

INDUSTRIAL ALLIANCE

Moderator: Jacques Carrière
February 13, 2008
2:00 p.m. ET

Operator: Ladies and gentlemen, thank for standing by. Welcome to the Industrial Alliance fourth quarter earning results conference call. During the presentation, all participants will be in a listen-only mode.

Afterwards we'll 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. As a reminder, this conference is being recorded Wednesday, February 13, 2008.

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

Jacques Carrière: Thank you Allister and good afternoon everybody. I would like to welcome you all to today's conference call to present Industrial Alliance's results for the fourth quarter of 2007.

The slides for today's call and other documentations have been posted in the Investor Relations Section of our website at www.inalco.com.

You may have also seen that we published today the embedded value for the year 2007 as well as the MD&A and the financial statements for the year 2007.

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 4:30 this afternoon, Eastern Time.

The archive of the web will be available for 90 days and the 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 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 we did last quarter, I will present the highlights of the quarter, Normand Pépin, the Executive VP, will present the top line results and Denis Ricard, our Chief Actuary, will discuss the bottom line results.

Yvon Côté, Head of Investments, is also with us today to answer questions, as well as Gerry Bouwers, the President of IA Pacific, who is attending this conference call over the phone from Vancouver.

I know that there is a lot uncertainty about the economic situation these days, but I believe that we are bringing some very good news to the marketplace today.

We ended the fourth quarter with net income to common shareholders of \$63.1 million, up 12% over the same quarter in 2006. This is right in the middle of our low double-digit growth guidance.

This translates into diluted EPS of \$0.78. This result takes into account a \$0.02 accounting loss due to the fair value of our debt instruments. You might remember that the same phenomenon resulted in an accounting gain of \$0.03 last quarter.

This volatility is a side effect of the new accounting rules. Without the accounting loss, the EPS would have been \$0.80 this quarter. This could be considered as our earning power this quarter.

Once again, this quarter, we managed successfully both sales and profit margins in the Individual Insurance line of business. Sales are up by a strong 20% and reached a record level of \$48.9 million in the fourth quarter, and strain is down to 46% of sales, which is below our 50% to 55% mid-term expectations.

The mutual fund sales momentum in the first three quarters was carried into the fourth quarter, with mutual fund sales up 35% in the fourth quarter and up 46% for the whole year. Net mutual fund sales tripled in 2007.

We have reviewed the composition of our non-bank-sponsored asset-backed commercial paper exposure, and we concluded that the 15% write down that we took in the third quarter is still adequate. As Denis will explain, our ABCP portfolio is much, much less risky than the market.

We completed the acquisition of Excellence on January 31. Excellence will provide a platform for a new market segment: individual disability and health insurance. This acquisition was paid in cash and by the issue of IA shares.

Most of those shares were bought back at the end of 2007 and at the beginning of 2008 in order to eliminate any dilutive effect. Denis will tell you more about that in a few

minutes. We intend to use our normal course issuer bid to eliminate any remaining dilutive effect of the shares issued as part of the transaction and as part of the stock option plan.

We also published the embedded value as at December 31, 2007. This is one quarter earlier than usual.

Denis Ricard will tell you more about the results in a minute, but let me simply say that the recurring part of the embedded value grew by 11.7% in 2007, thanks to the very strong growth of the embedded value of new sales. This is within our low double-digit growth expectations.

We announced a 2.5 cent increase in the dividend this quarter. This is an increase of 12.5%. The dividend payout ratio reached 28% this quarter, which is the target that we established over a year ago. We intend to maintain the payout at around 28% of our sustainable earnings.

I know that even though we have very good news this quarter, the market is also interested in what is coming up in 2008. So let me now turn to our expectations for 2008.

If my reading is correct, there are three overall concerns in the marketplace for lifecosts -- the low interest rate environment, the credit environment, and the market volatility. I'd like to quickly address each of them.

But first, let me tell you our mid-term EPS guidelines. Under normal circumstances, given our distribution capacity, our growth strategy and the current competitive and pricing environment, we believe that we should be able to grow the EPS between 10% and 13% per year over the mid-term. This is based on our sustainable or adjusted earnings.

In 2007, the adjusted EPS was \$3.08. A 10% increase will give \$3.39, whereas a 13% increase would give \$3.48. How can this general guidance be impacted by the current environment?

Let me begin with the low interest rate environment. I can reassure you right now that we do not expect the earnings to be impacted in 2008 by the interest rates. We further strengthened the reserves at the end of 2007 to take into account the low interest rate environment.

This has had no impact on our earnings. Any strengthening of reserves due to the interest rate has once again been absorbed, mainly by a release of reserves from the mortality assumption. Please remember that we reinsure much less than the industry, and that we keep the mortality risk. We thus have some cushion.

The ultimate reinvestment rate assumption that we use in our reserve is still below the prescribed rate that we would have to use at the end of 2008 if the long term interest rates were to stay at the current level.

As for the credit environment, the quality of our investment portfolio is very high and very stable. Net impaired investments totalled \$11.7 million as at December 31, 2007, which represents just eight basis points of total investments.

Moreover, the Company does not hold any investments in the U.S. subprime mortgage loans market. And it has less than \$200,000 in investments guaranteed by monoline financial guarantors.

