

THIRD QUARTER EARNINGS RESULTS

Moderator: Jacques Carrière
November 1, 2006
1:30 p.m. ET

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Industrial Alliance Third Quarter Earnings Results conference call.

During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question and answer session. At that time, if you have a question, please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator, please press the star followed by the 0.

As a reminder, this conference is being recorded, Wednesday, November 1, 2006.

It is now my pleasure to turn the conference over to Mr. Jacques Carrière Vice-President, Investor Relations.

Please go ahead, sir.

Jacques Carrière: Thank you and good afternoon.

I would like to welcome you all to today's conference call to present Industrial Alliance's results for the third quarter of 2006.

The slides for today's call and other documentation have been posted in the Investor Relations section of our Web site at www.inalco.com.

In line with the principle of fair disclosure, access to this conference call is open to the financial community, including individual investors, the general public, and the media.

In addition to the phone access, this conference call is audio Webcast live by CNW. To get the details on how to access the Webcast, please go to our Web site.

The question period will be open only to financial analysts and investors.

A recording of this conference call will be available for one week starting this afternoon at 4 o'clock, the archived Webcast will be available for 90 days and the teleconference transcript will be available on our Web site early next week.

Before we begin, I would like to draw everyone's attention to the forward-looking statements at the end of the slide package.

Now, would like to turn the floor over to Yvon Charest our President and Chief Executive Officer.

Yvon Charest: Good afternoon, everyone.

I'd like to welcome you all to this conference call. We are speaking to you today from Montreal where we just finished our board meeting.

As usual, Normand Pépin, our Executive VP and myself will present the results. Other participants in the conference call will be available to answer questions. They are Gerry Bouwers, the President of the Industrial Alliance *Pacific*; Yvon Côté, the Head of Investments; and Denis Ricard, our Chief Actuary.

Well, I think we can describe the third quarter results the following way: excellent bottom line, strong top line, and improved margins.

Excellent bottom line, in spite of the drop in interest rates and the rather uneven equity markets in Canada. The ROE exceeds 15% which is above our target range. Earnings are up 21% on a comparable basis and the EPS stands at 69 cents when we exclude the restructuring charges for National Life.

Good top line with double-digit growth of premiums and deposits and Individual Insurance sales up 5% in spite of the price revision.

And improved margins mainly in the retail sector, thanks to the re-pricing of our Individual Insurance products, some shift in the product mix, and the quick and successful integration of Clarington.

From an accounting standpoint, we ended the quarter with net income to shareholders of \$56.1 million. Once we deduct the dividends paid to preferred shareholders, EPS to common shareholders stands at 68 cents, and the ROE is at 15.4% for the quarter annualized, higher than our 13% to 15% target range.

We indeed recorded a significant increase in our GAAP earnings compared to last year since, as you may remember, we ended the third quarter of 2005 with a net loss of \$1.4 million, resulting primarily from the \$52.1 million provision that we took for Norshield.

By excluding the non-recurring items from this year's and last year's results, we ended the third quarter with net income to shareholders of \$56.9 million, a 21% increase over the same period last year, and EPS of 69 cents.

As you can see on Slide 6, all lines contributed to the earnings for the quarter on an adjusted basis and all lines experienced 15% plus growth over the same quarter last year, with the exception of Group Pensions, where earnings were stable.

The main profitability drivers for the quarter are the following:

First, the measures that we implemented earlier this year to manage strain in the Individual Insurance line are bearing fruit. The strain as a percentage of sales decreased from 73% in the first quarter to 69% in the second quarter and 64% in the third quarter.

We are expecting the strain to continue to decrease over the mid-term to around 50% to 55%.

As we said, the operating profit for the Individual Insurance line of business should grow in the low double-digit range once the strain is under control.

The decreased strain during the quarter improved the net income for the quarter by about \$1.3 million.

The company also recorded experience gains of \$3.4 million during the third quarter or \$2.4 million after taxes. The gains primarily come from the Individual Wealth Management sector, owing to a higher than expected asset base, and the Group Insurance sector through favourable claims experience especially for the health insurance benefits.

The third profitability driver was, as you already know, the reduction in the federal tax rates. This reduction improved the net earnings for the quarter by about \$2.5 million.

