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IAG.TO - Q1 2020 iA Financial Corporation Inc Earnings Call

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## PRESENTATION

### Operator

Greetings 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 7, 2020. I would now like to turn the conference over to Marie-Annick Bonneau, Head of Investor Relations. Please go ahead.

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

Good morning and welcome to our first quarter conference call. All our Q1 documents including press release, slides for this conference call, MD&A, and supplementary information package are posted in the Investor Relations section of our website at ia.ca.

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

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

I draw your attention to the forward-looking statements at the end of the slide package. A detailed discussion of the company's risk is provided in our 2019 MD&A available on SEDAR and on our website with an update in our Q1 2020 MD&A released earlier today.

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



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

Good morning, everyone, and thank you for joining us on the call today. I will, first, introduce everyone attending the call on behalf of iA. First, Jacques Potvin, Chief Actuary, and CFO; Mike Stickney, Chief Growth Officer; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Annuities; Carl Mustos, responsible of our Mutual Fund Business and Wealth Management Distribution Affiliates; and Sean O'Brien, in charge of our Dealer Services, iA Auto and Home, and Special Risk Business.

Q1 was marked by the COVID-19 pandemic. This situation had an impact on our results, of course, but more importantly, it has an impact on our people. Our employees, our advisors, our clients, and our community.

We wish everyone to be safe, healthy, and to follow measures to reduce the spread of this pandemic. And for those of you who are more directly affected by COVID-19, please note that our thoughts are with you.

As a result of the pandemic and of the lockdown, we knew that many of our clients were experiencing financial hardship. It was a priority for us to provide various forms of relief to help them in these difficult times.

We also wanted to support our communities. And since March, iA has made special donations of about \$2 million to hospital foundations, health research centers, senior isolation programs, and food banks, among others.

As for our operations at iA, from the very beginning, our priority was to carry out business continuity in a manner that will protect the health and safety of our employees, advisors, and clients.

We were very proactive in implementing preventative measures, and most of our employees started to work from home prior to the government's request.

More than 97% of our employees work from home, a level that was reached very quickly when the COVID-19 crisis started. Thanks to a vision that started to take place 18 months ago. I am proud and grateful to our employees and distribution networks for their agility in adapting business processes and operations to the new reality, very quickly.

Our advisors now sell at a distance using their high performance digital tools that we have developed in the last few years. As a result, our clients are continuing to get high quality client experience.

On the financial side, despite a considerable market turmoil, we manage to maintain our financial strength as well as the excellent quality of our investment portfolio.

Our tradition of managing conservatively the balance sheet on both sides i.e. the asset and liability side is serving us well. Our solvency ratio increased, and liquidity is adequate to meet all requirements and cash flow needs and our dividend is sustainable.

The current level of our solvency ratio and its sensitivity to the various risks the company face makes us very comfortable even during the actual COVID-19 crisis.

In other words, our capital position is very strong and resilient to the current situation. This illustrates well iA's operational and financial resiliency. Now looking at the first quarter results, 2020 was off to a very strong start as sales were excellent in virtually all business units.

In fact, even with the slowdown that started mid-March, sales results are conclusive and impressive. As for earnings, indicators were green until the onset of the pandemic.

For Q1, our core EPS of \$1.41 was up 10% year-over-year. On a reported basis, Q1 earnings at \$0.37 EPS were affected by macroeconomics and pandemic related items.



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We estimate the total impact related to the pandemic, including resulting macroeconomic variations at \$1.12 EPS.

Looking forward, we decided to withdraw our 2020 earnings guidance. The effects of the pandemic are multiple with a wide range of outcomes depending on the duration and the severity of the pandemic, the effect on the economy and the efficiency of the measures taken by the governments.

Due to this uncertainty, in the short term, it would be difficult to accurately predict the various combinations of factor that may impact our financials. Once this the situation stabilizes, we intend to reinstate guidance. While we will not be providing specific financial guidance in the short term, we will continue to manage, iA prudently and efficiently with a long-term view and in the best interest of our clients and shareholders. I will conclude my remarks by saying that over the coming months, our focus will be to preserve our financial strength, but also to seize opportunities that may arise from the crisis.

I will now let Mike comment on business growth. Following Mike's comments, Jacques will give an update on the earnings and capital; and Alain Bergeron, our Chief Investment Officer, will comment on investments. On that note, I'll pass it over to Mike.

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

Good morning, everyone. The beginning of the year has been very strong in terms of business growth, as evidenced by the 19% year-over-year increase in premiums and deposits. Assets under management and under administration decreased by 3% year-over-year, primarily due to the pandemic and the decline in equity markets at the end of March.

Please refer to Slide 5 for sales results by line of business. Individual insurance had a strong start to the year with sales totaling more than \$45 million.

This represents a 10% year-over-year increase, with growth in minimum premium sales of 11%.

For Individual Wealth Management, starting with the guaranteed products, sales continue to be excellent, totaling more than \$205 million.

Segregated fund sales also continue to be robust, with gross sales up 43% year-over-year.

We remain #1 in the Canadian industry with net sales totaling \$424 million for the quarter. Of note, more than 90% of our seg fund sales in Q1 2020 and in 2019, we're in low guarantee products.

Moving to the mutual fund business, gross sales were up 27% year-over-year at \$693 million.

Net sales were positive through early March during the last weeks of the month, amid economic uncertainty with COVID-19, significant redemptions led to net outflows of \$99 million.

Sales were also strong in the Group Insurance businesses totaling \$357 million, which represent a 16% year-over-year increase.

As for our Group Savings and Retirement sector, sales were up 82% year-over-year for accumulation products but were minimal for insured annuities.

As for U.S. operations, sales momentum remained very strong in individual insurance as they increased by 53%.