The Company also has minimal exposure to the so-called *in the news* securities in the aviation, automobile, telecommunications or printing sectors. We are thus well-positioned in the event of a deterioration of the economic situation.

As for market volatility, as with any wealth management organization, we are not immune from market behaviour. The best guidance I can give you is our sensitivity to market volatility. We estimate that a sudden drop of 10% on January 1 in the stock market followed by stock market growth according to our forecast, which is around 7.25% per year, would lead to an \$18.6 million decrease in net income to common shareholders. This translates into \$0.23 per share for the year or around \$0.06 per share per quarter.

Now that I have provided that guidance, I will conclude my remarks, and I will now let Normand and Denis present the top line and the bottom line results in more detail.

Normand Pépin:

Thank you Yvon, and good afternoon, ladies and gentlemen. With respect to the top line, I think that we can say that the retail sector is back in the driver's seat. Individual insurance and mutual funds both ended the quarter with record sales.

Let's begin with Individual Insurance. The second half of the year was very strong in the side of business. Sales surpassed the previous mark by a wide margin in the fourth quarter to reach an all time high of \$48.9 million, up by 20% over the fourth quarter of the previous year.

I would like to remind you that this result was achieved after a few changes to our pricing to ease the strain, improve our margins, and increase sales. We would like to believe that the tuning up is completed, at least for the time being.

Sales are up in all regions of Canada, in all distribution networks and in all market segments. We have been gaining market share, mainly in the high net worth segment, with sales of many large policies, while keeping a strong position in our traditional family market.

The product mix continues to move in the right direction. Sales of YRT UL accounted for 49% of sales in Q4, as compared to 42% in Q4 of the previous year.

The strength of sales in the second half of the year offset the rather low sales of the first half, enabling the Company to end the year with sales up 4% overall in 2007 and 5% in Canada, which is in line with the Canadian industry after three quarters.

For the Individual Wealth Management sector, the momentum of the first three quarters continued into the fourth, with sales up 17% in Q4 and 26% for 2007 year over year. Mutual funds continue to be the sector's growth engine, with sales up 35% in the fourth quarter and 46% for the year.

Net sales reached a record level of \$1.4 billion in 2007, thanks to IA Clarington tripling its net mutual fund sales. We can say that the acquisition of Clarington and its quick integration have been a total success and are providing a new growth engine for IA.

As for seg funds, even though sales were down slightly during the quarter, we hope that the launch of our guaranteed minimum withdrawal benefit product in December will create traction for the RRSP season. It's still a little too early to provide an indication as to the success of this product, but I can say that the reception has been quite good.

Sales slowed down somewhat in the group sectors this quarter. In the Group Insurance Employee Plans sector, fourth quarter sales were down 34% compared to last year, as no large cases were signed.

However, sales grew 2% overall in 2007 compared to 2006. For the third consecutive year, more than half of the year's sales came from outside Quebec which is in line with our objective to expand Canada wide.

In the Group Creditor Insurance sector, sales increased by 2% in the fourth quarter and by 9% for 2007. Sales continue to outpace those of the automobile sector, whose sales were up 2% in 2007.

In the Special Markets Group segment, sales were up 4% in the fourth quarter and finished the year with double-digit growth of 13%. This increase is primarily due to the growth of the travel insurance block of business, which accounts for some 40% of the sales results for the sector.

For Group Pensions, although sales were good in absolute terms, sales were down 12% in Q4 as compared to the previous year. The accumulation products segment, which is our main target market, grew 15% during the fourth quarter, but insured annuities slowed down by half, as no big cases were signed.

Like the Group Insurance Employee Plans sector, more than half of all accumulation product sales came from outside Quebec for a third consecutive year. Overall, the Group Pensions line ended the year with sales up 1%.

If we look at the broader picture, premiums and deposit reached \$1.3 billion in the fourth quarter, a 10% increase over the same period last year. The key driver was, once again, mutual fund sales. Three sectors out of four had double-digit growth or close to it during the quarter.

For the year, premiums and deposits reached a new high of \$5.8 billion, a 17% increase year over year. This is the sixth consecutive year that premiums and deposits have achieved double-digit growth.

On the asset side, assets under management grew \$258.1 million in the fourth quarter, reaching a new high of \$32.8 billion as at December 31, 2007, up 1% compared to the end of the third quarter and 13% since the end of 2006. Strong net sales of segregated and mutual funds, as well as good premium growth in the various lines of business contributed to this increase.

As for our wealth management broker-dealers, assets under administration decreased during the fourth quarter, amounting to \$17.6 billion as at December 31, a 4% decrease during the quarter. Positive net sales and positive net transfers from new brokers were not enough to offset the market variation of assets in the mutual funds and securities brokerage subsidiaries.

One word about the acquisition of Excellence: we have received all the regulatory approvals to conclude the acquisition of The Excellence Life Insurance Company. The transfer was completed on January 31, 2008.

This acquisition will enable us to enter a new market segment, namely individual disability and health insurance. We continue to believe that this acquisition will add \$0.04 to the Company's earnings per share in 2008.

We also received all the regulatory approvals to conclude the sale of the Caribbean life insurance business block. The transfer was completed on January 18, 2008.

You may remember that on December 12, 2006, we announced the signing of an agreement to sell our Caribbean business block to a subsidiary of Sagicor Life Inc., of Barbados. This block, which was owned by National Life, was primarily made up of individual life insurance policies. It contained close to 10,000 policies.

