INDUSTRIAL ALLIANCE

Moderator: Jacques Carrière
May 4, 2005
11:30 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Industrial Alliance first quarter 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.

As a reminder, this conference is being recorded, Wednesday, May 4, 2005.

I would now like to turn the conference over to Mr. Jacques Carrière, Vice President of Investor Relations at Industrial Alliance.

Please go ahead, sir.

Jacques Carrière: Thank you and good morning everybody. I would like to welcome you all to today's conference call to present Industrial Alliance's results for the first quarter of 2005.

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 starting from 4:30 this afternoon. The archived Webcast will be available for 60 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 everyone. We are speaking to you today from Quebec City. As usual, the results will be presented by Normand Pépin, our Executive VP and myself. Other participants will be available to answer questions. They are John Gill, the President of Industrial Alliance *Pacific*, René Trudeau, the COO of National Life, Yvon Côté, the head of Investment, Denis Ricard, the Chief Actuary, and Rif Jiwani, the Corporate Controller.

I believe that we can qualify the first quarter results as a good start to 2005. We are building on the momentum set in motion last year with an EPS of $1.06, up 14%, and a ROE of 13.8%, both of which are in line with our guidance.

Business growth is also strong with premiums and deposits up 25%, thanks to an excellent RRSP season, both in our seg fund and mutual fund businesses. As you may have seen, we are beginning to report our mutual fund sales this quarter given the growing importance of this new operation. Mutual fund sales and former Individual Annuities sales, which include seg funds, have been combined under the title “Individual Wealth Management.”

Strong sales in our wealth management products pushed the added value of new sales to a record level of $23.6 million, up 36% for the quarter, a sign of the sustained profitability of the business that we are writing.

Our continued good earning results and strong capital position allowed us to increase our dividend by 3 cents per share to 25 cents. This raises our payout ratio to close to 24%, which brings us closer to our objective of increasing our payout to 25% over the next 12 months.

We have also released our embedded value for 2004. Embedded value figures are pretty strong too, with the recurring components still growing by more than 10%, which is also in line with our guidance of a low-double-digit growth rate.

As for the National Life integration, it’s moving along pretty well. In fact, barring any unexpected hurdles, we should be able to complete the legal integration by June 30, six months earlier than expected. I will say more about the integration later.

Before providing you with more flavour about the results, I’d like to inform you that John Gill, the President of Industrial Alliance *Pacific*, our Vancouver-based life subsidiary, recently informed us of his decision to retire in July.

John, who will be turning 63 next month, has been with the Company for over 30 years. He was appointed President of IAP in 1982. John played a key role in the purchase of Seaboard Life. Not only did he successfully complete the integration of Seaboard with tact and his well-known reputation for being a consensus-builder, which helped quite a bit in merging North West and Seaboard Life, he has also developed two strong and profitable niches from the IAP head office in Vancouver, the creditor business with car dealers and the Special Markets Group. Thanks to John, IAP brings a lot diversification to the IAG organization, as well as a strong presence in the Western provinces. I’d like to thank John and wish him a long and happy retirement.

We should be able to announce John’s successor next July when we hold our Annual three-company Board Meeting.

Now, let’s go back to the results.

Slide 6 provides you with the profitability results for Q1. As you can see, the net income to shareholders amounted to $42.4 million, up 14% over Q1 of last year. This translates into diluted EPS of $1.06, up 13 cents, and an ROE of 13.8% for the quarter annualized, which is in line with our 13% to 15% target.

However, the income for the quarter contains two offsetting items.

First of all, a $0.9 million after-tax restructuring charges related to the integration of National Life. These charges are on target.

Second, there is also a $1.1 million after-tax gain resulting from the sale of our Teleglobe bonds. You might remember that the company held $27.9 million of Teleglobe bonds and these bonds were fully provisioned. We sold them for a $1.7 million gain before tax which translates into $1.1 million after tax.

Now, on Slide 7, you can see that by line, all business segments contributed to the first quarter profitability. And the income was higher than that of the same quarter last year.

The main drivers of growth were the following.

First, the expected profit is up 17%. This is in line with our guidance of a double-digit growth rate. This is a result of the sustained growth of our profitable in-force business, combined with the taking into consideration of experience gains recorded in past years and the pricing discipline exercised by the company.

Earnings benefited from $3.4 million in experience gains. About half of the gains are attributable to the amounts recovered from the disposition of the Teleglobe bonds.

Strain reached $20.7 million, up 7% over last year. The increase is explained by the growth of sales during the quarter and the conservatism of the assumptions used in the valuation of the reserves.

