

INDUSTRIAL ALLIANCE

**Moderator: Jacques Carrière
May 2, 2007
11:00 a.m. ET**

Operator: Welcome to the Industrial Alliance First 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 anytime during the conference you need to reach an operator, please press star-0.

As a reminder, this conference is being recorded, Wednesday, May 2, 2007.

I would now like to turn the conference over to Mr. Jacques Carrière, VP, Investor Relations.

Please go ahead, sir.

Jacques Carrière: Thank you, Sharon, and good morning everybody.

I would like to welcome you all to today's conference call to present Industrial Alliance's result for the first quarter of 2007.

The slides for today's call and other documentation have been posted in the Investor Relations section of our website 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, the conference call is audio Webcast live by CNW. To get the details on how to access the Webcast, please go to our website.

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 at 2 o'clock this afternoon.

The archived Webcast will be available for 90 days and a teleconference transcript will be available on our website 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, I would like to turn the floor over to Yvon Charest, our President and Chief Executive Officer.

Yvon Charest:

Good morning, ladies and gentlemen. I'd like to welcome you all to this conference call. We are speaking to you today from Quebec City, where we just finished our board meeting.

We will be holding our Annual General Meeting this afternoon at 2 o'clock. This explains why we scheduled the conference call at this time of the day.

We will proceed a little differently this quarter for the presentation of our earning results. I will present the highlights of the quarter and briefly discuss the bottom line results.

As usual, Normand Pépin, the Executive VP, will present the top line results, and Denis Ricard, our Chief Actuary, will say a few words about the strain, the Company's financial position, the new accounting rules and the embedded value results for 2006.

And Gerry Bouwers, President of IAP and Yvon Côté, Head of Investments, will also be available to answer questions.

I think we can characterize the first quarter results as a strong start to the year. We continue to deliver strong double-digit EPS growth with a surge in earnings in the Individual Insurance line of business, thanks to efficient strain management over the last year.

We also continue to deliver solid double-digit top line growth with record mutual fund deposits and sales growth well above 10% in all lines, except Individual Insurance, where sales are down 6%.

We introduced measures at the end of March to further fine-tune our product line in the Individual Insurance sector in order to seek the right balance between growth and margins.

We ended the quarter with net income to common shareholders of \$57.9 million, up 20% over the first quarter of 2006, and EPS of 72 cents, up 22% over the first quarter of last year.

ROE was 15.2% for the quarter annualized, excluding the new equity item "accumulated OCI" and 14.9% including it. We believe that the best way to calculate ROE is by excluding the accumulated OCI, but we present both calculation methods.

The two main profitability drivers for the quarter were the efficient strain management that we performed over the last year to improve margins in the Individual Insurance line of business and the reduction in the corporate tax rate.

Strain reached 55% of sales in the first quarter, which is the upper end of the 50% to 55% target range that we were aiming for. We are still committed to keeping the strain within the 50% to 55% target range over the medium term. Denis will talk to you more about the strain in a minute.

As for the tax rate, the federal corporate tax reduction that was implemented in Q2 of last year reduced the Company's tax burden by about \$2.9 million in the first quarter. The effective tax rate for the first quarter is 29%, which is right on target with our guidance.

We told you that the new accounting rules will not materially impact our earnings and Q1 is certainly an indication of that.

We did not record any non-recurring items during the quarter; however, last year's results were impacted by \$0.6 million after-tax in restructuring charges related to the National Life integration. If we were to compare this year's result with last year's adjusted results, the net income to common shareholders would have grown by 19%.

All lines of business contributed to the earnings for the quarter and all lines ended the quarter with earnings higher than the previous year, except Individual Wealth Management.

The experience gains that the Individual Wealth Management sector should have normally recorded due to strong mutual fund sales and positive stock markets were erased by three components that total \$4 million pre-tax.

The first one, for \$1.5 million, is a reallocation of expenses between this line of business and the other three. Given the size of this line of business, we concluded that it could absorb a better share of the Company's expenses.

The second component for, again, \$1.5 million pre-tax, is related to experience losses on surrenders and mortality.

And finally, we had the litigation, whose total cost was \$1 million pre-tax.

However, the decrease in earnings in the Individual Wealth Management line of business was more than offset by strong growth in the Individual Insurance sector, thanks to efficient strain management, and in the Group Insurance sector, thanks to sustained business growth.