This concludes my presentation. I will now turn the floor over to Denis Ricard who will present our bottom line results.

Denis Ricard:

Thanks Normand and good afternoon ladies and gentlemen.

With respect to the bottom line, we ended the fourth quarter with net income to common shareholders of \$63.1 million, up 12% over last year. This translates into EPS of \$0.78 and an ROE of 15.2% for the quarter annualized, excluding or including the accumulated OCI, which exceeds our 13% to 15% target range.

The main profitability driver for the quarter was again the successful strain management. Strain went down considerably in the Individual Insurance line of business, from \$25.2 million in the fourth quarter of last year to \$22.5 million in the fourth quarter of this year. This is a reduction of 11%, despite a 20% jump in sales.

As a percentage of sales, strain decreased from 62% in the fourth quarter of last year to 46% in the fourth quarter of this year. This is below our 50%, 55% mid-term expectations.

We continue to believe that our current pricing structure should allow us to keep strain within or close to the 50% to 55% range over the mid-term. In fact, for 2007, strain was at 52%.

I will move quickly on slide 26 and 27 as there is very little to report other than to say that the expected profit from in-force grew by 10% in the fourth quarter, which is in line with our low double-digit expectations and that we did not realize any significant experience gains in the fourth quarter.

As Yvon indicated, the year-end changes in valuation assumptions did not have a significant impact on the earnings for the quarter. In fact, as you can see on slide 28, since 2000, year-end changes in assumptions have never had a material impact on earnings.

As with the last few years, reserves were strengthened to take into account a reduction in interest rates and lower lapse rates. This was offset by a release of reserves to take into account improved mortality rates and a lower than expected increase in unit costs.

As you can see on slide 29, income on capital increased by 5% during the quarter on a year over year basis.

Growth of the income on capital was slowed by a \$2.4 million accounting loss resulting from the asymmetric evolution of the market value of debt instrument assets and liabilities, following the realignment of risk premiums that followed last summer's liquidity crisis. This reduced the earnings by \$0.02 per share. You may remember that in the third quarter, this same phenomenon resulted in an accounting gain of \$0.03 per share. Overall, for 2007, the quarterly pluses and minuses cancel out almost totally, with barely an impact on the yearly results.

However, following the implementation of the new accounting rules, we were not expecting the volatility of our earnings to come from the fair value of debt instruments, but from gains and losses from the sale of assets backing capital. You may remember that in 2006, \$10 million of our earnings came from the amortization of realized and unrealized gains backing capital. This was replaced this year by \$8.9 million in gains from the sale of assets backing capital. The net impact when we combine the asymmetry of debt is thus immaterial.

On slide 30, the effective tax rate was 28.8% for the fourth quarter which is in line with our expectations. We expect a 1% decrease in the effective tax rate in 2008, to 28%, due to the application of measures to further optimize the Company's tax situation.

I should say here that the changes that the federal government brought or is proposing to bring to the corporate tax system did not have any impact on our earnings in Q4. However, some items of the financial statements have been impacted.

As you can see on slide 31, future income taxes were reduced by \$27.3 million in Q4, following the reduction in corporate tax rates adopted by Parliament in December.

But this impact has been offset by the strengthening of the provisions for future policy benefits by the same after tax amount in anticipation of the adoption of the tax measures introduced by the federal government in November to match the tax rules with the new accounting standards.

So, don't be surprised if you see a positive tax number in the fourth quarter financial statements. It did not however, have any impact on the earnings for the quarter.

On slide 32, with respect to non-bank-sponsored asset-backed commercial paper, as you know, we have a total exposure of \$104 million. In September, we took a 15% write down of our exposure. One third of the write down was absorbed by the provisions for future policy benefits, and 2/3 has been charged against the earnings. The net income was thus reduced by \$7.3 million in Q3, or \$0.09 per common share.

Given the most recent available information, we believe that the 15% write down is still adequate. We came to that conclusion based on the composition of our non-bank ABCP exposure. As you can see on slide 32, 40.7% of our ABCP is in the traditional assets category, as compared to 9.4% for the market; 51.7% is in the synthetic assets category, as compared to 81.2% for the market; and 7.6% is in the U.S. subprime asset category, as compared to 9.4% for the market.

Thus, the distribution of our ABCP is less risky than that of the market since, relatively speaking, it contains more traditional less risky assets and fewer synthetic and subprime riskier assets.

If we look at the earnings by line now, as can be seen on slide 33, the operating income was up in three lines of business this quarter. Individual Insurance benefited from strain management and, to a lesser extent, from a reallocation of general expenses.

Individual Wealth Management benefited from strong sales, but as we indicated earlier this year, it now absorbs a higher proportion of the Company's general expenses, about \$1.5 million per quarter.

Group Insurance suffered from experience losses. And Group Pensions benefited from a good quarter overall.

With respect to capital, the solvency ratio was at 193% at the end of December, which is at the top end of our 175% to 200% target range. And excess capital reached \$171 million.

We bought back 391,000 shares at the end of 2007 and a 130,400 at the beginning of 2008 for a total of 521,400 shares. These shares were bought back at an average price of \$42.77.

