

**Industrial Alliance  
Insurance and Financial Services Inc.**

First Quarter 2007 Results  
Conference Call Presentation



**A PARTNER YOU CAN TRUST.**

May 2, 2007



**Q1/2007 Highlights and Profitability Results**



**YVON CHAREST**  
President and  
Chief Executive Officer



## A Strong Start to the Year

### Highlights

- > Bottom line → • Strong double-digit growth
  - Net income to common shareholders: +20%
  - EPS: +22%
  - ROE: 15.2% (excluding accumulated OCI)
  - Individual Insurance earnings: +43%

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- > Top line → • Solid double-digit P&D growth
  - Record mutual fund sales
  - Sales growth above 10% in all lines, except Individual Insurance

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## Profitability

(\$Million)	Q1/06	Q1/07	Var.
Net income to shareholders	48.8	59.3	22%
Less: preferred dividends	0.6	1.4	--
Net income to common shareholders	48.2	57.9	20%
Common EPS (diluted)	\$0.59	\$0.72	22%
Common ROE	<b>Quarter annualized</b>		
- Excluding accumulated OCI	14.0%	15.2%	120 pts
- Including accumulated OCI	--	14.9%	--

**Guidance for 2007: EPS up by some 10% to 13%**

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## Key Profitability Drivers

- > Efficient strain management
  - > Strain down to 55% of sales in Q1/07 (73% in Q1/06 and 62% in Q4/06)
  - > Guidance: strain within 50% - 55% of sales over mid-term
- > Corporate tax rate reduction

(\$Million)	Q1/06	Q1/07
Income taxes	23.8	24.2
Effective tax rate	32.5%	29.0%

**Impact of tax rate reduction on earnings in Q1/07: +\$2.9 million**  
 Effective tax rate guidance: 29%

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## Adjusted Profitability

(\$Million)	Q1/06	Q1/07	Var.
Net income to common shareholders	48.2	57.9	20%
NL restructuring charges, net of taxes	0.6	--	--
Net income to common shareholders, adjusted	48.8	57.9	19%
Common EPS (diluted), adjusted	\$0.59	\$0.72	22%
Common ROE, adjusted	<b>Quarter annualized</b>		
- Excluding accumulated OCI	14.2%	15.2%	100 pts
- Including accumulated OCI	--	14.9%	--

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## Net Income to Common Shareholders

### By Line of Business

(\$Million)	Q1/06	Q1/06	Q1/07	Variation	
	Adjusted <sup>1</sup>	GAAP	GAAP	vs. adjusted	vs. GAAP
Individual Insurance	20.1	19.6	28.0	39%	43%
Ind. Wealth Mgmt	17.1	17.0	16.1	(6%)	(5%)
Group Insurance	7.7	7.7	9.6	25%	25%
Group Pensions	3.9	3.9	4.2	8%	8%
<b>Total</b>	<b>48.8</b>	<b>48.2</b>	<b>57.9</b>	<b>19%</b>	<b>20%</b>

**Experience gains in Individual Wealth Management due to higher asset base offset by experience losses (mortality and lapse) and settlement of litigation**

<sup>1</sup> Excluding National Life restructuring charges (\$0.6 million, net of taxes).

## Sources of Earnings (SOE)

(\$Million)	Q1/06	Q1/07	Key Drivers
Expected profit from in-force	76.6	83.8	<ul style="list-style-type: none"> <li>▪ Strong top line growth</li> <li>▪ Clarington acquisition</li> <li>▪ Reduced units costs (NL integration)</li> <li>▪ Sustained experience gains</li> <li>▪ Conservatism of reserves</li> </ul>
Experience gains on sales	5.5	0.6	<ul style="list-style-type: none"> <li>▪ Favourable: mortality (Group Pensions); asset base higher than expected</li> <li>▪ Unfavourable: mortality and lapse (Ind. WM); litigation</li> </ul>
Gain (strain) on sales	(26.7)	(19.4)	<ul style="list-style-type: none"> <li>▪ Strain as a % of sales (Ind. Ins.): 55% in Q1/07, down from 73% in Q1/06 and 62% in Q4/06</li> <li>▪ Reduction triggered by: price revision; sales mix; lower sales</li> <li>▪ Guidance: 50%-55% in mid-term</li> </ul>
<b>Operating profit</b>	<b>55.4</b>	<b>65.0</b>	