The Board declared the payment of a dividend of 18 cents per common share, the same as last quarter. The payout stands at 25% of earnings and we are still committed to increasing the payout to 28% of our sustainable earnings by early or mid-2008.

This concludes my presentation.

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

Normand Pépin:

Thank you, Yvon. Good morning, ladies and gentlemen.

As Yvon said, we can characterize the first quarter as very solid in terms of business growth with a another good RRSP season and strong double-digit growth in most lines.

After an excellent year in 2006, record mutual fund entries pushed premiums and deposits to a high of \$1.7 billion in the first quarter, up 14% over the same period last year. Growth occurred in all lines of business and all regions.

Assets under management grew by \$2.3 billion in the first quarter to reach a high of \$31.4 billion as of the end of March 2007, up 8% compared to the end of 2006.

A little over half of the increase resulted from the re-evaluation of the value of the general fund on January 1, 2007, following the implementation of the new accounting standards.

This increase was also driven by strong net segregated fund and mutual fund sales, and good premium growth in all lines of business along with the positive stock market.

In total, assets under management and under administration grew 7% during the quarter, less than \$5 million shy of the \$50 billion mark as at March 31, 2007. Assets are now close to four times the level they were when the company demutualized in 2000.

In Individual Insurance, the measures we took last year to manage strain are starting to impact our sales.

At \$32.1 million, sales were 6% lower than for the first quarter of last year. This is the first decrease in sales after four consecutive quarters of increases.

Please remember, however, that sales were rather strong in the first quarter of last year, when they were up 11% compared to the previous year.

On the other hand, the product mix has moved in the right direction, with sales of YRT UL, up 30% during the quarter compared to the first quarter of last year, and sales of level COI UL were down 18%.

We are certainly pleased with the change to the product mix, but not with the decrease in sales. At the end of March, we made some changes to our products that should help increase sales while having a minimal impact on margins.

We had another good RRSP season this year with strong mutual fund sales.

With sales for the individual wealth management sector totalling \$996.6 million in the first quarter, up 16% over the same period last year, we fell just short of our first billion-dollar quarter.

Sales were up for all product categories, all regions and all distribution networks.

We are particularly proud of increase in mutual fund sales at IA Clarington, which are up 28% over the first quarter of last year.

Net sales were also quite strong. Seg fund and mutual fund net sales were up 27% over last year and represented 57% of gross sales. Net sales are the engine of growth in this business.

The Group Insurance Employee Plans sector started the year on a strong note. Sales totalled \$24.1 million in the first quarter, a 52% increase over the first quarter of 2006. If we exclude certain jumbo sales in past years, this was our best quarter ever.

The rate of growth surpassed that of the industry, where, according to preliminary data, sales were down 4%.

Sales growth came from almost all regions of the country and, as in 2006, just over 70% of sales were from outside Quebec.

The Group Creditor Insurance sector continues to generate very good results. In spite of market share of over 40% of car dealers and strong growth over the past several years, sales grew by 9% for the quarter compared to the same period in 2006, much higher than the 1.2% growth in car sales in the first quarter. In fact, this is the 10th consecutive quarter of year-over-year growth. This success can be attributed to the continuing expansion of our car dealer base and an improvement in their penetration rate.

Our Special Markets Group also started the year on a strong note, with a 28% increase in sales in the first quarter, primarily from the underwriting of a major block of business.

Group Pensions also had a very good start for the year, with sales totalling \$254.4 million in the first quarter, up 15% over the same period in 2006. The increase came from the two market segments we are in: the capital accumulation market, which is the market we have been primarily working to develop in the past few years and the insured annuities market, where we are actively seeking opportunities while closely managing our margins.

Our mutual fund broker dealers Investia and FundEX, as well as IA Securities continued to grow their business in their respective fields.

In conclusion, a strong quarter as we continue to manage both the top and the bottom line in all sectors.

This concludes my presentation. I will now turn the floor over to Denis Ricard.

Denis Ricard:

Thank you, Normand.

Good morning, ladies and gentlemen.

I would like to begin by saying a few words about the strain. As Yvon mentioned, one of the key profitability drivers for the quarter was the efficient strain management that we performed over the last year to improve margins in the Individual Insurance line of business.