These purchases were made to offset the dilutive effect of the shares that were issued at the end of January as part of the acquisition of Excellence. I should add that we intend to use our normal course issuer bid, which was renewed for one year, to eliminate any dilutive effect of the shares that could be issued as part of the stock option plan. This would be the first time that we would be using our normal course issuer bid in such a way.

We disclosed the embedded value for 2007. You may have received a separate presentation about that.

As at December 31, 2007, embedded value amounted to \$2.8 billion, or \$34.92 per share, an increase of 16.3% as compared to the previous year, before the payment of dividends and 13.8% after the payment of dividends.

The embedded value/book value ratio increased slightly from 1.65 times as at December 31, 2006 to 1.66 times as at December 31, 2007.

The recurring items, which are those over which the Company has a certain control grew by 11.7% in 2007.

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

As for the non-recurring items, the reduction of the federal corporate tax rate over the next few years increased embedded value by \$121 million or by 4.9%; and the Company's decision to reduce the value of its non-bank ABCP by 15% in 2007 resulted in a decrease of \$7 million or 0.3% in embedded value.

We continue to stand out through our capacity to generate profitable new business. The value of new business reached a high of \$121 million in 2007, up by a record growth rate of 27% on a year over year basis. Sales growth added \$13.4 million to the value of new business this year and improved margins added \$12.1 million.

This concludes our presentation. We are now ready 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 like to register your 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 like to withdraw your registration, please press the "1" followed by the "3".

If you are using a speakerphone, please lift your handset before entering your request. Once again, to register your question, please press the "1" followed by the "4" on your telephone.

One moment please for the first question.

Our first question comes from the line of Doug Young, please go ahead.

- Doug Young: Hi, good afternoon. I just want to go back to the guidance for a moment. You said the starting point was \$3.08 and under normal circumstances, it's 10% to 13% EPS growth. Does that 10% to 13% EPS growth factor in A, the accretion from the recent acquisition and B, the benefits from the tax changes? Or should we be adjusting for that after the 10% to 13% growth?
- Yvon Charest: That includes Excellence, the \$0.04. And that also includes taxation because in terms of taxation, you have seen that from Denis' presentation. Yes, that also includes the 1% tax break there. So it includes both.
- Doug Young: So, that's included in the 10% to 13%. And then, from there we should make adjustments based upon equity market sensitivity essentially?
- Yvon Charest: Exactly.
- Doug Young: The second question is on the strain. Obviously, the individual insurance strain came in well below the guidance. And I understand the shift in product mix to less strain intensive policies like YRT UL and so forth, but, is there anything else that's really materially contributing to this? And should we expect it to stay at this level over the next few quarters?
- Normand Pépin: We repeat our guidance, which is more like 50% to 55%. This quarter we were lower than expected due to large policies. And obviously, when it's a large policy, you can expect the strain to fluctuate a little bit more.
- I don't know if that answers your question?
- Doug Young: So, there was more than usual larger policies that came through and that was big contributor to...?
- Normand Pépin: Yes, definitely. More than usual larger policies on a YRT basis.
- Yvon Charest: This is why we've decided to keep the guidance between 50% and 55%. You can see that there can be some fluctuation. But if you look at the year in total in 2007, the strain was 52%.
- You look at the one year result and you say, "Wow! It seems that 50% and 55% is doing the job, although there could be some volatility per quarter."
- Doug Young: On Group Insurance, I have two questions. Employee benefits sales down 34%. Is there anything contributing to that? Was there any pricing changes in the past few quarters that would have contributed to that?
- And the second is, on the experience losses of \$2.7 million, what was that related to? It seems fairly large versus what we've seen in past quarters?
- Yvon Charest: For the first question, there has been no change on pricing. What you have to know is that about 60% of our sales are coming from our target market, small to medium size

companies of between 50 to 1,000 employees. And there, sales are pretty stable from one quarter to the other.

As for the other 40%, the big groups, it just varies so much from one quarter to the other. And typically, larger groups would like to have an issue date, let's say of January 1, but it could be in some other quarter. So, no specific indication about the trend there. So, don't conclude that. It's only that there could be volatility.

As for your second question, I think that Denis Ricard would like to move to the nine quarter results for that line of business. And you will see to what extent there could be no more volatility than the other quarters. Denis?

Denis Ricard: Well, if you look on page 5 of the rolling nine quarters and you look at the experience gain or loss line, you will see that you could have quite a bit of volatility for that line of business.

And then, in particular for this quarter, it's more on the life and AD, I mean accidental death that we've been hit. But as you can see, it's a more volatile line of business.

Yvon Charest: In the last eight quarters, there have been four quarters where the pluses and minuses have been around \$2 million or more. So that volatility is not unusual. And given, that it's only the first quarter with a loss versus the previous three with a gain, we are not particularly concerned here and we haven't seen any special trend.

Doug Young: So, you're not concerned at all about any underlying trend in that line?

Yvon Charest: No, we are not, because when it has been a bit negative lately, it has been the disability. And this time around, as Denis mentioned, it's more life and AD&D and there, it's just one quarter. So, we are not concerned with the overall profitability of group insurance.

Doug Young: Okay and just the last question on Ecoflex, can you tell us how much in assets you now have in that product?

Denis Ricard: If you go to the rolling nine, page 7, you will see seg funds under funds under management at the bottom of the page. And you can see that most of it is Ecoflex. So, you've got \$6.7 billion.

