



# **CANADA LIFE LIMITED**

## **REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006**



## **CANADA LIFE LIMITED**

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# **CANADA LIFE LIMITED**

## **Directors and Advisers**

### **Directors**

I Gilmour  
J M O'Neill  
W J Richards  
H C Snow  
A N Wolffe  
I S McMullan  
J E Occleshaw

### **Company Secretary**

J N Temple

### **Registered Office**

Canada Life Place  
Potters Bar  
Hertfordshire, EN6 5BA

### **Independent Auditors**

Deloitte & Touche LLP  
London

## **CANADA LIFE LIMITED**

### **Directors' Report for the year ended 31 December 2006**

The directors of Canada Life Limited (the "company") present their annual report and financial statements for the year ended 31 December 2006.

#### **1 Principal Activity and Future Developments**

The company's principal activity is the transaction of ordinary long-term life assurance. This will continue to be the main activity for the foreseeable future.

#### **2 Results and Dividends**

The profit after tax for the year was £208.8m (2005: £109.5m).

An interim dividend of £65.0m (2005: £205.6m) was paid during the year (Note 28) and no final dividend has been proposed (2005: £Nil).

The 2005 interim dividend of £205.6m included £188.1m relating to the transfer, at current value, of 100% of the company's interest in Canada Life International Limited (together with its subsidiary undertaking CLI Institutional Limited) and Canada Life Pension Managers & Trustees Limited to its parent undertaking, The Canada Life Group (UK) Limited, by way of a common share dividend.

#### **3 Business Review**

Canada Life Limited is a wholly owned subsidiary of Canada Life Financial Corporation (incorporated in Canada).

Canada Life Limited achieved another strong performance in 2006, driven by solid operating results in all major business segments and through acquisition. The company's strategy is to be the leader in our chosen markets – individual and group insurance and wealth management.

Profit attributable to shareholders for 2006 grew by 91% to £208.8m (2005: £109.5m) as presented in the company's profit and loss account. In 2006 earnings growth reflected the positive impact of payout annuity business acquisitions in 2005 and 2006. The profit for the year reflects the implementation of FRS 26 Financial Instruments: Recognition and Measurement.

Total new business premiums (including investment contracts, but excluding acquisitions in 2005 and 2006) have increased by 36% to £1,255.3m (2005: £920.4m) of which £811m relates to pension business (mainly annuity) (2005: £709.4m). New unit linked life premiums have increased by 126% to £422.5m (2005: £186.7m). Unit linked life investment contract premiums of £412.9m have been excluded from analysis in Note 2B as investment contract premiums have been eliminated from the technical account, refer to Note 19.

On 11 May 2006 the company entered into an agreement to acquire the assets and liabilities associated with the bulk of The Equitable Life Assurance Society's non profit pension annuity in payment business, comprising approximately 130,000 policies. Under the agreement, with effect from 1 January 2006, Canada Life Limited assumed 100% of this business block on an indemnity reinsurance basis. This transaction resulted in an increase in assets and actuarial liabilities of £4.6bn as at that date. The company entered into a reinsurance agreement where the company ceded 15% of this acquired book to Canada Life International Re Limited, a fellow group undertaking, on a funds withheld basis.

## CANADA LIFE LIMITED

### Directors' Report for the year ended 31 December 2006 (continued)

Total assets increased by £6.5bn during the year to £19.6bn, including a £4.3bn deposit with ceded undertakings balance in relation to The Equitable Life Assurance Society's non profit pension annuity in payment business as presented in the company's balance sheet.

Canada Life Financial Corporation manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business.

The performance of the European division of Canada Life Financial Corporation (CLFC), which includes Canada Life Limited, is discussed in the Annual Report of CLFC which does not form part of this report. The complete Annual Report of CLFC is available at [www.canadalife.com](http://www.canadalife.com).

The principal risks and uncertainties of the company are outlined below in section 6. Financial Risk Management Objectives are disclosed in more detail in Note 30.

The company is financed by share capital, capital contributions and subordinated liabilities (Note 17) from its parent.

Details of significant events since the balance sheet date are contained in Note 33 to the financial statements.

The implementation of FRS 26 Financial Instruments: Recognition and Measurement has required the recategorisation of certain large income and expenditure items in the profit and loss account but the overall impact on the profit for the year was immaterial.

#### 4 Directors

The names of the persons who were directors during the year and up to the date of this report are set out below. None of the directors had any beneficial interests in the shares of the company or any UK group company at any time during the year.

I Gilmour	
J M O'Neill	
W J Richards	
H C Snow	
A N Wolffe	
S G Thomas	resigned 30 June 2006
S J Fitzhenry	resigned 1 August 2006
J D Johnston	resigned 13 January 2006
I S McMullan	appointed 3 January 2006
J E Occleshaw	appointed 1 July 2006

## CANADA LIFE LIMITED

### Directors' Report for the year ended 31 December 2006 (continued)

#### 5 Creditor payment policy

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

#### 6 Financial risk management objectives

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, equity price risk and credit risk.

The company manages these positions through its asset liability management (ALM) approach that has been developed to ensure that the assets match the liabilities arising from insurance contracts under a wide range of financial conditions. A separate portfolio of assets is maintained for each distinct category of liabilities.

The company does not use hedge accounting.

The significant risks of the business are outlined below.

##### ***Interest rate risk***

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The company manages interest rate risk by cashflow matching the investment portfolio and the policyholder liabilities. Assets of the appropriate duration are bought and sold to maintain this match which is regularly monitored.

