



iA Financial Group

Conference Call Transcript

Date: May 6, 2026

Time: 9:30 AM ET

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Operator:

Welcome to the iA Financial Group First Quarter 2026 Earnings Results Conference Call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. You'll hear a tone acknowledging your request. Should you need assistance during the conference call, you may reach an Operator by pressing star then zero.

I would now like to turn the conference over to Caroline Drouin, Head of Investor Relations with iA Financial Group. Please go ahead.

Caroline Drouin:

Thank you and good morning, everyone. Bonjour à tous. Welcome to iA's first quarter 2026 conference call.

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.

Before we start, I draw your attention to the forward-looking statements information on Slide 2. Forward-looking statements made today are subject to risks and uncertainties that could cause actual results to differ materially. These statements are based on certain material factors and assumptions.

I also draw your attention on the non-IFRS and additional financial measures on Slide 3. Today's commentary will also include adjusted financial measures, which should be considered as a supplement to IFRS measures. For further details, including those factors and assumptions, please refer to our press release and MD&A.

I will start by introducing everyone attending on behalf of iA. Denis Ricard, President and CEO; Eric Jobin, Chief Financial Officer and Chief Actuary; Alain Bergeron, Chief Investment Officer; Stephan Bourbonnais, Responsible for our Wealth Management Operations; Renée Laflamme, Responsible for Individual Insurance, Savings and Retirement; Pierre Miron, Chief Growth Officer for our Canadian operations and responsible for iA, Auto and Home; Sean O'Brien, Chief Growth Officer for our U.S. operations and responsible for all of our dealer services operations; and finally, Louis-Philippe Pouliot, in charge of Group Benefits and Retirement Solutions.

With that, I will now turn the call over to Denis Ricard.

Denis Ricard:

Good morning and thank you for joining us today.

Before turning to our first quarter results, I'd like to briefly touch on leadership changes announced last night that further highlight our organization's ability to develop leaders, promote internal mobility and attract talent of international calibre.

Effective June 1, we are creating a new Executive Vice President role dedicated to lead acquisition-driven business development. We're very pleased to welcome Benoit Hudon to iA. Benoit brings deep international experience in strategy, performance management and M&A, and he will play a key role in how we deploy capital going forward.

At the same time, as part of the continued evolution of the senior leadership team, Pierre Miron has informed us of his decision to retire at the end of 2026, following an exceptional career. Pierre will remain a full member of the executive team through the end of this year, serving as strategic advisor to support a smooth and orderly transition. His contribution to our digital transformation, operating model and growth trajectory has been truly remarkable since he joined iA in 2018.

As part of this transition, Denis Berthiaume will assume Pierre's responsibilities as Executive Vice President, Chief Growth Officer, Canadian Operations. Denis combines strong operational rigour with a clear strategic and capital allocation perspective. He's well positioned to continue driving profitable growth across our Canadian platforms.

Taken together, these leadership changes reinforce our focus on delivering sustainable growth across North America and directly support iA's strategic priorities. With that context, let's now turn to our first quarter results.

Turning to Slide 9, the first quarter clearly demonstrates the power of our unique and diversified business model, the depth of our distribution capabilities and our ability to execute consistently in a dynamic environment. We delivered solid core earnings growth. Core EPS increased by 12% year-over-year, reaching \$3.25. Our trailing 12-month core ROE reached 17.5%, which already meets our 2026 target. These results reflect strong operating discipline across all business units, as well as the resilience and consistency of our earnings profile.

Business growth was also very good across our business units and contributed to a 10% year-over-year increase in premiums and deposits, as well as a 31% increase in assets under management and administration. This performance was supported by strong demand across our target markets, the effectiveness of our distribution model and the relevance of our offerings.

Our financial strength remained a key pillar this quarter. At March 31, our solvency ratio stood at 134%, well above regulatory requirements, supported by \$155 million of organic capital generation during the quarter. This strong capital generation contributed to capital available for deployment to \$1.2 billion, giving us significant flexibilities to support organic growth, pursue strategic opportunities, and continue returning capital to shareholders.

