

INDUSTRIAL ALLIANCE

Moderator: Manon Desrosiers
November 3, 2004
2:00 PM ET

Operator: Welcome to the Industrial Alliance Third Quarter Earnings Results Conference Call.

During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct the 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, November 3, 2004.

I would now like to turn the conference over to Manon Desrosiers, Manager of Investor Relations.

Please go ahead, Ma'am.

Manon Desrosiers: Thank you, Debbie, and good afternoon everyone.

The purpose of this conference call is to present Industrial Alliance's results for the third quarter 2004.

If you didn't receive the documentation pertaining to the earnings results of IAG, they are available on our Web site at www.inalco.com. This documentation contains four documents: a press release and a slide presentation on our financial results, a rolling nine quarters financial information package, and the financial statements for the third quarter of 2004.

In line with the principles of our 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 Web cast live by CNW. To get the details on how to access the Web cast, please go to our Web site.

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

The recording of this conference call will be available starting from 4:30 PM Eastern Time today. The archived Web cast will be available for 60 days and the teleconference transcript will be available on our Web site early next week.

Before we begin, I would like to remind everyone that during the course of this call, management may make forward-looking statements about the operations, objectives, and strategies of Industrial Alliance, as well as its financial situation and performance.

These statements are subject to risks and uncertainties, and actual results may differ materially from the statements due to a variety of factors.

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

Yvon Charest: Good afternoon everyone. I would like to welcome you all to this conference call. We are speaking to you today from Montreal. As usual, the results will be presented by Normand Pépin, our Executive VP and myself.

The other participants in our conference call will be available to answer questions, and they are John Gill, the President of Industrial Alliance *Pacific*, René Trudeau, the COO of National Life, Denis Ricard, our Chief Actuary, Yvon Côté, the Head of Investment and Rif Jiwani, the Corporate Controller.

The third quarter results are certainly among the best that the Company has experienced since demutualization. All sectors achieved good results this quarter, and sales are up – and in many cases sharply – for almost all lines of business including individual insurance where sales jumped 17%. Profitability exceeds our target range with ROE of 15.3%. Our capitalization remains above our objective and the quality of our investments has improved further.

These results once again confirm the Company's ability to outdo itself in an increasingly competitive environment. The company quietly continues to make strides by taking advantage of the consolidation in the industry.

The Company had an outstanding quarter and set another quarterly record with shareholder net income of \$42.8 million, up 18% from last year. This income

translates into diluted EPS of \$1.07, which is 15 cents above last year, and an ROE of 15.3% for the quarter annualized, and 14.5% for the last 12 months.

All lines of business achieved good profits once again, but it was Group Insurance that pushed the profits to a new high with exceptional experience gains of \$6.8 million.

The Employee Plans sector was the major contributor this quarter with most types of coverage obtaining excellent claims ratios. However, results can fluctuate quite a bit from one quarter to another in Group Insurance, as is evidenced by the volatility of results over the last nine quarters.

Income on capital was also much higher than last year primarily due to the positive settlement of a defaulted mortgage loan, lower debt financing costs, and a higher capital base.

The results for the Individual Annuities sector remain high for a sixth straight quarter, which demonstrates the recovery in the stock market and the Company's excellent net sales result.

Profits for the Individual Insurance sector remain relatively stable even though the strain is much higher this quarter, reflecting the continued increase in universal life policy sales.

And profits in Group Pensions have held steady and are in line with expectations, although lower than last year when we experienced quite good experience gains.

With respect to capitalization, the solvency ratio was 229% as at September 30. This ratio is two percentage points higher than the end of the previous quarter and eight points higher than at the end of 2003. The Company's target range remains between 175% and 200%.

Slide 9 shows the added value of new sales for the last few quarters. Strong sales growth increased the added value of sales by 30% this quarter compared to Q3 of last year – to \$15.6 million, which is 39 cents per share. This is the fourth consecutive quarter where the added value of sales is up over the same period the previous year, thanks to the strong growth in all lines of business. And this is an indication again that we have kept our profit margin while delivering strong growth.

As I mentioned earlier, the quality of investments further improved in the quarter. In fact, the highlight of the quarter was the settlement of the largest

mortgage loan in default in our portfolio. This settlement has allowed us to considerably improve investment quality indices which were already excellent.

For example, impaired investments net of provisions decreased from \$15.5 million as at June to \$9.2 million as at September 30, so that net impaired investments as a percentage of total investments decreased from 0.15% to 0.09% during the quarter.