Doug Young: Sorry, I'm talking about the new GMWB product.

Normand Pépin: It's a little bit too early to release the results there. We are obviously monitoring that on a weekly basis. And it's good. It's off to a good start. Obviously, we'd like to get more. But we're not prepared to release the number at this particular point. In a few more weeks.

Yvon Charest: And Doug, just for you to know that our product is historically Ecoflex and the new one is *Ecoflextra*. This is why we answered the question on Ecoflex first.

- Operator: Our next question comes from the line of Michael Goldberg with Desjardins Securities. Please go ahead.
- Michael Goldberg: Thanks. I have a couple of questions. First, I'd like to get a little better understanding of the equity market sensitivity that you talk about where it seems to me that there's two components to it.
- First of all, if you take the 10% drop on January 1. And then, assume 7.25% over the remainder of the year, what you're in effect saying is that the year-end market level would be down 3.5% instead of being up 7.25%. And also the average level of the market would be down 6.75% instead of up 3.6%.
- So, can you split that sensitivity between those two components, the year-end level of the market and the average level of the market?
- Denis Ricard: I would like you to go to slide 10 in the presentation we made. The only thing I can say at this point is that the calculation we made was strictly to look at the impact of the immediate drop of 10% that would follow a recovery over the year.
- I guess we could play out with the average return over the years. But, that's the only guidance I can say at this point, Michael.
- Michael Goldberg: Do you know what I'm getting at though?
- Yvon Charest: I understand. What you'd like to know is that if for example the market was to go down 10% and remain flat for this year, what would be the cost, and then if there was a small increase during the year of 7%, what would be the second component?
- Michael Goldberg: I'm just trying to get a better feel for the two components because they are different.
- Yvon Charest: Yes. But the way I see it is that we have not done the split between the two. But if I were you, I would just draw a horizontal line. And just try to visualize. And the size of both boxes will certainly give you quite a good indication. I don't know if we could go any further in the next week or so. But as we speak, unfortunately we don't have the split.
- Michael Goldberg: Okay. My second question is in 2007, your full year value of new business was up \$25 million, as you've said, Denis, split roughly evenly between sales and margin contributors with no impact of economic assumptions. Can you talk about what you'd be looking for in 2008 growth split along these three lines of sales, margins and economic assumptions?
- Yvon Charest: It's just impossible for us to make the projection in a competent way. As you know for the economic assumptions, it would just depend of the then long term interest rate and risk premium.
- In the years before we were calculating, we were producing the embedded value in May and this time around, we do that in February. So, we have been able to gain some

three months there. But, in terms of the economic assumptions, no way we could predict that a year or so ahead of time.

As for the split between the other two, again, it's very tough to predict for us, because we don't know what will be the competition in the market in '08. So, it's very tough to say that we are confident that we could increase our profit margin this year in that line of business versus another.

In retail insurance, it just depends upon the other guy's reaction in terms of pricing. In terms of wealth management, it might be impacted by our sales and the market.

While I would dream to know that one year ahead of time, I think it's not reasonable for us to throw numbers publicly today because we have very little control and we could hardly predict them all a year or so in advance.

Michael Goldberg: So, is it reasonable to assume that if we have weak stock market conditions that that would have a negative impact on the economic assumption factor?

Denis Ricard: Well, I would say that that would be true for the in-force embedded value. But for new sales, I mean a new sale is a new sale. At point of sale you've got an expectation of a future profit and it's the expectation of the economic assumption from that point on.

So, if the market went down already, well, it doesn't affect the actual amount that you just received in terms of premium for example.

Michael Goldberg: One more. At year-end, how much equities do you have backing capital?

Yvon Charest: Probably the best indication, Michael is to go to the rolling nine quarters. In the rolling nine quarters, you have a section concerning our stock portfolio. And that section would be on page 11. And on page 11, you have the distribution of stock by category.

So, it would be fair to say that the common stock portion, the 5.7% of \$1.7 billion is the one backing the capital.

Michael Goldberg: My last question, what's the impact of the Excellence acquisition and the sale of the Caribbean block on embedded value?

Denis Ricard: Well, for the Caribbean business, it's quite a small line of business. There's only 10,000 policies, so I would say that this is immaterial to the whole portfolio, the embedded value. And in terms of Excellence, we put in the MD&A and Yvon, I think you got the page here?

Yvon Charest: It is on Page 45, left column first line. The impact on the embedded value is a decrease of \$36 million. So, you should not be surprised to see that it is a decrease because in fact the embedded value excludes all future business.

So, if you were to take into account the future business and the appraisal value, then it would be different and we are pretty much at ease with the price we paid with

Excellence given the expected future profitability. But on the embedded value as such, it's going to be a decrease of about \$36 million in 2008.

Michael Goldberg: So, that was a decrease of \$45 million?

Yvon Charest: No, that was a decrease of \$36 million. But the information is on Page 45 of the MD&A, first line of the page.

Operator: Our next question comes from line of John Reucassel with BMO Capital Markets. Please go ahead.

John Reucassel: What's the latest available data you have on the seg fund AUM and the mutual fund AUM? Do you have it as of a couple days ago?

Normand Pépin: Well, yes.

John Reucassel: Can you tell us?