In dealer services, sales were up 7% and did slow down sort of towards the end of the quarter because of the impact of the pandemic. I will end the sales overview with iA Auto and Home, where written premium continued their steady growth and increased by 12% year-over-year.

Prior to the social distancing measures and the lockdown imposed by governments to limit the spread of the pandemic, sales in Q1 range from good to very strong.



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Please go to Slide 6 to see how we expect the COVID-19 pandemic, the preventive measures, and the resulting economic downturn to impact sales in our different business units.

For some business units such as seg fund, Individual Insurance in the U.S., and iA Auto and Home, sales are expected to be only slightly affected, if any.

On the other end, for other business units such as dealer services in Canada, the decrease in sales may be more important, while car dealerships remain closed.

With the caveat that April sales cannot be indicative of our sales in the coming month, it is interesting to note that April sales results are in line with or in some instances, more favorable than expectations that appear on Slide 6. In any event, the slowdown in some of our business unit sales will only be temporary.

Its duration will depend on the evolution of the pandemic and on the success of the actions taken by our governments.

As we will emerge from the pandemic, we expect sales to return to the levels seen in early 2020. I would now like to comment briefly on acquisitions. In January, we announced the acquisition of WGI and Lubrico. These acquisitions will strengthen our leading position in the Canadian vehicle warranties market.

Earlier in December, we announced the acquisition of IAS Parent Holdings. Subject to regulatory approval, this acquisition is expected to close in the second quarter. Also in the second quarter, we expect to close the sale of iA Investment Counsel, which was announced in early March.

To conclude, I want to outline that the current situation has been an opportunity for us to leverage our outstanding digital platforms. These platforms are valued by distribution networks as they make their work easier and they will continue to use them in the longer-term.

In times of crisis, the value of advice becomes even more important, and our distribution networks are a valuable asset for the ongoing success of our growth strategy.

I will now turn it over to Jacques to comment on Q1 earnings.

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### **Jacques Potvin** - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Thank you, Mike, and good morning, everyone. I will start with our core EPS of \$1.41, which increased by 10% year-over-year and was within management expectation, as shown on Slide 7.

Reported EPS was lower, mainly due to the COVID-19 pandemic. Now moving to Slide 8, where you can see that almost all of the deviations from expectation are related to the pandemic for a global estimated impact of minus \$1.12.

The bulk of this deviation comes from macroeconomic variations of minus \$0.80, including a loss from seg fund hedging program, which Alain will explain later.

A second item of importance was a goodwill impairment of \$0.22 for PPI management, which mainly stems from the pandemic. Indeed, up to mid-March, PPI recent results were in line with our projections.

Due to the pandemic, we had to increase the risk premium used in the calculation, in the projection discount rate and to acknowledge a temporary decrease in projected future revenues. Policyholder experience would generate a \$0.06 EPS, total loss is detailed on Slide 9. In Individual Insurance, the loss of \$0.05 can be explained by unfavorable experience from mortality and policyholder behavior.



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A loss of \$0.02 was also recorded on the disposal of a impair private bond. Please note that these losses in Individual Insurance are not related to the current pandemic.

In Group Insurance, the negative deviation results mainly from the unfavorable long-term disability experience. We also increased the provision for future car loan credit losses based on revised projections that take into account the economic downturn resulting from the pandemic.

This provision represent an amount of \$0.07 EPS and is expected to be sufficient to cover losses that may occur over the next 18 months.

As for the other 3 lines of business: Individual Wealth Management, Group Savings and Retirement, and U.S. operations, experience was very close to expectations. At iA Auto and Home, experience was much favorable -- more favorable with \$0.11 gain due to lower claims in both Auto and Home Insurance.

Almost all of this gain was realized prior to mid-March and therefore, is not pandemic related. Strain on new business accounted for 12% of sales for the quarter.

This result factors in an adjustment to reflect the first quarter drop in interest rates. Without this adjustment, strain will have been within guidance.

Moving to taxes. The company generated a tax recovery during Q1 mainly from the impact of the experience losses that I just mentioned. In addition to a gain due to the company's status as a multi-national insurer.

Please refer to Slide 14 for our capital position. Our solvency ratio continues to stand strong at 137%. The ratio increased during the quarter from a debt issue in February, organic capital generation of \$35 million, and a positive impact from interests and market variations.

The increase was partly offset by acquisition in January, the hedging program loss, and the negative impact from credit spread widening.

The later can be explained by the widening of provincial spreads in Q1. As you know provincial spreads tend to be more stable, which explains that our vector for sensitivity to credit spread is based on Corporate credit spread variation only. Overall as shown on Slide 15 the updated sensitivity of our solvency ratio continues to be low.

Following the already announced acquisition of IAS and sale of iA Investment Counsel, our pro forma solvency ratio is 121%, above our target range. With the solvency ratio and a leverage ratio of 25.9%, the company is in a robust financial position, which we will continue to preserve.

I now want to refer you to Slide 17, which will give you some color as to how the COVID-19 pandemic may impact earnings for the remaining of 2020. This slide presents a directional view of the main earnings drivers that may be impacted positively or negatively by the pandemic in 2020. There may be some headwinds with the COVID-19 situation, most of which would be nonrecurring and will only have a temporary impact on our business.

Additional information on our sensitivities and on potential impact on earnings is provided on Slide 18 to 21. I will conclude by pointing out that thanks to the strategies we've implemented since 2008 to reduce our macroeconomic sensitivity, iA is now well equipped to remain strong in this difficult environment.

In addition to our capacity to generate profit, solvency ratio is above target. Leverage ratio is sound, liquidity is adequate and reserves are well positioned. I will now turn it to Alain, our Chief Investment Officer.