The effective tax rate for the third quarter is 28.8%, which is in line with our guidance of 29%. On a recurring basis, we are expecting the federal tax rate reduction to improve the earnings by some \$2.5 million per quarter or three cents per share.

On Slide 12, you see that we also incurred \$0.8 million after tax in restructuring charges for the integration of National Life. We have now incurred the entire \$12.5 million after taxes in charges that we were initially expecting when we announced the integration of National Life in December 2004.

We are expecting a slight cost overrun of some \$0.5 million after taxes, which is less than one cent per share. This cost will be accounted for in the fourth quarter.

Since most of the integration work will be completed at the end of this year, no restructuring charges will be recognized in the financial statements after 2006.

With respect to the dividend, we are not announcing a dividend increase this quarter, but we are announcing a new payout guidance. Indeed, this morning, the Board agreed to gradually increase the payout ratio to 28% over the next 18 months. This would bring the payout to close to the top end of our policy which provides for the payment of a dividend between 20% and 30% of the Company's sustainable earnings.

The dividend currently stands at 16 cents per common share. This translates into a payout of 23.2% of the adjusted net income for the quarter. You may remember that we announced a two-cent increase in the dividend last quarter.

The value of new business was stable at \$19.4 million or 24 cents per share in Q3 as compared to Q3 of last year. The increase in sales and improved margins resulting from the price adjustments added \$4 million to the value of new business during the quarter, but the revision of economic assumptions at the end of 2005 reduced it by an equivalent value.

Nevertheless, on a cumulative basis, the added value of sales is 15% higher than 2005, to reach a peak of \$70.5 million.

We don't have much to report with respect to the solvency ratio, which is up three percentage points during the quarter, to 202%, slightly above our 175% to 200% target range.

The increase in the solvency ratio pushed the excess capital to \$104 million as at September 30.

Please don't expect the excess capital to be much higher when we report our Q4 results.

If, on the one hand, the excess capital usually increases each quarter by an amount equivalent to about 1/3 of the net earnings, on the other hand, the new accounting standards will reduce the excess capital by about \$30 million to \$55 million as of January 1, 2007, according to our most recent estimates.

There was very little change during the quarter to the quality of our investment portfolio, which remains excellent.

All in all, a strong quarter. The ROE exceeds our guidance. The measures implemented to manage strain are working well, and the recent price changes have not disrupted sales in the Individual Insurance line.

This concludes my presentation. I would now like to turn the floor over to Normand Pépin, who will present you with our business growth results.

Normand Pépin: Thank you, Yvon. Good afternoon ladies and gentlemen.

I think we can say that there are visible signs that we are achieving two of our key objectives -- improved sales and improved margins.

The improved sales are mainly in the insurance line and improved margins are mainly in the retail lines.

The improved margins are the result of the recent price revision of our Individual Insurance product, some shift in the product mix, and the quick and successful integration of Clarington.

Premiums and deposits continued to grow in the third quarter, following a very strong first half, thanks to the sustained contribution of our recently acquired mutual fund operations and good sales momentum in most lines of business.

Premiums and deposits almost reached the \$1 billion mark in the third quarter, an increase of 14% compared to the third quarter of last year.

Growth would have been even better if it had not been for the slowdown in the stock market in the second quarter, which kept our seg and mutual fund clients on their toes in the third quarter.

We are nevertheless on course for a very strong year, one of our best ever, in fact, with solid double-digit growth of premiums and deposits.

We are indeed very pleased with our sales results in the Individual Insurance line of business. Sales grew for a third consecutive quarter reaching \$37.2 million, up 5% compared to the third quarter of last year. This result

was achieved in spite of our recent price changes and a very competitive environment.

Sales were particularly strong in Ontario and Quebec. Our Career network has had an outstanding quarter with an 18% increase.

However, sales were down in Western Canada and in the National Accounts Network. This network was probably more impacted by the recent price changes to our products, mainly the level cost of insurance in Universal Life where sales dropped by 7% in the third quarter.

This drop was offset, however, by our YRT product, where sales jumped 20% during the quarter and by our whole life product.

As you know, YRT is much less strain-intensive than level cost of insurance and we are quite pleased with the new product mix.

With \$113 million in sales year-to-date, the rate of growth is in the double digit range at 10%. You may remember that after six months, sales for the whole industry were up 5%.