Normand Pépin: Well, I don't know. I don't know if we should disclose information that will be very relevant at that the end of the first quarter. I don't think, at this time, we're prepared.

John Reucassel: Well, I guess your mutual fund AUM we can get from (unintelligible) for January?

Normand Pépin: Well, you can get the sales from January.

John Reucassel: Can you just give us a seg fund AUM for January 31?

Normand Pépin: Again, we're going to wait until the end of the quarter before we release the seg fund sales. We don't release the seg fund sales on a monthly basis.

John Reucassel: I'm not at sales, I'm referring about the AUM.

Yvon Charest: You know how easily people could implicitly get one number from the other. So, we prefer to stand.

In all past conference calls, we have never given any indication about what is coming next in the next quarter or the next month. And if we were to start to do that, we are just afraid that at every call we will have to do the same.

So, we prefer to stick to public information that is mostly available on a quarterly basis with the exception of mutual fund sales, which are available on a monthly basis.

John Reucassel: This it not a typical quarter in the market, right?

Yvon Charest: Yeah, but it's typical of analysts to always get a bit more information. And we just have to decide where we draw the line.

John Reucassel: Okay. And I don't know if you can answer this one. On slide 32, on your ABCP exposure, could you tell us of your \$15.6 million in write downs you've taken, have

you written off your category three step to zero or have you sprinkled a little bit everywhere? Could you tell us what you've done in there?

Yvon Côté: Well, if you remember, we established the 15% markdown a few months ago. And when we got additional information recently, we ran many scenarios.

Also, currently in the market there is some kind of rule of thumb whereby the investor thinks that the markdown should be 5% in the traditional assets, 15% in the synthetic assets, and 50% in the subprime assets.

And when we look at our 15%, it's more than sufficient compared to this rule of thumb.

John Reucassel: Okay. And your allocation between those would be close to what the market has outlined, the \$15.6 million?

Yvon Charest: In fact, what we are seeing is that the 5%, 15%, and 50%, those are the rules of thumb that have been discussed quite a bit among participants lately including auditing firms and all of that.

So, if we apply the three numbers to our own assets, it's slightly lower than the 15% overall. And that's why we are at ease with our 15%.

John Reucassel: Okay. Last question, you talked about in your strategy session building a solid base of business in the United States. Are you still looking at acquisitions down there or is it more of an organic story in the US?

Yvon Charest: Certainly, we want to develop the organic base more aggressively because all we have is a mere 2% of our operation in the US.

What we have done in terms of testing the business model is that, well first of all, we have decided to have a local presence in Phoenix. We have a dozen or so employees now working from Phoenix, whereas as in the past, everyone was working from Vancouver.

Those people moved there, including a full-time Senior VP who will be closer to the market.

And in 2007, we launched a Universal Life policy. We have established quite good relationships with key distributors. We have also tried to modify our fixed annuity product. So, certainly, organically, we are putting a lot more energy than we were in the past.

At the same time, we have looked at acquisitions in different markets. And the market where we are concentrating right now in terms of potential acquisitions is the traditional life and annuity market. Certainly, it has taken more time than we first thought.

But, we want to make sure that we make the right acquisition. I can assure you that our level of knowledge of the US market has improved quite a bit since we started operating out there.

As for delivering an acquisition you know, either you have your press release on a given date or you have nothing to say. So, unfortunately, I don't have a press release. But as I mentioned, our knowledge is much, much better than it was quarters ago.

Operator: Our next question comes from the line of Tom MacKinnon from Scotia Capital. Please go ahead.

Tom MacKinnon: Good quarter. Maybe a question for Denis and Yvon, if you want to share as well. Slide 28 has the changes in assumptions and obviously positives in mortality and negatives in interest and lapse. Would you care to elaborate on the pluses and minuses as to how you got to the negative one or not?

Denis Ricard: Well, I guess if you look at our MD&A on page 37, we show there the sensitivity of the reserves compared to a certain assumption.

And I guess the guidance I would tell you today is that obviously, when you look at it overall on a net basis, the number is small, but when you look at it item by item, obviously, it was material when you look at them one by one. So that would be the best guidance I could tell you at this point.

Tom MacKinnon: Okay. And maybe just continue on page 36 in the MD&A, you talk like, if interest rates were to remain at a lower level for more than one year, the policy liabilities would be recalculated to assume this decrease and this change would be part of the annual review carried out by the appointed actuary.

Also, in the event that this decrease is deemed permanent, the policy liabilities could take into account that this rate decrease will continue to be in the future. So now, we've got some things in here to define like lower level and what the deemed permanent and what is the interest rate that you're looking at here.

So, within that MD&A, can you give a little bit further clarification as to what a lower level is, what interest rate we should be looking at and how you determine if the decrease is permanent?

Denis Ricard: Here, permanent means that we incorporate that in the reserve process. And I would link that to the ultimate reinvestment rate that we're using in the reserve.

So obviously, when you look at 2008 -- 2007 if it was last year, but we are saying today that for 2008, we're already, at a level which is below the maximum prescribed by the Canadian Institute of Actuaries.

So the point here is that's a ten bips decrease. If we were to decrease by ten bips on a permanent basis, that would be the impact, so it's only kind of sensitivity testing here that we're putting.

