FINAL TRANSCRIPT

# Sagicor Financial Company Ltd.

## Second Quarter of 2020 Earnings Call

Event Date/Time: August 17, 2020 — 11:00 a.m. E.T.

Length: 46 minutes

## CORPORATE PARTICIPANTS

**Samantha Cheung**
*Sagicor Financial Company Ltd. — Executive Vice President, Investor Relations*

**Dodridge Miller**
*Sagicor Financial Company Ltd. — Group President and Chief Executive Officer*

**Andre Mousseau**
*Sagicor Financial Company Ltd. — Group Chief Financial Officer*

**Anthony Chandler**
*Sagicor Financial Company Ltd. — Group Chief Financial Controller*

## CONFERENCE CALL PARTICIPANTS

**Meny Grauman**
*Scotiabank — Analyst*

**Doug Young**
*Desjardins Capital — Analyst*

**Darko Mihelic**
*RBC Capital Markets — Analyst*

## PRESENTATION

**Operator**

Good morning. My name is Joanna, and I will be your conference Operator today. At this time, I would like to welcome everyone to Sagicor Financial Company's second quarter 2020 earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, followed by 2. Thank you.

Ms Samantha Cheung, EVP of Investor Relations, you may begin your conference.

**Samantha Cheung** — Executive Vice President, Investor Relations, Sagicor Financial Company Ltd.

Good morning, everyone, and thank you for joining our call today. A link to our live webcast and published information for this call is posted on our website at sagicor.com, under the Investor Relations tab.

Please refer to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS financial measures which may be mentioned as part of our remarks today.

Unless otherwise noted, all dollar amounts referenced will be in US dollars, which is consistent with our reporting practice.

This is our first public earnings call since we listed on the Toronto Stock Exchange in December 2019.

Joining me today virtually from across the globe are Dodridge Miller, our President and CEO; Andre Mousseau, our CFO; and Anthony Chandler, our Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a question-and-answer session for our prequalified analysts.

With that, I'll turn the call to our Group President and CEO, Dodridge Miller.

**Dodridge Miller** — Group President and Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, Samantha. Good morning, everyone, and thank you for joining us.

My remarks this morning will touch on our financial performance for the second quarter of 2020, updates to our strategy that we continue to execute on, and our outlook for the remainder of the year.

Before I commence on our results, let me share my perspective on the current health crisis. The COVID-19 pandemic continues to impact countries across the globe. At the outset, Caribbean countries took a strong leadership role and quickly moved to unilaterally close borders, introduced quarantine measures, imposed social distancing protocols, and coordinated reasonable approaches and policies. As a result, the virus did not spread in the same way as it did in other areas of the world.

At the start of the declared pandemic, the Sagicor Group immediately pledged to donate $1 million to support containment and response efforts. Helping communities and policyholders in good times and bad is a mindset that is well ingrained within Sagicor, and this is one of the main contributing factors to our long, successful 180 years of history in the region.

We have donated thermal imaging scanners to the Barbados Ministry of Health, thermometers to the community service organizations, posted free webinar sessions for small business owners, and distributed care packages to frontline workers, just to name a few examples. And we have provided relief to our customers in terms of policy-lapse suspensions, early pension and health payments where needed, and payment deferrals on mortgages in other areas. We are proud of our team's response to the crisis.

Now let me turn to our results for the quarter that were announced last Friday. We were generally pleased with our performance during the quarter. While the pandemic impacted our new business growth, we delivered consistent top-line revenue and reversed a meaningful proportion of the losses that were seen in the first quarter.

Overall, total revenue of US$458 million decreased only 2 percent over the same period last year. In the context of the challenging economic environment, this is a good result.

Net income from continuing operations attributed to shareholders, prior to the effect of our internal reinsurance transaction, was $10.3 million, down slightly from the $11.1 million for the previous year.

Total comprehensive income in the quarter, before the effect of the reinsurance transactions, was $47 million as many of the asset losses seen in quarter one were reversed. Both these figures were reduced in our financial statements by approximately $11 million due to the internal reinsurance arrangement that I referenced earlier and that our CFO will speak to in more detail.