Income on capital increased by 24% over last year. Three factors are behind this increase: the improved profitability of the auto and home insurance subsidiary attributable to a good claims rate for the first quarter; a decrease in the cost of financing of debt securities; and an increase in investment income for almost all categories of assets, owing in part to a higher asset base.

Income taxes are up by 13% which is in line with the increased profitability of the company. The effective tax rate was 31.8% for the quarter.

As I indicated earlier, we have posted $0.9 million after taxes in restructuring charges related to the integration of National Life. This is shown separately in the source of earnings on the line called “Other Items.”

Just to give you a quick update on the National Life integration, we are still expecting that total restructuring charges to be $12.5 million after tax. So far, $6.1 million was recognized in Q4 of last year and $0.9 million this quarter for a total of $7.0 million. The other charges will be recognized as they are incurred up until the end of 2006.

In terms of savings, National Life is currently running with some 60 employees less than at the end of December. Many of these employees are now working with CGI and helping us with the integration. All cost savings related to the integration are included in the expected profit.

Financially speaking, for this year we still think that the integration will be EPS-neutral.

From a legal perspective, as I indicated earlier, we now believe that barring any unexpected hurdle, we should be able to complete the legal integration by the end of June, six months earlier than expected. National Life should thus officially cease to write any new business and should officially close its books at the end of June.

In terms of systems integration, we are still expecting the integration to be finished by the end of 2006. The integration is progressing on many fronts and without major hurdles.

On Slide 12, you'll see that the solvency ratio was 222% at the end of March, unchanged from the end of December 2004. No significant item affected the solvency ratio during the quarter. This ratio is well above our 175% to 200% target range.

We continue to write very profitable new business, as you can see on Slide 13. The added value of sales grew 36% in the first quarter of 2005 to reach $23.6 million or 59 cents a share. This is the most solid quarter that the Company has experienced in absolute terms and in terms of rate of growth since it began disclosing its embedded value of new sales.

This increase is primarily explained by the following three factors: the consideration of mutual funds in the calculation of added value of sales, the increase in seg fund sales, and the update of economic assumptions to take into account the current environment of Canadian bond returns.

The overall quality of investments remains excellent. The sale of the Teleglobe bonds has reduced gross impaired investments and provisions, but has not impacted net impaired investments, which now total $11.0 million or 0.10% of total investments at the end of March. About half of our gross impaired investments are now provisioned.

The mortgage loan delinquency rate increased slightly during the quarter to 0.43% of the portfolio due to a small loan that defaulted. Mortgage loans in arrears totalled $10.8 million and four loans account for 93% of arrears. The company is not expecting any losses on the loans in default.

A couple of highlights now about embedded value. Embedded value reached $2.1 billion at the end of 2004, an increase of 14.3% over 2003 before dividends and 12.6% after dividends. This translates into an embedded value per share of $53.80.

The recurring components grew the embedded value by 10.9% in 2004. Since we began calculating embedded value, recurring items have consistently increased by more than 10%. This is in line with our low-double-digit growth guidance.

We believe that the financial community should focus on the recurring component of the embedded value as it provides a company's real capacity to grow year after year. As you already know, embedded value of new sales totalled $1.60 per share in 2004.

One more word, about the dividend. You know that we are holding our general meeting this afternoon and that the shareholders will be called on to vote on a resolution to carry out a 2-for-1 split of the company's common stock.

If this resolution is approved, the split will take effect on May 18 and the company's shares will commence trading on a split-adjusted basis on May 16. In this case, the dividend paid to the shareholders of record on May 20, 2005 will be 12.5 cents per share on a split-adjusted basis.

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

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

In a nutshell, the first quarter sales result can be summarized in the following way. Excellent RRSP season; outstanding results in the seg fund market; a good start for our mutual fund manufacturers, thanks to the recently purchased fund manager, BLC-Edmond de Rothschild, and the signing of a ten-year distribution agreement with Laurentian Bank; satisfactory results in the Individual Insurance line of business, considering all the changes due to the integration of National Life; and good results overall in the Group business except for the Employee Plan segment.

As Yvon mentioned, we are reporting our individual annuity premium and mutual fund deposits under Individual Wealth Management.

So a very successful RRSP season and a good in-force business persistency rate, pushed premiums and deposits for the first quarter to a historical high of almost $1 billion, at $997.9 million, which translates into a 25% increase over the same period last year.

All lines of business recorded increased premiums, but the growth came primarily from the Individual Wealth Management sector, which greatly benefited from the seg fund sales by the IAG life companies and mutual fund sales by the fund manufacturing subsidiaries.