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**Alain Bergeron** - iA Financial Corporation Inc. - Executive VP & CIO

Thank you, Jacques, and good morning, everyone. As a result of the COVID-19 pandemic, financial markets became extremely volatile in March.

And in the management of iA's investment portfolio, our approach has always been conservative with a long-term view.



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Our asset allocation, the quality of our assets, our hedging programs are all consistent with this approach.

And this explains why since the crisis began, the impact on iA's assets has been so far quite contained in relation to the chaos in the financial market.

In addition, this approach coming into the crisis gives us dry powder.

As you know, crisis often creates great investment opportunities, and we entered this crisis in a position to be able to seize some.

Today, I will focus on the positioning of our investment portfolio.

But first, I would like to comment on our hedging program for seg funds.

Our hedging program was implemented in 2010, with the objective of mitigating the risks associated with our seg funds with high guarantees.

Despite the extreme volatility in the market, the hedging program did its main job successfully, namely protecting iA's balance sheet. Indeed, during the quarter, at its highest point, the value of the hedge guarantees increased by \$575 million.

The program performed as expected, and this amount was almost entirely offset by the change in value of assets under the hedging program.

I would now refer you to Slide 11. It's important to keep in mind that in the long run, the main goal of this hedging program is not to be profitable but to reduce risk.

That being said, since 2010, the program generated a cumulative gains of \$0.77 EPS, up until 2020.

In the first quarter of this year, in the context of the financial turmoil, the program generated a loss of \$0.57 EPS, which can be explained by 2 main items: first, a loss due to the extreme market volatility; and second a loss due to other risk, mainly the basis risk.

Market volatility risk emerged from the difference between realized volatility and our long-term volatility assumption.

And in a normal market volatility condition, the program should cost less than expected and hence, generate a profit.

But when the markets are highly volatile as they were in March to be expected to incur some losses, the more volatility, the bigger the negative impact to the nonlinear exposure and the matrix on Slide 12 displays this behavior.

In the long run, the infrequent but large losses that are incurred during high volatility are expected to roughly equal the sum of the more recurring small products. And as you know, volatility in March was extraordinary.

It was the most volatile month in the history of the TSX, for example. The volatility of most equity markets was about 85%, which is quite extreme and explain the results.

As for the second part of the hedging loss during Q1, it mainly comes from the basis risk. Basis risk emerges from the return difference over time between the funds that are held by clients and the hedging instruments in the program.

And so the basis risk outcomes can be positive or negative. Now a few words about the hedging program in April.

The volatility in April was still high but closer to normal. In this context, the April hedging resulted in a loss of less than \$2 million as high volatility was offset by a positive from other risks.

Now to conclude on this topic and despite the loss that we incurred in Q1 with the program, it behaved as expected in these market conditions.



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And as such, a methods purpose. It protected iA against large losses of economic value associated with the seg fund guarantee.

Now I'd like to -- now looking at the overall investment portfolio. Thanks to the general quality of our assets, our diversification, and despite the chaotic Q1, the impact of the COVID-19 on our assets has been relatively well contained so far and our portfolios continue to be well positioned.

Slide 22 presents the composition of our investment portfolio. About 2/3 of our portfolio is composed of bonds, half of which are government, and the other half corporate bonds rated BBB and higher.

At 32% of overall assets, our corporate bond allocation is lower than our peers.

Our direct exposure to the oil and gas sector is less than 1%. Our aggregate bond exposure to sectors such as travel, retailer, automobile, mine, and metal is just over 1%.

Well, as for real estate, almost half of our real estate properties are occupied by iA or by government, and 2/3 of our leases are due for renewal after 2025.

Several months ago, we mentioned that we've replaced a significant allocation of our public equity allocation to an option strategy.

One reason was to protect the downside against large and sudden market moves, which also made us more effective with our capital.

Now as the market collapsed in March, the strategy behaved as expected and significantly outperformed the public equity that they replaced.

Of course, we need to take risk to generate returns. But by highlighting these facts about our portfolio, I'm hoping that it demonstrates the high-quality of our portfolio.

This then puts us in a good position to seize attractive opportunities as they arise.

We are now getting paid more for taking risk than a few months ago. We have room to add high-quality corporate bonds in our portfolio, and we have already started to make some purchases.

At the same time, we're doing so in a very deliberate and prudent manner. Since we don't know exactly how the crisis would unfold, we always have in mind our capital.

And believe that to generate attractive risk-adjusted return, we need to be very selective in the assets we buy, especially given our long-term horizon. Operator, we will now take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from Tom Mackinnon with BMO Capital Markets.

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

And the first question is with respect to PPI and the impairment take in there. Is there anything unique to PPI that would -- I mean, you've made a lot of other distribution acquisitions.



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You talk about sales for Individual Insurance being lower. But I wouldn't have thought that would have stressed PPI as much to be able to lead to the goodwill impairment.

So is there anything unique about PPI that would have led to this? And did you conduct the same kind of goodwill test with respect to your other distribution acquisitions you've made?

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

Thank you, Tom, Jacques speaking. I will answer the last part first. Yes, we did that with all of the other distribution and everything is fine.

About PPI, maybe just to remember what we did last year because it was quite important to remember that goodwill impairment we took last year was to put us in line with the earn-out formula.

So it was really the management view when we did the transaction. And like Denis explained at that time, the accounting rule require us to put a big goodwill so that support our view, in fact, because if we take a small goodwill when we made such an acquisition, when there's an earn-out formula, if the, I would say the scenario proved to be exactly what we were expecting, we will have to take a loss.

So if you remember well, we took a goodwill impairment, but the earn-out formula was a positive for us.