##### ***Equity price risk***

The company is exposed to equity price risk as a result of its holdings in equity investments. The company has a defined investment policy which sets limits on the company's exposure to equities both in aggregate terms and by geography, industry and counterparty. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the company exposure limits which are more stringent than the relevant regulatory limits for solvency purposes. Investments held are listed and traded on UK recognised stock exchanges.

##### ***Credit risk***

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are;

- exposure to corporate bonds, and
- exposure to the reinsurers' share of insurance liabilities.

The company places limits on its exposure to a single counterparty and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered when treaties are entered into.

## **CANADA LIFE LIMITED**

### **Directors' Report for the year ended 31 December 2006 (continued)**

#### **7 Fixed assets**

The tangible fixed assets of the company do not include land and buildings.

#### **8 Charitable and political contributions**

During the year the company made charitable donations of £35,000 (2005: £22,000), principally to local charities serving the communities in which the company operates.

#### **9 Directors' indemnities**

Canada Life Financial Corporation has made qualifying third party indemnity provisions for the benefit of its directors which were made in 2003, have been in force throughout the year and remain in force at the date of this report.

#### **10 Auditors**

Each of the persons who is a director at the date of approval of this report confirms that:

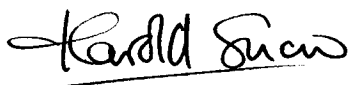
(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors. In accordance with Section 379A of the Companies Act 1985 (as inserted by Section 116 of the Companies Act 1989), the company has dispensed with the obligation to appoint independent auditors annually.

Approved by the Board of Directors  
and signed on behalf of the Board



H C Snow  
Director  
3 May 2007

## **CANADA LIFE LIMITED**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **CANADA LIFE LIMITED**

### **Independent auditors' report to the members of Canada Life Limited**

We have audited the financial statements (the "financial statements") of Canada Life Limited for the year ended 31 December 2006 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet and related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **CANADA LIFE LIMITED**

### **Independent auditors' report to the members of Canada Life Limited (continued)**

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



**Deloitte & Touche LLP**

*Chartered Accountants and Registered Auditors*  
*London*  
3 May 2007

# CANADA LIFE LIMITED

## Profit and Loss Account Technical account - long term business for the year ended 31 December 2006

	Note	2006		2005	
		£m	£m	£m	£m
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	2	5,883.5		3,556.0	
Outward reinsurance premiums	2	<u>(867.5)</u>		<u>(1,048.7)</u>	
			5,016.0		2,507.3
Investment income	3		576.2		661.3
Unrealised (losses) / gains on investments			(75.8)		273.0
Realised gains on investments			222.6		161.4
Other technical income	4		33.5		-
<b>Claims incurred, net of reinsurance</b>					
Gross amount		(1,193.9)		(1,045.4)	
Reinsurers' share		233.7		165.2	
Change in provision for claims outstanding		<u>(13.8)</u>		<u>(9.1)</u>	
Net claims incurred			(974.0)		(889.3)
<b>Changes in technical provisions</b>					
Long term business provision, net of reinsurance					
Gross amount	5	(4,551.8)		(2,727.0)	
Reinsurers' share		<u>532.3</u>		<u>853.1</u>	
		(4,019.5)		(1,873.9)	
Technical provisions for linked liabilities net of reinsurance	5	<u>(331.3)</u>		<u>(546.3)</u>	
Net changes in technical provisions			(4,350.8)		(2,420.2)
Net operating expenses	6		(80.7)		(97.7)
Interest payable			(74.4)		(21.6)
Investment expenses and charges			(8.3)		(5.7)
Tax attributable to the long term business	7		(72.5)		(54.1)
Actuarial loss on staff pension fund			-		(3.1)
Transfer to the fund for future appropriations			(8.5)		(6.7)
Balance on the technical account - long term business			<u>203.3</u>		<u>104.6</u>

# CANADA LIFE LIMITED

## Profit and Loss Account Non-technical account for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Balance on the technical account			
- Long term business		203.3	104.6
Tax attributable to balance on technical account			
- Long term business	7	87.1	44.8
Shareholders' pre-tax profit from long term business		290.4	149.4
Investment income	3	18.6	10.0
Unrealised gains on investments		8.5	10.6
Interest payable and similar charges		(16.9)	(8.5)
Net operating expenses		(0.5)	(1.7)
Amortisation of goodwill	8	(2.8)	(2.8)
Operating profit and profit on ordinary activities before tax		297.3	157.0
Tax charge on profit on ordinary activities	7	(88.5)	(47.5)
<b>Profit for financial year attributable to shareholders</b>		<b>208.8</b>	<b>109.5</b>

The results for the current and preceding year are all derived from continuing operations. The inclusion of unrealised gains and losses in the profit and loss account in accordance with the Companies Act 1985 is not considered to be a departure from the historical cost basis of accounting. Accordingly a separate note of historical cost profits and losses has not been prepared.