The delinquency rate of the mortgage loans portfolio dropped from 0.64% as at June 30 to 0.37% as at September 30. All of the other quality indicators remain excellent.

As you can see, it was a real good quarter and on that note, I would like to ask Normand to present our business growth results.

Normand Pépin: Thank you, Yvon.

Good afternoon, ladies and gentlemen.

We had another excellent quarter in terms of business growth. Sales were up, and in most cases, up sharply, in all lines of business except Creditor Insurance.

Individual Insurance had one of its best quarters in three years with \$5.6 million in sales. Sales grew 17% during the quarter, and this is the fifth consecutive quarter of sales growth in this sector.

Sales were up mainly for our UL product and in the General Agents and National Account networks. We were ranked third in terms sales in the Canadian market for the first six months of the year. Although industry results for the third quarter are not out yet, we expect to maintain our position.

Sales continue to be exceptional in the Individual Annuities sector, growing 36% during the quarter and up 42% for the year-to-date. This is the fifth consecutive quarter in which sales have grown 20% or more compared to the corresponding quarter the previous year.

In comparison, gross sales for the mutual fund industry are up by 35% for the year-to-date and up 11% in the third quarter of 2004.

Net seg fund sales were positive in the third quarter, and total \$280.7 million since the beginning of the year. This result ranks us number 4 in Canada with a 13.9% market share.

In Group Insurance, the Employee Plans sector had excellent third quarter sales, a significant improvement which allowed us to make up for the shortfall in the first two quarters. Sales were up 75% compared to the third quarter last year, and we are now up by 9% for the year-to-date.

Lower car sales have finally impacted Creditor Insurance sales, which were down 7% during the quarter. The year-to-date sales are at the same level as 2003.

The Special Markets Group sector continues to benefit from the strong sales of the last few years, so premium income increased at a rate of 4% in the third quarter.

A third consecutive excellent quarter for Group Pensions, where sales grew 52%. Sales were up for both insured annuities and accumulation contracts, where we continue to grow the recurrent premium segment. So far this year sales are up by 43% if we exclude the one-time transfer from National Bank Trust at the beginning of 2003.

The strong growth of sales and good persistency rate increased total premium to \$669.1 million for the third quarter, a 20% increase over the same period last year. Premiums are up for all lines of business, primarily for individual and group annuities.

In spite of the stagnant stock markets, the strength of business growth contributed to the increase in assets under management and under administration to \$25.5 billion at the end of September, an increase of 3% for the quarter and an impressive 37% increase since last year. This is due to the acquisition of a majority position in FundEX, which had \$4 billion in assets at the end of September, and the rapid growth of funds under administration at Industrial Alliance Securities, which had increased to \$806 million at the same date.

Now, I would turn the floor over to Manon.

Manon Desrosiers: Thank you, Normand.

We are now ready for the question period. Yvon Charest will host the question period and the Debbie will introduce each participant before they ask their questions.

Debbie, could you please explain to our audience how they can direct their questions?

Operator: Certainly.

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.

One moment, please, for the first question

Our first question comes from the line of Jamie Keating of RBC Capital Markets.

Please proceed with your question.

Jamie Keating: Congratulations on your good results everyone. I have two quick questions if I may.

One, I wonder if we could harken back to some of the previous quarter comments about sharpening the pencil on pricing and comment about how that's impacted UL sales this quarter. I noticed one of the competitors has also chosen to sharpen the pencil. Clearly, you guys have done a great job here in boosting the sales profile. Could we just discuss pricing in that market?

I got one other quick question. It relates to the persistency and experience gains that seem to be accelerating in group. I'm just curious if this is an underlying trend and/or assumptions have to be looked at, or if you're pretty happy with it being for now looking aberrational, perhaps a little bit above the run-rate.

Yvon Charest: Jamie, I'll be answering the second question and Normand will be talking about the top line in Individual Insurance in terms pricing.

In terms of experience gains, well, as I've told you, we think Q3 has been exceptional in that the gain is almost as important as the expected profit.

That said, if you compare during the last three to four years, you could see that the recurring portion of the profit, the earning power of Group Insurance has certainly steadily increased. We are pleased with that trend, and we see it

positively for the future. But that being said, I have to admit that we see Q3 as somewhat exceptional.

And Normand about the first question?