Once that said, what is happening with PPI right now is happening with all, I would say, MGAs into Canada and even the U. S. is that sales distributor have to move from face-to-face meeting to non-face-to-face meeting.

Also, keep in mind that PPI also do business in the very high-end market and in that market its impossible to do medical tests right. So really, the impairment is really temporary in regard of revenue.

We see those revenue reducing for 2020, probably 2021. However, what we have to play with here is really an accounting rules. And that accounting rule normally should be for permanent impairment. Business-wise, we see that as being a temporary impairment but unfortunately, we have to follow the accounting rule. The other element, like I mentioned in my allocution is really the risk premium as the spread widened a lot.

We need -- we had to recognize that into the accounting formula for the test of impairment. So that's really what explained PPI.

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

Yes, maybe. It's Denis here. I just want to add something. And as Jacques mentioned, the accounting rules are the accounting rules. And the matter of fact is that they are one-sided. And this is a pretty good example where we believe that long-term, the value of PPI is not diminished.

But because the accounting rules forces us to look at the short-term impact on the cash flows or revenues. And also, at the same time, assume, let's say, a higher discount rate, well, we needed -- we had to take a hit.

Now when things go back to normal, guess what, the accounting rules will not allow the organization to put back the value in the balance sheet.

So it's a one-sided rule, and we have to abide by that. But for us, what is most important is that we don't believe that there is a permanent decrease in value when we think long-term.



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

Okay. Thanks for that. And you mentioned that PPI with no medical tests for high net worth, it's really making sales difficult. You did give a little bit of color on April sales, but maybe you can elaborate a little bit more in terms of -- I think you said they're just doing better than expected, but maybe you can provide a little bit more color by some of your lines of business.

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

Yes. Well, I think I'm going to ask Mike to or even Renée to go over the -- specifically the individual lines, but also at the same time, review some of the other lines for April.

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

Sure. I'll take it on. So going by line of business, individual insurance in Canada, had very good results in April.

We're plus 14%, but that's probably not indicative of what's coming. We expect that to kind of trend down because there's a lag in the sales process as I'm sure you're aware.

Seg fund sales are up 11% in April. These are year-over-year numbers. Mutual fund gross sales, plus 5%, employee plans, plus 1%. The dealer business overall is down 64%.

No real change in GSR. SMS off 7%, and that's going to trend down because the travel insurance market is kind of dried up for now. U.S. life is up 48%.

And basically, what's happened in the U. S. in the life business is we had a very strong year last year, as you know when it trended up a lot in the second half of the year, and that trend is just continuing.

And so, I guess on top of that, we've been selling through call centers for a number of years.

And we sort of built up capability to support remote sales like other than face-to-face sales. So that's really become a powerful tool, obviously, in this market.

My own view is there's probably a bit more demand out there for final expense type products, given, obviously, people are feeling at risk.

And the other issue that's going on and working on our advantage is, as Denis said at the outset, we moved to work from home pretty quickly right across the Board in the U. S. as well.

And some of our competitors in this market in the U. S. life are struggling. They've moved to work from home, too, but their service is pretty poor.

So we're picking our business that way, too.

And then finally, our U.S. dealer business is off 14% in April.

**Operator**

Our next question comes from Scott Chan with Canaccord Genuity.



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

So just going back to the U.S.-based IAS vehicle warranty acquisition. And maybe educate maybe us a little bit on kind of pre-COVID and post-COVID within that industry and maybe related to IAS.

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

I guess, Mike, you can take that one.

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

Yes. Mike Stickney again. Basically, our view is that the IAS business and our U.S. dealer business in general, it's going to attract car sales. And car sales are -- have slowed down starting in late March. And interesting about the U.S. is there's a lot of good data on this market. It's studied extensively, and we've been looking at a few of these reports. And one, in particular, we've been relying a lot on is J.D. Power, which publishes weekly. And basically, car sales right now are based off about 50%. This is in the month of April on a week-by-week basis, but it's trending up. So the expectation is that it's going to improve through the balance of this year.

And if things resolve themselves reasonably well with the pandemic say by the end of the year, they're projected to be close to normal, say, by that time, say, at the end of the year.

And we expect our sales to kind of track pretty close to the car sales.

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

And just on the -- I guess, on the Canadian side with the nonprime car loan portfolio, you talked about loss rates over the trailing 12 months. But have you noticed anything in Q1? And have you stress tested the portfolio in a worst-case scenario of this pandemic is extended?

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

I'll leave it to Sean.

**Sean O'Brien** - *iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks*

This is Sean here. So the first part of the question, no, the losses haven't hit yet. They probably won't hit until Q4. We're deferring customers as they call in. We've got a pretty strict deferral process. But what we used on the assessment of the provision was we just looked at the portfolio and sort of the -- we used Fort McMurray as kind of a proxy wherein a total sort of industry shutdown, there's about 25% of customers' credit we're looking at deferrals to that period.

And then we looked at our own experience on deferrals, which is a tool we've had in our belt for quite some time, and we said, typically, a customer has a deferral over the life of that loan, we'll see about a 50% increased loss over the expected, then we applied that to our expected deferral rates of 25%, which probably won't go that high, but potentially. And that's how we came up with the provision that we took in Q1 of \$9.7 million. The losses itself won't actually come in probably later this year. And as it's a gradual return to work, I expect we'll see a gradual increase of losses as people realize their actual financial situation.

We're also seeing early signs of some relief. The COVID relief has been helping. Our customers are taking sense of use of that and also so the unexpected force savings that our customers are seeing as well, just given their isolation, but that's what we're seeing on that side.

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**Operator**

Our next question comes from Paul Holden with CIBC World markets.

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

So 2 questions. First is with respect to iA Auto and home. Obviously, you presented a positive experience in Q1. Given the premium relief measures that I'm assuming started in Q2, should we reasonably expect experience to be more neutral over the next couple of quarters?