- Tom MacKinnon: Is this all just related to the change in the URR? Is that what you're talking about in this paragraph here then, because that is sort of a mathematical moving average really, isn't it?
- Well, not like deeming something to be permanent. It's just that the natural event of that ten-year moving average calculation isn't it?
- Denis Ricard: Well, I'm glad that you asked the question because you are right. It's not only the URR, the Ultimate Reinvestment Rate, but it basically, when you look at the rate at all durations, it's a simple decrease of ten bips if we were to consider that is the permanent and put it in the reserve.
- Tom MacKinnon: When do you determine if it's permanent? What does it have to do? Does it have to go down 100 points and hang in there for a couple of years and then it's permanent? Just trying to get some ideas to how you think about that.
- Denis Ricard: Well, right now what we do basically is that when you look at the initial reinvestment rate, we have to reflect the current situation. So that's the starting point. When we look at the ultimate reinvestment rate, it's a judgment call. It's strictly a judgment call.
- Tom MacKinnon: You're saying it's not the mathematical thing you're moving average formula the CIA prescribes.
- Denis Ricard: The formula that you are referring to is the maximum that can be used.
- Tom MacKinnon: Yeah, okay.
- Yvon Charest: Why don't you go to slide 28 and perhaps I'd like to offer two comments. And I know that we don't necessarily want to mention specific numbers, but let's say that there has been, for the last couple of years, two material items among all the four assumptions. And those have been interest rates and mortality.
- So with interest rates, we have had material increases in reserves. And with mortality, we have had material decreases in reserves. The other two have not been that material, they are plus and minuses.
- Now, the mere fact that we reinsure only 1/3 of the other guy's level, the industry level has been very, very beneficial for us there.
- So then the question remains, how is it that we could be hit with the interest rates in the future? What you can see from that slide is that so far, so good, we have not been hit. Even if years ago, people were not able to use more than 5% as a long term rate.
- Whereas, if the low rates continue as it is, in 2012, I guess, Denis Ricard told the audit committee yesterday that the long term rates will be around the maximum long term rates for reserves will be 3.8%.

All I can say to you is that it seems to me that right now, we have done more than 50% of the job moving to a very low interest rate environment without having to materially increase the reserve.

So, we cannot guarantee the future, but people could be somewhat confident with the way it has been done during the last eight years since we became a public company.

Tom MacKinnon: Just one follow-up. You said you've done 50% of the job in moving towards a very low interest rate environment. What is meant by a very low interest rate environment?

Yvon Charest: I said more than 50% and Denis, correct me if I'm wrong but I understand, if the low rate, the current rates were to remain the same, by 2012, the maximum interest rate, long term interest rate to calculate the reserve would be around 3.8%.

Tom MacKinnon: And you currently use something where the rate is less than 4.6 – 4.7ish?

Yvon Charest: All I can say is that we believe that we have done more than 50% of that job so far.

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

André Hardy: My question is about individual life sales. I can understand that National Account sales can be lumpy, but can you explain a little bit more detail how you managed to grow sales 24% in a Career agency network?

Yvon Charest: Normand, André is referring to slide 14 and the growth of 12% in the Career channel which I believe, by your question you mean that it has been a relatively good quarter.

Normand Pépin: Are you talking about the General Agents or the Career, because when you mentioned 24 good Career, 10% or 24%?

Andre Hardy: Career, 12. I said, 24.

Normand Pépin: Sometimes there's a little bit of fluctuation even if it's a very stable network. Everything has been very, very strong in the Career this year. I guess we're starting to see the impact of the new agents coming on.

I would say with the Career, we also have a team that helps our Career agents to sell in the upper end market. We probably also got some of those larger sales with the Career as well.

André Hardy: So there were no things that accelerated sales in Q4 that we may not see in upcoming quarters?

Normand Pépin: No, no, no. There was nothing. We didn't change the price of our product in Q4 and it was the continuation of what we have done before. But we made some changes in 2006 and then we changed that again at the beginning of 2007.

Sometimes when you make that kind of adjustment, it takes time to really make its way through the sales force and be understood and accepted by the sales force.

Besides, the sales force is back with us those that were worried by our changes. And now I think they're back with us. That's why we're having good sales.

Operator: Ladies and gentlemen, as a reminder, to register a question, press the "1" followed by the "4" on your telephone. We do have a question from Mario Mendonca. Please go ahead.

Mario Mendonca: A couple of quick questions. On Tom's question about disclosing both sides, the release and the strengthening, is there a way you could sort of help us think through this. Specifically, end of last year, you told us that your URR assumption was a little bit below the prescribed rate. And you're sort of hinting at the same thing, it's a little below the prescribed rate.

Did this prescribed rate drop by about 15 basis points say from the end of 2007 to the end of 2008 again, assuming rates they where they are? Is 15 basis points about right?

Denis Ricard: The reality is it's 20.

Mario Mendonca: So 20 basis points. That's what the prescribed rates move from 27 – '07 to '08. So if we know it...

Denis Ricard: '07 it's 12.5

Mario Mendonca: Yeah. That was from '06 to '07. I'm talking about '07 to '08.

Denis Ricard: Okay. '08, you know, we don't know yet because the interest rate...

Mario Mendonca: Right, right. Just assuming it stays where it is though. It's about 15 basis points, is that right?

Denis Ricard: Yes, you're right.