While managing the crisis has taken much of our time, we continue to execute on our broad strategic objectives. As I shared at our recent virtual annual general meeting of shareholders, let me remind you of our strategic goals.

We continue to position ourselves to drive further consolidation in our core markets; to extract synergies from our existing businesses; accelerate profitable growth, particularly in our US segment; leverage our leading-edge and customized technology; and focus on capital optimization across our entire group.

With respect to consolidation, we intend to pursue and identify opportunities to consolidate businesses within our core market. We believe we are well positioned to execute on any such opportunity given our strong capital, our M&A capabilities, and our experience.

Sagicor Life's previous announced acquisition of the traditional life insurance portfolios of Colonial Life Insurance Company and the British American Insurance Company (Trinidad) Limited is still outstanding, and we expect these to close once final regulatory approval is received.

With other opportunities in our M&A pipeline, I look forward to updating you further in quarters to come.

With respect to extraction of synergies, we continue to drive economies of scale, improve operational efficiencies, and increase margin. Across the business, we are implementing cost control measures to deal with the impact of COVID-19. Many of these processes and process improvements will have meaningful cost impact in a post-COVID-19 environment.

With respect to our accelerating growth, we continue to leverage our strong distribution network and enhance product development capabilities to drive product penetration and to cross-sell. We continue to share knowledge across our platforms in terms of new customer acquisitions and retention strategies, product development, and new lines of business. We are well positioned to continue our growth both in our core Caribbean market and in the USA, where we are one of the fastest-growing issuers of individualized annuity policy in the market.

With respect to the use of technology, we are accelerating our deployment of advanced applications across our platforms, from rapid underwriting toward direct-to-consumer platforms to our mobile applications. We are using the current circumstances to roll out technology faster than we were before, and we have had considerable success over the past month in doing so.

Finally, on capital optimization, we are pushing forward to make the Company more efficient for our shareholders. We executed on our first internal reinsurance transaction with our newly established Bermuda subsidiary. This will free up cash from redundant reserves to be used elsewhere in our capital structure.

We are managing our share count through our normal course issuer bid, which has provided increased liquidity to our shareholders, and we continue to examine options aimed at optimizing our debt structure.

Turning to our outlook. There is still much uncertainty given that the time and extent of the pandemic is unknown. We are cautiously optimistic that early signs of improving conditions will persist through the remainder of 2020.

Having said that, because the length and the severity of the economic contractions in our markets remain unpredictable, and despite our solid second quarter performance, our financial outlook for the remainder of the year remains uncertain.

COVID-19 is changing the world—how we do business, how government provides social services, and even how we interact with friends and family. We believe that it is in times like these there becomes a critical need to assess and fill the insurance gap to preserve the family's financial stability. Insurance products come in many forms and options to act as a buffer during times of need.

Our Sagicor advisors have been working hard at cultivating and building relationships with our clients, and we're constantly developing new products to suit customer needs, and we remain agile in our goals.

In conclusion, we believe this quarter's results were a testament to our resilience and ability to navigate difficult times. We have a market-leading and diversified business from a geographic and product perspective, a strong capital position for our operations and to fund growth, and we are ready to invest in strategic opportunities as we prepare ourselves to operate in a post-COVID environment.

And with that, I turn the call over to our Group CFO, Andre Mousseau. Thank you.

**Andre Mousseau** — Group Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Dodridge, and good morning, everyone.

Q2 was a solid quarter in the context of a difficult operating environment. Our total revenue for the quarter was $458 million, down 2 percent from the same quarter last year. Total insurance premiums were $310 million; $2 million less than last year.

Our net investment income was $121 million compared to $107 million last year, aided by our investments which benefitted from recovery in the capital markets. This was offset partially by $12 million of credit impairment losses, including an $8 million increase in expected credit losses.

Net benefits increased by $7 million to $314 million as our actuarial liabilities increased when assets backing policyholder liabilities appreciated. We have not observed any material deviation to mortality or morbidity rates within our policyholder base today.

Expenses decreased 9 percent to $127 million as we recorded a decrease in administrative expenses compared to the comparable prior period.