Reflecting this financial strength and our confidence in the sustainability of our earnings power, we are pleased to announce today an 11% increase in the quarterly dividend, bringing it to \$1.10 per share. In addition, we continued to actively return capital through share buybacks, with \$261 million deployed under our NCIB during the quarter. Based on our strong ability to generate capital, we are also announcing today that the maximum capacity of our NCIB will be increased from 5% of shares outstanding to 8% of our public float, providing us with additional flexibility to return capital to shareholders going forward. Finally, book value per common share reached \$78.90 at quarter end, up 6% year-over-year, and up 10% over year, excluding the impact of the NCIB.

Overall, in an environment that remains volatile, our first quarter performance underscores the quality of our earnings, our prudent capital deployment decisions, and our continued focus on long-term value creation for Shareholders.

Turning to Slide 10, taking a closer look at business growth by segment, starting with Insurance Canada, which delivered a good quarter. In individual insurance, sales of \$97 million were comparable to last year's strong performance. Sales were down slightly year-over-year, but this does not reflect a slowdown in activity. In fact, the number of policies issued was up 5% year-over-year, reflecting strong distribution activity, continued adoption of our digital tools, and our comprehensive product offering. This level of activity reinforced our leading position in the Canadian mass market.

In Group Insurance, premiums and deposits, growth in employee plans and special markets reflect good sales over the past 12 months. In Dealer Services, sales grew 7% to \$174 million, driven by continued momentum in P&C insurance. Finally, iA Auto and Home once again delivered good results, with sales up 6% to \$137 million. Growth was driven by an increase in the number of policies combined with pricing actions implemented in the last 12 months.

Turning to Slide 11, Wealth Management delivered another strong quarter, highlighted by record individual gross sales of \$3.7 billion. We continue to strengthen our leadership position in the Canadian seg fund market, with very strong performance in both gross and net sales. Individual seg fund gross sales rose 23% year-over-year, to almost \$2.4 billion, while net sales reached nearly \$1.5 billion. This growth reflects sustained advisor engagement and continued client demand.

In Mutual Funds, gross sales increased by 30% year-over-year, to \$838 million, while net outflows of \$90 million were recorded. The outflows were influenced by a single isolated factor. Excluding that impact, mutual fund trends continue to improve, supported by strong sales and advisor activity. Sales of other individual savings products reached \$494 million, a 6% increase year-over-year, as safer products become appealing to certain investors in the current volatile market.

Finally, in Group Savings and Retirement, assets under management were 10% higher than a year ago. Sales for the first quarter totaled \$704 million. Growth in insured annuities was positive, although this was more than offset by the lower accumulation product sales during the quarter.

Turning to Slide 12, to review the U.S. operations, where we see continued momentum in individual insurance and in dealer services. In Individual Insurance, sales increased 16% year-over-year, to \$US 79 million. Once again this quarter, U.S. Individual Insurance sales exceeded those in Canada, reflecting solid momentum in our core markets. This result highlights the underlying demand in the U.S. life insurance market, with continued focus on profitable growth.

In U.S. Dealer Services, first quarter sales totaled \$US 273 million, compared to a strong \$US 306 million. In a very strong prior year quarter, this quarter's results reflect a general slowdown in industry-wide vehicle sales. It is important to note that the prior year quarter benefited from a significant pull forward of sales, driven by expectations of potential price increases related to tariff uncertainty and other temporary market factors. In addition, our disciplined repricing actions across the portfolio weighed modestly on volumes this quarter, while improving the profitability of new business.

Note that on a more comparable basis, U.S. Dealer Services sales were up 10%, versus Q1 2024. Overall, we remain focused on expanding our distribution relationships and executing our U.S. growth strategy with discipline, while continuing to adapt to evolving market conditions and maintaining a clear focus on profitability.

Now, turning to Slide 13, where our financial results this quarter demonstrate consistent and tangible progress toward our targets. Core EPS grew by 12% year-over-year in the first quarter, ahead of our mid-term target of 10% plus. This performance was achieved despite core experience losses during the quarter, which we do not expect to be recurring. As we have consistently said in the past, significant experience items, whether gains or losses, should not be extrapolated. What this quarter highlights is the consistency of our earnings profile and the benefits of our diversified business model.