In total value, strain went down from \$25.2 million in Q1 '06 to \$17.6 million in Q1 '07. Three reasons explain the rapid reduction in strain.

First, the selective price adjustments made to products in 2006; second, the major shift in the sales mix from level COI to YRT, and finally, the lower sales level in Q1.

As a percentage of sales, strain decreased from 73% in the first quarter of last year to 55% in the first quarter of this year. You may remember that we indicated to the market that we were expecting strain to reach between 50% and 55% of sales over the mid-term. It seems that we've reached the upper end of the range a little faster than expected.

Over the next few quarters, strain will be affected by the new sales mix resulting from the changes brought to our products. As Yvon mentioned, we are still committed to keeping the strain within the 50% to 55% range over the medium term.

On Slide 22, with respect to the new accounting rules, we can now confirm that they did not create any material volatility in earnings. We recorded \$2.2 million in gain from the sale of assets backing capital. This figure is disclosed in the Sources of Earnings on Page 6 of the Rolling Nine Quarters Financial Information Package.

You may remember that in 2006, \$10 million of our earnings came from the amortization of realized and unrealized gains backing shareholders' equity, including \$3.3 million in the first quarter.

Regarding the portion of net income coming from operations, what we call operating profit, apart from creating some headaches for our Accounting, Investment and Actuarial teams, we continue to believe that the new rules are not going to have a material impact. Some processes needed to be improved to deal with the new accounting environment. For example, the CALM reserving process will now be done on a quarterly basis as opposed to annually as in the past.

You will also see on Slide 23 that we have shown the impact of the new accounting rules on a number of balance sheet metrics. As we all know, these new rules bring the balance sheet on a market value basis. So the most obvious impact is the major increase in the asset value of the general fund.

On January 1, the asset value increased by 10.1%. Shareholders equity increased by 2.4% and book value per share by 2.6%. This is mostly due to the transfer to retained earnings of the deferred net realized gains backing equity, as well as the recognition of the unrealized and unamortized gains backing equity.

Moreover, the new accounting rules will decrease the solvency ratio by 13 percentage points and the excess capital by \$78 million. But this impact will be recognized over a period of eight quarters following the regulator's instructions.

As you can see on Slide 24, the solvency ratio was 197% as of March 31, 2007, down 4 percentage points compared to the previous quarter. The solvency ratio is in the upper end of the company's 175% to 200% target range. The new accounting rules have decreased the solvency ratio by about 1.5 percentage points in the first quarter.

Our excess capital stands at \$144 million as of March 2007. The new accounting rules have reduced the excess capital by about \$10 million in the quarter.

One would also expect the solvency ratio and the excess capital to be more volatile if the financial market indicators move significantly. Those indicators were not volatile in Q1.

As you can see on Slide 24, the Company still has room for further leverage, as the debt ratio is quite conservative.

Slide 25, there were very few changes in the quality of investments, which remained excellent for all quality indices during the quarter. You will notice, however, that gross impaired investments and provisions for losses have decreased substantially compared to December 31, 2006. This reduction results from the decrease in the book value of the investment in Norshield, which under the new accounting rules, must be accounted for at market value. Since we've established the market value of Norshield at zero, the provision is no longer required.

Slide 26, strong sales and improved profit margins pushed the value of new business to a quarterly high of \$34.9 million in the first quarter, a 21% increase over the same period in 2006.

Two factors are behind the growth. The gross sales results, which added \$2.9 million to the value of new business and improved profit margins primarily in the Individual Insurance sector, which added \$3.1 million to the value of new business.

We disclosed the embedded value for 2006. As at December 31, 2006, embedded value amounted to \$2.4 billion or \$30.64 per share, an increase of 17% as compared to the previous year before the payment of dividends, and 14.8% after the payment of dividends.

The embedded value/book value ratio stands at 1.65x, which is the highest ratio among the life companies that disclose their embedded value. The recurring items, which are those over which the company has a certain control, grew by 11.4% in 2006.

Since we began calculating the embedded value, recurring items have always increased embedded value by more than 10% and this is in line with our low double-digit growth expectations.

As for the non-recurring items, the reduction in the corporate tax rate increased the embedded value by 4.8%. And the good stock market performance boosted embedded value by 2.4%.

However, this was partially offset by the new accounting rules, which decreased the embedded value by 0.8% due to the additional capital requirements and some changes in assumptions which reduced embedded value by 0.7%.