Normand Pépin: James, we have not sharpened our pencil much in UL and we're quite pleased with our UL sales because we've seen a little bit of a pick-up in sales in the upscale market. And I think we were pretty well positioned to capture it.

Jamie Keating: Excellent.

Thank you, Normand. Thanks, Yvon.

Operator: Our next question comes from the line of Doug Young, of TD Newcrest.

Please proceed with your question.

Doug Young: I just have one other question on Slide 3. You made the comment that the company quietly continues to make strides by taking advantage of consolidation in the industry. I was hoping you can provide maybe a little bit of colour on that comment.

Yvon Charest: I will answer it and perhaps Normand would like to expand on it.

Remember in early 2003, after the three deals where Manulife, Great-West and Sun Life made acquisitions, people were questioning this Company's capacity to continue growing the business. And they were wondering if we would be a victim of consolidation or if we would benefit from it.

And we told you our conviction at that time, that our position was that we would benefit from consolidation. There are a certain number of independent brokers who would like to have a minimum number of choices. They have to decide which companies they want to do business with. Some of them were not pleased with the acquisition of companies.

And we said we think that we are well-positioned to capture a portion of that business. We have a good track record, a good reputation with a lot of distributors. I think that we know the individual insurance sector quite well. Our portfolio is in good shape. So, we felt that a lot of conditions were present. And what we like now is that for the last five quarters we have been able to increase sales.

Sales were a bit low in the beginning of 2003, and people thought that it was because of consolidation. It was not. It was just because the high income

segment was not producing as well. So, this is why when see the growth there, we could certainly say that we benefit from consolidation, we are not a victim of it.

Normand, would you like to add something here?

Normand Pépin: The other thing I would add is that other companies are going through mergers and there's a lot of people that are distracted by a merger. We have a well-oiled machine that works and we can take advantage of some of the disruption that is taking place in the market because of consolidation.

Doug Young: Would you say you benefited more in the individual side or in the group side, and have you picked up any MGA relationships that would be worth discussing?

Yvon Charest: Doug, it's funny because we first thought that we would benefit from it mainly on the retail side. But now, after a year or so, we can tell you that we benefit generally in all lines of business, and this is because there is a higher concentration of market share in group than in the retail.

And in both Group Insurance and Group Pensions, we see a lot of distributors that really want to have an additional name on their portfolio so that they can offer a wider choice to their clients. And so, it's not only retail. It's in the four business segments.

Doug Young: Thank you very much.

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

Please proceed with your question.

Michael Goldberg: Thanks.

I have a few questions, a couple of them may be sort of follow-ups.

You've indicated in the past that you were re-evaluating your policy of not reinsuring mortality risk in your UL business. I'm just wondering has there been any change to this policy?

Yvon Charest: No, Michael. There has been no change from what we was disclosed to you at the Investor Day at the end of the June.

Michael Goldberg: Okay.

Secondly, in Group Insurance, can you be more specific in telling us what the variable or variables were that accounted for the exceptional experience gains? And what assumption do you make with respect to this variable? Why do you think the assumption is still valid? And what would be the impact of a change in the assumption?

Yvon Charest: I would imagine when you are referring to assumptions, you are referring to the assumption in your pricing, what you use in your pricing because this has nothing to do with the reserving. You know, there have been no changes there.

Michael Goldberg: Right.

What I'm getting at is there is obviously some difference between your actual experience and the assumptions that you have in your pricing that's giving rise to the experience gains that you're having in Group Insurance including the exceptional gain this quarter. Is it the same variable where there's a persisting trend of experience gain or is it a variety of variables? If it is just one variable, what is it, and what's the assumption that you're making for that variable?

Yvon Charest: Okay. Thank you, Mike.

Well, in fact, in Group Insurance, you have to know that we have three different businesses. Two of them are somewhat niches in a sense that we don't compete with all the other regular carriers in Canada. One of them is creditor insurance with car dealers, and the second one is the SMG, the Special Markets Group.

These two businesses have grown nicely over the years so that the premium income of these two businesses has increased and the profit tends to be a proportion of the premium. So, this is one aspect. The second aspect is that lately, claims ratios for both businesses have been good.

So these two businesses are less exposed to pricing pressure. They have grown in terms of volume, and the claims ratio has improved.

The third business is the Group Insurance Employee Plans. In that one, we compete with a lot of other carriers. I'd say though that we have been able again during the last couple of years to increase the net sales each and every year. A lot of companies are talking about new business, but they are not mentioning the business that they are losing upon renewal. So, the net of the two are the net sales.