Core ROE remained solid at 17.5% at March 31st, already meeting our 2026 objective. This reflects disciplined execution across the organization, strong business fundamentals, and continued focus on capital efficiency. Organic capital generation continues to be a key strength. During the first quarter, we generated \$155 million of organic capital, positioning us well toward our objective of generating more than \$700 million of organic capital for the full year.

As usual, capital generation is expected to accelerate from the second quarter onward. This continued capital generation supports both growth and Shareholder returns while preserving financial flexibility. Finally, our dividend payout ratio remained well within our target range at 30.5%, and the dividend increase announced today is expected to keep us within the target range.

With that, I will now hand it over to Eric, who will take you through our first quarter profitability and capital position. Eric?

Eric Jobin:

Thank you, Denis, and good morning, everyone.

I'm pleased to walk you through our first quarter results, which reflect our continued focus on profitable growth, expense management, and sustainable value creation for shareholders. Let's now take a closer look at the drivers of our strong 12% year-over-year core EPS growth by segment.

Starting on Slide 15, with Insurance Canada, core earnings for the quarter were \$96 million compared to \$100 million a year ago. Core insurance service results was higher compared to last year, reflecting higher combined risk adjustment release and CSM recognized for service provided from individual insurance, as well as higher expected insurance earnings on PAA insurance, mainly from iA Home and Auto.

These positive items were partly offset by higher impact of new insurance business from confirmed renewals and sales in employee plans, and by experience losses of \$3 million, mainly reflecting unfavorable morbidity experience compared to experience gains of \$4 million in the same period last year. Core non-insurance activities were slightly lower year-over-year, mainly due to higher expenses.

Let's now move to Wealth Management segment. Core earnings in the Wealth Management segment were up 24% year-over-year, reflecting another very strong quarter. This solid growth was driven by higher combined risk adjustment release and CSM recognized for services provided, supported by strong net segregated fund sales, as well as the favorable impact of financial markets over the last 12 months.

Core non-insurance activities were also higher, reflecting higher net revenue on assets and a strong contribution from RF Capital Group of more than \$10 million, which continues to perform well and better than expected at the time of acquisition. This contribution from RF Capital was partly offset this quarter by higher expenses, mainly related to IT projects and expense reallocation from core other expenses.

Turning to Slide 17, first quarter core earnings in our U.S. Operations were \$26 million compared to \$30 million a year ago. Let me break this down by business unit. In individual insurance, the strong earnings growth over recent years continues to be reflected by high levels of risk adjustment release and CSM recognized for services provided. This growth was moderated this quarter by experience losses of \$9 million, largely driven by unfavorable policyholder behavior (lapse activity), which we view as mostly contained and non-recurring. Vericity's contribution during the quarter continued to support progress toward the financial goals set at the time of the acquisition, which is to be accretive in 2026.

In Dealer Services, we are pleased with the results as the gradual improvement we have been describing in the past year continues to take shape. This is reflected in the strong growth in expected earnings from PAA insurance driven by a sales mix increasingly weighted toward insurance product. Overall, core earnings and excluding expected variances grew 10% year-over-year for the sector as a whole, which is a good development.

Now turning to Slide 18 for the results of the Investment segment, core earnings for the quarter were \$93 million compared to \$85 million a year ago and to \$91 million in the fourth quarter. Core earnings were driven by a core net investment result of \$126 million, supported by expected investment earnings of \$119 million and favorable credit experience of \$7 million attributable to the car loan portfolio.

Quarter over quarter, expected investment earnings reflect lower asset levels following the RF Capital Group acquisition and share buybacks, as well as normal seasonality of iA Auto Finance results. For the first quarter, core earnings adjustment totaled \$121 million, mainly from unfavorable macroeconomic variations in public and private equity and infrastructure compared to long term expectations. This also includes a tax-related adjustment tied to the measures introduced in the 2025 federal budget, and I'll briefly address this next.