Finally, we did not make any changes to the economic assumptions.

This concludes my presentation.

Back to Yvon for the final wrap-up.

Yvon Charest:

Thanks, Denis.

In conclusion, a strong quarter all in all. EPS is growing within our low double-digit guidance. ROE is around 15%. The measures implemented to manage strain are working. If it hadn't been for some experience losses and unexpected expenses in the Individual Wealth Management sector, would have ended the first quarter with earnings up in all lines.

On the top line, we continue to grow at double-digit rate in most lines. The RRSP season was once again a success. Mutual funds reached record levels. The value of new business also reached record levels. We are taking measures to find the right balance between growth and margins in the Individual Insurance line. And the new accounting rules have not created the expected volatility in earnings at least in the first quarter.

On the financial side, our credit quality is very good. Our capital position is strong, and we have room for further leverage.

Finally, the embedded value is growing within our double-digit guidance for recurring items.

This concludes our presentation, it's time for the question period. I would ask the operator to explain to our audience how they can direct their questions.

Operator:

Thank you.

Ladies and gentlemen, if you would like to register for 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 of Jim Bantis from Credit Suisse.

Please proceed with your question.

James Bantis: Hi, good morning. I just wanted to circle back on the individual insurance.

I'm looking at Slide 16, and I was kind of surprised, actually, to see the double-digit declines in terms of whole life and critical illness. Can you give us a sense around what's happening in that market?

Normand Pépin: In critical illness, a lot of companies have upgraded their products, and we are working at it right now. I think our product is falling a little bit behind there.

In terms of whole life, that's not an important segment, it's about 8%. There has been some reduction there that I don't have an explanation for it since it's only 8% and even if we're talking about, let's say, a 16% reduction and maybe 1% less of sales, I don't have a specific explanation about that one. But I can find that.

James Bantis: Okay. Can you give us a little bit more background with respect to the changes that you've made to the UL product line in terms of whether it's pricing or features, marketing distribution that you can kind of recapture some of your share?

Normand Pépin: There are two things, in fact. There are two sub-segments that we look at: joint last to die, which was why we made some changes last year. We may have priced ourselves a little bit out of the market and now we are getting back into it.

Maybe not exactly the same way we were before, but we're getting a little bit back into it. The other one is that we're introducing a new feature in Universal Life, that will allow us to be a little bit more competitive. And at the same time, I think will maintain our profit margin there.

James Bantis: Okay. You're a little bit behind the eight ball in terms of trying to achieve your 2006 levels in terms of sales. Do you see the industry growth level being a low single digit and can you reach your 2006 levels?

Normand Pépin: As you said, it will be difficult to catch up but it's not impossible because there are some activities that I can see in our Company and some features of our Universal Life that are different from our competitors and now we're seeing more and more activity there. That could help us right through the whole year.

But it's too early to say. And what I see in the industry, I would believe that we'll have single-digit growth in the industry. But it's really hard for me to predict at this time of the year. I know that the year 2006, the last quarter was the best one for the industry.

I don't know if that has continued on in 2007, it has not in our Company as you can see because our sales are down. And I don't know, but I would expect single-digit growth in 2007 for the whole industry in Canada.

James Bantis: Okay great. And I've just got one quick question on the net fund sales on the mutual fund side. While gross sales were up strong, the net mutual fund sales went from \$98 million to \$235 million. And maybe I missed the explanation on that, but if you could give me what the components of that substantial increase were.

Normand Pépin: Well one we have to keep in mind, Jim, is that we bought Clarington at the end of 2005. In fact we started integrating it in 2006, and obviously that has impacted a little bit the net sales in 2006 because there was a change there in the first quarter and people were reluctant. Some people were wondering what we were going to do with the company.

It probably affected a little bit the redemptions last year because of that change that was upcoming. Gross sales were also probably not at the level they could have been, even last year if that wasn't over the change of ownership for Clarington.

So this year it's all behind us and people are more confident in the company, investing in the company, and at the same time, I think the money is staying on the books, that's why there is a big increase.

James Bantis: Combination of both, okay. Great, thanks very much.

Operator: Our next question comes from the line of Mario Mendonca from Genuity Capital Market.

Please proceed with your question.

Mario Mendonca: Good morning. It seems that there's a delicate balancing act between pricing in the individual life market, individual UL, particularly, and profitability.