We have had steady net sales now for four years. And 2004 is likely to be good too. So, in total, the top line, the premium income of the employee plans has increased. And then secondly, in almost all benefits, except for perhaps disability, claim ratios were pretty good.

Michael Goldberg: So, can I conclude from your comments that it's lower claims costs in creditor and SMG that account for the bulk of the experience gain in group?

Yvon Charest: Let's say, it's the claims ratios combined with the fact that the top line of the three units continues to increase stability.

Michael Goldberg: Okay.

And my last question right now is in individual life. As you point out, you ranked third overall in the country. Can you just remind me where you rank in sales of universal life alone?

Normand Pépin: My recollection is that we're number one in UL sales in the country.

Michael Goldberg: Just how far ahead you are of number two and number three?

Yvon Charest: Well, Mike, we receive a report from LIMRA, the Life Insurance Marketing and Research Association. These reports are confidential to the companies. What we are allowed to disclose is our rank, our market share, and the industry total increase in terms of sales. Unfortunately, we cannot tell you to what extent we are ahead of any other company.

Michael Goldberg: Okay. Thanks a lot.

Operator: Our next question comes from the line of Brad Smith of Merrill Lynch.

Please proceed with your question.

Brad Smith: Well, thank you. Yes, I have two quick questions.

I was wondering if there were any significant group accounts that you acquired during the latest quarter.

And secondly, I was just wondering if you could comment on your investment guarantee reserves if there were any changes in those reserves during the quarter.

Yvon Charest: For the first question, the answer is no, we did not receive any big groups. Each and every year, out of perhaps \$60 million of annual sales, we might

have three groups that are bigger – that account in total for about \$15 million of new business. So, 25% of the new business might come from some larger groups, but the vast majority will come from groups that have an annual premium income of \$5 million or less.

So Bombardier in Q4 of 2003 is the only real large group that we have had. But other than that, it just came from groups of different sizes, most of them with an annual premium of less than \$5 million.

Brad Smith: Terrific.

Thank you.

Yvon Charest: Denis Ricard might have the answer for seg fund reserves.

Denis Ricard: Yes, the reserve for seg fund guarantees increased slightly from \$23.1 million to \$23.8 million, and that's consistent with the formula that we use. We have not made any changes.

Brad Smith: Terrific.

Thank you.

Operator: Our next question comes from the line of Mario Mendonca of CIBC World Markets.

Mario Mendonca: Good afternoon. That was a very solid quarter. I'd like to just revisit a few things though.

First in Slide 9, the added value of new sales, very impressive increase; what I'd like to understand is what the key assumption is that goes into calculating that, and clearly I'm talking about aside from volume. Clearly, that's critical, but the key assumption, perhaps interest rates, or what have you, and if that assumption has changed from Q3 '03 up to now?

Yvon Charest: What we do, Mario, is that each of the units are used to calculate the added value of new sales, and on a quarterly basis, we have a report that shows us the growth versus the corresponding quarter of the previous year, to what extent it's coming because of volume or to what extent it's coming because margins have either increased or decreased.

So, Denis, you might give us the split between the two components here.

Denis Ricard: Actually, of the increase of \$3.6 million, \$3.2 comes from the increase in sales, so most of it comes from it.

Mario Mendonca: And the rest will come from margins?

Denis Ricard: Changes to assumptions here and there for pricing...

Mario Mendonca: Sorry, I missed that last little bit. Three point two comes from volume and the rest comes from?

Denis Ricard: Well, it could be from, let's say, each year we revisit some of the assumptions for pricing, or the product mix that we have and all those things all together accounted for \$0.4 million over the \$3.6.

Mario Mendonca: So, in any event, if there were any changes in assumptions insofar as how you calculate it, that it would be relatively minor?

Denis Ricard: Yes.

Mario Mendonca: In the grand scheme of things, okay. That clarifies things for a bit.

I'll quickly move on to individual life. The growth this quarter - this is Slide 12. The growth this quarter in individual life sales, for the most part, it's coming from the National Accounts and the General Agents. And this is sort of what we might have expected given that the UL market looked like it was recovering, although it does make the Company somewhat more vulnerable again to competitive pricing in the National Accounts, particularly from some of the larger players.

What I'd like to get a better understanding from you is the extent to which Industrial Alliance might be insulated from that kind of competition, and so far as your relationships with general agents are concerned or perhaps what market segments you really focused on. How might Industrial Alliance be insulated from that kind of competition?