## **CANADA LIFE LIMITED**

### **Statement of Total Recognised Gains and Losses for the year ended 31 December 2006**

	2006 £m	2005 £m
Profit for the financial year attributable to shareholders	208.8	109.5
Adjustments to the opening balance sheet in respect of FRS 26 (Note 19)	73.5	-
Total recognised gains and losses recognised since the last financial statements	<u>282.3</u>	<u>109.5</u>

# CANADA LIFE LIMITED

## Balance Sheet at 31 December 2006

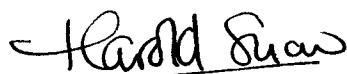
	Note	2006 £m	2005 £m
<b>Intangible assets</b>			
Goodwill	8	8.1	10.9
<b>Investments</b>			
Land and buildings	9	666.2	510.2
Other financial investments	9	8,186.2	7,234.5
Investments in group undertakings and participating interests	9, 10	125.6	131.7
<b>Deposits with ceded undertakings</b>		4,297.8	-
<b>Assets held to cover linked liabilities</b>	12	4,331.8	3,828.4
<b>Reinsurers' share of technical provisions</b>			
Long term business provisions	18	1,646.6	1,114.4
<b>Debtors</b>			
Debtors arising out of direct insurance operations		72.1	79.8
Other debtors	11	66.6	49.2
<b>Other assets</b>			
Tangible assets	14	5.2	10.1
Cash at bank and in hand		55.4	24.0
<b>Prepayments and accrued income</b>			
Accrued interest and rent		119.8	111.5
Deferred acquisition costs	19	57.4	16.3
<b>Total assets</b>		<u>19,638.8</u>	<u>13,121.0</u>

# CANADA LIFE LIMITED

## Balance Sheet at 31 December 2006 (continued)

	Note	2006 £m	2005 £m
<b>Capital and reserves</b>			
Called up share capital	15, 16	14.3	14.3
Capital contribution	16	102.0	62.0
Non-distributable reserve	16	485.7	309.1
Profit and loss account	16	<u>119.8</u>	<u>79.1</u>
<b>Shareholders' funds</b>	16	721.8	464.5
<b>Subordinated liabilities</b>	17	330.0	135.0
<b>Fund for future appropriations</b>		83.3	63.5
<b>Technical provisions</b>			
Long term business provision	13, 18	12,250.1	7,381.0
Claims outstanding		<u>74.4</u>	<u>60.6</u>
		12,324.5	7,441.6
<b>Technical provision for linked liabilities</b>	13	4,311.7	3,828.4
<b>Deposits received from reinsurers</b>	18	1,531.5	966.2
<b>Provisions for other risks and charges</b>			
Other provisions	20	5.1	5.9
Deferred taxation	21	54.4	45.4
<b>Creditors - due within one year</b>			
Creditors arising out of direct insurance operations		29.8	24.2
Other creditors including taxation and social security	22	210.2	139.3
<b>Accruals and deferred income</b>			
Deferred income reserve	19	35.0	-
Other accruals and deferred income		<u>1.5</u>	<u>7.0</u>
<b>Total liabilities</b>		<u>19,638.8</u>	<u>13,121.0</u>

The financial statements were approved by the Board of Directors and signed on its behalf:



H C Snow  
Director  
3 May 2007

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies**

The financial statements are prepared on the basis of the accounting policies set out below and comply with the special provisions relating to insurance companies in Section 255 of and Schedule 9A to the Companies Act 1985.

The financial statements are prepared in accordance with applicable accounting standards as defined in Section 256 of the Companies Act 1985 and comply with the Association of British Insurers Statement of Recommended Practice (ABI SORP) on Accounting for Insurance Business issued in December 2005 (as revised in December 2006).

The financial statements present information about the company as an individual undertaking as it is exempt from the obligation to prepare consolidated financial statements under section 228 of the Companies Act 1985. The company's results are included in the consolidated financial statements of The Canada Life Group (UK) Limited (see Note 34).

##### **a) Changes in accounting policy**

For the year ended 31 December 2006 the company has applied FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Recognition and Measurement.

The company has reclassified its debt and fixed income securities at fair value through profit or loss. The fair value category is used as, in most cases, the company's strategy is to manage its financial investments on a fair value basis. Previously non-linked debt and fixed income securities were valued at amortised cost.

The company has designated its mortgages as loans and receivables measured on an amortised cost basis under FRS 26. Previously mortgages were valued at net present value.

The company has elected to apply FRS 26 paragraph 108D, which provides an exemption from the requirement to restate comparative information in the first year of adoption. The opening balance sheet has been restated in Note 19 to take account of the changes required by FRS 26. Refer to note 1 (k) for the accounting policy in respect of product classification.

##### **b) Premiums**

Premiums are accounted for when due. Premiums are stated gross of commissions, taxes and premium levies.

Amounts received in respect of investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet as an adjustment to investment contract liabilities. Previously these amounts were recorded in premium income in the profit and loss account.

Outward reinsurance premiums are accounted for in accordance with the contract terms when due, reflecting the period in which the risk is transferred.

##### **c) Claims**

Claims payable on maturity are recognised when the claim becomes due for payment and those payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long-term business provision or the provision for linked liabilities.



## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **c) Claims (continued)**

Where claims are payable and the contract remains in force, the claim or instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Amounts paid in respect of investment contracts are accounted for using deposit accounting, under which amounts paid are charged directly to the balance sheet, as an adjustment to investment contract liabilities. Previously these amounts were recorded as claims in the profit and loss account.

Reinsurance recoveries are accounted for in the same period as the related claim.

Funds at retirement under individual pension contracts left with the company as opposed to being transferred to third party providers are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.

##### **d) Fee income**

Fees receivable in respect of investment contracts are recognised within other technical income in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years in which case they are deferred as a liability and are recognised over the term of the contracts on a straight line basis. In 2005 the above fees would have been recognised in the profit and loss account on a receivable basis.