After an outstanding year in 2004, the Individual Insurance line of business still managed to record a seventh straight quarter of increased sales when compared to the same quarter of the previous year. The first quarter ended with sales of $31.0 million, up 1% compared to the first quarter of last year.

Sales growth in the Career and General Agents networks were partially offset by decreased sales in the National Accounts network. Lower sales in National Accounts resulted in lower Universal Life policy sales, which was offset by an increase in term and critical illness insurance sales.

You will remember that on January 1, we began implementing our new distribution strategy in the retail market. The distribution structure is now organized by network rather than by company. We now offer a single line of insurance and wealth management products to all our distribution networks across Canada.

The 2005 RRSP season was excellent, on the heels of what we already described as being an exceptional 2004 RRSP campaign.

Sales of general funds, mainly GICs, seg funds, and mutual funds reached $495.2 million for the first quarter, a 52% increase. This increase mainly comes from our mutual fund manufacturers, which had an excellent RRSP season with gross mutual fund sales totalling $145.6 million and net sales of $67.7 million.

Seg funds also recorded extremely solid results, ending the quarter with record net sales of $198.9 million, which ranks our company third in Canada in this area. This is up from a fourth rank in 2004.

The Group Insurance Employee Plan market was rather slow in the first quarter. Sales reached $13.9 million, a 36% decline compared to last year. The slowdown is explained by the lack of activity in the market with the industry suffering a 28% decrease in sales.

The Group Creditor Insurance sector had an excellent first quarter after a rather challenging year in 2004. Sales reached $28.1 million in the first quarter, a 14% increase over last year in spite of a rather anemic 2% increase in car sales in the first quarter. This proves beyond any doubt that we are gaining market share.

The Special Markets Group sector continues to profit from the strong sales achieved in past years, with business volume increasing by 6% in the first quarter.

In spite of the lack of large group transfers in Group Pensions, sales increased by 4% totalling $130.9 million. This increase comes primarily from the insured annuities market, as well as the strong growth of recurrent premiums in accumulation contracts, what we call our core business. From a strategic standpoint the company continues to focus on the accumulation contracts market.

Asset under management and under administration totalled $29.6 billion as at March 31, 2005, an increase of 4% for the quarter and 44% for the last 12 months. The growth during the quarter was good in all sectors due to the increase in premium income, good growth of the company’s various subsidiaries and the performance of the stock markets.

Before concluding my remarks, I would like to inform you that we closed the acquisition of certain assets of KingsGate Securities on April 22. The agreement in principle was first announced on March 3.

KingsGate is a full service securities brokerage firm located in Ontario. It has some 20 securities brokers, over 5,000 clients, and administers almost $280 million in assets. The purchase price was $1.8 million.

This acquisition will increase the assets under administration of Industrial Alliance Securities to over $1.2 billion. The KingsGate team will form the beachhead for Industrial Alliance Securities in Ontario.

This concludes our presentation we are now ready for the question period. I will 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 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 are using a speakerphone, please lift your handset before entering your request.

As a reminder, please press the 1 followed by the 4.

One moment please for the first question.

Our first question comes from the line of Brad Smith with Merrill Lynch.

Please proceed with your question.

Brad Smith: I wanted to understand a little bit better the premium line in the individual life and health segment. It shot up quite a bit in the fourth quarter and now it's come back down to sort of trend.

I was just wondering, I might have missed something in the fourth quarter or what's driving it back down again in the first quarter?

Just wondering if you could clarify that.

Yvon Charest: We started working on the integration of National Life during Q4 of 2004. And we received an offer from the reinsurance company to allow us to recapture some individual insurance business.

In doing so, we had an additional $20 million of premium income in that line of business in Q4. In fact I'm told that it's even close to $30 million.

So, out of the premium income in Q4, $30 million is non-recurring.

Brad Smith: Okay. Can you just describe the economics of that recapture Yvon so we can understand that? What was the incentive for you to recapture that given that you had ceded it away previously?

Yvon Charest: I don't want to expand too much, but let's say that the offer came from the reinsurance company which, for various reasons, was not interested in continuing to do business in Canada.

So, given that the offer came from them, we thought that we were in a relatively good position to discuss with them the conditions under which we would recapture it.

So, we are pleased to have done that deal, no doubt about it.

Brad Smith: And was that sort of a standard proportional reinsurance agreement you had that had ceded that originally?

Denis Ricard: It was a type of co-insurance, so some assets were transferred. And like Yvon mentioned, it was the reinsurer who wanted to get out of Canada who made the first move.

Brad Smith: Okay, great thanks so much.

Operator: Thank you.

Our next question comes from the line of Tom MacKinnon with Scotia Capital.