Sales continue to grow in the Individual Wealth Management sector and reached \$453 million, up 43% compared to the third quarter last year. Most of this increase came from the acquisition of Clarington.

Sales were strong this quarter for guaranteed interest funds. This offset to some extent the slowdown in seg fund sales. The shift toward guaranteed products is explained by the dip in the stock market in the second quarter. The stock market decline also had an impact on mutual fund sales. Nevertheless, 2006 is shaping up to be an excellent year for this line of business.

Sales for the first nine months reached a record level of \$1.9 billion, 71% higher than the same period last year.

The Company continues to stand out in terms of net seg and mutual fund sales, which are positive at \$115.6 million in the third quarter and almost \$700 million year-to-date.

We certainly rank among the top 10 investment fund organizations in Canada in terms of net sales and we remain a leader in Canada in terms of net seg funds sales, where we ranked second after nine months, one rank higher than 2005.

Once again, results were strong on the Group business side. The Employee Plans sector had another excellent quarter. After recording a 23% increase in

sales in the first half of the year, sales more than doubled in the third quarter to reach \$21.3 million. The sales growth comes from almost all regions which is in keeping with the Company's objective to expand across the country.

The Creditor Insurance sector continues to surprise us. With a market share of over 40% among car dealers and despite the fact that car sales were up by only 2.3% in Q3, our sales were up 8% in the third quarter following a 14% increase in the first half.

The recent success of this line of business is due to an enhanced product line and the expansion of the client base beyond automotive and into recreational and other vehicles.

After two slow quarters, sales pick up in the Special Markets Group totalling \$22.3 million for the third quarter, up 7%. With this quarter's sales, our year-to-date sales are up 2% over last year for the same period.

This increase comes in spite of the cancellation earlier this year of a block of business that did not meet the Company's profitability criteria.

As you know, quarterly results in the Group Pensions sector can be very volatile as a few large contracts can make a huge difference.

The third quarter is a good example of this situation since, after two excellent quarters, sales for the third quarter were down 33% compared to the same period last year.

We did not receive our share of large groups during this quarter. We continue to be very disciplined, focusing on profitability rather than business growth.

In spite of this decrease, year-to-date sales are up a significant 43% compared to the same period last year.

Assets under management grew by almost \$700 million in the third quarter, to reach \$27.7 billion as at September 30, a 3% increase from the end of the previous quarter.

This increase can be explained by positive fund entries in all sectors and the stock market upturn at the end of the quarter.

Assets under administration jumped 31% in the last quarter, to reach \$16.6 billion as at September 30, thanks to the acquisition of the mutual fund broker dealer FundTrade Financial Corporation, which added \$3.8 billion in assets under administration.

In total, the Company manages and administers over \$44 billion in assets.

To give you an update on Clarington, I think it would be fair to say that the integration risk is behind us, as all the major cost integration initiatives have been completed.

The Clarington acquisition is still tracking in line with the financial plan. We are on target to meet our two-cent accretion guidance in 2006 and we are confident that we will be able to achieve our six-cent accretion guidance for next year.

Our mutual fund broker dealers and IA Securities have continued to take advantage of opportunities and consolidation in the industry, mainly in mutual fund distribution.

FundEX is in the process of merging with FundTrade. This acquisition closed successfully in the third quarter and the integration should be completed in December.

In conclusion, this was a good quarter, sales and margins improved in our key lines. This is the result of the dedication of our distribution partners and the strong ties that we have built with them.

This concludes our presentation. We are now ready for the question period and I will ask the operator to explain to the audience how they can direct their questions.

Operator: Sure. Thank you.

Ladies and gentlemen, if you would like to register a question, please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your registration, please press the 1 followed by the 3.

If you're using a speakerphone, please lift your handset before entering your request.

One moment please for the first question.

Our first question comes from the line if James Keating from RBC Capital Markets.

Please proceed with your question.

James Keating: Good afternoon to all and nice quarter.

I have two slides I was hoping I could refer to, one is Slide 15 and I want to thank you for your guidance on the capital hit upcoming from the accounting changes.

I'm wondering if you could just guide us through some of your assumptions in coming to the \$30 million to \$50 million reduction in excess capital.