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

Go ahead, Sean.

**Sean O'Brien** - *iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks*

Yes. Yes. It's Sean here. Yes although we are giving back as a direct insurer, we are giving some premium relief to our customers.

But the positive impact on -- because of the lower claims given customers aren't driving and they're keeping close in their homes is more than offsetting the benefit. So we're still expecting a strong year for Home and Auto.

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

Okay. Got it. That's helpful. And then with respect to IAS, wondering if you can comment on thoughts around purchase price consideration. Obviously, you're not going to give us any specifics there. But given the change in environment, is there an opportunity to negotiate or have a further negotiation around transaction value?

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

It's Denis here. I want to reiterate that we are committed to finalize the deal. It's not closed yet. And because it's not closed yet, I don't think we should, at this point, add anything to it. But we are certainly committed to finalize it based on the information that you already know.

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

Okay. Fair enough. I'm sorry, I will ask one more, and that's with respect to the hedging program. So within your prepared remarks, you commented that it behaved as expected in Q1 despite the losses.

But within your news release, you also made some references to some changes, I think, that have been made post-March or at some period in March. Can you discuss what changes have been made to the hedging program, whether it's on-site funds or on the VA?

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

Yes. So Alain, I'll leave it to you.



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**Alain Bergeron** - *iA Financial Corporation Inc. - Executive VP & CIO*

Yes. Sure. So on the, I mean, we've made some improvements, and we're still working on some others. But I don't want to tend the message that if we were having quarters like Q1, then we wouldn't have that type of experience. So we've made improvements at the margin. We had several initiatives, like a lot of things are important to us.

We are improving them over time. So when the volatility hits, some of them, we've simply accelerate and put more resources there to accelerate. And we've got some benefit from that. I'll give you a couple of examples. One of them is on the operational side of things.

So we had been invested in some of our risk system and ability to understand more rapidly in the risk exposures, that they are changing dynamically.

So increasing the speed of that has been something that's been helpful. The second is we have a list or a series of instruments that we're using for hedging.

There was and then I can't be too specific here, but I'll say that there was one of them that we have been looking, trying to find for a while and the team has been working on.

And we finally found a way to add that instrument in a way that was not prohibitively expensive.

And that would improve future results.

I know it's not exactly what you say, but I think another test is the month of April and the month of April was fairly volatile, maybe not quite as March, but still early volatile.

And we experienced overall a loss of \$2 million. So the volatility being high, something consistent with the matrix that we've put on the slide, but then some other risks like the basis risks was positive.

### Operator

Our next question comes from Meny Grauman with Cormark Securities.

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

First question is on Slide 6. If you note that in the U.S. dealer services business that you don't expect it to be as affected at Canada? And I'm just wondering what are the factors that are driving that relative performance, U.S. versus Canada or the expectation of the relative performance?

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

Well, I guess, it's Mike Stickney here. The way I look at it is, obviously, there's 2 different countries, things are a little different in the U. S. There's the whole political environment is different. There's less of a social safety in that.

And there's just more pressure, too, for the economy to open up. And so a good example here in Phoenix is car dealers, car dealerships rather never shut down any time over since COVID started up. And car sales are only in on this J.D. Power think I referred to earlier, we actually report our car sales by major cities. And car sales and Phoenix really are only off 25% through, let's say, through April.

And you're seeing similar results at Texas. And so when I compare that to Canada, a lot of car dealerships are closed to Canada or have been and they're just starting to open up now.



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So our view is that things, sales will be slower in Canada as compared to the U.S. and then just kind of based on the data we're seeing.

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

Okay. And then Denis, on the last call, you talked about the expectation for elevated expenses in 2020 to increasing investment in productivity and growth and then also the implementation of IFRS 17.

So I'm wondering how you would revise that outlook on expenses given everything that's happened in your outlook?

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

Well, obviously, with what happened, we had to look again at our plan for 2020 looking forward.

And we have changed some of our priorities, obviously, everything it has to do with improving the distribution experience like non-face-to-face, end-to-end processes, we've put our money there because it's basically, we want to make sure that the revenue are going to be there. Even though we had already started a lot of digital initiatives over the last several years, we have accelerated the investments that we're making there.

So at this point, we are tightening up our expense expenditure, but we are reallocating it towards where is it that it's going to make much difference in the COVID environment.

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

Okay. And then just finally for me, what's the risk of elevated claims coming down the pipe from COVID specifically in Special Market Solutions group.

But I don't know if there's any other areas like the travel part of that? Are there big claims that we could potentially see from that business?

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

Jacques speaking. No, for SMS division, pretty much everyone are at home, they are not traveling, it's very short-term businesses. So we are not exposed to that kind of travel experience. So we would be pretty good with that.

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

Yes. I know that in the industry, there were some concern about the cancellation of trip insurance type of benefit, but we don't have much exposure there.

**Operator**

Our next question comes from Doug Young with Desjardins Capital Markets.

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

First question is for Jacques. And just on Slide 18, just the equities backing liabilities. It looks like the floor moved down to 11,700 versus 13,000. So you've got a buffer of about 13% before you'd have to strengthen reserves. Did you actually strengthen reserves this quarter?



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Just trying to get a sense of why there was that move from 13% down to 11%.

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

Thank you, Doug, for the question. That topic is a little bit complex because the metric we're providing on that slide is the TSX. However, our real exposure is comprised of private equity of options that replicate equity, Canadian equity, and we have a small part of Canadian equity.

So the trigger and as an example, private equity didn't go down as much as public equity in Q1.