##### **e) Profit recognition**

Long-term business profits are determined annually by means of an actuarial valuation and include the results of the non-participating and linked business. The long-term business profits have been determined using the Modified Statutory Solvency Basis of reporting recommended by the ABI SORP. The long-term business result shown in the non-technical account is grossed up by a notional amount representing the overall effective rate of tax attributable to shareholders' profits.

##### **f) Deferred acquisition costs**

For insurance contracts, acquisition costs comprise all direct and indirect costs arising from writing the contracts, which are incurred during a financial period. Costs are deferred to the extent that they are recoverable out of future margins. The rate of amortisation of deferred acquisition costs on such contracts is proportional to the future margins emerging in respect of the related policies, over the lifetime of those policies.

For investment contracts without DPF, deferred acquisition costs comprise all incremental costs that are directly relating to the writing of the contract, which are incurred during a financial period and are deferred to the extent that they are recoverable out of future margins. Such deferred acquisition costs are amortised uniformly over the effective lifetime of the policy. The effective lifetime of the policy is generally defined as the policy term, subject to a maximum of 20 years.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **f) Deferred acquisition costs (continued)**

Annual impairment reviews are performed to identify whether there are any circumstances that might indicate impairment. If such circumstances exist, the carrying values are adjusted to the recoverable amounts and any resulting impairment losses are charged to the profit and loss account.

##### **g) Investment income**

Income from investments is included in the technical account where attributable to assets in the long-term business fund. All other investment income is included in the non-technical account. Account is taken of dividend income when the related investment goes "ex-dividend" and other investment income is included on an accruals basis. Investment income includes gains and losses arising from a change in fair value of financial assets at fair value through the profit or loss and of derivative financial instruments.

Investment income is recognised at an amount that includes withholding taxes payable to the tax authorities wholly on behalf of the recipient, but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient.

##### **h) Assets held to cover linked liabilities**

Assets held to cover linked liabilities are valued at fair value through profit or loss using bid price market values on the last business day of the year and reflect the terms of the related policies.

##### **i) Long term business provision**

The long-term business provision for insurance contracts and investment contracts is computed by a Fellow of the Institute of Actuaries having due regard to the actuarial principles laid down in the Consolidated Life Directive (2002/83/EC). The valuation uses a gross premium method in respect of the majority of the company's non-profit business, where this is applicable. With profits business and a small block of acquired business is valued on a net premium basis. Adjustments to the valuation for the regulatory returns are made to modify certain reserves, for the purposes of these financial statements. The valuation basis adopted reflects the value of related assets and the yield derived therefrom, together with a prudent assessment of future rates of return on new monies receivable as income from existing business (premiums and investment income). Details of particular interest rate assumptions are contained in Note 18. Other assumptions reflect a prudent assessment of future experience of mortality, morbidity and other relevant factors, including margins sufficient to meet the expectations of the regulator. These margins are expected to emerge into surplus in future periods.

Where appropriate, adjustment is made to the long term business provision so as to measure the liabilities on a basis consistent with the adoption of an amortised cost valuation basis.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **i) Long term business provision (continued)**

Although the process for the establishment of technical provisions follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover such future claims. The company seeks to provide appropriate levels of technical provisions taking known facts and experience into account but nevertheless such provisions remain uncertain.

##### **j) Investments – non-linked**

For the year ended 31 December 2006 the company has applied FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Recognition and Measurement.

The company classifies its investments into the following two categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired or originated.

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the company commits to purchase or sell the asset. Purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

A financial asset is derecognised when the contractual right to receive cash flows expires or when the asset, together with substantially all the risks and rewards of ownership, has been transferred.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the profit and loss account unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the company.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years, which have been realised during the year and are reported as realised gains and losses in the current profit and loss account. All gains and losses arising in relation to investment connected with the carrying on of the long term insurance business are reflected initially in the technical account – long term business. Investment gains and losses arising in relation to other investments (those investments directly attributable to shareholders) are taken to the non-technical account.

##### ***Financial assets at fair value through the profit and loss account***

These investments are financial assets designated on initial recognition at fair value through the profit and loss account except for derivatives which are held for trading and therefore also fall within this category. The fair value on initial recognition being the consideration given, excluding any transaction costs directly attributable to their acquisition. Subsequent to initial recognition, all such financial assets are measured at fair value. Movements in fair value are taken to the profit and loss account in the period in which they arise. These financial assets include derivative financial instruments held for trading purposes.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **j) Investments (continued)**

Fair value determinations for financial instruments are based on market prices (bid price for assets and offer price for liabilities) at the close of business on the balance sheet date for listed instruments in active markets.

##### ***Land & buildings***

Land and buildings are revalued every quarter at open market value, by qualified external valuers, in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors. No depreciation is provided on properties held for investment purposes, as recommended in FRS 15 Tangible Fixed Assets, as the directors believe that to do so would not give a true and fair view. Depreciation is one of the many factors considered in the independent valuation of such properties.

Depreciation is not provided on properties occupied by the company as all properties are maintained in a sound state of repair and such assets represent an immaterial proportion of total investment assets. Accordingly any depreciation would not be significant.

##### ***Loans and receivables***

Loans are financial assets with fixed or determinable payments that are not quoted in an active market. Loans are measured on initial recognition at the fair value of the consideration given plus incremental costs that are incurred on the acquisition of the investment. Subsequent to initial recognition, loans are measured at amortised cost using the effective interest rate method. The company accounts for its mortgage portfolio on this basis.

The amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any resulting impairment loss is recorded in the profit and loss account.

##### **k) Product classification**

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event would cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under FRS 26 are classified as investment contracts.