## Sources of Earnings (SOE) (cont.)

(\$Million)	Q1/06	Q1/07	Key Drivers
Income on capital			<ul style="list-style-type: none"> <li>Favourable: higher capital base; good returns</li> </ul>
Investment income	--	16.3	<ul style="list-style-type: none"> <li>Q1/07: \$2.2 M from gains on sale of assets</li> <li>Q1/06: \$3.3 M from amortization of deferred realized and unrealized gains</li> </ul>
Disposition	--	2.2	
Total	17.8	18.5	
Income taxes	(23.8)	(24.2)	<ul style="list-style-type: none"> <li>Favourable: federal tax rate reduction</li> <li>Effective tax rate: 29.0% in Q1/07 (32.5% in Q1/06)</li> <li>Effective tax rate guidance: 29%</li> </ul>
Net income, adjusted	49.4	59.3	
Other items	(0.6)	--	<ul style="list-style-type: none"> <li>NL integration charges</li> </ul>
Net income to shareholders	48.8	59.3	
Less: pref. share dividends	0.6	1.4	
Net income to common shareholders	48.2	57.9	<ul style="list-style-type: none"> <li>ROE: 15.2% in Q1/07 exc. OCI (14.0% in Q1/06)</li> <li>EPS: +22% (vs. Q1/06)</li> </ul>

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## Dividend

- > Dividend → Stable at \$0.18 per common share

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- > Payout → 25% (based on Q1/07 net income to common shareholders)

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- > Guidance → Payout to be raised gradually to 28% of sustainable earnings by early to mid-2008

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- > Policy → Target range unchanged: between 20% and 30% of sustainable earnings

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## Business Growth Results

### NORMAND PÉPIN

Executive Vice-President  
Life Subsidiaries



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## Business Growth Overview

(\$Million)	Q1/06	Q1/07	Var.
Premiums and deposits	1,480.7	1,694.0	14%
Sales			
Individual Insurance	34.3	32.1	(6%)
Ind. Wealth Management			
General fund	84.3	99.9	19%
Segregated funds	369.9	380.1	3%
Mutual funds	402.6	516.6	28%
Total	856.8	996.6	16%
Group Insurance			
Employee Plans	15.9	24.1	52%
Creditor Insurance	33.1	36.2	9%
SMG	20.9	26.8	28%
Group Pensions	221.6	254.4	15%
Assets	40,066.1	49,995.3	25%

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## Premiums and Deposits

(\$Million)	Q1/06	Q1/07	Var.
Individual Insurance	203.8	214.7	5%
Individual Wealth Mgmt	856.8	996.6	16%
Group Insurance	173.5	200.2	15%
Group Pensions	221.6	254.4	15%
General Insurance	25.0	28.1	12%
<b>Total</b>	<b>1,480.7</b>	<b>1,694.0</b>	<b>14%</b>

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## Assets (On the Verge of \$50 billion)

(\$Million)	March 31, 2006	Dec. 31, 2006	Opening Balance Jan. 1, 2007	March 31, 2007
<b>Under management</b>				
General fund	12,243.1	13,090.7	14,406.9	14,623.0
Segregated funds	7,999.4	9,204.1	9,204.1	9,708.9
Mutual funds	5,997.9	6,295.4	6,295.4	6,570.9
Other	759.3	501.3	501.3	529.7
<b>Total</b>	<b>26,999.7</b>	<b>29,091.5</b>	<b>30,407.7</b>	<b>31,432.5</b>
<b>Under administration</b>	<b>13,066.4</b>	<b>17,812.6</b>	<b>17,812.6</b>	<b>18,562.8</b>
<b>Total</b>	<b>40,066.1</b>	<b>46,904.1</b>	<b>48,220.3</b>	<b>49,995.3</b>

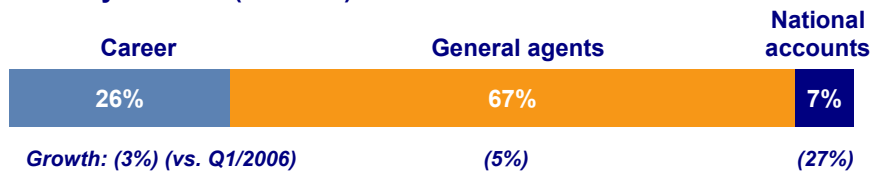
**Key drivers: re-evaluation of general fund (new accounting rules); strong seg and mutual fund net sales; strong P&D; good equity markets**