So that's why we look overall, at all the decline of our portfolio, and we make an estimate what's the decline in the metrics that is equal to where the trigger will play. But in reality, in the quarter, things will move differently from all those parts. So that's really what happened here.

So the good news here is even during the worst of the crisis in Q1, we still had, not deplete the stock buffer entirely, so which is a great news.

And the other information I will provide because I promise that to many investors, I had discussion with during March is that if ever, okay, market goes very bad again, what we're providing, if that trigger is, I would say, reach, we are providing the sensitivity of the impact on reserve strengthening.

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

Okay. Fair enough. And then second question, just on the hedging, the \$0.57 hedging, just maybe I can, the way I think about it, the \$0.31 is essentially the slippage because I think you dynamically hedged and the volatility was so significant, you had to trade around that. And you don't use put options, you short equity futures, correct me if I'm wrong.

And therefore, because of that volatility, that's where that's a \$0.31. Is that correct?

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**Alain Bergeron** - *iA Financial Corporation Inc. - Executive VP & CIO*

That's right. Yes.

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

Yes. Okay. Then the \$0.26 is just the difference between your hedging the market and versus the actual performance of your funds. So that's the other component. Do I have that right?

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**Alain Bergeron** - *iA Financial Corporation Inc. - Executive VP & CIO*

I would say 95%, right? The other part is the I guess, it's the hedging instruments that so for example, a manager could have a benchmark of the TSX composite.

But it's expensive to trade-in and out of the composites. So we trade the TSX 60. And so there's a small spread in normal time and [in crisis] when there's big volatility, the small even though they're highly correlated, the small basis, the small basis risk can increase.

And that's part of that other number.



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

So on the first part, have you thought of or have you shifted over to use more put options where volatility is more embedded in?

And so you don't have that same level of risk? Or is it still too pricey to do so?

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**Alain Bergeron** - *iA Financial Corporation Inc. - Executive VP & CIO*

Yes. No, you're right. This is at the center. I mean, if I take a step back, the goal of the program yet is to protect the company against extremely unfavorable market.

And it's done that, right? But the second is to do that at a reasonable cost in the long run. And then buying a lot of volatility or buying puts or selling or buying exotic options to upload that risk makes it quite costly in the long run.

So that's the balance that we have to reach. And as these discussions are happening. They happen between the actuaries, the business lines, the investment department. And to put it in perspective, if you look at the last 10 years, even with this Q1, there's still a \$0.22 of EPS, that's, call it, in the money.

But what this also masks is that the year after year cost of running that strategy is lower. But this is a continuum and finding exactly the optimal place is a challenge, but we've like they call it the departments involved have deemed that we are aiming for a long relatively low long-term cost.

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

So I guess that's the argument against pricing in the product versus pricing in the hedge. So the put options are still too expensive to essentially implement in this. So is there discussions about having changes in the pricing of the product?

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**Alain Bergeron** - *iA Financial Corporation Inc. - Executive VP & CIO*

Maybe Jacques, I'll let you answer this one.

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

Yes. Actually, Doug, you're, yes, the pricing of the product was stick at the beginning when we sold. We're speaking here about legacy product.

We have to remember that because the sales we make nowadays have lower guarantees. So pricing of the product were there. And like Alain mentioned, long-term costs versus short-term volatility.

That's really the trade-off we need to do here. And that's what we did and the program work as expected.

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

Yes, it's Denis here. I just want to on Slide 11, as you've seen, when we look at the history of the performance of that program, we are quite pleased. And we've just experienced the worst and the extreme and the worst of the extreme.

But when you look at all the other quarters, we've benefited all in, up to now.



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But I think the program does his job. I mean there's a compromise to be done. I mean, at some point, you may want to hedge everything, but the cost would be super prohibitive that there's no point. Here is that we are accepting some kind of volatility for the program to be cost-effective at the end of the day. But this quarter was the worst of the worst.

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

Fair enough. Fair enough. And then just lastly, the tax rate in the quarter on a net or reported basis was a recovery. When I look at the \$1.41, what's the embedded tax rate in that, Jacques?

Or what's the tax rate if we were just to back out all the experience losses? Because it sounds like that's where the tax impact came through.

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

If we were to remove all those losses, the tax rate would be favorable.

We disclosed a gain of \$0.04 coming from our status as a multinational insurer. Apart from that, it will have been right on within the guidance.

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

So in line. So if we, on your \$0.41, it's in line with guidance. And then that \$0.04 gain, is that a recurring item? Or is that just a onetime item that you recognized this quarter?

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

You know what, I think we discussed our status as a multinational every quarter, there will always be fluctuation, okay? There will always be fluctuations. So we see that as a fluctuation.

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**Operator**

Our next question comes from Steve Theriault with Eight capital.

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**Stephen Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Jacques, just to complete the loop on the tax rate. When we've talked in the past, you talked about your -- that status, ultimately helping the tax rate over the medium term.

So like is there the potential for that tax rate guidance which I think was 20% to 22%, like we're talking about it every quarter. Like is there a view that that will go lower ultimately?

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

You can rest assured that we are working to, we will always work to bring that as low as possible.

However, what we provided in our guidance was really with all the initiative we have in mind what would be our expectation. So this was the best we can do for 2020.



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**Stephen Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Okay. Okay. And I wanted to ask a follow-up or 2 on the subprime auto business. Just you gave some numbers there, but does -- the hit you took this quarter, does that -- if I'm doing the math right, does that imply the loss rate rising from the 5.5% you're seeing today that maybe hasn't gone up yet to sort of 6.5% or 7%. Is that sort of what you've got in your numbers? And then as bad as you expect the losses to get over the next sort of 12 to 18 months?

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

Sean, do you want to comment?