What I'm interested in understanding is to the extent that the company has to alter pricing or chooses to alter pricing in features routinely to manage that delicate balance, what does it entail from the perspective of the distributors? Is there sort of a training process involved. Is it disruptive is really what I'm getting on?

Normand Pépin: Most of the changes that we make in universal life or the industry makes in universal life are a bit cosmetic. If you change the price and you keep basically the same features for the distributors, it's just a change of prices, so it's easy to figure out whether or not you're better than you were.

If the changes are small, then the distributor will probably stick with the carrier they were with. If the changes are perceived as being significant, then they might take another look and compare.

But when you introduce new features like we have introduced some features in our UL, we have some features that are unique and that take some time for the brokers to really acquaint themselves with and in fact, it takes time to get some sales there.

As you can see, it depends if it's something really new. It could take a while to get accepted. If it's just a cosmetic change, a small price change, distributors can figure out very quickly what it means for them.

Mario Mendonca: With the general agents accounting for 2/3 of your sales, have you ever encountered a situation where too many changes, too many new products, changes within a short period of time alienates the general agents and causes them to sort of move away from a particular manufacturer?

Normand Pépin: It's always the danger that we're facing when you make changes. Did we make too many over the last 12 months? It's a good question. The changes that we made were not that difficult to understand.

In some cases, we became a little bit less competitive in some market segments as a result of some selective price adjustments.

And then obviously, there are some brokers who look at that and say why, because we're told, they would not be disruptive. We managed them not to be disruptive, some might say that it was a bit too much and are already putting business elsewhere, as a result of that.

The core of our brokers stayed with the Company because the changes were not drastic.

Mario Mendonca: A question now for Denis Ricard.

Individual wealth, you went through a couple of things, someone, I think it might be Yvon described the three things that caused individual wealth experience gains too essentially disappear.

The one I'm most interested in is the higher surrenders, and I presume we're talking higher surrenders and mortality. With respect to mortality specifically, are we talking about increased longevity or the opposite, are we talking about payout book of business or an accumulation book of business?

Denis Ricard: Well most of the numbers that Yvon mentioned, the \$1.5 million relates to mortality. So it's basically, like you mentioned, life annuities where we anticipate that, there are a number of deaths during the quarter, and there's been less deaths than expected, so that creates a loss during the quarter.

Mario Mendonca: Now, and I don't want to make too much of a fuss about this, but this is the flipside of mortality, this is where longevity hurts. What have you done to sort of convince yourself and be comfortable that there's sufficient margins and conservatism in the reserve to cope with what it's likely to be continuing improving mortality.

Denis Ricard: Well as a matter of fact, we have not experienced losses quarter after quarter. So on the one hand, I'm comfortable because this seems to be a blip.

To answer your question more specifically, we do make annual experience studies. And so the actual experience we have is in line with the assumption we have. And also we have to put in our liabilities, a projection of the mortality improvement.

So the real question is, is the mortality improvement that is already in the balance sheet, is it enough or not.

Right now, we're quite comfortable. I mean, what's been used is basically what the CIA, the Canadian Institute of Actuaries recommends.

Mario Mendonca: Okay. And then on surrenders, anything to you can refer to there?

Denis Ricard: Well surrenders are usually pretty minimal and it's been the case this quarter as well.

Mario Mendonca: But it resulted in experience losses.

Denis Ricard: Yeah.

Mario Mendonca: Okay.

And then just one final thing and I don't want to take up too much time, but the reference to having to perform the CALM reserving, the full CALM reserving on a quarterly basis, what sort of implications can this have for us in the situation where interest rates move materially higher, for example?

Denis Ricard: Well, everything else being equal, obviously, if interest rates go up, the CALM process would produce - the life insurance business would produce favourable results.

As a matter of fact, we do intend to continue to do the changes of assumptions once a year in Q4. So basically, even though the CALM process could create some kind of volatility, it's not our intention to have this being reflected quarter-after-quarter.

So again, we still intend to do the changes of assumptions altogether at the end of the year. And keep in mind that CALM is one thing, but there's a lot of other changes to be made.

And like mortality experience studies are done only once a year, so we want to have all of our components being put together and do it in one change.

Mario Mendonca: So would it be fair to say that in applying CALM quarterly, you'll be looking at the shorter term interest rate assumptions but not the ultimate reinvestment rate.