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## Individual Insurance

(\$Million)	Q1/06	Q1/07	Var.
Sales <sup>1</sup>	34.3	32.1	(6%)
Premiums	203.8	214.7	5%

### Sales by network (Q1/2007)

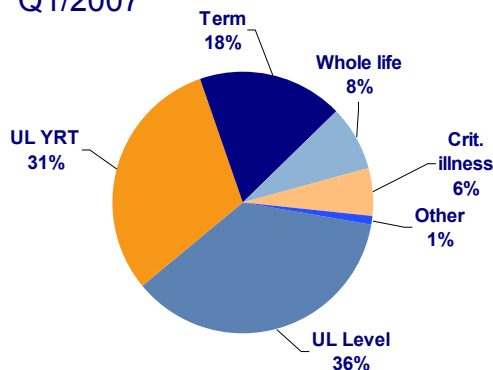


Measures introduced at the end of March to make the product line more attractive

<sup>1</sup> Sales defined as first-year annualized premiums.

## Individual Insurance Sales<sup>1</sup> Mix

### Q1/2007



Growth rate	Q1 2007/06	Year 2006/05
UL Level	(18%)	2%
UL YRT	30%	21%
Total UL	(1%)	8%
Term	(11%)	10%
Whole life	(16%)	20%
Crit. illness	(19%)	4%
Other	(34%)	(10%)
Total	(6%)	9%

Pleased with new sales mix between Level and YRT, triggered by price revisions in 2006. YRT less strain intensive than Level cost.

<sup>1</sup> Sales defined as first-year annualized premiums.

## Individual Wealth Management

(\$Million)	Q1/06	Q1/07	Var.
<b>Sales<sup>1</sup></b>			
General fund	84.3	99.9	19%
Segregated funds	369.9	380.1	3%
Mutual funds	402.6	516.6	28%
<b>Total</b>	<b>856.8</b>	<b>996.6</b>	<b>16%</b>
Net sales – Investment funds	404.2	514.8	27%
<b>Funds under management</b>			
General fund	1,661.3	1,692.2	2%
Segregated funds	5,338.1	6,393.0	20%
Mutual funds	5,985.3	6,558.6	10%
<b>Total</b>	<b>12,984.7</b>	<b>14,643.8</b>	<b>13%</b>

**Net sales up 27%**  
**Net sales account for 57% of gross sales**

<sup>1</sup> Sales defined as premiums for general funds and segregated funds, and deposits for mutual funds.

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## Group Insurance

(\$Million)	Q1/06	Q1/07	Var.	Key drivers
<b>Sales</b>				
Employee plans (1 <sup>st</sup> year ann. premiums)	15.9	24.1	52%	<ul style="list-style-type: none"> <li>• Strong sales all across Cda</li> <li>• Over 70% of sales outside Quebec</li> <li>• Industry sales: -4%</li> </ul>
Creditor Insurance (Gross premiums)	33.1	36.2	9%	<ul style="list-style-type: none"> <li>• Expansion of dealer base</li> <li>• Improved penetration rate</li> </ul>
Special Markets (SMG) (Premiums)	20.9	26.8	28%	<ul style="list-style-type: none"> <li>• Underwriting of one major case</li> </ul>
<b>Premiums and equivalents</b>	<b>202.8</b>	<b>226.8</b>	<b>12%</b>	

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## Group Pensions

(\$Million)	Q1/06	Q1/07	Var.
<b>Sales<sup>1</sup></b>			
Accumulation products	168.2	185.2	10%
Insured annuities	53.4	69.2	30%
<b>Total</b>	<b>221.6</b>	<b>254.4</b>	<b>15%</b>
<b>Funds under management</b>			
Accumulation products	2,743.8	3,376.3	23%
Insured annuities	2,062.6	2,494.9	21%
<b>Total</b>	<b>4,806.4</b>	<b>5,871.2</b>	<b>22%</b>

**Very strong start to the year in both market segments**

<sup>1</sup> Sales defined as premiums.

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## Financial Position

**DENIS RICARD**

Senior Vice-President  
Chief Actuary



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## Individual Insurance Strain

### Strain Down to 55% of Sales in Q1/07

Individual Insurance										
	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06	Q4/06	Q1/07	
Strain (\$M)	18.4	21.7	21.1	21.7	25.2	28.5	23.8	25.2	17.6	
Sales (FYAP <sup>1</sup> ) (\$M)	31.0	36.2	35.3	38.8	34.3	41.5	37.2	40.6	32.1	
Strain as a % of sales (%)	59%	60%	60%	56%	73%	69%	64%	62%	55%	

**Guidance remains at 50-55% over the mid-term**

<sup>1</sup> First-year annualized premiums.