A follow-up question and it goes to Slide 20 for Normand and relates to the excellent result from the Career network – looking at the growth rate looks quite strong. I'm hoping you might give us insight, maybe remind me if there's an acquisition in there or anything but just an insight in the product mix and perhaps if you could comment on the influence of CI which looks like it was quite strong in this quarter.

Thanks.

Denis Ricard: Regarding the excess capital, we gave some guidance at the Investor Day in terms of the impact for MCCSR and what we're doing here is that we upgraded the number in terms of excess capital.

As you may remember, what we mentioned at that time was that because the market value of the assets will go up significantly, it will therefore increase the capital requirements and the consequence, being that the excess capital will then go down. So that's the consequence of the fact that we have a large market value excess over book value at this point.

James Keating: Got it. Thanks. Okay.

Normand Pépin: James, are you talking about the Career network? They had a very strong quarter. We are managing the Career network with a lot of discipline. We recruit quite a few new people and recruiting is good. This is probably the result of the strong sales increase. A couple of years ago we set up an advanced marketing team that helps our Career agents to sell into high end markets.

They have relationships but sometimes they help to close the sales. I think that is starting to have an impact and that's probably what explains the very large sales increase this quarter.

James Keating: And can you just maybe on the sales mix basis on the following page, you discuss sales mix, does the Career sales force reflect most of those dynamics that is down on UL COI on participating it on.

Normand Pépin: I would say yes. When I compare the sales mix across the network, except the National Accounts. The MGA and Career networks are pretty similar.

James Keating: Terrific. That's great. Thanks, Normand.

Normand Pépin: Thank you.

Operator: Our next question comes from the line of Mario Mendonca from Genuity Capital Markets. Please proceed with your question.

Mario Mendonca: Good afternoon, everyone.

I wanted to start by looking at the sources of earnings experience gains and losses in individual life insurance.

Year-to-date, not as impressive as it has been in the past at \$1.1 million down from \$1.7 million last year. If you look back a few years, it was materially higher than that.

In discussing the issue, you talked about mortality being unfavourable, offset somewhat by lower unit costs. A couple of questions, what's happening here? It seems to me that the Company had released mortality reserves in the past, I just think and interest rate risk reserves. Is this the result of having released mortality reserves in the past?

And perhaps the secondary question related is, why are we not hearing anything about interest rate risk or rather interest rates, the experience losses associated with the low interest rate environment.

That's my first question.

Yvon Charest: For the first question, the mortality - the gains and losses, at the beginning of the year, we tried to figure out what could be the expected profit in each line of business and there was a significant increase in the expected profit in 2006 versus 2005.

What happened in Q3 is just that, yes mortality has been unfavourable during the quarter and at the end of the day we were right on in terms of the expected profit.

There is not much that I could add. It has does nothing to do with the mortality improvement or change in assumption.

Mario Mendonca: What I'm suggesting is that in Q4 2005, the company strengthened interest rate risk reserves, released mortality reserves but I see your second point here, if you're also increasing your expected profit at least over the last and the best estimate, I understand that as well.

So it doesn't have anything that you would have released mortality reserves last year to strengthen interest rate risk reserves.

Denis Ricard: I just hope I understand the question.

Last yearend when we look at all assumptions, we definitely decreased the interest rate assumption and at the same time, we had experienced a mortality improvement.

So they did, to some extent, offset each other so I don't know if this is what you're searching or...

Mario Mendonca: Maybe the more appropriate question is if you look out to 2007, if you're looking at '06, when experience gains starts to dwindle a little bit in a particular year, it tells me the expected profit in the following year might not be quite strong. Is that a reasonable concept?

Denis Ricard: What I would tend to say is that the guidance we gave so far regarding individual insurance was not trying to look at line by line and trying to guess what would be the increase from one year to the other at this point but rather what we mention is that we were expecting the overall operating profit and what I'm saying here is that expected profit, experienced gain, and strain being on the low double-digit growth. So I would stick with that guidance at this point.

Yvon Charest: If I may, I would add something here.

We said that Q3 hasn't that been that good for mortality. In fact, we are expecting that there would be an improvement there.

In terms of the growth in the expected profit, I think one of the things that you should look at is the total premium income on Slide 20 because over the long-term, the expected profitability should have some correlation with the growth of the operation and I'm pleased to see that the premium income for the individual insurance line of business grew by 13% in Q3 and 10% year-to-date.

Mario Mendonca: And then on the next to the other question.