Yvon Charest: Normand, that's a question for you.

Normand Pépin: First of all, if you look at Slide 12, as you pointed out, National Accounts represent 10% of our sales, so we have 90% of our sales that come from our other distribution networks. But even though we had a significant increase in sales in the National Accounts in the last quarter - we are talking about 21% - the fluctuation means 2% on our sales overall.

So, in that way I would say we are protected because National Accounts are 10%, and when they do better like they did better last quarter, they have an impact on our sales. That's probably why we came up with 17%. But you have to keep in mind that we're 6% or 7% up after the second quarter in sales and that we didn't have as much contribution by the National Accounts at that time.

So, I think National Account sales represent a small portion of our sales. That's why we are protected. And we're taking advantage of it when it's there and they produce. In fact, we are making the call when the call is there.

Mario Mendonca: Any other ways that you could sort of think of that you might be insulated from the pricing competition which maybe forthcoming in the next little while.

Normand Pépin: We have the Career Agents network. Within the Career Agents network we have to compete, but we don't have to be as competitive, let's say, as you have to be sometimes in some segments of the MGA market.

In the MGA market also, we're pretty much in the family market. We also have upper scale MGAs, but a lot of production comes from our MGAs that work in the family market. And in that market segment, even if you charge, let's say, \$2 or \$3 more per month for a policy, it doesn't mean much when you compete with that kind of price difference.

So, in that way we are protected more than other companies that sell much less policies than us. You have to know, Mario, that we are probably first or second, and again, I may be using information that I'm not allowed to use from the LIMRA report, but we're selling the largest, or the second largest number of policies in Canada if you compare to our competitors.

Some of our competitors – their total sales are close to our total sales but their number of policies may be 25%, 30% of our total number of policies. In that sense, we're selling in a market segment that is a little bit less competitive than our competitors.

Mario Mendonca: Okay.

And Normand, just to sort of close the loop on this one. You had talked about sharpening the pencil and when Jamie asked you the question, I may have misunderstood, but I got the impression you said, you haven't sharpened the pencil on UL.

Normand Pépin: We haven't.

Mario Mendonca: I guess it was in term then?

Yvon Charest: You can see it from the added value of new sales. And if you refer to what some competitors could have mentioned.

Mario Mendonca: Yeah, Sun and Great-West Life specifically.

Yvon Charest: Our guess is that they have brought their price in line with the market, so we don't think that they will initiate another round of a price war.

Mario Mendonca: So, Yvon do you see their behaviour or their actions as just essentially irrelevant to Industrial Alliance?

Yvon Charest: Irrelevant is a real big word. I would not say so.

All that I would say is that some of them have prices that were not in the market range. Now, their prices are in line with the market. When you are in line with the market, then it depends on your approach with distribution, the relation with distributors, the other elements of their package. So they might have good results for that, but the thing is that we just don't feel that by doing that, they are initiating another round of a price war.

And, there is action from many carriers during the year and what you have to look at is the results and it's now for five quarters that we have delivered strong results.

Mario Mendonca: Uh-huh.

Yvon Charest: I'm not saying that we are insulated, that they are irrelevant, but that we know that line of business pretty well and we know how to compete.

Mario Mendonca: Yeah, I guess normally it's been some of the French players. Now that it's Sun and Great-West it just means a little more to me.

Can I just sort of wrap this up then with a quick question on Group Insurance? The expected profit is up about 40% year-over-year and that's kind of following along sort of 30% year-over-year increases in expected profit in group insurance. That's awfully high. Can you help me understand that?

Yvon Charest: I've mentioned, that we have three units there. In one of the units, the creditor insurance with car dealers, we have a number one market share in Canada. We have made acquisitions lately. We have been able to grow our market share in some geographic regions. We have been able for the last three years to

increase our top line even if the number of car sales is not increasing rapidly. So, right now, we are reaping the benefits of these events plus the fact the claims ratio is good.

Now, the results are good because the other two units have also performed well lately. In the Special Markets Group, if you compare the premium income three years ago with what we have right now, you can see that the top line during the last couple of years has almost doubled. And again, they have had good claims experience there.

And the final one is the Employee Plans where we are just telling you that given the concentration of market share of the big three in that line of business – because Group Insurance Employee Plans is the line of business where the concentration of market share among the three largest insurers is the highest percentage – and you can see on the market that distributors like to have additional choice, and we are one of their choices.