The federal government released its budget last November, outlining its intended tax policy directions. Bill C-15 was enacted at the end of March, implementing certain measures, including some provisions that apply retroactively to January 1, 2025. These measures primarily affect the taxation of investment income. As a result, a tax-related adjustment of \$40 million was recorded in the first quarter in respect to the 2025 fiscal year.

Also, the Company has revised its medium-term core effective tax rate outlook to a range of 21% to 23%, with expectations for 2026 positioned toward the upper end of that range. This outlook reflects the tax policy directions outlined in the November 2025 federal budget, including the impact of the Bill C-15. The revision of the tax outlook has no impact on our guidance, as we remain fully aligned with our financial targets, including core EPS and core ROE and organic capital generation.

Moving to Slide 19, for the results of the Corporate segment, core other expenses were \$65 million before taxes, flat year-over-year, and at the low end of the quarterly target of \$70 million plus or minus \$5 million.

This demonstrates disciplined expense management amid ongoing inflationary pressures. This result also reflects a lower-than-expected provision for variable compensation as well as the timing of certain corporate initiatives, resulting in a temporary deferral of related expenses. Overall, we continue to manage expenses with a strong ongoing focus on operational efficiency while continuing to invest in and enhance our IT infrastructures to support the businesses.

Please turn to Slide 20 to review our robust capital position and financial strength. As of March 31, 2026, our solvency ratio stood at 134%, and our capital available for deployment was \$1.2 billion. The ratio increased by one percentage point during the quarter, driven by solid capital, organic capital generation, and the positive impact of the 2026 AMF revised CARLI guideline. These favorable items were partly offset by disciplined capital deployment, including \$261 million deployed through share buybacks under our NCIB, as well as the impact of macro economic variations. Overall, the balance sheet remains high-quality and resilient, and we continue to deploy capital in a disciplined and consistent manner, fully aligned with our capital priorities.

To conclude, we delivered another strong quarter with core EPS growth of 12%, supported by solid performance and continued growth across all our business segments. This performance was achieved despite non-recurring core insurance experience losses recorded in the first quarter, while we continue to manage expenses effectively and maintain a robust capital position. Our balance sheet strength provides us with flexibility to deploy capital and supports both the increase in the quarterly dividend and the increase in the maximum number of shares that can be repurchased under our NCIB. We are executing our plan into action and remain fully on track to meet our financial targets.

With that, I'll turn the call back to Denis.

Denis Ricard:

Okay, thank you, Eric.

We started the year with a strong momentum across our businesses, and it's driven by elevated activity across both our wealth management and insurance distribution platform. In Canada, this resulted in a 5% increase in individual insurance policies issued, reinforcing our leadership position. In wealth management, it translated into record growth sales in seg funds, while in the U.S., we continue to see solid growth in individual insurance. Overall, premiums and deposits were up 10% year-over-year. Assets under management and administration reached \$346 billion, up 31% during the last 12 months. In wealth management, this momentum was further supported by RF Capital, which is already contributing positively to results and strengthening our overall value proposition.

Through continued growth, we create value by delivering on our financial targets. This is reflected in a trailing 12-month core ROE of 17.5% and a 12% year-over-year increase in core EPS. This growth was supported by several key drivers, including disciplined expense management, the contribution of recent acquisition, and the ongoing execution of our NCIB program.

Returning value to Shareholders remains a priority. We increased the common share dividend by 11%, and we will amend our share buyback program to allow repurchases of up to 8% of public float. These actions are supported by our robust capital position, solid organic capital generation, and \$1.2 billion of capital available for deployment, giving us the flexibility to invest in growth while maintaining a resilient balance sheet.

Overall, we are pleased with the way we have started the year. Our strategy is delivering results, our financial position remains strong, and we are well positioned to continue executing with discipline as we move through 2026.

Thank you. Operator, we are now ready to take questions.

Operator:

Certainly. We'll now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

First question comes from Gabriel Dechaine with National Bank. Please go ahead.