Denis Ricard: When you look at the long term interest rates compared to last yearend, they move a bit up and down compared to last year's rates.

But overall, it's pretty much in line with what we had last yearend. So that is why you haven't seen any big gain or loss regarding the interest rate because it's been according to what was there last year and then that's being reflected in the reserve.

Mario Mendonca: Okay. That makes sense to me.

A final question on the increase in income on capital this quarter, tiered induced income on surplus period in two segments, individual life and group.

Was there anything special that happened this quarter that would cause income on surplus to increase so substantially?

Denis Ricard: When we look at the trend of the income on capital, it's been flat Q2 and then increasing rather significantly compared to Q2.

What I would say to this is that first of all, there are a couple of components that we need to discuss. First one would be a recovery on the provision for mortgages that you would see on Page 8 of the information package. You would see that there is a decrease of \$2.2 million of provision for losses so it's consistent.

So there is a profit that occurred there for recovery of provision...

Mario Mendonca: That's this quarter, right?

Denis Ricard: Yeah, that's for the quarter and the...

Mario Mendonca: How much did that add to after tax earnings?

Denis Ricard: Well, it's \$2.2, after tax, \$1.5 I would say.

Mario Mendonca: Yeah.

Denis Ricard: So that's been positive. On the other side however, the P&C, the general insurance business for the quarter, we experienced a loss that pretty much offset the gain that we had on the recovery of that mortgage so those two items were pretty much of a wash.

What I would say to you regarding the trend would be more like to look at Q2. There are a couple of factors that made them favourable and as you may remember, the stock market was not very favourable in the second quarter so

we have some money invested in capital that for example, seed money and some stocks that had experienced negative return for that quarter compared to the third quarter.

So I would rather see the second quarter as being quote unusual.

Denis Ricard: And also that Q3 would be more closer to what we would expect.

Mario Mendonca: Q3.

Denis Ricard: I'm sorry. Q3.

Mario Mendonca: Yeah.

Now, just one final point of clarification. Yvon, you said moving to a payout ratio of 28% in how many months did you say?

Yvon Charest: Oh, the dividend payout ratio, we are talking about increasing it to 28% over 18 months.

Mario Mendonca: And the way we would calculate this would be annualized for a given quarter.

Yvon Charest: In fact that the way we calculate it is that we take the dividend as a percentage of the adjusted net income for the quarter.

Mario Mendonca: For the quarter. Got it. Thank you.

Operator: Our next question comes from the line of Doug Young from TD Newcrest. Please proceed with your question.

Doug Young: Hi. Thank you and good afternoon.

First question. I want to look at the experience gains on the wealth management side and I guess my first question is, we had relatively flat markets in the quarter and I believe AUM increase was not significant, yet you continue to push through experience gains and I believe that the explanation was around the Clarington integration, but I just want to clarify that and if it is a result of the Clarington integration, my question is why are we not seeing the EPS accretion expectation increase?

Denis Ricard: The Clarington acquisition had a significant impact on the expected profit and probably you can see from Q1 on. When you look at accretion, you have to be careful because we can see from the expected profit on in-force, the large increase in profit there. But on the other hand, we paid the price with the money that was in capital.

So on one hand, you have a big increase in expected profit on in-force from wealth management due to Clarington. On the other hand, the income on capital as you may see starting Q1 2006 has decreased. That's due to Clarington.

Yvon Charest: Denis, is it fair to say that when we projected expected profit from the in-force, we had to put an assumption on things, the growth rate in the market and right now, we are still ahead for the nine months versus what was the expectation at the beginning of the year.

Denis Ricard: Agree.

Yvon Charest: I would say the answer is more there. So far, the market is better than what we expected when we calculated the expected profit from the in-force and that's the main source of the gain.

Doug Young: And so the experience gain is coming from the growth rate being better than you would expect and had built previously to your expected profit and, Yvon, when I look at that and then I bring it down to your two-cent accretion expectation which hasn't moved, I mean is there a relationship there and why hasn't, your expected accretion increased.

Yvon Charest: Well, when we did the integration of Clarington, there were so many key components that we had to tackle in March, in April. We had to move people to a new location, we had to change a sub-advisor, we had to move the fund accounting to Quebec City. All of those amounts were more critical than the margin. If the market will increase by 1 percentage higher or lower. So this is why we haven't changed the two-cent accretion.