Please proceed with your question.

Tom MacKinnon: Two questions, one is on this auto and home subsidiary—you talk about excellent results in the quarter. And I wonder if you could put some context on that? We don't have that segment segmented out, but I assume that they just get thrown in the capital. So I'm wondering if you could put some numbers around that, year-over-year and possibly quarter-over-quarter and then comment on the sustainability of that?

And I have one follow-up.

Yvon Charest: Normally in the auto and home subs, companies will suffer small losses in both Q1 and Q4 because of seasonality. And they will earn money in Q2 and Q3.

What happened this year is that instead of suffering a small loss in Q1, we made a small profit. So last year we lost $800,000, this year we gained $400,000. So the difference between the two is $1.2 million.

We have always wondered to what extent, we should add more and more information on the rolling nine quarters. Perhaps this operation has become important enough that we might start to disclose more information on it.

Tom MacKinnon: How much should we expect from this thing on an annual basis?

Yvon Charest: Let's say that we have about $25 million of investment in that sub and it is now at the point where they could reach the same guidance as the other operations of the company.

Tom MacKinnon: You mean the same ROE guidance.

Yvon Charest: Yes.

Tom MacKinnon: Okay, thank you.

And my follow-up is—maybe Normand could take this one—I'm just looking at the Universal Life sales. Maybe you can refresh me as to your market position at the quarter, in terms of Universal Life? And it is one of the lowest quarters I've seen in several years now for UL, so if you can comment on the competitive environment in Universal Life.

Normand Pépin: Tom, the environment is still very, very competitive. We even heard that some players that were not really there are getting back into the market.

At the same time, I guess we have to keep in mind that we are integrating National Life and when you integrate the operations of two companies, there's a lot of changes.

And that might have impacted our sales of UL, which are a little bit down, mainly in the National Accounts markets.

Tom MacKinnon: Do you have any update on the market share in UL…

Normand Pépin: We don't have that result for the first quarter yet for the industry, so we don't have those results. We can't compare.

Tom MacKinnon: Just refresh me where you were on the latest report?

Normand Pépin: I don't have it here but we were number one.

Tom MacKinnon: Okay.

Yvon Charest: As you know Tom, for all products combined in 2004, in Canada we ranked number 3 with a market share of 13%, but when you take it by product, in UL we were number 1.

Tom MacKinnon: Okay, thank you very much.

Operator: Thank you.

Our next question comes from the line of Doug Young with TD Newcrest.

Please proceed with your question.

Doug Young: Hi, thank you, just staying with the individual insurance line. I just noticed that the strain was up quite considerably in Q1 of '05 versus Q1 of '04, yet sales were relatively flat.

I was hoping to get a better understanding of what was transpiring there.

Denis Ricard: There are two main reasons here.

One is the National Life integration process. There has been some harmonization of processes and one of them was the retention on life insurance policies and National Life used to reinsure a bit more than IA. So bringing the retention to the Industrial Alliance level, means that we use reinsurance a bit less, so that's added to the strain, so that's one reason.

And the other reason is that if you remember last yearend there were some changes in assumptions for the whole portfolio. And using these new assumptions for the first three months' sales also add to the strain. So there are more PADs to the actual sales.

Doug Young: Can you provide us what those changes and assumptions were?

Denis Ricard: Well actually there were three main components.

One was the decrease in interest rate environment; another one was the decreasing lapses (some increases and some decreases), but it was more on the unfavourable side; and there was also some benefits from mortality improvement based on that at least.

So, it was the net of the three.

Doug Young: Okay.

Maybe Yvon just a quick question for you. I know that acquisitions have always been something that you had been looking at and I know that you've increased your dividend towards the 25% target that you've set out.

Maybe you can talk a little bit about the environment out there, what you've seen. Are you still optimistic that you would be able to do something on the life insurance side?

I'll leave it at that.

Yvon Charest: Well, we were committed to increase the payout to 25% because our guidance there was to have a payout between 20% and 30% and we have had that guidance since the very first day of the IPO.

So, we realized there that there is no reason why we should not be in the middle of the range. And we have taken one step here, we are closer to the 25% payout, but it's still not there.

But generally speaking, we continue to believe that we should maintain most of the excess capital that we have.

As you know in terms of an acquisition, you have to sit down with someone who agrees to talk and then you have to agree on a price.

So, all I can tell you is that we are trying to make those deals and it is certainly part of our priorities.

But, as you know, it's either that I did deliver one to the market today or not and unfortunately today, I don't have anyone to discuss with at the table.

But yes it's still part of our strategic activity, to continue growing our core insurance business in Canada.