Gabriel Dechaine:

Hey, good morning. I want my first question to be about the non-core market experience. There's an \$87 million negative experience in the public and private equity portfolio. Can you maybe break that down a bit? Was that private equity related or infrastructure? Any specific issue there? Also, if there's any seasonality to that type of thing, because last year, Q1, we also saw a pretty big negative number.

Alain Bergeron:

Hi, Gabriel. It's Alain Bergeron here. I'll focus on the \$87 million just to be clear about the equity component. About half or so is related to public equity. This is coherent with the sensitivities that we provide. S&P was down about 4% over the quarter. Now, I didn't check this morning, but as of yesterday, it was up about 6% since. If the quarter ended today, then actually, we would have a nice positive credit experience, actually, market experience.

For the other half, private equity and infrastructure, I'd say a couple of things. The first one is that the return was actually a small positive, but it was lower than our long-term expected return. The second thing is that our portfolio performed in line with broad market benchmarks that we use. This means that for Q1, it's really an asset class story more than a iA specific portfolio story.

If you zoom out, though, the one thing I'd mention is that since IFRS 17, and including this quarter of negative \$87 million, the equity bucket had a cumulative positive market experience of \$239 million. I know, Gabriel, that was not your question specifically. But just for all the listeners, that there's no confusion here when I talk about private equities. We're talking about private equity and infrastructure together. We're not talking here about private credit. I'm just flagging this because there's a lot of headlines on private credit. If anyone is interested, we've added a slide on that on the deck of Page 34. The bottom line on this is that the private credit exposure is small. Does that answer the question?

Gabriel Dechaine:

The seasonality part, I don't know if you mark your private equity portfolios once a year or every quarter or what, because Q1 of last year there was another negative. But I don't know what the breakdown was last year.

Alain Bergeron:

We mark our book at every quarter. Now, it's not exactly 25% per quarter, but it's not a bad rule of thumb. Now, it turns out that in Q4, that's the quarter where we have the most—most evaluation, because it's the actual marks NAV plus a forecast of what's coming in Q1. But in general, it's not a bad rule of thumb to use that everything is marked quarterly.

Gabriel Dechaine:

Got it.

Denis Ricard:

Just one thing I'd like to add on this. We are in a long-term business. Fluctuation in the short term is actually for us is not a concern. Alain has demonstrated very clearly that over the last couple of years, the cumulative impact has been positive. We expect in the long term to meet the target of return that is in our assumption. It's normal that you see fluctuation. It could be both positive or negative in a quarter.

Gabriel Dechaine:

Okay. Now, next question is about the lapse experience in the U.S. Is this tied to, I guess, the customer characteristics? It's a smaller, I guess, a lower end of the market product? Is there affordability issues that are causing them to lapse? Or is it something else? Then, Denis, you'd mentioned about the experience overall, don't extrapolate significant experience. Can you give me a benchmark, I guess, for what is significant, plus or minus? I think it used to be plus or minus \$0.04 for an individual type of thing.

Denis Ricard:

Yeah, I'll answer the first part first. It's Denis here. Then, Sean can give you more details on the lapses. I would say that when you look at, let's say, over a longer period than just one quarter, obviously, we have, I would say, a bias towards a positive experience gain. You might have plus or minuses, and the \$0.04 that you're talking about is something that was an old method that was used. I think we should all forget about that. But when you really look at the cumulative impact of both gains in a quarter versus losses, we tend to be conservative in our assumptions in the reserve. There is a positive bias towards being positive. That's why I was quite adamant in my speech saying that you should not expect that over the long term there will be, let's say, a permanent loss. Sean, you might just go on the first part.

Sean O'Brien:

Yeah, just back to the lapse rate. What we saw, we've had exponential growth at American Amicable. As part of that growth late last year, we identified a small group of contained new agents with an inordinately high lapse rate. We quickly removed those agents. We're now working with the IMO partners to update our products and training to help reduce that risk. It was not a systemic issue. We contained it pretty quickly and very confident still with our targets for American Amicable on profit and sales. I'd also say we're happy with the team for quickly identifying it and dealing with that issue. It's not related to the broader market, as you said, Gabriel.