Our primary metric, net income attributable to shareholders, that is, excluding those losses or gains attributable to minority interests, was $10 million; down slightly from $11 million the year before.

Total comprehensive income in the quarter, before the effect of the reinsurance transaction, was $47 million compared to $19 million in Q2 2019 as many of the asset losses seen in Q1 were reversed.

Both these figures were reduced in our financial statements by approximately $11 million due to an internal reinsurance arrangement between our US and Bermuda subsidiaries which resulted in net income attributable to shareholders in the quarter of effectively nil.

I'll speak now about our operating segments. For Sagicor Life Inc., our operations in the Southern Caribbean that we refer to as SLI, revenue declined $14 million to $97 million compared to Q2 2019, primarily impacted by lower new business sales due and an increase in expected credit losses.

While the Caribbean has enjoyed a robust medical and social response to the pandemic, resulting in controlled transmission rates to date, several jurisdictions such as Barbados and Trinidad had several weeks of severe lockdowns that severely impacted our ability to sell new policies. Net income to SFC shareholders was still positive at $2 million but down considerably compared to $10 million in the prior year.

Sagicor Group Jamaica fared better, in part due to less severe operating restrictions compared to other Caribbean jurisdictions. Total revenue including premiums declined 8 percent in the quarter, as measured in US dollars.

Revenue was mainly impacted by a depreciation in the Jamaican dollar against the US dollar, as our Jamaican subsidiary's functional currency is the Jamaican dollar and must be translated into US dollars for our financial statements. It was also impacted by positive mark-to-market movements in capital markets and premium growth across the annuity and group health insurance business, offset by credit impairment losses.

Net income attributable to shareholders—and this is just our 49 percent ownership—was $9 million in the quarter, compared to $14 million in the prior year.

Sagicor USA had several things affecting its results. Total revenue including premiums increased 10 percent in the quarter compared to 2019. Revenues were positively impacted by higher net investment income resulting from the reversal of some of the unrealized mark-to-market losses in Q1. However, new premium generation was still below our internal targets for the quarter, as a difficult environment in Q2 affected sales, particularly in May and June.

During the quarter, Sagicor USA completed a reinsurance transaction with our wholly owned Bermuda reinsurer, which we have set up as part of our capital optimization strategy. This particular transaction involved the transfer of insurance risks associated with certain policies, and $195 million of financial instruments to support those products. The transaction resulted in a one-time strengthening of reserves of $13 million, resulting in a $10.6 million after-tax reduction in net income.

A meaningful portion of these reserves we will get back through net income over the life of the policies, as actuarial standards made us take a more conservative view of cash flows when we disaggregated these policies from Sagicor USA's balance sheet. What the transaction did was free up capital that we can use to support the further growth of the US and other initiatives going forward.

With that transaction in mind and incorporated, Sagicor USA generated a $3 million loss in the quarter. Pro forma for the effect of the reinsurance transaction, it would have generated approximately $8 million of net income compared to $6 million in the same period in 2019.

I'll speak now about our capital position. Our MCCSR remains robust at 264 percent. Our book value rose to $7.21 per share or about C$9.75 per share.

As announced in mid-June, Sagicor launched a normal course issuer bid to repurchase up to 3 million shares. As of June 30th, we had purchased for cancellation 963,000 shares at an aggregate price of US$3.9 million. We have continued to be active with the normal course issuer bid so far in Q3.

As we've disclosed in our MD&A, the outlook for the rest of the year remains uncertain. And while we are cautiously optimistic that some signs of business improvement in Q3 will persist, we are not yet at the point where we will issue guidance for the rest of 2020. We remain very well capitalized, with significant unallocated cash liquidity at the holding company level, available to fund growth initiatives going forward.

With that, I look forward to your questions, and I'll pass back to Samantha.

**Samantha Cheung**

Thank you, Andre. We are now ready to take your questions. We would kindly ask you to limit yourselves to two questions per person at a time. You are most welcome to re-queue for a follow-up.

Operator, please open the lines.