##### **l) Insurance contracts**

Insurance contracts are measured using accounting policies consistent with those previously adopted under the Modified Statutory Solvency (MSS) basis, as amended following the adoption of the principles contained in FRS 27 Life assurance.

The insurance contract liabilities are determined following an annual investigation of the long-term funds. The liabilities are calculated in accordance with the relevant Financial Services Authority (FSA) rules contained in the Integrated Prudential Sourcebook for UK operations. The valuations are subject to adjustments to reflect relevant accounting requirements as set out below. The annual investigation is carried out as at 31 December.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **l) Insurance contracts (continued)**

The calculation of the liabilities to policyholders in respect of conventional with-profits is on a net premium basis and in accordance with the MSS basis. These liabilities include an implicit provision for future regular bonuses, but not final bonuses, by means of a reduction in the valuation interest rate and an assessment of options and guarantees on a deterministic basis.

The calculation of liabilities to policyholders for non-profit contracts is on a gross premium basis and in accordance with the MSS basis. These liabilities include explicit allowance for future expenses.

The provision for insurance contract liabilities can never be definitive as to the overall level of liabilities or their timing and is subject to regular reassessment.

The company carries out an annual liability adequacy test on its insurance liabilities less related deferred acquisition costs and other related intangible assets to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. Where a shortfall is identified, an additional provision is made.

##### **m) Investment contracts**

Deposits collected under investment contracts are not accounted for through the profit and loss account, except for the investment income attributable to these contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability. The majority of the company's contracts classified as investments are unit-linked contracts and are measured at fair value. For unit linked contracts, the fair value liability is equal to the current unfunded unit fund value, plus additional non-unit reserves if required on a fair value basis. The fair value liability is in principle established through the use of prospective discounted cash flow techniques.

Balances representing eligible surplus that has not yet been allocated to shareholders, or policyholders with DPF contracts, have been retained as a policyholders' liability.

##### **n) Investments in group undertakings**

Investments in group undertakings are valued at current value, as determined by the company's directors.

##### **o) Tangible assets**

The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The cost of major software projects where future cost savings are likely to be made are capitalised. It is the company's policy not to charge depreciation on major software projects until the system is in use. The principal rates used for this purpose are:

Computer Equipment	33 1/3%
Computer Software	20%
Fixtures and Fittings	10% to 50%
Office Machinery	20%

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1 Principal accounting policies (continued)**

##### **p) Current taxation**

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

##### **q) Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiary undertakings only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

##### **r) Foreign currencies**

Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date or if appropriate at the forward contract rates. All differences are taken to the profit and loss account.

##### **s) Surplus arising from the long term business and the fund for future appropriations**

Surplus arising from the company's participating long term business representing amounts not allocated to participating policyholders at the balance sheet date is held within the fund for future appropriations.

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events such as death or specific types of illness. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. As a consequence of this uncertainty, sophisticated estimation techniques are employed by suitably qualified personnel in computing the levels of provisions held against such uncertainty.

The long term business provision is determined by the company's directors, having taken advice from the Head of Actuarial Function, following an annual investigation of the long term business and reflects the value of related assets and the yield derived therefrom.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **1. Principal accounting policies (continued)**

##### **s) Surplus arising from the long term business and the fund for future appropriations (continued)**

The long term business provision is calculated initially to comply with the reporting requirements under the Financial Services and Markets Act 2000 and Integrated Prudential Sourcebook, principally using the gross premium valuation method. This statutory solvency basis of valuation is then adjusted by transferring to the fund for future appropriations the undistributed with-profits surplus determined by that valuation, general contingency reserves, certain reserves required under insurance companies' regulations and deferred acquisition costs allowed for in the valuation.

Although the process for the establishment of technical provisions follows specified rules and guidelines, the provisions that result from the process remain uncertain. As a consequence of this uncertainty, the eventual value of claims could vary from the amounts provided to cover such future claims. The company seeks to provide appropriate levels of technical provisions taking known facts and experience into account but nevertheless such provisions remain uncertain.

##### **t) Cash flow statement**

Advantage has been taken of the exemption under FRS 1(5)(a) (revised), Cash Flow Statements, not to present a cash flow statement, as the subsidiary is 100% controlled within the Great-West Lifeco Inc group of companies. The consolidated financial statements in which the subsidiary undertakings are included are publicly available (see Note 34).

##### **u) Transactions with related parties**

Advantage has been taken under FRS 8(3)(c), Related Party Disclosures, not to disclose transactions between entities, 100% of whose voting rights are controlled within the Great-West Lifeco Inc group of companies.

##### **v) Intangible assets – goodwill on acquisition**

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of seven years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

##### **w) FRS 27 Life Assurance**

The company is exempt from the requirement to value its long term business provision on realistic valuation basis and continues to apply the Modified Statutory Solvency Basis.

The company has complied with the disclosure requirements of FRS 27 as set out in Note 29.