## Income on Capital

	Accounting rules				
	Former				New
	Q1/06	Q2/06	Q3/06	Q4/06	Q1/07
Investment income	14.5	16.4	17.4	19.7	16.3
Realized gains (losses) on disposition	--	--	--	--	2.2
Amortization of gains (losses) (other than real estate)					
Deferred net realized gains (losses)	1.0	0.7	0.6	0.6	--
Unrealized gains (losses)	2.3	0.6	1.5	2.7	--
Total	3.3	1.3	2.1	3.3	--
Total	17.8	17.7	19.5	23.0	18.5

**New accounting rules have not created any material volatility in earnings in Q1/07**

## Impact of New Accounting Rules

(\$Million)	December 31, 2006	January 1, 2007	Variation	
			(\$Million)	(%)
Assets – General Fund	13,090.7	14,406.9	1,316.2	+10.1%
Equity	1,611.8	1,649.9	38.1	+2.4%
Retained earnings	971.3	981.2	9.9	+1.0%
Accumulated OCI				
Currency translation account	(6.8)	(6.8)	--	--
Other (unrealized gains)	--	28.2	--	--
Total	(6.8)	21.4	28.2	--
Book value per share (BVPS)	\$18.61	\$19.09	\$0.48	+2.6%
Solvency ratio	201%	Down 13%; amortized over 8 quarters		
Excess capital	147	Down \$78 M; amortized over 8 quarters		

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## Solvency and Debt Ratios

	March 31, 2006	Dec. 31, 2006	March 31, 2007
Solvency ratio	202%	201 %	197%
Debt ratios			
Debt / capital	16.8%	15.9%	15.8%
Debt + pref. shares / capital	23.6%	22.4%	21.9%
Excess capital	\$113 M	\$147 M	\$144 M

**Impact of new accounting rules:  
solvency ratio to be reduced by 13 percentage points and  
excess capital by \$78 million. Impact will be amortized over 8 quarters.**

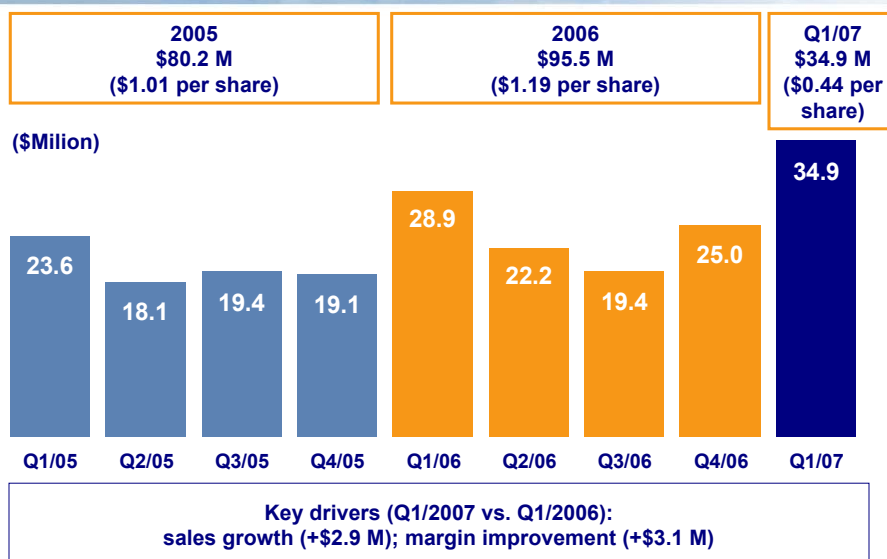
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## Quality of Investments