Doug Young: And can you remind me what do you consider your excess capital position to be?

Denis Ricard: Yes. Right now it's around $150 million.

Doug Young: Okay.

And that's using an MCCSR of…

Denis Ricard: Well, that's about 175%, which is the minimum of the target that we aim for.

Doug Young: Okay, great thank you.

Operator: Thank you.

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

Please proceed with your question.

Timothy Lazaris: Hi, I've got one technical question and then one sort of qualitative one. The first being just on embedded value, I noticed that there's a 92 cent increase in embedded value due to the National Life integration.

I don't recall if this was talked about at the time you made this announcement. Is there any simple way to discus why embedded value goes up by almost a dollar as a result of that?

Denis Ricard: Basically what we announced in December is that we were going to have some synergies, some expense gains over the years. And that eventually it would be something like $6.6 million after tax.

Now if you take that and use some kind of a projection with persistency in the future and subtract the additional cost of this integration, then you can come up with something around $37 million, which translates into almost a dollar.

Timothy Lazaris: Okay, that's the present value of all the future synergies brought back to…

Denis Ricard: Yeah, it's the net of the additional cost.

Timothy Lazaris: And net of tax as well?

Denis Ricard: Yes.

Timothy Lazaris: Okay.

And then just qualitatively, I'm wondering, because your UL sales are softer this quarter, although they're good in terms of being number 1 or in the top 3, is there business interruption as a result of integrating National Life that you didn't factor into the decision to do so?

In other words are agents a little confused right now or do they not know who they're writing policies with or etc.?

I'm not trying to simplify something, but it seems to me that there's some business interruption happening here and if so, can you explain if I'm correct or not?

Normand Pépin: When we decided to integrate, keep in mind that we had already merged quite a few companies before and we knew that when there's an integration process, the challenge is to make it as least disruptive as possible.

But when you integrate, obviously you take two companies that have different remuneration contracts, products that have similar bells and whistles but they're different and priced differently.

When you bring that together and make it one, obviously there are some people that, it's not that they don't know where to put their business, but in some situations they are writing business in some market segments and in that market segment, the company they were with was more competitive and when we put them together, we maybe went from a kind of average in that particular market, and sometimes we're not there.

So that takes some time before everybody adjusts to the new market strategy. And for ourselves to adjust and I explained that to all of our distributors and also we knew that, we're working very, very hard on it. So far I would say it's going fairly well.

So I guess these are my qualitative comments on the integration process at this point.

Timothy Lazaris: Normand has there been any change in the way advisers or reps are being compensated as a result of the change in brand?

Normand Pépin: There have been changes in the MGA market, not in the National Accounts. If we look back at our companies, National Life was the main company in the National Accounts, so we kept the way they were paying their people in the National Accounts exactly the same.

In the MGA market, the two operations were different, IA/IAP versus National Life. And we have decided to have one way and obviously there are some changes there.

Timothy Lazaris: And so can I extrapolate and assume that you lowered compensation or commissions in terms of what was previously at National Life?

Normand Pépin: No, we did not lower. In terms of value of compensation it was about the same in the two companies, except for the schedule of payments is different. The two companies were not paying exactly the same way. The overall compensation was about the same, but it wasn't paid out the same way.

Timothy Lazaris: Okay. I'll let others ask questions. Thank you very much.

Operator: Thank you.

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

Please proceed with your question.

Michael Goldberg: Thanks very much.

The first question that I have is with respect to the increase in value of new business during the first quarter, I assumed that for last year you were using an 8% discount rate.

I mean an 8 1/2%—wait I just want to get this straight—are you using the same discount rate in the first quarter this year as you were in the first quarter last year?

Denis Ricard: No, last year we used 8-1/2 and this year it's eight, so basically over the $6.3 million increase in the embedded value for this quarter, $2.9 million relates to that change.

Michael Goldberg: Okay.

And what's the impact of the discount rate change in the embedded value overall? I think that there was a $10 million change in assumptions? How much of that is due to the lower discount rate?

And which I presumed would have increased, would have had a positive impact. And what accounts for the overall negative change in assumption?

Denis Ricard: Well actually there are two opposite forces here.

One is the one that you mentioned that in decreasing the hurdle rate, it would increase the embedded value.

But one other to keep in mind is that for individual life insurance, because you decrease the interest rate environment, you also modelled less operating profit in the future because in that line of business, it's not the line of business where everything is fully matched. So, you basically project less investment income.

Does that answer your question?

Michael Goldberg: Are you saying is that the net of the two is essentially the negative $10 million?

Denis Ricard: Yes. Mainly, most of it comes from there.