There is an expression that all the stars are going in the same direction. That's where we are in Group Insurance, whereas in the past, there was always one of the three units that was not performing as well in terms of claims. Now, the three of them are delivering real good results, and this is why in Q3 we said, "Look, it's over - it's above our own expectations."

That said, I agree with you that if you compare the expected profit that we have right now with the one three years ago, we feel increasingly comfortable with the expected profit in Group Insurance, and we think that that trend of a growing expected profit could continue.

Mario Mendonca: Thank you so much.

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

Please proceed.

Timothy Lazaris: I have two questions. One has to do again with Individual Insurance and Slide 12. Could you help remind us as to what the in-force block of business looks like relative to Career and General Agents?

What I'm getting at is how much of your business is essentially written in Quebec still as a percentage? And when you look at the fact that the General Agents represent 63% of that, should we just assume from that that really the growth is outside of Quebec? That's my first question.

And my second question is, with respect to the upcoming RRSP season, you look like you're having good success in your seg business and in the Individual Annuities side. I'm wondering if you're anticipating a decent RRSP season in this year?

Yvon Charest: Normand will answer that.

Normand Pépin: For the first question, I would say, that it's true. Most of our growth right now is outside the province of Quebec, even though we are still doing fairly well in the province of Quebec. The Career section operates mainly in the province of Quebec. We're talking about a 4% increase compared to the industry in Canada where there was no increase at all after the second quarter of this year. So, we're still doing fairly well in the province of Quebec, but most of the growth comes outside the province of Quebec.

Concerning the RRSP campaign, there is no reason in our company not to expect a good campaign. The only thing that we're watching is the market. There was the US election yesterday, which I understand Bush won. But we don't know how the market will react, and that business is a little bit like the mutual fund business. If the market is good, the market will be very good for us. If the market is bad, it will not be as good for us. So, that's what I can say at this point about the RRSP campaign.

Yvon Charest: Tim, it's Yvon Charest.

On the question of Quebec versus out of Quebec, unfortunately, we don't have the geographic distribution of premiums by line of business, but if you take the last nine quarters results on Page 7, you have the distribution of premiums by region. But for all business segments together, you can see on the right side that in 2002, we had 55% of our premium income in Quebec. And in Q3 of this year, we had 51%.

And so it is to Normand's point that we expect the proportion of our premium income from Quebec to decrease by 1 or 2 percentage points per year just because we have more momentum outside of Quebec right now, since our penetration rate is still lower out of Quebec than in Quebec.

Timothy Lazaris: And Yvon, what's the number of the Career agents in Quebec currently, and has that agency force been growing at all?

Yvon Charest: I guess we are at 1,300. It should be also in the last nine quarters information package, on page 15.

Timothy Lazaris: Okay.

Said another way, is there a target size for that Career sales force?

Yvon Charest: Well, our people in the organization are quite demanding. There is no limit to increase the number of Career agents. That said, lately there has been additional requirements in terms of continuous education, and that has forced some people either to retire or that has forced some people to get out.

So, lately, it has been a bit more difficult to meet our objective to increase the number of Career agents by 3% a year in Quebec, but, at the same time, we are trying to make those guys more productive.

So, the combination of the two, plus the fact that we have stable production, plus the fact that it's easier for us to promote the right product mix to these people. So, all these elements together mean that we are quite pleased with the results of our Career agents, as they have performed very well, for example, in the seg fund business in terms of growing the top line and the asset base.

Timothy Lazaris: Okay, Yvon, if I might - I asked this question last quarter, so I just wanted to ask it again for consistency. Your stated 13% to 15% ROE target, you're now, as I believe, I don't know how many quarters it is, - it's at least two quarters where you've gone through the upper limit.

And I think you stated that you were comfortable with that range and that you would only sort of be in the 13% level should you make an acquisition that might have some goodwill attached with it. Are you thinking that maybe 15% is too low in terms of your upper limit? Or is that still too premature?

Yvon Charest: It's still too premature, Tim. Our target range is 13% to 15%, and we are comfortable with it. You look at this quarter, it's 15.3% but, at the same time, we are telling you that Group Insurance has been exceptional. So, if you remove the exceptional part, obviously we will be in the top of the range, but still, it's going to be around 15%.

If you take the last 12 months, it's 14.5%. So, again, it's close to the top of the range, but we have not steadily produced an ROE above 15% for quite a few quarters in a row. So, this is why we are at ease with the current range.

