an impact on return on earning of $20 million. So just do a small math with $0.01 per quarter. So it will give you roughly a few years.

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

Okay, great. And then the second is with respect to your credit that you're getting for hedging, maybe you can explain to us. I don't think that OSFI has recognized the credit for equity market hedging in its formula, but you guys are planning on getting one in the fourth quarter. A, have I got this right? And secondly, what makes you unique in that regard?

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

In fact, there's a couple of things on that. You're right saying that OSFI has not accepted to go there. We knew that OSFI is mentioning to the industry that they want to revise their formula by 2021. So and it's in development right now. And my understanding is there will be some credit for company that has a good hedging program. And here, I want to mention it. I mentioned it at the Investor Day, and it's very important. It's not the fact that we have that new formula that we get a credit. It's really the fact that we have an efficient hedging program. Because if we will not have that efficient hedging program, our risk solvency ratio will have declined by the introduction of that new formula. It's very important to know that.

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

And you get it, you get this credit, but other OSFI-related companies don't get it because...

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

In fact, we're regulated by AMF, and other Quebec companies will also have the same rule as us. And like I mentioned, OSFI, there will be -- my understanding, there will be some recognition of -- in regard of credit interim formula in 2021. So we'll see when it happens.

Operator

We have a follow-up from Meny Grauman with Cormark Securities.

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

Just 2 follow-ups on the mutual fund flows. Just what is the impact from the Laurentian Bank relationship this past quarter?

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

It's Carl here. Last quarter, Laurentian Bank was out about $15 million.

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

And so is that going to become a nonissue by the end of the year? Or is it...

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

Yes, we have about a little over $200 million left.

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

Okay. And then just bigger picture here in terms of the overall industry, the mutual fund industry and redemption, you rightly talked about what you've done in terms of distribution. Can you buck the trend? If the industry is in net redemptions on the mutual fund side, do you believe that what you've built on the distribution side can push you and make you go to a different direction than the overall industry? Or is it -- are your fortunes tied to that overall industry flow?

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

That's a very good question. I think today, we're always going to be at the mercy of the industry flow to a certain extent. I think over time, as our penetration increases and the scale of our distribution increases, it could offset -- it could start to diminish the pure industry effect. Keep in mind, we're always going to be in the broader industry because that's the competitive, important then to be there. But we'll never escape entirely, but I think over time, it will have a more diminished effect.

Operator

There are no further questions at this time. I will now turn the call back to Mr. Denis Ricard.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - CEO & President*

Yes. I would like to make a comment at the end, maybe a broader perspective on our results and that focus more on the long term. There are 3 messages that I think are important when you look at our results that if you look less at the short term but more on the long term. The first message is that we have a very strong capital position. We are way above the target that we have set. We are generating capital as we've never done before, thanks to the new LICAT formula that recognizes our strong risk management way to do things. The other thing is that the AMF seg fund credit that we're going to get is going to be also helping the capital position. And finally, the fact that we have a low leverage ratio is also pretty good in terms of our capital position. So that's my first message that we always have to keep in mind that could fuel the growth in the future. The second one is regarding we've committed to a 10% EPS growth going -- in average going forward. And when I look at the results for the year, year-to-date, we are at 16%. Now for the quarter, it's 8%. So you have to keep in mind that this is a target that is an average going forward over time. The fact that, year-to-date, we've delivered on 16% is a testimony that we are, obviously, exceeding our target for this year. The last thing I would like to make is more a general comment on the management capabilities or the strength to regroup ourselves whenever there is a challenge or headwinds in front of us. If you look at the results this year for, let's say, 3 lines of businesses, there's been quite a significant turnover. Look at iA Auto and Home, for example, where we went from a loss of -- experienced loss of $10.9 million last year, profit -- sorry, a loss of $10.9 million last year to a profit of $8.3 million this year, quite a reversal. We can have a long discussion on that. The second one is on the group side. On the group side, if you look at the experience for the first 9 months of the year, last year, we had a loss of $0.06. This year, we're up $0.11 experience gain, quite a turnover. And lastly, on the mutual fund side, I mean, we've seen a headwind right now. But when you look at where we come from and where we are today, we've made a lot of good movement. The market does not cooperate right now. But thanks to our affiliate strategy, we are on the right path. So I would like you to think about the management capabilities to regroup and face any headwinds that we may have in front of us. So with that said, with that positive note, that will conclude our conference call. Thank you very much.

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.