---

## Q&A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Meny Grauman at Scotiabank. Please go ahead.

**Meny Grauman** — Scotiabank

Hi. Good afternoon. First question, just wanted to dig a little bit deeper into that reinsurance transaction just get a better understanding of why you decided to enter into that transaction this past quarter, and what the earnings impact is on a go-forward basis.

**Dodridge Miller**

Andre, can you take that question, please?

**Andre Mousseau**

Sure. So, thank you for the question. The internal reinsurance strategy is something that we've been working on for a couple of years now, and it's part of our overall strategy to optimize the capital structure, to retain 100 percent of our business and not feed profits to reinsurers. So this is something that we would intend to avail other parts of the Group of as well.

With respect to the specific strategy on this block of business out of the US, effectively, as Dodridge mentioned, we were taking advantage of the ability to unlock redundant reserves. And that is that the Bermuda reserving requirements are much closer to the economic reserve assumptions that we used in our economic models that comes through in the IFRS financials, compared to US statutory reserving, which is more conservative and makes us hold more capital there.

So with respect to why we did it in Q2, we had to get regulatory approval, and this was the first major transaction that we were able to put through. And what it did, as we said in our remarks, is it unlocked some capital so that we can use the capital to fund further growth of the US operations or elsewhere in the capital structure.

And we were mindful that it creates a loss from an IFRS point of view. But as I said in the remarks, a meaningful portion to that comes back to us in that, it wasn't a cash loss today; in effect, we had to take a more conservative posture by disaggregating a little bit of the US balance sheet. None of that changes the underlying cash flows of the policies, and so you would see a recovery of some of that income loss over time.

**Meny Grauman**

Thank you. That makes it clearer. And just as a follow-up, wondering how much more opportunity you have to optimize the capital structure in this way. Can you scale it for us in terms of how big the opportunity is? You mentioned that this was sort of the first transaction that got regulatory approval. Any sort of sense of how much more excess capital you can free up using this same strategy?

**Andre Mousseau**

I think this would be the first of several. Within the US, we've identified other blocks of business that would be, order of magnitude, similar sizes to this.

If you actually go back historically, the US business seeded over two-thirds of this business' to outside reinsurers. But now that we retain 100 percent of our US business and have done so for a couple years, there's a fair amount of room to optimize the capital structure there.

And as I said, I think we would expect to have other pieces of the Group avail themselves of this strategy. There are a number of different advantages that we could be using our Bermuda affiliate that's a little bit different than with the US business, where there's a specific issue of US statutory reserves. But I think the principle remains the same, that we'd like to use Bermuda more to optimize our use of cash and of capital.

**Meny Grauman**

Thanks. And then another question from me is just on the same line. Just it'd be helpful to know how much excess capital you believe you have, taking into account sort of leverage considerations and cash at the top of the house. So how much, when you think of excess capital, what does that number look like from your perspective?

**Andre Mousseau**

Well, the excess capital is hard to get out of the raw financial statements, just given that we intermingle on the financial statements the cash that is down at the operating level. And then it's further complicated by a meaningful portion of the cash that we hold at the top company actually ends up in our financial statements in equity securities, because we have been investing a meaningful portion of that top-company cash. So nine figures worth of cash in short-term credit ETFs that act like cash and carry a dividend and have good liquidity but have to be classified as equity on our balance sheet.

So we have—in the transaction we did in December, we raised approximately $400 million of cash. The substantial majority of that remains, I would say, excess and undeployed at the top company.

**Meny Grauman**

Thanks for that.

**Operator**

Thank you. The next question comes from Doug Young at Desjardins Capital. Please go ahead.

**Doug Young** — Desjardins Capital

Hi. Good morning. Just maybe sticking with capital, just noticed the—maybe we can talk a bit about, just because the MCCSR is the way that you've disclosed your regulatory capital. And I just noticed there's quite a bit of sensitivity to the MCCSR, if we look Q4 versus Q1 and now 264 percent at Q2. Can you talk a little bit about what drives that sensitivity? Was that just spreads widening out? Equity markets? Interest rates? All of the above? Just it was a little bit more volatile than I would have anticipated.

**Dodridge Miller**

Anthony, do you want to respond to that?