**Sean O'Brien** - *iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks*

Yes. This is Sean. Yes. The 7% number is roughly where we see it peaking when the losses start to come in. So yes, I think your math is good on that.

**Stephen Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Okay. And in terms of the deferrals, can you give us a sense of what level of deferral you've seen in that book up until now?

**Sean O'Brien** - *iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks*

Yes. So I mean the deferral process we're doing is it's a one month only. We have to -- customer has to reach out to us.

The customer does have to make a principal payment to engage it. So it's kind of a handle to assess the situation month-to-month. And so far, we're running under 20% cumulative deferral so far that we've seen. And the requests are coming off substantially in the last, recently. So it's, it appears to repeat.

**Stephen Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Okay. Thanks for that. And then last thing for me, probably for Jacques, in terms of the solvency sensitivity disclosure on Slide 13.

Can you just talk briefly -- maybe it's complicated, but why the credit spread sensitivity went to 0 across the board?

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

Good observation, Steve. Actually, it took that big widening of spreads during Q1 to discover that the vector we table at last quarter was missing an element. Actually, when there's -- and here, we're speaking about corporate spread. We're not speaking about provincial spread. So there's 2 leg to it, one in the present value of PfAD, the other one in the solvency buffer. So all in all, net, our sensitivity is really 0 there.

It's only that what we provided in Q4 was missing one part.

**Operator**

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



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

Just to confirm something on this old goodwill writedown stuff. The sense I'm getting is, its largely related to sales and profits driven of those sales.

And as it relates to like back, your -- as long as the sales progresses, you were kind of describing earlier, you don't think there'll be a goodwill write-down?

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

Not at all.

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

Okay. And I mean, it hasn't closed yet by IAS. Is it similarly positioned?

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

Like Denis mentioned earlier, the transaction has not been closed yet. So we will keep quiet on that one for the moment.

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

All right. Now Slide 17, I think it is here? Yes. Slide 17, pandemic related impacts. You did have some negative experience items in the quarter in individual insurance and group. Just wondering what you're thinking? The illustration here has 3 negative to 2 negatives. So it's one of the worst things, I guess, that could happen in this list.

So what in the quarter do you see as maybe a recurring issue?

And if you can describe those? And then what new issues do you foresee materializing in the next few quarters as far as policyholder behavior and other stuff goes, please?

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

Okay, perfect. Jacques speaking. I would tackle Q1 first. So when I look at Q1, and you have, I would say, the information on the front slide here, it can be complex to follow.

Individual Insurance, it's mortality and lapse, half and half. And here, I would say that we see that as being a blip for the moment. It's not a trend. That's not the way we see it.

Is it COVID related? I would give you only an example for lapse. There's one big policy that was lapsed last year that was reinstated in Q1 and that cost \$0.01 and as a client changed his mind because of COVID-19, we will never know.

So we don't know for that. If you look at group experience in Q1, you have the car loan provision we discussed about, you have the disability. So disability, long-term disability was negative in Q1. However, in April, so far, we are doing fine.

So we saw that as being a blip. So Q1 is really blip and IAAH is not related, like we said, also, is not related to COVID. We had such great experience before the mid-March. When I look -- looking forward on Slide 17 about the minus, minus, minus-to-minus, minus, it's really pandemic related.



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It's not the normal, I would say, gain and loss, we will experience is really the pandemic related.

And here, what we want to say, here, mortality will -- because of pandemic mortality, we will have -- it's manageable, what we're expecting, but mortality won't be positive.

We expect with the social distancing measure that it will put pressure on disability. Like Mike explained on dealer, if we are not doing business, profitability will reduce. Well, distribution, it's tougher to make a recruitment of new people.

It was already included. And this sign it's in relation with the guidance we provided at the end of the year.

So we wanted to give you the directional and kind of magnitude idea compared to our original guidance. That's what we provide there.

And we spoke also about SMS, Special Markets Solution. Nobody are traveling. So we won't sell business. We won't make profit there. So there are small elements that will add up.

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

Yes, Denis here. I want to just add one thing to this slide. Obviously, this slide, the one number that is very important is the number of the first line, which is 2020. We're talking about 2020. In fact, we were trying to show you our thinking in terms of what's going to happen, let's say, during the COVID-19. The other very important line is the fact that we believe that in our business model post-COVID, there's no permanent damage.

So it's a way for us to tell you, okay, during the post-COVID -- sorry, during COVID, which we don't know. I mean, you and I, we don't know exactly how long this is going to last. But during the COVID-19, this is the kind of results that could happen. But we still believe that getting out of this crisis, that our business model is strong and that we're going to get back to where we were before.

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

Okay. And just a quick one. I got the impairment, the \$0.02 item. Can you describe what asset sector, et cetera, that was related to?

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

Actually, it was a private bond that we were owning that we already impaired a few times in the past. We finally sold that asset that we sold it at a lower value than the book value.

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**Operator**

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

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

Just a couple of questions here. First, I would note that the AMF seems to have harmonized with OSFI on a number of issues, including suggesting that you're not supposed to raise dividends and buy back stock.

I'm curious if the market volatility has and given the results of your hedging program. I'm curious if there's anything else the AMF is considering with respect to your operations and specifically with seg funds and the relief you get from a capital perspective.

Is there anything else that you've had in terms of conversations with the AMF with possible changes coming forward from the pandemic?



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

For the moment -- Jacques speaking. For the moment, no, not at all, like I mentioned in my introductory note, we have a very strong capital position even with pro forma. And actually, what we did, we ran a test, it's shown on Slide 21. We run scenarios in which we were doubling the, I would say the population infected in Canada, in the U. S. compared to what it is right now, what we're seeing right now.