	March 31 2006	Dec. 31, 2006	March 31 2007
<b>IMPAIRED INVESTMENTS AND PROVISIONS</b>			
Gross impaired investments	\$97.0 M	\$95.2 M	\$17.7 M
Provisions for losses	(\$89.3 M)	(\$87.3 M)	(\$9.4 M)
Net impaired investments	\$7.7 M	\$7.9 M	\$8.3 M
Net impaired investment as a % of investments	0.07%	0.06%	0.06%
Provisions as a % of gross impaired investments	92.0%	91.7%	52.9%
<b>BONDS</b>			
Rated BB and lower	0.31%	0.31%	0.28%
Delinquency rate	0.02%	0.02%	0.01%
<b>MORTGAGE LOANS</b>			
Delinquency rate	0.32%	0.06%	0.07%
Proportion of impaired loans that are insured	91.9%	88.0%	99.4%
<b>STOCKS &amp; MARKET INDICES</b>			
Market value/book value ratio, as a %	109.4%	110.1%	--
<b>REAL ESTATE</b>			
Market value/book value ratio, as a %	115.0%	117.4%	118.4%
Occupancy rate	96.8%	95.5%	95.0%

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## Value of New Business (VNB)



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## Embedded Value - 2006

	EmV (\$Million)	EmV per share (\$)	EmV/BV ratio
December 31, 2005 <sup>1</sup>	2,133	26.78	1.63x
Embedded Value added in 2006	315	3.86	---
December 31, 2006	2,448	30.64	1.65x

**Highest EmV/BV ratio among companies that disclose their EmV**

<sup>1</sup> Assuming that the buy-back of common shares issued for the acquisition of Clarington was done on December 31, 2005.

## Embedded Value by Component - 2002 to 2006

	2002	2003	2004	2005	2006
Capital variance	--	3.4%	2.4%	--	0.3%
Recurring items	12.3%	11.1%	10.9%	10.9%	11.4%
Non-recurring items	(4.2%)	2.7%	1.0%	(9.2%)	5.3%
Sub-total	8.1%	17.2%	14.3%	1.7%	17.0%
Shareholders' dividend	(1.6%)	(1.6%)	(1.7%)	(1.9%)	(2.2%)
Total	6.5%	15.6%	12.6%	(0.2%)	14.8%

**Recurring items growing within the low double-digit guidance**

## Embedded Value Added - 2006

	EmV	Growth	EmV per share
	(\$Million)	(%)	(\$)
Embedded value as at December 31, 2005	2,133		26.78
Capital variance	6	0.3	(0.02)
Recurring items			
Expected increase in EmV	147	6.9	1.86
New sales	96	4.5	1.19
Total	243	11.4	3.05
Non-recurring items			
Experience gains or losses			
Market related	51	2.4	0.64
Not market related <sup>1</sup>	103	4.8	1.30
Changes in assumptions	(14)	(0.7)	(0.18)
Acquisition of FundTrade	(8)	(0.4)	(0.10)
New accounting standards	(18)	(0.8)	(0.23)
Total	114	5.3	1.43
Shareholders' dividend	(48)	(2.2)	(0.60)
Embedded value as at December 31, 2006	2,448	14.8	30.64

<sup>1</sup> Corporate tax rate reduction increased Embedded Value by \$103 million. Other factors cancel each other out.

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## Assumptions

- > Actuarial assumptions
  - > Consistent with "best estimate" assumptions in statutory reserves
- > Economic assumptions

	2005	2006
Discount rate (hurdle rate)	7.25%	7.25%
Risk premium	3.00%	3.00%
Inflation rate	1.50%	1.50%

**Economic assumptions unchanged**

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## Forward-Looking Statements

This presentation may contain forward-looking statements about the operations, objectives and strategies of Industrial Alliance, as well as its financial situation and performance. The forward-looking nature of these statements can generally, though not always, be identified by the use of words such as “may,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “feel,” “continue,” or other similar expressions, in the affirmative, negative or conditional. These statements entail risks and uncertainties that may cause the actual results, performance or achievements of Industrial Alliance to differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the Company’s actual results to differ from expected results include changes in government regulations or tax laws, competition, technological changes, global capital market activity, interest rates, changes in demographic data, changes in consumer behaviour and demand for the Company’s products and services, catastrophic events, and general economic conditions in Canada or elsewhere in the world. This list is not exhaustive of the factors that may affect any of Industrial Alliance’s forward-looking statements. These and other factors must be examined carefully and readers should not place undue reliance on Industrial Alliance’s forward-looking statements. Industrial Alliance is not obligated to revise or update these forward-looking statements to reflect events, circumstances or situations that occur after the date of this presentation, or following unforeseen events, except as required by applicable securities legislation.

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## **Industrial Alliance Insurance and Financial Services Inc.**

### First Quarter 2007 Results Conference Call Presentation

**A PARTNER YOU CAN TRUST.**

May 2, 2007