Denis Ricard: You are absolutely right. It's not our intention to change the ultimate reinvestment rate whatsoever, during the year. This is going to be done during the process of changes of assumptions in Q4.

Mario Mendonca: Thank you very much.

Operator: Our next question comes from the line of Timothy Lazaris from GMP Securities.

Please proceed with your question.

Timothy Lazaris: Thank you. I've got two questions. I guess one question is just a general question for Yvon.

You know, Yvon, in the past when I think of Industrial Alliance, I think of a company that dominated the individual insurance in the UL market in particular and had clearly one of the top sales momentum stories in Canada.

I guess I'm struggling with how this fine balance has resulted over the last few years, and is it really something that is controllable or are you basically telling us that competition has gotten much more fierce in UL.

And despite how good you are and you are still very good, it's just getting tougher to win in that market.

That's my first question.

Yvon Charest: Well, to answer the question I'd like to refer to Slide 14.

I told that to the people in the past, I told every one of you that the retail operations are done by the same distributors. The distributors are doing the retail insurance and retail wealth management with us.

And then you look at what happened in Canada since 2002.

In 2002, the TSX was at 6,200 and then it started increasing steadily over the years which means that for that line business, the expected ROE increased so nicely that it couldn't get unnoticed by us.

And then on the other side, the interest rates that were low in 2002 continued to go down a bit.

So at the end of the day, you have to decide with your retail distributors exactly where is the best place to position your organization. And we have been able to double with those retail distributors. We have been able to double the asset base on seg funds.

So clearly, when you take the retail operations altogether, we have a very efficient organization and we are producing good results. You have to question yourself how much balance do you put between the two lines of business and for individual insurance, you have to be smart given the low interest rates and you have to have a nice balance between sales and growth.

So I guess that when you take the two lines of business altogether, you will realize that we have been able to grow nicely the net income. We have tried to be smart in terms of expected ROE and the right mix between the two lines of business. And we have accepted to realize that the low interest rate environment might be there to stay and we are trying to manage the two lines with that in mind.

This is why, for example, the embedded value of new business continues to increase nicely.

So I guess the mistake was just to look at one product just because we happened to be number one in UL in terms of sales in Canada. You have to look at the global picture and see to what extent our retail distributors are bringing income to us.

And it's only if you look at both lines that you will see that we remain a very efficient organization out there.

Timothy Lazaris: Okay. Can I follow up with that because it actually lends to my second question.

In seg funds where you do have a very big footprint, we've seen at least two very large life insurance companies introduce guaranteed minimum withdrawal benefits. And at least one of them is having extreme success in that product. And now the second just launched this quarter.

Is this something that your distribution, your retail distribution is demanding? And if so, are you going to be producing that product? And if not, are you prepared to sort of sit and observe how the success of others is in that area?

Normand Pépin: Yes, we're going to be introducing that product. But there were two parts to the question. Are your distributors asking for it?

I'll tell you one thing. I still have to find some distributors who sell that product even with my competitors.

And I have been talking to tons of people and I can hardly find one who sells that product. I talked to many, many people.

So if you ask me, is there demand? There's no demand from our distributors but we have heard that one of our competitors is doing very, very well with that product. So when we introduce it we can say, "Me too; I have it."

Yvon Charest: Okay. Meanwhile, it remains that in Q1 we were ranked number 3 in Canada in terms of net sales for seg funds with a 15% market share.

And you could see from Slide 17 that we had a pretty good experience in terms of net sales for our investment funds lately.

Timothy Lazaris: Ok, I think that's my point, and I appreciate your answer. I just would like to see, or I would not like to see the market, you know, your success in that area erode because of the new products in there.

As I understand it, none of us profess to understand it that well. It's a complex hedging product and it requires obviously some experience. And so here, we're just watching patiently to see how it evolves.

Anyway thank you.

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

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

Tom Mackinnon: Yeah. Thank you. Good afternoon. A couple questions, first for Denis.

In terms of the re-pricing that's done in March it sounds, like Normand suggested, that the company might be a little bit more aggressive in terms of pricing.

Obviously, I'm sure you're maintaining your profitability hurdles in the IRR and the products are going to be same. But with the timing of the profits will be a little bit different under the new products that you're re-pricing in March.