**Anthony Chandler** — Group Chief Financial Controller, Sagicor Financial Company Ltd.

Yes. That change is largely driven by recovery of the mark-to-market, and so that affects direct capital. So we will have seen, as mentioned earlier in the call, a significant recovery of asset values, which would have driven the MCCSR.

And I just make the point that the MCCSR is the measure of the life companies within the group. And as we speak about capital, the capital risk has not largely—a lot of it has not largely been put into the life companies. So when you think about capital and the MCCSR, you also have to look at the additional capital being held in the whole group.

**Doug Young**

Yeah. And then just a follow-up. I mean, when you think of minimum—and I know this is probably a hard answer to kind of get at—but when you think of a minimum MCCSR across the life companies, what do you think? Is it 210 percent? Is it 200 percent? Is it 220 percent? Is there any kind of—just to get a sense of like what excess capital would be down in the opco and not up at the holdco?

**Dodridge Miller**

Go ahead, Anthony.

**Anthony Chandler**

Okay. We target around the 200 MCCSR percent as what we think would be reasonable for our companies, and we have maintained rather in excess of that over many years. So that's how we tend to look at it.

**Doug Young**

Fair enough. And then I just noticed in your debt, I mean, your debt to cap is lower than what we would think life co's target. And so, not that you need to take out debt, but you do have some higher-cost debt in there. Is that part of the strategy as well? Maybe a way to allocate capital is to take some of that out, Andre?

**Andre Mousseau**

I'd say it would be. I mean, the majority of the debt that we have at the top company comes from the vintage 2015 bond. And at the time, it was raised—if you think back that far—into a pretty choppy market, and Sagicor was not as well capitalized as it is today in terms of the equity injection that came in last year.

So we have a broad strategy to optimize our capital structure. I think if you thought that we couldn't grow, the obvious answer would be to pay that debt back, as you pointed out. It's fairly expensive. We're paying nearly $30 million of interest a year just on those notes.

But we believe that we have opportunities to deploy the capital in accretive ways. And so, as we grow our businesses organically and inorganically, I think we'd like to come out to a more normalized capital structure in terms of debt to capital. And along the way, as we've talked about before, I think we'd want to reset the cost of that debt as soon as the markets were accommodative of that.

**Doug Young**

Okay. And then just my second question on credit. You took $11.6 million provision in the quarter, and $8 million I think you mentioned was the result of an increase in expected credit losses. Is this mostly related to impairment? Is this more related to credit migration? Because I assume this is within your insurance subs, and I assume this is net of the release of your asset default provision, if I'm thinking about this correctly. But maybe you can correct me if I'm wrong. And I just have a few follow-ups just on credit.

**Andre Mousseau**

Okay. So you have to look at each segment differently for us. Within the US, on a net basis, because in Q2 we sold some bonds where we had had a provision on it, on a net basis in the US, the ECLs were effectively flat.

The largest portion of the increase this quarter to us was actually within our bank in Jamaica, and that was with respect to our loan portfolio, both in terms of commercial loans and in terms of consumer loans through credit cards. And then there was a little bit in SLI in the Southern Caribbean with respect to the insurance operations.

**Doug Young**

Okay. So this is more related to the commercial banking operations in Jamaica. And you do have—I'm right to think that within the insurance business and your actuarial reserves, you do have an asset default provision that you set up, and you would release that to offset credit. That's the similar way it works for yourself. Is that correct?

**Andre Mousseau**

Yeah. That's correct, to the extent that an asset-backed policyholder, liability is then from an actuarial point of view. It's not impaired; it does have that kind of reversal effect.

**Doug Young**

And then just lastly on credit. I notice you do your credit provisioning on IFRS-9. Is that across the entire organization? Or is that just more specific to the bank? I guess my question is, do you do this for the life business as well? Cause that is a bit different than we see with the other life's cos.

**Andre Mousseau**

Short answer is, yes, we do it across the organization, including the life companies. Anthony, do you want to talk about when that was implemented?

**Anthony Chandler**

Yes. That was implemented largely because Sagicor would not be 100 percent life company, and so when that standard was introduced, we would have, because we had substantial bank holdings, would have had to implement that standard. So that's the reason why this standard has been implemented across the Group.