The two-cent accretion came from a lot of initiatives on the cost side. So that's why the main items were there and so what we are telling you is that we have a solid two cents perhaps not enough to move it to another guidance.

Doug Young: Have you disclosed what the growth you had expected or built into your expected process from Clarington was?

Normand Pépin: When we bought Clarington we worked on a long term assumption that the market will grow by 8% before MER, so I would say by an average assumption of about 5.5% after MER. Does that answer your question?

Doug Young: Yes. Thank you very much.

And then second, in terms of your value of new business, I'm just hoping you might be able to tell me how much of the value in the business came from the Clarington acquisition. What is its significant number?

Yvon Charest: We told you in the last quarters that we have decided not to slice that amount into too many components. We are just hoping that our peers will disclose more on the embedded value of new business. So we decided to disclose it on a company basis.

Doug Young: I guess another way to ask it, should I be concerned that the value of new business did not increase significantly and I understand that there's the improved margins and the change of economic assumptions but also last year, the number didn't include Clarington and so looking year-over-year, the fact that it's flat, is that concerning or not Yvon?

Yvon Charest: Well, it's not concerning in the sense that we have done so much work on Clarington and without the acquisition of Clarington, we would have just spent our time on something else and would have grown our business.

So what is important I guess is the way we have used the excess capital by buying Clarington and the fact that we have strong organic growth since then. So I'm pleased to see that we have been able to adjust the price of all our products and I'm sure at the end of the day, it will just improve the visibility of future earnings.

Operator: Our next question comes from the line of Michael Goldberg from Desjardins Securities. Please proceed with your question.

Michael Goldberg: A couple of questions, when you talk about the movement in the VNB and you mentioned the economic assumption affecting VNB, what do you mean by changes in economic assumptions? What changes did you actually make?

Denis Ricard: Well, they are twofold. One would be that we decreased the expected return on reinvestments in the future and at the same time, obviously, the hurdle rate was decreased as compared to last year obviously and when we disclosed the result at the beginning of this year or in May I think, we disclosed the fact that we decreased the hurdle rates. So I guess it would be the net of the two.

Michael Goldberg: How much did you actually reduce the expected reinvestment rate?

Denis Ricard: We have not disclosed that information. It's part of, I guess all the various information or assumptions I guess that are in the calculation.

Michael Goldberg: Can I think of it in terms of the movement in benchmark rates, I guess up about 70% in the first half and then falling back by the equivalent amount in the third quarter?

Yvon Charest: Mike, I'm sorry, but we don't understand your question.

Michael Goldberg: You know, just looking at the benchmark interest rate used by the Canadian Institute of Actuaries, it looks like in the first half it was up 50 to 70 basis points and then it declined by an equivalent amount in the third quarter. Is that, just in terms of order of magnitude in line with the movement in reinvestment rate?

Yvon Charest: Well, to determine the rate, I think you're right. But on the other hand, when we look at the embedded value or expected return in the future in terms of reinvestment rate, it would be more closely linked to the pricing rate.

At the end of the day, they're all linked together, but there could be some noises there.

Michael Goldberg: Okay.

And also, in the first half, individual life sales were up probably about 12%. I'd like to get some idea of sensitivity of earnings in VNB to get the slow down in individual life sales. So what would the earnings impact have been assuming similar sales mix that you had if sales in the third quarter had been up the same 12% as the sales in the first half and what would the impact have been on VNB?

Yvon Charest: I'm afraid that we will not be able to answer that question right away. We'd try to see what we can do in the follow up because, not only have we adjusted the price of many products. In doing so, there have been changes to the product mix. So it's not just a question of increasing sales by 5% or 10%. It's also the impact of the new product mix.

So it's really tough to just see what would have been the embedded value of new business had we not increased the price of the product because there have been too many changes there. You understand the changes to the mix and changes to the growth of new business.

So we'll think about how we could give you some guidance or some indication, but I think it's going to be real tough.

Michael Goldberg: Okay. This is why I was saying assuming that you have a similar sales mix as you actually had, but just generally speaking, in terms of a big picture, can I assume that if your sales growth had been higher, your VNB would have

been higher, but at the same time, your string would have been higher so that your earnings might actually have been lower.

Yvon Charest: You're right, Michael.