Specifically, what would be the strain as the percentage of sales on the new products that you're looking to come up with in March? If these new products become a significant portion of the sales going forward, how would strain overall change?

Denis Ricard: First of all in terms of product changes I'm sure Normand could explain more what it is.

But basically, it's not only a pricing issue, it's also a design issue. So we tried to tweak the product differently as well to attract other kind of sales.

In terms of the strain, I think the answer will be that we will stick with the 50% to 55%. And there are a lot of reasons for that.

I guess I'll tell you three of them and everything else being equal and you would see that if there are any price decreases, you would expect the strain to increase.

But on the other hand, a second item would be that there are other things like the sales mix, which is very important. And we've seen the mix change from a level to YRT, which is significant and this has much more impact than let's say a tweaking of product or a change in the price - price change that we did in March. So that's an issue which is very important.

And the last item I will mention is that traditionally, the first quarter strain has been the highest one in the year because of the pattern of sales by quarter.

So all in all, I think what we decided to do this year is not to change our guidance for strain because of these points.

Tom Mackinnon: Okay. And a couple of follow-ups for Yvon.

One is maybe just elaborate a little bit as to what this litigation charge was in the quarter. Are we done with it? I'm not sure really what it had to do with.

And secondly, I think you have somebody full time looking at U.S. acquisitions targets. Any updates there.

Yvon Charest: Well, the litigation is \$1 million pre-tax, but we prefer not to give details on litigation because it always impacts some people.

As far the U.S., there are two segments that we are looking at. One is the teachers market where we are already active. And the second one is that given the success that we had in Canada with the Universal Life, we are looking at ways to better penetrate the middle-income market in the U.S.

And certainly, part of the strategy is to test the business model to see how successful, we could be in those markets before making substantial acquisitions. And we are about to launch products there where we could test our business model.

So it's a bit slower than some people would have expected, but the idea is certainly to walk before running so that in the next few months, we could at least test our business model out there.

Tom Mackinnon: So you all ready have a shell, right? You're going to just try to distribute some products through that in the United States. Is that what I'm hearing?

Yvon Charest: In terms of shell, we have some branch operations through IAP, a Canadian company. We are licensed in more than 40 states. But in terms of presence, we have those states. What could be added to that strategy is not only do business through a branch because by definition you are foreigner, you may want to be perceived as a local player.

So it might be as well that you might decide to be seen more with a local company than a foreign branch operation. But we are already licensed to do business in the U.S.

Tom Mackinnon: Yeah. I guess I'm just wondering, are you going to be looking at selling business there? Are you going to be selling policies in the United States? Is that what I'm hearing?

Yvon Charest: Yeah. The strategy is both. It is to sell by our own through a mix of people that we have from Vancouver. We have a group of 40 to 45 people already in Vancouver doing some business in the U.S. The U.S. accounts for 2% of our operations right now.

And given the success that we had lately in Canada with Wealth Management and across Canada, outside of Quebec, we now want to grow organically more aggressively out there.

And then the second piece of the strategy is that depending upon how quickly and how successful we are, yes, we would like to add acquisitions on top of that.

Tom Mackinnon: So have you actually been selling in the United States in the past or you're just going to ramp it up a little bit more now?

- Yvon Charest: We have been selling in the states for a while. This idea is to speed up the process.
- Tom Mackinnon: What segment is all that stuff going to take under?
- Yvon Charest: We are active in two markets. We have about \$250 million of fixed annuities in the teachers market, mainly in the western states. And then to those people we add some life insurance products, but right now, it's fair to say that it is in the teachers market.
- Tom Mackinnon: Okay. Well, we'll just look for further updates then on this as we continue. Thanks.
- Operator: Our next question comes from the line of John Reucassel from BMO Capital Markets.
Please proceed with your question.
- John Reucassel: Good afternoon. Just a quick question for Yvon because most of the questions have been asked and answered, your ROE target last quarter you said as 13% to 15%, you've been pushing the upper end of that for a while now and through that. Are you contemplating or raising ROE targets?
- Yvon Charest: Thank you, John for the question because I realized that it's not everyone that realized that the previous guidance was the ROE. It was between 13% and 15%. And then we realized that everyone was trying to translate those guidance into EPS.

So we said, why don't we go directly to the EPS? And at that time it was unclear by everyone about the way the ROE would be calculated with the new accounting changes. And I realized that there could be people including or excluding the OCI.