##### **x) Operating leases**

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 2 Segmental information

#### 2A Written premiums - Gross premiums written by way of direct insurance

	2006 £m	2005 £m
<b>Life</b>		
Non participating contracts	64.9	87.1
Participating contracts	10.9	12.7
Unit linked contracts	33.1	215.3
	<u>108.9</u>	<u>315.1</u>
<b>Pension</b>		
Non participating contracts (see below)	5,638.2	3,062.7
Participating contracts	-	0.5
Unit linked contracts	16.0	87.2
	<u>5,654.2</u>	<u>3,150.4</u>
<b>Permanent Health</b>	<u>120.4</u>	<u>90.5</u>
<b>Total direct insurance written premiums</b>	<u><u>5,883.5</u></u>	<u><u>3,556.0</u></u>
 Periodic premiums	 510.0	 500.6
Single premiums (see below)	<u>5,373.5</u>	<u>3,055.4</u>
 Total gross direct insurance premiums	 5,883.5	 3,556.0
Reinsurance premiums (see below)	<u>(867.5)</u>	<u>(1,048.7)</u>
<b>Net written premiums</b>	<u><u>5,016.0</u></u>	<u><u>2,507.3</u></u>

Included in pension non-participating contracts is £4,608m (2005: £Nil) from The Equitable Life Assurance Society as described in Note 31. Included in reinsurance premiums is £694m (2005: £Nil) payable to Canada Life International Re Limited, relating to this block of business, as described in Note 31.

Included in pension non-participating contracts is £Nil (2005: £2,172.6m) from Phoenix & London Assurance Limited as described in Note 32. Included in reinsurance premiums is £Nil (2005: £867.6m) payable to Canada Life International Re Limited relating to the acquisition of the Phoenix & London Assurance Limited annuity book, as described in Note 32.

Written premiums of £493.8m (2005: £Nil) relating to investment contract products have been excluded from the 2006 analysis, as described in Note 19.

Premiums include £0.5m (2005: £0.6m) of overseas contracts written in Hong Kong. Recurring single premiums are treated as single premiums.



## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 2 Segmental information (continued)

##### 2A Written premiums - Gross premiums written by way of direct insurance (continued)

Included in gross written premiums are £386.1m (2005: £359.8m) with respect to group contracts and £5,991.4m, including the £4,608m premium from The Equitable Life Assurance Society (2005: £3,156.0m, including the £2,172.6m premium in relation to the Phoenix & London Assurance Limited annuity book acquisition) in respect to individual business.

##### 2B New business premiums

	2006 Gross £m	2005 Gross £m
<b>Life</b>		
Individual and group		
Unit linked	9.6	186.7
Non participating	9.2	13.9
	<u>18.8</u>	<u>200.6</u>
<b>Pension</b>		
Individual and group		
Unit linked	12.4	39.2
Non participating	757.9	670.2
	<u>770.3</u>	<u>709.4</u>
<b>Permanent Health</b>		
Individual	0.3	0.3
Group	11.9	10.1
	<u>12.2</u>	<u>10.4</u>
<b>Total new business premiums</b>	<u><u>801.3</u></u>	<u><u>920.4</u></u>
Periodic premiums	35.1	37.6
Single premiums	<u>766.2</u>	<u>882.8</u>
<b>New business premiums</b>	<u><u>801.3</u></u>	<u><u>920.4</u></u>

All new business premiums represent direct business and are written in the United Kingdom. There is no inward reinsurance business. Incremental increases on existing policies are classified as new business premiums. Rebates from the Department for Work and Pensions are classified as new single premiums. The above analysis excludes the impact of the Equitable Life Assurance Society, and the Phoenix & London Assurance Limited annuity book acquisition in 2006 and 2005 respectively.

New business premiums of £454.0m relating to investment contract products, have been excluded from the 2006 analysis, as described in Note 19.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 2 Segmental information (continued)

#### 2C Balance on the technical account – long term business

	2006	2005
	£m	£m
Non-participating	178.1	61.8
Linked	<u>25.2</u>	<u>42.8</u>
Balance on the technical account – long term business	<u>203.3</u>	<u>104.6</u>

The total assets of the long term fund of the company at 31 December 2006 were £19,150.9m (2005: £12,859.1m).

### 3 Investment income

	Technical account long term business		Non-technical Account	
	2006	2005	2006	2005
	£m	£m	£m	£m
Income from land and buildings	48.8	44.1	-	-
Income from group undertakings	-	188.1	-	-
Income from other investments	<u>527.4</u>	<u>429.1</u>	<u>18.6</u>	<u>10.0</u>
	<u>576.2</u>	<u>661.3</u>	<u>18.6</u>	<u>10.0</u>

### 4. Other Technical Income

	2006
	£m
Fees from investment contracts	15.5
Movement in deferred income reserve	(0.7)
Other fee income	<u>18.7</u>
	<u>33.5</u>

The 2005 comparative has not been restated, refer to Note 19.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **5. Changes in technical provisions**

##### **Changes in long term business provision**

	2006 £m
Insurance contract liabilities	4,550.5
Investment contract liabilities	1.3
Changes in long term business provision	<u>4,551.8</u>

##### **Changes in technical provision for linked liabilities**

	2006 £m
Insurance contract liabilities	11.4
Investment contract liabilities	319.9
Changes in technical provision for linked liabilities net of reinsurance	<u>331.3</u>

The 2005 comparative has not been restated, refer to Note 19.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 6 Net operating expenses

	2006	2005
	£m	£m
Acquisition costs	47.4	37.5
Changes in deferred acquisition costs	(19.9)	6.6
Other expenses	53.2	53.6
	<u>80.7</u>	<u>97.7</u>

Net operating expenses include:

	2006	2005
	£m	£m
<b>Technical account</b>		
Commission in respect of direct insurance	42.6	26.4
Auditors' remuneration in respect of		
• Audit services		
- Fees payable to the company's auditor for the audit of the company's annual accounts	0.9	0.7
• Other services		
- Other services pursuant to legislation	0.1	0.1
- Litigation services	0.6	0.4
Rentals under operating leases	0.8	2.6
Depreciation of tangible assets (Note 14)	<u>5.0</u>	<u>5.2</u>