Michael Goldberg: Thank you.

Operator: Our next question comes from the line of Tom Mackinnon from Scotia Capital. Please proceed with your question.

Tom Mackinnon: Yeah. Thank you very much. Good afternoon. I've got two questions.

The first is on the seg fund sales, gross sales were down 12% in the quarter and the net sales were down significantly in seg funds. Do you think this is an industry issue is this any specific issue with respect to Industrial Alliance and what can we look forward in terms of seg fund sales going forward and I've got a follow up.

Normand Pépin: Tom, this is Normand.

This is pretty clear that this is an industry issue in the sense that if you look at the mutual fund industry in the third quarter, the net sales were much lower than they were in other quarters of the year. I think there was a slow down in the mutual fund industry - in the seg fund industry and that's why our gross sales and then therefore, our net sales are down but there is nothing particular to IA because we still have very strong seg fund performance so it's just a reflection of the whole industry.

Tom MacKinnon: Okay. Question on the...

Yvon Charest: Tom, this is so clear that yes, our percentage of net sales after nine months year-to-date is slightly better than after six months and we still rank second in Canada on that front obviously.

Tom MacKinnon: You've had a couple of price increases through in 2006 and the strain has come in. How is that going to be brought down from 64% to, I don't know, 50 to 55 is your goal without further price increases.

Normand Pépin: We have made a few price revisions. There were some increases in some sales and there was also some decreases in some other sales.

So what were we trying to do? We're trying in fact to change the product mix and we can see that in the third quarter there was a change in the product mix which was a reflection of what we've done before and we're going to continue to do that. We are promoting sales concepts where there's less strain and

where we think there's more profit and also, there are some other product initiatives that are on the shelves. So there's many measures that will slowly drive us towards that goal.

And if you look at that, the strain is trending down and I'm certain at this point that in the fourth quarter, the strain will continue to trend down. But I still have to see.

Tom MacKinnon: And finally, what percentage of your stock portfolio is in income trusts? You've got about \$1.3 billion in stocks. Should we be concerned here with the fallout in them today.

Yvon Charest: Well, Tom, I'm pleased now to have asked Yvon Côté to come to these conference calls because the quality of our investments has been such that we hardly have questions. So today, it's his turn I guess.

Yvon Côté: We don't have all of the numbers yet, but preliminary numbers show that we are a bit underweight compared to the Canadian equity market.

If you look at the Canadian equity market, as of yesterday night, there was 11% of the market in income trusts and we were below that in terms of weighting. But unfortunately, I don't have the exact number.

Tom MacKinnon: It's not half of it, not half the weighting ...

Yvon Côté: No, no, no. It's not half of it. And you were talking about the \$1.3 billion. Are you talking about the general fund or the seg funds?

Tom MacKinnon: That 1.3, is that in the general fund? That's kind of thing I'd wanted to know really more importantly than in the seg but I guess the seg were only just beyond any decline in MERs, but I guess it's the...

Yvon Côté: Yeah, I was talking about the seg funds. I was not talking really about the general fund.

Tom MacKinnon: Okay. Then tell me what's going on in the general fund?

Yvon Côté: Well, we don't have really income trust investments in the stock portfolio. We do have a lot of indices and other funds that match the market in this account of UL.

Yvon Charest: I'm really pleased that you asked that question because I'd like to use the opportunity to clear up here about our exposure in the general fund income and stock.

If you go on Page 10 of our rolling nine quarters, you see that the market value of our stock portfolio is almost \$1.4 billion. But when you look at the distribution of funds by category, I'd like you to know that the vast majority of the stocks, the market indices and the investment fund units, 82% of our stocks will not be impacting the net income of the Company because those are passed through investment on UL policies for our customers.

So some people believe that we are more exposed to stocks in our general assets than our peers. But you have to know that just because we are still the leader in Canada in terms of the UL, we have a lot of the investment in UL and those are passed through to our customers. And then you have a component, 12% which is in prefs, so at the end of the day, our real exposure in terms of the Company's net income is only 5.5% of that \$1.4 billion.

You got me?

Tom MacKinnon: Yeah, I followed but I mean, there's still some impact even on the pass through, right? I mean, if those values are slow significantly.

Operator: Our next question comes from the line of Timothy Lazaris from GMP Securities. Please proceed with your question.