We put the TSX at 9,000. We reduced interest rate -- long-term interest rate by an additional 1%. And even under that big stress tests, we still end up with capital ratio that is above 117. So we are in a very good position. So we're not in a discussion with the regulator on those stuff.

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

Okay. And my second question is going back to the car loans. And surprising -- it's somewhat surprising that the peak loss rate is considered to be 7%.

And if you're already at 20% deferral, so the question is, if you start to -- I mean, what does it take to -- or what loss rate would you be required to build another reserve?

Or maybe let me ask it a different way. If I assume 7% annual loss, is that the size of the reserve against the \$760 million loan book? Is that the way I should think about that?

**Sean O'Brien** - *iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks*

The reserve we're building right now is we're -- the measure we're using outside of our regular provisioning method, which looks at a 3-month sort of loss rate is the deferrals that we're applying to it.

So we're going to watch that deferral rate pretty close just to see where it flows through.

Again, it really comes down to how quickly people come back to work and to what level does the sort of the unemployment numbers sort of settle in at. But yes, it's again, the provision is packed in around. It's based on the deferrals, but the peak loss rate would come in around 7%.

I hope that answers the question.

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

Okay. So when you say peak loss rate, I mean, I guess this is if we see the loss rate rise materially like next month or month after? Is this like an action, I guess my question is, is it an actuarially created reserve?

Or is this like a loan loss accounting reserve that you guys have built here?

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

Darko, Jacques speaking. Actually, what we looked at in the past, there like Sean mentioned earlier, we already has been in a situation where we were providing clients with deferral in such financial hardship.

And we had that experience. So we know what was the real loss following those kind of crisis. So here, what we did, we used the number of deferral that was there.



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We put some margin on it. So we work with more than 20%. For now, we are lower than 20% like Sean mentioned.

And we applied the loss, the expected loss based on past experiences, in past crisis, that's really what we did.

So it's kind of an accounting way. There's no creativity here. So it's our, really the best thing, the best value we can put as a provision.

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

Right. So I guess, where I'm going with that is, as you have a loss, you will recognize the loss and write-down the reserve rather than having some sort of loss versus expected loss kind of thing, right? Is that correct?

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

Darko, Jacques speaking again. I would say yes to that, but we will continue to monitor the number of deferral and all that as well. So there could be provision adjustment as well. So you're right saying that if there's no additional deferral, that's exactly what you're explaining.

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

And just a precision, if there is no additional deferrals versus the scenario of the provision. I mean, it's because we are more conservative in the number of deferrals that we used.

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

Okay. And what's the assumption on car values?

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**Sean O'Brien** - iA Financial Corporation Inc. - Executive VP of Dealer Services & Special Risks

We haven't adjusted the used car value expectation for the provision at this point.

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**Operator**

Our next question comes from Sumit Malhotra with Scotia Bank.

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

Two, hopefully quick ones. First off, for Denis, you were asked about pricing for the IAS acquisition earlier. I want to ask one very specific question. Did this transaction include any material adverse change clause that does allow you to go back and either renegotiate or perhaps even walk away if the economic environment or other assumptions in the transaction have changed. Does that clause exist in this transaction?

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

Because we have not closed yet. I will reiterate that I don't want to make any comment at this point.



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

Okay. That's plain enough. And then the last one is on Page 19, likely for Jacques.

Certainly from the time Denis took over, it was a communication that the company wanted to reduce its interest rate sensitivity.

And we see that with the IRR, 2-parter here. iA has historically been ahead of peers in reducing any ultimate reinvestment rate assumption for what's going to be mandated.

Is that something you're considering in the near term?

And secondly, I can see the IRR is now down to 0. But is there any aspect of the business that you would highlight to us as being particularly impacted in the very near-term by what's happened with the long end of the curve in the last few months?

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

Thank you, Sumit. About URR for the moment, what I'm hearing from the Canadian institute of actuary, I don't see there will be a URR change. That's what I see, I'm hearing. But I will continue to monitor that there's no final decision there. The thing is that, like you see on that slide, the impact for us is on \$66 million. About IRR, we have to keep in mind that we are targeting 0 every quarter.

However, in real life, we're adding new business. There are some management action and policyholder behavior is slightly different from our expectations. So there will always be some noise here.

So we are targeting 0, but the reality, we will be probably between plus or minus \$5 million, what is acceptable for us as the total tolerance on that. And we're quite pleased with the situation we're in regarding the interest rate with the rate that decreased a lot recently.

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**Operator**

There are no further questions at this time.

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

Okay. So I will conclude. I think it's important just to mention here, I mean, in 2008, during the crisis, I at that time was the CFO of the company. And I have to tell you that I feel much, I would say, even more optimistic today versus our balance sheet strength. We are very strong. We've done a lot of initiatives since then, like the IRR hedging, or the seg fund guarantees hedging since 2008.

That makes us quite optimistic about the future. And in fact, when you look at 2008, we have rebounded. It didn't take long for the company to come back to the original profitability of the company.

So we have resiliency, even more today than before. Our strategy of the various business lines are intact. We will go through this COVID-19 crisis.

We probably get out of this even more stronger in our business model because we are investing in digital capabilities like never, never before. And so we are ready to seize the opportunities.

So with that said, that's my conclusion. And I will leave the final thought to Marie-Annick, she's got a message for you.

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## MAY 07, 2020 / 3:30PM, IAG.TO - Q1 2020 iA Financial Corporation Inc Earnings Call

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

To conclude this call, as mentioned in our earnings press release of this morning, please note that due to the pandemic, our Investor Day, which was planned for June 5, 2020, is postponed. A new date will be determined when appropriate based on guidance from health and governmental authorities.

Also, I would like to remind you that our Annual General Meeting will be held virtually this afternoon at 2:00 p.m. Thank you, everyone.

**Operator**

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

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