So what we decided is to go directly to the EPS and say, the guidance for 2006 and that's what we mentioned in February is to grow the EPS, low double-digit growth which translates between 10% and 13%.

So that's the best guidance we could give you at the moment in terms of the bottom line. It might be that it might translate quite a bit and quite often in the upper range for the ROE, but the idea is to move to an EPS guidance as a primary indication of our bottom-line expectations.
- John Reucassel: Okay, great. And just, out of interest, the \$1.5 million that you've moved into the individual wealth, the expense allocation, is that - mainly come out of the individual insurance?
- Denis Ricard: About \$1 million went to retail and if you ever want to ask me, the percentage of it that goes to the strain would be about half of it.

So about half a million dollars would affect the strain and the rest would affect the unit cost or for administration expenses, then the rest would be an experience gain or loss.
- Yvon Charest: And how about the other half?
- Denis Ricard: The rest would go in groups.

John Reucassel: Okay. Okay, thank you very much.

Operator: Our next question comes from the line of Andre Hardy from RBC Capital Markets.
Please proceed with your question.

Andre-Philippe Hardy: Hi. My question's probably for Denis.

If I look at expected profit growth from in-force, from Q2 '04 to Q4 '06 that was consistently above 15%. I understand that acquisitions help drag at that number a lot higher than your sustainable rate, but for this quarter, the year-over-year growth was 9%.

So what in your mind is a sustainable rate there or differently, how much would acquisitions have helped the expected profit last year?

Denis Ricard: I would stick with the guidance that we made - we are looking at low double digit growth of the expected.

So you may find that more from one year to the other, it's one line of business which grew by more than 10 or 15 whatever.

And another one would be on the single digits. But our guidance is for the overall company. And so, I would stick with this guidance.

Yvon Charest: But, Andre, one thing that you have to keep in mind I think is what happened with the strain. Because in the past, while the in-force was growing nicely in terms of the expected profit, the strain was growing more rapidly and at the end of the day, the strain was dilutive.

And right now, we are just in the opposite direction whereby I think the expected profit increased 9.4% quarter-over-quarter in Q1 but the strain went down, which means that the strain is accretive to the old exercise.

And this is why at the end of the day, when you look at the EPS guidance, we could easily rationalize that it could be in double digits.

Andre-Philippe Hardy: Yeah. I understand that but maybe a follow-on question is you had a big increase in value of new business which on the sales side came from Wealth Management. I would have expected that to drive some pretty solid growth and expected profit, wouldn't it?

Denis Ricard: Well, as a matter of fact you're right, sales have contributed quite a lot, but we also have to say that for the individual life insurance, because of the repricing we did last year, it also contributed significantly.

Andre-Philippe Hardy: Okay, thanks.

Operator: As a reminder, to queue up for a question, please press the 1 followed by the 4.

Our next question comes from the line of Michael Goldberg from Desjardins Securities.

Please proceed with your question.

Michael Goldberg: Thanks.

You already provide good disclosure in terms of the value of new business delta between sales and margins. And I'm just wondering if I can ask for a little bit more even, that is a split on that basis between wealth and protection.

Because it would seem to me that most of your sales growth has been on the wealth side, but maybe a lot of the margin improvement is on the insurance side. So is that something we can get from you?

Yvon Charest: Well, Michael you have consistently asked that question and we have had a discussion internally and we concluded that we would stick with the disclosure of that you've seen this morning in the presentation.

Michael Goldberg: Is my interpretation correct though, that the sales growth contribution is on the wealth side and the margin is on the insurance side?

Yvon Charest: Well it's kind of a logical conclusion.

Michael Goldberg: Is the insurance side - if you look at it that way - even a positive, or is more than all of the increase coming from wealth?

Yvon Charest: I'm afraid, Michael, you are the one who has to make your own conclusion on this.

Michael Goldberg: Okay, thank you.

Operator: Mr. Carrière, there are no further questions at this time. I would now like to turn the call back to you. Please continue with your presentation or closing remarks.

Jacques Carrière: Thank you, operator. This will conclude our conference call. If there are additional questions, please give me a call. I will be back at the office because I'm here in the Quebec City at our AGM.

So I'll be back at the office in an hour. My phone numbers are written in the press release.

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

Thank you.

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

END