Timothy Lazaris: Thanks. I got two questions.

One, Normand, I think I heard you say this and forgive me if I don't get the exact wording, but you said a very competitive environment. I believe you were referring to UL. So I'd like to know whether you can expand on that and tell us what in particular is competitive. Is it bigger sales push by certain companies? Is it pricing competition? Is it both, etc?

And then, as a secondary question on that, you did increased prices twice I understand this year and I'm wondering if pricing increases are done. Do you feel comfortable with them or should we anticipate any other price increases or modifications in anyway in the next little while?

Normand Pépin: Considering the environment, yes, it is pricing. There's a lot of competition on the price. There were companies that were not there a couple of years ago and in the UL market, there's a lot there. They're heavily there and they're competing there. That's what I mean by competitive environment.

As far as price increases or price changes are concerned, we're not planning to increase our prices in the near future. We're done with it. But there are some products that are on the drawing board and I don't know if they'll come to the market. But like I said, we have a lot of product initiatives that could help us stay competitive in this environment and help us also alleviate the strain.

Timothy Lazaris: Thank you very much.

Operator: Ladies and gentlemen, as a final reminder, to register a question, please press the 1 followed by the 4 on your telephone.

Our next question is a follow up question from the line of James Keating from RBC Capital Markets.

Please proceed with your question.

James Keating: Thank you.

And I guess it should be quick. Page 4 of the sub pack zeroing on group insurance, your expected profit from in-force. I'm hoping I might get a reminder as to why it's been trending off on a year-on-year basis from the prior year versus all the other divisions which have been doing well. Can you just remind me what's happening in the group insurance on expected profit?

Yvon Charest: We mentioned it for the first time in May. We said that we have three business segments there. We have Employee Plans, we have the Creditor business at IAP managed by Gerry Bouwers, and we have the Special Markets Group also managed by IAP.

We said that for the first segment, the Employee Plans at the beginning of the year, we were a bit nervous with the pricing margins given the competitiveness of the market and this is why we have decided to lower a bit our expectations in terms of net income.

I have to admit though that we had a great Q2 and we had a good Q3 so it seems perhaps that we have been a bit too conservative there.

James Keating: So is that continuous? Does that mean we'll have, perhaps, a revision in thought and expected profit trends going forward?

Yvon Charest: Well, we are just right there, at the period of the year where we try to estimate, the expected profit for the following year. And we're going to start tomorrow with a one-day meeting about what our expectations in terms of net income by line business, but yes, we are studying what is happening there.

I'd say that in Q3, the Employee Plans line of business was good for most guarantees except perhaps for long-term disability. But (unintelligible) so far this year is slightly better than what was our expectations in January.

James Keating: And is that based on how the results of float or is that differential on the pricing dynamics? I guess it was the former more on how the business performed.

Yvon Charest: Yeah, it's the former.

James Keating: Yeah. Okay. Thank you very much, Yvon.

Operator We'll proceed with our next follow up question from the line of Tom Mackinnon of Scotia Capital. Please proceed with your question.

Tom Mackinnon: Yes. Thanks.

I was just wondering - can you just take us through some of the thought process on increasing the payout ratio and as well any further update as far as your investigation in looking at expanding in the United States.

Yvon Charest: For the first point, the payout, I don't know what else I can say. In the press release, we said that we were committed to moving the payout to 28% over the next 18 months. So, I don't know how much additional information you would expect from this, or I think it's a rather precise guidance.

As for the second question, yes, we continue to work on the US, the expansion outside of Canada. We have looked at three different businesses, three different segments. We are pretty close. We know exactly what we would like to do there. So it's going on relatively well.

Now, in terms of acquisition, as you know, we need two parties to agree on price, so it could take time so I cannot make any prediction at this time except to tell you that our knowledge of some business segments in the US now is quite solid.

Tom Mackinnon: Okay. Thank you.

Operator: There are no further questions from the phone line at this time.

Jacques Carrière: Okay. Christina this will conclude our conference call.

And if there are additional questions from the audience, or if anyone needs any clarifications, please don't hesitate to give me a call. My numbers again: 418-684-5275. My cellular phone: 418-576-3624. These numbers are also written in the press release.

So again, thank you for your participation, and we look forward to talking to you next quarter.

Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation and ask that you please disconnect your line.

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