Michael Goldberg: Okay.

And how much is the impact of the discount rate alone?

Denis Ricard: Well, you know, it would obviously be just a positive, but I don't have the numbers with me, I guess if you follow-up with Jacques this afternoon we can get the number.

Michael Goldberg: Okay. Thanks a lot.

Operator: Thank you.

Our next question comes from the line of John Reucassel with BMO Nesbitt Burns.

Please proceed with your question.

John Reucassel: Just a couple of housekeeping issues.

I just want to be clear on this sales decline in the National Accounts - what I guess I'm hearing is most of this you think is related to integration? Am I reading that right?

And if so, should we look for another few quarters of this?

Normand Pépin: I would like to think at this point that the reduction in sales in National Accounts is due to the integration, but until we have the industry report for the first quarter, we cannot say for sure this is the case because there might be some new players in the National Accounts. We heard one large player was getting back into that business. I don't know, so until we see the industry results, I could not say for sure this is because of the integration.

When we look at it from our own angle, we say we made some changes that might have impacted sales. But keep in mind that in the National Accounts the 7% decrease in sales might mean only a couple of sales sometimes. There's some very large policies there and in a quarter you might not have got those couple of very large policies that would have made the difference.

Yes we're checking this, we're monitoring this but again we're not panicking because of this.

What was your other question again?

John Reucassel: The integration is it largely done, is all the confusion out there largely done now or should we expect a couple of more quarters here?

Normand Pépin: I would say before the dust settles, it might take another couple of quarters. I can't say but it might take another quarter or two before the dust settles.

We're working very, very hard at it. And also what we realize, we have a fully dedicated team now with the National Accounts, contrary to what we had before where the National Accounts and the MGA team was all together.

By doing so, the intention was to have somebody focus in the National Accounts but realize that we're short on resources there, we have to add some resources. So we're in the process of adding some more resources in the National Accounts side, so we're beefing up our resources there.

John Reucassel: Just also on the gain on the sale of the Teleglobe bonds, was that all in the individual insurance segment or was it evenly split by segment or where did that mainly flow through?

Denis Ricard: Most of it is in the individual line of business and there's a small part in the group annuity as well.

John Reucassel: Okay.

And last of all, I guess when you answered our previous question, stock split, you've been hesitant to buy back stock because of liquidity, you do have lots of excess capital and I don't know where you're comfortable letting the MCCSR go up to?

Or I guess would you consider buying back mass amounts of stock or is that just not of interest at this stage?

Yvon Charest: Well let's say, John that for the moment we'd like to see what the impact of a stock split will be in terms of our liquidity. And as I mentioned, in the past, I would prefer to see a bit more transactions on our stock before we consider it.

So let's say that for the time being, we'd like to see the impact of a stock split and then we'll see.

John Reucassel: Okay. Thank you.

Operator: Thank you.

Our next question comes from the line of Mario Mendonca with Genuity Capital Markets.

Please proceed with your questions.

Mario Mendonca: I want to spend just a couple of minutes looking at expected profit in the individual life business.

The expected profit historically last year's, year-over-year has grown something in the neighbourhood of 16%, 17% year-over-year. This quarter it's up about 6%.

Now I imagine there's a number of dynamics that work here, perhaps mix of business. Can we just talk about that, what seems to be going on in individual life, expected profit specifically?

Yvon Charest: It's funny the question you asked because you could've become quite a good insurance executive because those are the questions that we discussed with the actuarial teams last fall when we went over the expected profit for 2005.

Let's say that generally speaking, the growth of the expected profit for the company in total has always been a meaningful amount, and then what we see, we look at the different business lines and you can see that you might have seen the two extremes in 2005.

In terms of the positive side, you see there that the expected profit for group insurance in 2005 has increased quite a bit versus 2004.

The main reason there being that I told you in the past, while there is some volatility, we are increasingly confident about the earning power of that line of business.

This time around the other extreme is individual insurance where the expected profit is not growing as rapidly. And there you have seen our chief actuary making changes in assumptions in Q4, he'd like to be more prudent there.

The way we see it in individual insurance is that probably the next driver for growth of the expected profit will be the National Life integration because most of the savings will be in that line of business.

So I'd say it's a kind of judgment call from one year to the next in terms of where do we see the growth coming.

I'd like to say an additional point about the individual insurance, because when we look at the expected profit, clearly in some lines of business like Group Insurance for example, we know that for the last six years, the profit margin has increased.

But we also know that there has been other periods like in the early 90s where the profit margin was much lower.