Gabriel Dechaine:

All right, I'll leave it at that. Thanks.

Operator:

The next question is from Doug Young with Desjardins Capital Markets. Please go ahead.

Doug Young:

Hi, good morning. Just staying with the U.S., obviously, a 33% increase in expected earnings on the PAA business. Eric, I think you mentioned a shift in mix towards insurance products. I think you had something similar last quarter. Can you kind of maybe break out the mix between insurance and non-insured products? Does this impact at all the return profile of that business? Maybe you can update us because it looks like sales were off, but the profitability for that dealer services business has improved, as you've indicated that it would. Just hoping to get maybe as well a bit of an update on the outlook for that business, if that has changed at all.

Denis Ricard:

Yeah, I'll leave Eric to answer more specifically. It's Denis here. But I would say that we're quite pleased where we are right now with the U.S. dealer business in terms of the gradual improvement. As you said, we've got some good earnings during this quarter that we were pleased with. Eric can provide a bit more details about your question.

Eric Jobin:

Yeah, sure, Denis. I understand your question, Doug. I don't think we published the split between insured and admin products only, but you see it indirectly through the profitability. The thing you have to keep in mind is that the profitability of an admin-only product is mostly front-ended. When I look at the profitability of those separate products, I like to see more insurance products than admin products, because when you see the insurance product sales, the profitability is amortized over the lifetime of the contract. It contributes to the growth of the PAA line of the insurance product, and it remains sticky for a little time instead of restarting every quarter. That's the particularity of the profitability of those products. Personally, I have a positive bias toward insurance products instead of admin only.

Doug Young:

Just, I know you don't give the split, but I think it used to be around 80 insured or 80 admin and 20 insured or something. It's still well, like insured is still well below 50%, I would assume.

Eric Jobin:

Yeah, it's what you're referring, Doug, to re-insured product. This is for the insured product at the top. Even though we take on insurance risk, in some cases, we re-insure partially the product. In some cases, like the admin product, it's fully re-insured.

Doug Young:

Okay. Then, yeah, just like the outlook for that business. I don't know if that's Sean or you, Eric.

Sean O'Brien:

Yeah, I think what you're seeing on the insurance side is that it's leading the recovery. That is a business that we jumped on quite quickly last year, and we're starting to see the results of the sales on that side. But the admin fee side of the business will recover as well, and that's coming. That's the dealer direct business that we're working with. I think it's just the order of operations of the gradual recovery you're seeing.

Doug Young:

Okay. It doesn't look like there's any big change in your gradual profitability improvement for that business. Then, second question, Denis, you mentioned something in your opening remarks, I think, around mutual fund sales that were impacted by an isolated factor. If you excluded that, you had net sales. Did I hear that correctly? If so, what was the isolated factor?

Denis Ricard:

Yeah, and I will leave it to Stephan to just give some details.

Stephan Bourbonnais:

Yeah, I'd say, I mean, it's more cyclical timing issue that we've seen rather than a structural failure, I would say. It's having a diversified lineup with different managers with different styles. I mean, you're going to have some managers that are going to be in favor, some are going to be out of flavor. This is what we've seen. We've seen a bit of a drag because overall, it would have been positive, but nothing to be concerned about. We've got all our managers on the watch list. We've seen a huge pickup on gross sales, up 30% from last year, huge pickup from the affiliate. We're up 39%, non-affiliate are doing well with 20% growth. The team is executing, delivering, and we're on the right path to get back to net positive in the next quarter.

Doug Young:

Sorry, and what was the isolated factor? Was this just normal variation or was there a big reduction?

Stephan Bourbonnais:

Normal, just out of style. Like I said, it's more cyclical. It was just out of style considering the current environment we're in. Nothing to isolate specifically, but it'd been obviously a drag on our overall sales.

Doug Young:

Okay, thanks. I appreciate the colour.

Operator:

The next question is from Tom MacKinnon with BMO. Please go ahead.