With effect from 1 April 2005 all staff contracts of employment with the company were transferred to CLFIS (UK) Limited a fellow subsidiary of The Canada Life Group (UK) Limited. Also from that date a significant proportion of the company's on-going operating expenses were captured by CLFIS (UK) Limited and subsequently recharged to the company, where appropriate.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 7 Taxation

##### (a) Long term business

Tax charged in the long term business technical account comprises:

	2006 £m	2005 £m
<b>Current tax</b>		
UK corporation tax	75.2	13.2
Change in prior year estimations – UK	0.7	-
	<u>75.9</u>	<u>13.2</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4.3)	41.0
Decrease in discount	0.9	(0.1)
	<u>(3.4)</u>	<u>40.9</u>
Total tax charged in the long term business technical account	<u>72.5</u>	<u>54.1</u>

##### (b) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2006 £m	2005 £m
<b>Current tax</b>		
UK corporation tax	(0.9)	(0.7)
Prior year adjustment	-	-
Tax charge attributable to balance on long term business technical account	87.1	44.8
Total current tax	<u>86.2</u>	<u>44.1</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<u>2.3</u>	<u>3.4</u>
Total tax charged in the non-technical account	<u>88.5</u>	<u>47.5</u>

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 7 Taxation (continued)

##### (c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account is lower than the standard UK corporation tax rate, because of the following factors:

	2006	2005
	£m	£m
Profit on ordinary activities before tax	297.3	157.0
Current tax charge at standard UK corporation tax rate of 30% (2005: 30%)	89.2	47.1
Non-assessable dividends	(0.5)	(0.6)
Movements in asset values	(2.8)	(3.1)
Amortisation of goodwill	0.2	0.2
Expenses not deductible for tax purposes	0.1	0.5
Current tax charge for the year (note 7(b))	86.2	44.1

#### 8 Goodwill on acquisition

	2006	2005
	£m	£m
At 1 January	10.9	13.7
Amortisation	(2.8)	(2.8)
At 31 December	8.1	10.9

Goodwill on acquisition represents the payment in 2002 to the Royal & Sun Alliance Insurance Group, for the acquisition of their group insurance business.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 9. Investments

	2006	2005
	£m	£m
<b>Investments in group undertakings and participating interests</b>		
Shares in group undertakings	<u>125.6</u>	<u>131.7</u>
<b>Other financial investments</b>		
Shares and other variable yield securities and units in unit trusts – Listed	297.0	271.4
Debts and other fixed income securities – Listed		
- at amortised cost	-	5,678.9
- at fair value	6,421.4	-
Loans secured by mortgages		
- at amortised cost	681.4	-
- at book cost	-	424.3
Loans secured by policies of insurance	12.7	16.8
Deposits with credit institutions	<u>773.7</u>	<u>843.1</u>
	<u>8,186.2</u>	<u>7,234.5</u>

For listed financial assets at fair value through profit or loss, fair value is by reference to quoted bid-values.

For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid-values.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 9 Investments (continued)

##### Land and buildings

Land and buildings at current market value:

	Freehold 2006 £m	Freehold 2005 £m
At 1 January	510.2	357.4
Additions	102.7	172.4
Disposals	(8.6)	(39.3)
Surplus on revaluation	<u>61.9</u>	<u>19.7</u>
At 31 December	<u>666.2</u>	<u>510.2</u>
Land and buildings at cost:		
At December 2006	<u>538.5</u>	
At December 2005	<u>444.3</u>	

All properties held by Canada Life Limited were valued as at 25 December 2006. The valuation of different parts of the portfolio was conducted by qualified professional valuers working for two companies: Donaldsons and Atis Reals, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors.

Investment properties were valued on the basis of open market value. The properties in owner occupation for the purposes of the company's business were valued assuming vacant possession. All valuations were carried out in accordance with the RICS Appraisal and Valuation Manual.

Included in the figures shown for current value is £14.7m (2005: £11.5m) in respect of buildings which are owned and occupied by the company.



## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 10 Group undertakings

At the balance sheet date the company directly and indirectly owned the whole of the issued share capital of the following undertakings. Unless otherwise stated the undertakings are incorporated in Great Britain, registered in England and Wales and have share capital comprising shares of one class only.

	<u>Business Type</u>
Canada Life (UK) Limited	Holding company
Canada Life Fund Managers (UK) Limited	Fund management
Canada Life Management (UK) Limited (preference and ordinary share capital)	Non trading
Canada Life Irish Operations Limited	Non trading
Canada Life Ireland Holdings Limited (Republic of Ireland)	Non trading
Albany Life Assurance Company Limited	Dormant
Canada Life Group Services (UK) Limited	Ancillary services
Canada Life Services (UK) Limited	Ancillary services
Canada Life Holdings (UK) Limited	Non trading

The investments in subsidiary undertakings are as follows:

		2006 £m	2005 £m
Cost :	At 1 January	422.3	425.6
	Additions	-	188.1
	Disposals	-	(191.4)
	At 31 December	<u>422.3</u>	<u>422.3</u>
Valuation adjustment :	At 1 January	(290.6)	(106.3)
	Disposals	-	(184.8)
	Movement during year	(6.1)	0.5
	At 31 December	<u>(296.7)</u>	<u>(290.6)</u>
Carrying value :	At 31 December	<u>125.6</u>	<u>131.7</u>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 11 Other debtors