**Doug Young**

Okay. And there wasn't—I didn't think there was—but there wasn't any material changes to your model inputs or scenario weightings for your IFRS-9. Is that correct? Like sequentially, quarter to quarter.

**Anthony Chandler**

Not material, but the impact of COVID—when we look at these models—and basically, we look at them every quarter—we did make some adjustments. And so hence, why you'll see some of the credit impairments as we took the economic environment into consideration.

**Doug Young**

Okay. Great. Thank you very much.

**Operator**

Thank you. The next question comes Darko Mihelic from RBC Capital Markets. Please go ahead.

**Darko Mihelic** — RBC Capital Markets

Hi. Thank you. Just a follow-up on credits since we were just on the topic. I'm looking at the allowance for credit losses, and a few things come to mind. But first, just for a little bit of clarification, I just want to make sure that, if the majority of the expected credit losses were from the Jamaican, are you showing the consolidated allowance for credit loss? And it would include the finance? I mean, I'm looking at finance loans in particular in your schedule there and there is quite a large Stage 3 allowance there.

And so I just want to make sure just from a technical point of view that when I look at these schedules, what I am looking at is the consolidated loans also from Jamaica.

**Anthony Chandler**

Yes. That would be correct. And so when we speak about the credit losses, that part of the portfolio would have driven some adjustments to the credit losses.

**Darko Mihelic**

Okay. But they look like they were Stage—well, a lot of them are anyway in Stage 3, so. But presumably, very large expected credit loss as well in Stage 2. But also as well, I see the debt securities and money market funds also have a relatively large Stage 3. Are those also from the Jamaican sub? Or are they from a different part of the organization?

**Anthony Chandler**

Those would largely be—as you might recognize, we invest in a lot of Caribbean sovereigns.

**Darko Mihelic**

Right.

**Anthony Chandler**

And a lot of these would be various sovereigns held across the Southern Caribbean and Jamaica.

**Darko Mihelic**

Okay. And so is the driver then—because we looked at Barbados, Trinidad, Tobago debt—and would one of the drivers be—I mean, I realize there hasn't been any action here. I think the last action was in March. But would a large driver be a downgrade in this debt? I'm just thinking about the future and the possibility that COVID-19 continues to impact these economies, and we end up getting even more—

and we might even get a significant increase in credit risk and actually have stuff move. At what stage, I guess, would it move to Stage 3 for some of those debt securities?

**Dodridge Miller**

So, Anthony, let me just talk a little bit about it.

**Anthony Chandler**

Sure.

**Dodridge Miller**

Let me just talk a little bit about what's happening to the economy. This is Dodridge, Darko. What's happening to the economies in the Caribbean.

There have been two things happening. One, the stream from the Caribbean economy is largely around foreign reserves. And because the economies were closed and the tourism sector was not performing, we found that imports were also down. So foreign reserves actually stayed quite buoyant across the region.

In addition to that, the IMF provided to most of the economies in the Caribbean COVID-relief facilities to help them to keep the economy alive. And that has kept them pretty stable, even though, on an overall macroeconomic environment, you've seen some weakness in them.

So we do not expect, as the economies are now coming out of COVID-19 and reopening, and we're seeing some tourism activity coming in—flights are coming in from Europe and from Canada—we believe that while there will be some strain, the impact on government debt will not be strong. And so, therefore, we don't expect any material movements in their rating.

**Darko Mihelic**

Okay. Thank you, that's helpful. And switching gears now. Just thinking about the US business, you mentioned that sales were difficult there, particularly in May and June. Has there been any improvement in July?

**Dodridge Miller**

Andre, you want to take that one?

**Andre Mousseau**

Yup. Yeah. There has. I think that what we've seen, and it's particularly within a subset of the product mix that things are getting better, getting closer to normal. I think some of the leading indicators of sales are improving in terms of the MYGA product, the multiyear guaranteed annuity, as well as—and this is something that we've seen from a lot of the peers—a stronger interest in term life policies as well.

So as we said in the comments, I think we're cautiously optimistic that production is getting back to normal and that would apply to the US business.