Tom MacKinnon:

Yeah, thanks. Good morning. Just with respect to the negative lapse experience in the U.S., I think in the fourth quarter, you actually strengthened lapse reserves overall for the Company. Can you elaborate on what you did for the U.S.? Did you do anything to reflect these new agents at American Amicable in terms of your lapse rate? What was driving your lapse rate strengthening in the U.S. when you did your reserve review? Maybe as a follow-up, what percentage of your U.S. individual insurance sales are you getting from these new agents that were contributing to that high lapse rate? Thanks.

Eric Jobin:

Thanks, Tom, for the question. In fact, just a reminder to start with, in Q4, the insurance adjustment we did in the reserve strengthening was related to Insurance Canada, so unrelated to what's happening here in the U.S., so that's one thing. Second thing regarding your question with respect to the U.S., we did not do a reserve adjustment. What happened is actually early lapses. As Sean talked about, it's related to distribution and the quality of the business was not sticky, if I can say it in simple words. Those policies were issued and they lapsed almost immediately.

That's what happened and it did hit us. Sean took management action to fix it. As he mentioned, we talked with the IMO in question and we're improving the situation. I don't expect at this time to have an adjustment for reserve. We'll see at the year-end because at this time, what I consider the issue to be resolved, but we'll see at the year-end if there's any residual effect of this to be considered.

Tom MacKinnon:

What percentage of your U.S. individual sales does this IMO represent and is this IMO placing any new business with you going forward?

Sean O'Brien:

Yes, it's less than 5% of our sales. Last year's growth, I can't remember what it was, was around 30% to 32%, so it would have been around something 5% less than that. That IMO is still dealing with us and working with us very decisively in getting rid of those agents and changing their practice to make sure they're not bringing in agents with a high early lapse rate.

Tom MacKinnon:

It wasn't the entire IMO; it was just some agents within that IMO?

Sean O'Brien:

No, a small, contained group within one IMO.

Tom MacKinnon:

Thanks.

Operator:

The next question is from Paul Holden with CIBC. Please go ahead.

Paul Holden:

Thank you. Good morning. A couple of questions. First one is with respect to the increase in expected tax rates, I want to understand why that's happening. But in theory, all else being equal, that would take your earnings growth down modestly below your median term objective, at least for the year. That's all else being equal and that's never really what happened. Are there any actions you're thinking about to offset that increase in the tax? Right, like maybe it's just simply that's part of the reason you increased your NCIB, just thinking about how you're thinking about offsets to that higher tax rate.

Eric Jobin:

Yes, Paul, it's Eric. I'll handle this one. As we mentioned, those measures were announced last November. We had visibility on the potential effect walking into the planning for 2026. We had visibility on this and we looked at the different internal levers we can have and how we can adapt to this new tax environment. When we confirmed our guidance for 2026 in terms of profitability, we had this visibility knowing that we would be able to meet those targets even though we had this, let's say, short-term headwind in front of us.

Denis Ricard:

Yeah, maybe one thing I'd like to add on your second point regarding the buyback increase from 5% to 8% has nothing to do with tax rate. Actually, we needed more flexibility for the buybacks. The pace right now, as you've seen in the quarter, was such that because we are generating excess capital, we want to be opportunistic about the buybacks. We needed that flexibility, but it has nothing to do with tax rate.

Paul Holden:

I understand. To that point, given you had the visibility, you've planned for it. Clearly, there are levers you feel you can pull to offset it. I mean, are there one or two you would like to highlight given it's not the NCIB? Or is there just there's many small things and so there's nothing really in particular to focus on?

Denis Ricard:

I would say that there's many, many small things that we can pull. Yeah, we feel confident about that.

Paul Holden:

Okay. I'll leave that there. Then, second question, given recent lapse experience, I think you've done a good job explaining why it's contained. I guess one question that people want to ask is, in any way, does it change your acquisition appetite for the U.S.? I think you've been very clear that most likely you'll look at the U.S. for acquisitions. Does this change in any way either your appetite or maybe the way you approach acquisition potential in the U.S.?