The bottom of the range, I told you, is there for two reasons. The first one is for you to realize that if it's not going well in one quarter, it's because of two or three reasons, for example, Group Insurance may not be as good, the market may be so and so, there is a difficult investment, etc. Then we could reach the 13% range for one quarter.

And the second reason is the one that I mentioned in the last quarter, which is that we'd like to have the same target range for acquisitions, and this is why we are keeping the 13% there.

Timothy Lazaris: Okay.

Thanks again and congratulations again.

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

Please proceed.

John Reucassel: Thank you.

Just a couple of quick questions; just on this after-tax gain or this pre-tax gain of \$1.4 million, am I right saying that's about 2 cents in the quarter? Yvon, is that right? Of gains from this recovery on this mortgage?

Yvon Charest: Yeah, you could say, 2 cents, yeah.

John Reucassel: About 2 cents, okay, great.

I think I'm pretty clear on individual life sales. But on the group side, you've talked about the concentration outside of Quebec, particularly in Ontario. Are you picking up? Are you getting deeper penetration outside of Quebec in the group market? Is that where you're seeing your growth on the employee side, or has that not come yet?

Yvon Charest: That has not come yet. In fact, when you look at Group Insurance, you can see that there can be quite a bit of volatility from one quarter to the other. After six months, year-to-date, we were minus 9%, and now, after nine months, we are plus 9% year-to-date. So, you should not consider the 75% increase to be the beginning of a trend.

We know that in Group Insurance, the mere fact that you have big groups or not can have an impact. Normally big groups have more impact in Q1 than anything else. Q3 and Q4 will normally not be quarters where you will have big groups. So, this is why the amounts are a bit smaller, so the percentage increase and decrease might be big.

So, I would suggest that for Group Insurance, what you look to is the year-to-date sales. And for us, it's plus 9%, and I understand that it's better than the

industry figures, especially in our target market of groups with less than 1000 employees.

Now, this being said, in terms of the question between Quebec and out of Quebec, it's right that at the moment we are making much more quotes outside of Quebec. We have had some reps in Toronto lately, but so far we haven't seen a direct impact or an evident impact on new business.

But we see the trend as being positive. We see, for example, that our Calgary office is making a lot more quotes than in the past. We've seen more business coming from the Atlantic provinces. So, all around we see a good level of activity outside of Quebec. So far, it has not had too great an impact on sales, but we are quite positive.

John Reucassel: Okay, great.

Thank our very much.

Operator: Our next question comes from the line of Tom Mackinnon of Scotia Capital.

Please proceed with your question.

Tom Mackinnon: Yeah, thank you very much, good afternoon.

The question has to do with the exceptional performance we saw on the group segment this quarter. Yvon, last quarter, you said that about 2 cents per share was attributed to, if you kind of removed the exceptional part in the group business, that the impact of the exceptional part was about 2 cents a share.

And I was wondering with the considerable experience gains we had in the quarter, if you can kind of help guide us to what would have been, if you can quantify the exceptional part of this quarter's earnings in the group segments?

And I have one follow up question.

Yvon Charest: I know that in the last quarter, we mentioned that we were pleased with the experience gains because you could see that for the last two quarters it was at \$3.7 and \$2.8.

Now, that I have an additional quarter of experience and good trends, I would say that I was expecting Q2 to come back again to have gains of around \$3 million and we ended up at seven.

Tom Mackinnon: Okay, I guess that helps to answer the question then.

And the next question is last year, you strengthened reserves by a little over \$4 million pre-tax. I think 1-1/2 is attributable to interest and your Canada did decline somewhat in 2003, maybe about 15 or 20 points, and I guess the rest was attributable to lapse for the net of mortality.

And as we head into Q4, I'm sure you've got your thorough reserve review going on, and I'm just wondering if you can comment on the likelihood of any kind of similar reserving actions given that the ten-year governments are now 30 to 40 basis points lower than they were about a year ago this time. And persistency, you noted in the press release is significantly better.

So, if you can shed any light on that, that would be appreciated.

Thanks.

Yvon Charest: Well, Denis, last year, the main reason was the interest rates so why don't you start discussing the question of interest rates and then see whether or not you might give additional flavour on any changes in assumptions this year.

Denis Ricard: Tom, we follow closely the current interest rate environment because for life insurance there is a reinvestment risk involved. We use a benchmark. If we look at long-term bonds – that's Quebec long-term bonds, no coupons – when it's around 6%, we basically feel comfortable because it's consistent with the assumptions underlying the liabilities.