**Darko Mihelic**

Okay. And so, maybe just for context to help me out to better understand. I mean, it's not quite at normal. It doesn't sound like it's quite back up to levels that you would have seen last year in July. So the question is, I mean, is there a way for you to phrase new business gains that you have in this business and compare. So just so I can better understand, for example, in the second quarter, new business gains from the US would have been X compared to Y of last year. Do you have that kind of metric? Or is that how you follow it?

**Andre Mousseau**

Well, internally, the way we follow it is through budgeted and actual new annualized premium. One of the things that we're working on is to have a source of earnings analysis that we can release with our quarters that can point exactly to the effect of that on the income statement. And so that's something that we're working on and that'll be in subsequent quarters, we'll have that ready.

**Darko Mihelic**

Okay. Fair enough. And then just a last question with respect to, getting back to capital for a moment. The internal reinsurance transaction that you engaged in, presumably this is helping out the RBC ratio in the US, and you mentioned that this is just the start of potentially others. So, so I understand this a little bit better, I mean, going forward, is the intention or the intent of you guys to sort of show the capital at that business unit and a segmented sort of ROE? And if that's the case, in a more normal quarter, ex the actual transaction, the anticipated sort of ROE improvement of the US would be interesting. Is that the intent? And can you give us some sort of idea as to just—I don't know if you want to talk about RBC capital ratio in the US, or just some sort of measure of benefit for the US operations I think would be helpful.

**Andre Mousseau**

Right. So we run our US business as a 300 percent RBC, and effectively, by moving a certain amount of that business to Bermuda and getting a ceding from the Bermuda entity, we have topped up the RBC at our US business to in excess of 300 percent. And so that's where the excess—the capital, in effect, gets released.

So in terms of being able to calculate the return on equity or the return on the capital employed for the US business, that's what we're trying to do through the disclosure to say, okay, the US business had a loss of approximately $3 million on the IFRS statement. But absent that transaction, the net income for the quarter would have been about $8 million. And you can take a look at the capital employed through that and annualize the ROE.

**Darko Mihelic**

And is the intention to stream up capital from the US subsidiary to the holdco? Or is that not the intention?

**Andre Mousseau**

It's not the immediate intention. I think what increasing the RBC there allows us to continue to grow the business without injecting more capital into the US. So if in the quarters where we have strong new business production, there's statutory earnings strain, and we have been funding the US through injecting capital through surplus notes. And so by unlocking the excess capital, we have extra cash on the US balance sheet from a statutory point of view and don't have to put more in.

**Operator**

Thank you. Your next question is a follow-up from Meny Grauman at Scotiabank. Please go ahead.

**Meny Grauman**

Hi. Yeah. Just following up in terms of growth opportunities in the US that you are talking about, is M&A a critical part of the plans for the US? Or is it, the way you're conceiving it, a purely organic growth strategy? And sort of, if you could give us a little bit more in terms of the priorities for growth there and so the game plan for growth.

**Dodridge Miller**

This is Dodridge. We look at both. We are currently following a path of organic growth, and we, well, since 2018, we have retained all the business that we have been writing, rather reinsuring that business away to reinsurers. But we also consider M&A is a part of our strategy for the US that will help us to grow faster and actually improve our scale and returns.

**Meny Grauman**

And in terms of M&A, what particular business lines—or do you think about it more in terms of expanding into other regions? You're in most states, but if you could just give a little more detail in terms of where the priorities are for growth.

**Dodridge Miller**

If I had to say priority in terms of M&A, we're more skewed towards traditional life than annuities. We actually write a lot of annuity business, but we are overweighted, in our view, in terms of annuities against life. And we like a balanced portfolio with a bit more traditional life. And so if we're looking in the M&A space, it would be in the life space.

**Meny Grauman**

Thank you.

**Operator**

Thank you. There are no further questions. I will now turn the call back over to Samantha Cheung for closing comments.

**Samantha Cheung**

Yes. Thanks, everyone, for joining our call today. Following the call, a telephone replay will be available for one month and the webcast will be archived on our website. As well, a transcript will soon be available.

With that, thanks for your participation today and have a good day. Thank you very much.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.