Denis Ricard:

No, great question. Absolutely not. It doesn't change anything. We are obviously focusing on growing the organization organically first. But I mean, obviously, we look at acquisition because we generate so much capital. I would say that on the organic side, when I look at the life insurance business, whether it's Canada or the U.S., managing distribution is really an art. Sometimes there are situations that arise, which to me is normal in the long run. The idea is to be able to, over time, generate an experience gain, I mean, net of loss that is positive. It's part of the business, as far as I'm concerned, managing distribution.

Paul Holden:

Okay. Just one final one, point of clarity, the Canadian morbidity experience this quarter unrelated to the special markets experience last quarter, is that correct?

Eric Jobin:

Absolutely. It has nothing to do with the student business. I said last quarter that we did what we had to do with the reserve strengthening, and it's behind us. This is clearly something that is normal variation that we've seen in morbidity, medical stuff, managing group businesses.

Paul Holden:

Okay, that's great. I'll leave it there. Thank you.

Operator:

Once again, if you have a question, please press star, then one. The next question is from Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca:

Good morning. If we go back to the U.S. lapse issue, when I hear a story like that about agents writing policies and then the lapse almost immediately thereafter, I can't help but think that these were fraudulent policies, policies written to fictitious individuals that were then cancelled. First, I mean, am I barking up the wrong tree on this one? Were these real customers? Secondly, isn't there a mechanism in place that protects industrial lines from this where commissions just aren't paid immediately? You sort of season these policies before you pay commissions. Why wasn't there a mechanism in place to protect industrial lines?

Denis Ricard:

Okay, so it's Denis here. I wouldn't use the word fraud, but I would certainly use the word malpractice in terms of some of the, I would say, distributors. But like I said, I mean, we have increased the vigilance of the IMOs and the underlying representative under this IMO. Certainly, we are looking at all our processes to make sure that we can avoid that in the future. Now, you cannot be 100% protected in those situations. But you can certainly mitigate the loss that you can have. At the end of the day, it's really managing business. Sometimes, there might be some cases where there are some malpractice. But we are strengthening our processes as we speak.

Mario Mendonca:

Do you see, Denis, any lingering legal liability for Industrial Alliance?

Denis Ricard:

Absolutely not

Mario Mendonca:

Just beyond lapsation, I'm talking about. No lingering liability there. Okay. Appreciate that. Maybe this next one might be best for Eric. Eric, you and I have talked about this issue before. I look at Industrial Alliance, and I see \$1.2 billion of deployable capital. But even more importantly, the capacity to generate capital is as good as anyone on a relative basis. But when I look at Slide 27, and you talk about your capital allocation priorities, and perhaps I'm reading too much of this, but the NCIB appears last. You've recently just increased the NCIB to \$8 million, I'm sorry, 8% from 5%. Am I reading too much into the order of these priorities? Is the NCIB, are we likely to perhaps see the same pace of buybacks in subsequent quarters as we saw in Q1 26? Maybe walk me through that.

Denis Ricard:

Yeah, absolutely. Thank you, Mario. The order in Slide 27 is the real order, as far as I'm concerned. It's really focusing on organic growth, investing in our business. Then acquisition. I mean, NCIB to me is the last resort, let's call it that way. We don't want to pile up capital. But we are generating so much these days that, yeah, when you look at the actual NCIB, because there is no acquisition right now, I mean, and we don't want to pile up, it's kind of the last point in the equation that you have to use. It's not my preferred choice, but I think it's a great way to at least come to return some value to their Shareholders until we find an acquisition. That's pretty much the idea. Yeah, 27 is fine.

Mario Mendonca:

Okay. Thank you.

Operator:

This concludes the question-and-answer session. I'd like to turn the conference back over to Caroline Drouin for any closing remarks.

Caroline Drouin:

Thank you, everyone, for joining us today. Our Q1 earnings release and slides for today's conference call are posted on the Investor Relations section of our website at ia.ca. A recording of this call will be available for one week starting this evening. The archived webcast will be available for 90 days. A transcript will be available on our website in the next week.

Our 2026 second quarter results are scheduled to be released after market close on Tuesday, August 4, 2026. Thank you again. That concludes our call.

Operator:

This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.