And when you look at the actual level of that benchmark, it's around 6%, it's pretty much the level of last yearend, the same as the end of the third quarter of last year. And actually, this year, it went down at the end of the first quarter, a bit, by 25 basis points, and it went up in the second quarter by 50 basis points.

So, there is some volatility in the numbers, but still, it seems to be around 6% which we feel pretty comfortable with at this point. Obviously we will look at all the different assumptions, therefore, in the fourth quarter because this is when we review the liabilities, the assumptions underlying the liabilities; this will be part of it. But, you know, I don't see a concern at this point taking into account the current level.

As far as the other assumptions are concerned, we do look at our experience. This is a process that we are looking at at this point, and I do not see, at this point, any concerns.

Tom Mackinnon: So, basically, you're saying that the persistency assumptions you kind of set at the end last year are kind of tracking as expected especially with, I guess, the individual insurance which, especially with the lapse-supportedness associated with those kinds of products is falling as expected?

Denis Ricard: Well, as you can also see from the gains and losses, the experience gain is pretty minimum which means that the experience is in line with the assumptions, so the answer is yes.

Tom Mackinnon: Okay.

Thank you very much.

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

Please proceed.

Michael Goldberg: Thanks.

I wonder if you could refresh my memory about your solvency ratio. Is it set at the parent company level? And if it is, do you have the flexibility to reorganize so that it could just be at an insurance company level?

Yvon Charest: When we demutualized in 2000, we demutualized without a holding company, so at the moment, what we have is an insurance company.

We have tried to understand the impact of the OSFI rules, and we understand basically that some Canadian companies that have meaningful foreign operations were complaining that the Canadian requirements were more expensive than the local requirements mainly in the US. And in doing so, they were not acting using a level playing field.

When you compare apples with apples, which is a Canadian operation versus a Canadian operation, everyone is subject to the same Canadian MCCSR formula, same shaving of goodwill, same everything.

So, when we look at this, we consider that in Canada right now that there is a level playing field for everyone. But we also realize that the regulator has accepted to level the field for Canadian companies that have foreign business, mainly in the US.

Michael Goldberg: I'm just wondering, if I could follow-up on that, is there truly a level playing field? For example, if you wanted to make an acquisition in Canada

and you wanted to finance it largely with debt, would you be at a disadvantage in comparison to another company that perhaps isn't regulated at a holding company level that would do the same thing?

Yvon Charest: What I understand from the OSFI rules is that if you were to make a meaningful acquisition in Canada, OSFI will shave the goodwill in the capital requirements whatever the place of the goodwill, either in the holding company or the insurance company.

As for the cost of debt, we told you when we issued the innovative Tier 1 capital earlier this year, that our cost of capital was at around 10 to 15 basis points of the big three.

So, I would imagine if they decide to use the holding company instead of the insurance company and have a bit more leverage there, they will accept to have a higher cost of capital.

Michael Goldberg: But is there not an advantage if a company rather than having an insurance holding company as its parent, has a CBCA company?

Yvon Charest: Well, what I understand right now is that Great-West, they have a non-regulated holding company. And by being non-regulated, I understand that they don't have a capital requirement at a holding company. And they might be in a position to do more leverage than the other ones.

Michael Goldberg: So, does this not represent an uneven playing field?

Yvon Charest: I'd say, Mike, for the Canadian operations, we don't see that as being an uneven playing field.

Michael Goldberg: Okay.

Thank you.

Yvon Charest: With, perhaps, the exception, as I mentioned, of Great-West that seems to be the only having a non-regulated holding company.

But this is my understanding. You might defer, but that's the way I see it at the moment.

Michael Goldberg: Okay, thanks very much.

Operator: Ms. Desrosiers, there are no further questions at this time. I will now turn the call back to you.

Please continue with your presentation or closing remarks.

Manon Desrosiers: Thank you, Debbie.

This concludes our conference call.

If there are additional questions from the audience or if anyone needs any clarifications, Jacques Carrière, Vice-President of Investor Relations will be available to assist you from his office in Quebec City. His number is (418) 684-5275. You can also reach him on his cell phone at (418) 576-3624. These phone numbers are also given in the press release.

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

Operator: Ladies and gentlemen, that does conclude the conference call for today.

We thank you for your participation and ask that you please disconnect your line.

END