So I'd say in some lines of business, there could be more volatility in the expected profit. Group insurance is one. You might recall in the individual annuities in 2002 the expected profit was not that great.

So the good thing about individual insurance is that while it might not grow as rapidly, it's one of those lines of business where the expected profit is quite strong and stable, always growing.

So it might not grow as fast as we would like and perhaps in 2005 it's a bit on the low side, but I'd say at the end of the day, the comfort level about that expected profit is real good.

Mario Mendonca: So when we look at individual life which I think, it's about 50% of the company in terms earnings, there are a number of things that make this year sort of not a great year. We talked about the strain, being a little higher because you're not reinsuring as much.

The experience gains aren't quite there either, I mean, if you look at it this quarter those $1.9 million, but most of that related to Teleglobe. We talked about the expected profit and the interest rate situation.

I mean, doesn't that put a lot of pressure on the other businesses to deliver just modest earnings growth?

Yvon Charest: I'd like to point out something. When you say that this year is not great, you are talking about the expected profit here, just wait a bit so that we deliver the results and then we might have another position. That's the way we see something at the beginning of the year.

Well, the main point about individual insurance is that when you look at it, most of the business is pretty much long term. You look at the interest rate environment, so the actuaries have said that while the long term environment might be lower, so we'd like to take a more prudent approach for the interest rates 20 years from now.

It remains a line of business where you have quite a lot of latent profits because that's where most of the PADs are.

In terms of the pressure on the other lines of business, I tell you everyone has the pressure because everyone has to deliver a return on equity between 13% and 15%.

And we wouldn't tell a guy "Look, it's going to be tough in that line of business. Would you deliver more?" We would tell the people, "Look you have to find ways to deliver both the top line and the bottom line."

So I'm pleased to see that the contribution from one line of business has varied over the years. In 2002, it was tough for Individual Annuities, while retail insurance performed quite well.

Sometimes all lines of business perform very well, like in Q3 of 2004. But when I look at this I'd say take it as the way we see the world right now for the next year or so.

We see reason to be more optimistic in some lines of business, but let's wait to deliver the results and it might be a bit different.

Mario Mendonca: And one final thing then.

Is it fair to say that the company recalibrates their expected profit at the beginning - or sorry, let's say in Q4 of each year and then it gets reflected in the first quarter of each year.

And if that's correct, I think that's the way you've described in the past, is it fair to say that Q1 '06 is when we'll see the benefit and expected profit from the cost savings associated with the integration of National Life?

Denis Ricard: I guess we will see some benefits whenever they actually occur.

I guess your question is more related to the how the reserve takes that into account and this obviously will need to be looked at as we do every year. At the end of the year we'll have to look at what the impact will be. It's really premature right now.

Is it Q1 '06? It could be Q4 '05, it could be Q2 '06 and we'll see as it goes as the speed of the integration synergies, really happens.

Yvon Charest: I might add that in terms of timing, you're right in saying that we are asking our actuarial people during the budget process to calculate the expected profits and we close the budget and we present it to the Board early January, once we have had all the information.

So typically we'll revisit the expected profit once a year in Q4, unless there is something material happening.

Mario Mendonca: It might reasonable then to expect with the information we have that the individual insurance business or overall profitability improves in 2006. That's a reasonable expectation I would suspect?

Yvon Charest: Well, I told you that in individual insurance that the expected profit is a strong and stable amount that is growing steadily. I told you that there will be cost savings coming from National Life, so yes, you could expect that the expected profit there will continue to move up.

Mario Mendonca: Thank you. That was helpful.

Operator: Thank you.

We have a follow-up question from the line of Brad Smith with Merrill Lynch.

Please proceed.

Brad Smith: I have two quick questions.

One with respect to the experience gains, if we consider the gain on the Teleglobe disposition and back that out, there was a really sharp drop off in experience gains in the quarter. And I was just wondering what difference this year versus last year?

And my second question was, if you could just give us some insight into the fees and other revenues line. It looks like it's in the wealth management area, they're up very substantially.

I don't see that the asset base was on an average basis up by that much. Is there something else we need to know in that line?

Yvon Charest: Brad, I will answer the first question myself and Denis Ricard will answer the second.

As for the first question, please remember that based on the experience gains or losses in a given year, we adjust our position for the following year's expected profit.

The best example would be group insurance. You look at the expected profit that we had in early 2004, it was only $5.3 million, but just because we did very well in terms of experience gains, we have moved the expected profit up in 2005.

That said, you should not expect that the experience gain of $2 million would be recurring because it's now part of the expected one.

Every year we try to figure out what is our best bet in terms of the expected profit. So the same is true for individual insurance. In Q1 of 2004, the expected profit was $36 million and now it has moved up to $38.6 million for an increase of $2.3 million.