Mario Mendonca: I guess what I'm getting at is you moved from a little bit below the '07 level at the end of '06 and a little bit below the '08 level at the end of '07. And we know you've changed your URR by about 15 basis points.

And if we just apply that to your sensitivity, when you're indicating that there's about \$51 million effect for a ten basis point shift. Then don't we sort of know that it's about \$75 million either way?

Denis Ricard: Well, I think you made a conclusion here. We're not saying that we're doing exactly what you're mentioning here. Our philosophy is to try to prevent surprises. We like to be in advance. We like to know in advance that we have some room to manoeuvre.

That's why right now, we can say that for 2008, it's not an issue. And we don't want to be too much in advance. That would be the most I can say at this point.

- Mario Mendonca: You wouldn't want to confirm or steer me to a different direction from the \$75 million estimate. You just want to leave it out there?
- Yvon Charest: Yes, that's right, because if we were to confirm, we just have to add one slide to have the numbers.
- Mario Mendonca: Right. Okay, a couple of other things. The earnings on surplus, \$24.2 million. So we add back the 24 related to the narrowing of credit spreads in your own securities. You were looking at 26.6 on the capital, earnings on capital. That's a big number.
- It sounds like it was the auto insurance area that helped. Would it be fair to say that most of that goes to the individual life segment? Most of the earnings from the...
- Normand Pépin: No, unfortunately not. It stays in the capital and surplus. I say unfortunately because I want the return on the individual life insurance. It doesn't go in there but it's always out of that operation.
- Mario Mendonca: Right. But for the purpose of your sources of earnings, I think it...
- Yvon Charest: You're right, for the purposes of SOE we have to then split the income on capital among the four lines of business. You can see the importance of retail insurance out there.
- Mario Mendonca: Right. But I'm trying to get a handle on is how much, how good was the auto business this quarter, the P&C business. I want to get a flavour for how strong individual life really was this quarter. It sounds like you got a nice lift from that business.
- Yvon Charest: No. The home and auto is not a fifth line of business. The home and auto in terms of profitability is considered as any other investment income on capital and it stays on that line, it's not then split by line of business. The only way you could see it split is in the notes to the financial statements and then we have to disclose the results by line of business.
- Otherwise, the home and auto, in the sources of earnings, stays on the income on capital line. To your question, yes, the income on capital has been good in Q4, to your question quite a bit is coming from home and auto that had a good Q4.
- Mario Mendonca: What I'm getting at is that the earnings on capital in individual life insurance, in the sources of earnings, do benefit from the strong auto P&C quarter, would you agree with that?
- Yvon Charest: I would agree, but you have to be careful. The income on capital, we take it for all the Company together and then it split by pro rata. So the home and auto is not going in one line of business and another income on capital in another line.
- Mario Mendonca: Right, but the majority of...

- Yvon Charest: Yes, you're right. In that sense, in the pro rata, retail insurance has been favoured by the good results of home and auto in Q4.
- Mario Mendonca: Okay. And I'm just trying to get a sense like individual life was awfully good last quarter up 41%, awfully good this quarter up 25% or 29%, rather. Obviously, we can't expect that sort of thing to go on in 2008. I know that the strain story helped. I'm just trying to get a flavour for how strong is individual life for earnings as we move into 2008.
- And I suspect that a variety of factors really helped this year. Strain being one, another being these higher earnings on capital. And that's why I was asking you the question.
- Yvon Charest: The best guidance that we can offer you here is to look at the three lines separately. The profit on the in-force retail insurance, the best guidance is what happened lately. Second line is new business strain. The best guidance is the 50% to 55% range, in spite of the fact that Q4 has been relatively low.
- And then the third component is the income on capital and there, we would suggest that you look at the income on capital not by line of business for the Company in total. You look at the growth of the capital base of the Company. You try to develop a sense or how quickly the capital could grow in 2008 and then you apply the same percentage to all lines of business.
- That would be the best guidance I could offer you here.
- Mario Mendonca: And I can do that. I appreciate that. That was helpful. One final question. The YRT to total, 34% this quarter, it was 38% last quarter, down a little bit, but still really good. This is the contribution, the total individual life sales from YRT.
- So not as big a component this quarter so as the last quarter. But yet, the strain to sales ratio came in significantly. Those two, I generally don't see their behaving that way unless there was some other factor.
- Somebody referred to much stronger sales of larger or high net worth individual life policies. Is that the reconciling item that I'm going after?
- Normand Pépin: I would suspect this is the reconciling item, yes.
- Mario Mendonca: But generally, you wouldn't expect those two ratios to move that way, right?
- Yvon Charest: Probably not as quickly as they did. Like we said, there's fluctuation there but I guess, we are going to fluctuate more, above or below the average because of those larger sales.
- Operator: There are no further questions at this time.
- Jacque Carrière: Okay then, so we will conclude this conference call. Before concluding it, I would like to mention that will be holding an investor day on Tuesday, June 17, in Toronto, from

8:30 to 1:30. So please mark your calendar. All details of the conference will be provided over the next few months.

This concludes our conference call. If there are additional questions from the audience or if anyone needs any clarifications, please don't hesitate to give me a call.

My phone numbers, 418-684-5275 or my cellular phone, 418-576-3624. These phone numbers are also given 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

END