So I will warn you not to compare the experience gains from one period to another, without also looking at any movement on the expected profit.

As for the second question, Denis do you have the answer?

Denis Ricard: Well I guess it's going to be a follow-up to what you said, Yvon. Whereas if you look at the individual annuity, the expected profit from in-force, went up from $10.7 million Q1 2004 to $12.9 million Q1 2005.

So there was an expectation that the MER coming from the increase in assets would be there. And in fact we got more than that because we've had an experience gain, so we already had expected obviously the MERs, but we have an additional profit that flowed through the experience gain for that.

Brad Smith: Okay. I'm sorry. I was just asking about the fee revenue itself. I mean, is that just driving off the assets, because it's up $20 million year over year.

Yvon Charest: Yeah, Brad, could you just show us the page on the rolling 9 that you are actually looking at?

Brad Smith: I'm looking at page 11 on your financials note nine, just under your segmented. And you're showing wealth management of $40.7 million of fees and other revenue.

Yvon Charest: Well, we don't have the answer I think, but either we'll follow-up or we can find the answer before the end of the conference call. But we'll follow up with you.

Brad Smith: Okay, that would be helpful. Thanks very much.

Operator: Thank you.

Our next question comes from Jim Bantis with Credit Suisse First Boston.

Please proceed with your question.

James Bantis: Hi, good morning. Just three quick questions actually.

One, could you give us the added value of new sales? You've highlighted the $23.6 million, if you exclude the mutual fund sales?

Second question would be the sharp decline in provisions in the quarter from roughly $40 million run rate down to $11.3 million. Can you highlight what transactions may have occurred, loan sales, asset sales, that created the pretty sharp decline and whether it's sustainable?

And third question, you talked about a slowdown in the group insurance business with respect to new sales, highlighted lack of activity in the market and that the industry is also suffering, can you kind of describe what conditions are causing a lack of activity and why do we think that they may change in the upcoming quarters or should we be assuming perhaps a little bit more of a slowdown with respect to the group insurance sales in the first half 2005?

Yvon Charest: I will answer the third question first. There can be a lot volatility in group insurance sales and big cases might make a huge difference there.

So I'd say for the time being just because it has been only one quarter, I will not see any reason why, if there is a trend or not. I think it's just too premature.

New business in the industry decreased by 28% in total and for very big groups, the decrease was much larger which means that for small and medium sized companies there was a bit more activity.

So I'd say there that the best thing we could do is just wait one additional quarter before making any conclusions.

Denis, you might answer the first question about the proportion of the embedded value of new sales coming from mutual funds.

Denis Ricard: Its $2.8 million.

Yvon Charest: Would you mind repeating your second question please?

James Bantis: Sure, actually you can see it on Slide 8 and it's a provision for losses, as it drops from $39.1 million to $11.3 million and just may simply be Teleglobe, but we've seen provisions for impaired assets for other insurances drop dramatically. Every time I think we've reached the bottom, it seems to be going lower. But if its Teleglobe, I would accept that.

Yvon Charest: In our case it is strictly Teleglobe.

James Bantis: Great, thank you very much.

Operator: Thank you.

We have a follow up question from the line of Michael Goldberg from Desjardins Securities.

Please proceed.

Michael Goldberg: Thanks.

Again, I just wanted to clarify one point in the embedded value presentation. When you show for 2004 a 4% sensitivity to a 1 percentage point increase in assumptions, is that to mean that if your discount rate and investment return rate, with the increase by 1%, then the net impact on embedded value would be an increase of 4% and vice versa?

Denis Ricard: You're absolutely right, but keep in mind that this test is really a stress test where there would be also a – let's say a decrease of 1% of interest or in the interest rate environment would be minus 4%. You have to take into account that the reserves would also take into account that 1% decrease which is quite a stress test.

Michael Goldberg: Okay, thank you very much.

Operator: Thank you.

As a reminder ladies and gentlemen, if you would like to register a question, please press the 1 followed by the 4 on your telephone.

There are no further questions at this time Mr. Carrière. I'll now turn the conference back to you to continue with your presentation or closing remarks.

Jacques Carrière: Well, thank you operator.

This concludes our conference call. I would remind everybody that we're holding our annual general meeting this afternoon at 2 o'clock in Quebec City. It's going to be on a Webcast. You can go on our Web site or on CNW.

And if you have any follow-up questions regarding this call, please don't hesitate to call me. My numbers again, (418) 684-5275 and my cellular phone (418) 576-3624. These numbers are also indicated 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.

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