	2006 £m	2005 £m
<b>Due in less than one year</b>		
UK corporation tax	-	13.0
Other debtors	40.9	1.7
	<u>40.9</u>	<u>14.7</u>
<b>Due in more than one year</b>		
Other debtors	25.7	34.5
	<u>25.7</u>	<u>34.5</u>
<b>Total</b>	<u>66.6</u>	<u>49.2</u>

### 12 Assets held to cover linked liabilities

	2006		2005	
	Market value £m	Historical cost £m	Market value £m	Historical cost £m
Assets held to cover linked liabilities	<u>4,331.8</u>	<u>3,748.5</u>	<u>3,828.4</u>	<u>3,297.0</u>

### 13 Technical provisions

#### Long term business provision

	2006 £m
Insurance contract liabilities	12,205.9
Investment contract liabilities	44.2
Long term business provision	<u>12,250.1</u>

#### Technical provision for linked liabilities

	2006 £m
Insurance contract liabilities	1,006.5
Investment contract liabilities	3,305.2
Technical provision for linked liabilities	<u>4,311.7</u>

The 2005 comparative has not been restated, refer to Note 19.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 14 Tangible assets

The net book value of tangible assets is made up as follows:

	Fixtures and fittings £m	Office machinery £m	Computer equipment £m	Computer software £m	Total £m
<b>Cost</b>					
At 1 January 2006	1.8	0.7	2.1	28.8	33.4
Additions	-	-	0.1	-	0.1
Disposals	-	-	-	-	-
At 31 December 2006	1.8	0.7	2.2	28.8	33.5
<b>Depreciation</b>					
At 1 January 2006	1.3	0.6	1.5	19.9	23.3
Charge for the year	0.1	-	0.3	4.6	5.0
On disposals	-	-	-	-	-
At 31 December 2006	1.4	0.6	1.8	24.5	28.3
<b>Net book value at</b>					
31 December 2005	0.5	0.1	0.6	8.9	10.1
31 December 2006	0.4	0.1	0.4	4.3	5.2

### 15 Called up share capital

	2006 £m	2005 £m
<b>Authorised</b>		
Equity interest		
30,000,000 ordinary shares of £1 each	30.0	30.0
<b>Allotted, called up and fully paid</b>		
Equity interest		
14,250,010 ordinary shares of £1 each	14.3	14.3

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 16 Reconciliation of movements in shareholders' funds

	Ordinary share capital	Capital contribution	Profit and loss account	Non- distributable reserve	Total shareholders' funds
	£m	£m	£m	£m	£m
Balance at 31 December 2005	14.3	62.0	79.1	309.1	464.5
Adjustments to the opening balance sheet in respect of FRS 26 (Note 19)			0.2	73.3	73.5
Balance at 1 January 2006	14.3	62.0	79.3	382.4	538.0
Additional capital contribution		40.0			40.0
Profit attributable to shareholders			5.5	203.3	208.8
Transfer			100.0	(100.0)	-
Dividend paid (Note 29)			(65.0)		(65.0)
Balance at 31 December 2006	14.3	102.0	119.8	485.7	721.8

The non-distributable reserve represents surplus assets held within the long term insurance business fund.

All shareholders' funds are attributable to equity shareholders.

During the year the company received a £40m capital contribution from its parent, The Canada Life Group (UK) Limited.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **17 Subordinated liabilities**

In 2002 the company entered into two subordinated loan agreements with other Canada Life group companies. One agreement, for a loan of £70m, is for a term of thirty years. The other agreement, for a loan of £40m, is for an undated term. In 2005, the company borrowed £25m for a term of thirty years, under a new subordinated loan facility with a Canada Life group company, in connection with the acquisition of the Phoenix & London Assurance Limited annuity book.

In February 2006 the company made an additional £65m drawdown under the subordinated loan facility established in 2005. This was part of a refinancing arrangement under which the company paid a £65m 2006 interim dividend on 20 February 2006 to its parent undertaking The Canada Life Group (UK) Limited.

In May 2006 the company borrowed an additional £130m under two new subordinated loan agreements with other Canada Life group companies, in connection with the reinsurance agreement with The Equitable Life Assurance Society - refer to Note 31. One agreement, for a loan of £50m, is for a term of thirty years. The other agreement, for a loan of £80m, is for an undated term.

Interest is payable in respect of the 2002 thirty year term loan at 2.25% per annum above LIBOR for the first ten years, at which time the company may partly or fully repay the loan. Any ongoing liability will be subject to interest at 2.90% per annum above LIBOR for the remaining term. Any amount which falls due for payment under the terms of the agreement shall be suspended if, in the opinion of the company's Head of Actuarial Function, this would result in a breach of its required margin of solvency. The loan is immediately repayable in the event of any step being taken to wind up the company. The lender may only petition for the winding up of the company following the second anniversary of the default of the terms of the agreement by the company. In a winding up no amount will be paid in respect of the subordinated debt until all policyholders and other creditors have been paid in full. Repayment of the subordinated debt is subject to no objection to such repayment being received from the Financial Services Authority.

The terms of the 2002 undated subordinated debt are similar to the above. In addition, repayment is subject to a minimum of five years notice to the Financial Services Authority.

The terms of the 2005 and February 2006 subordinated debts are similar to the above 2002 thirty year term loan with the exception of the applicable interest rates which are 0.8% and 1.05% per annum above LIBOR for the first ten years and subsequent years respectively.

The terms of the £50m 2006 thirty year term subordinated debt are similar to the previous thirty year loans other than in respect of the interest rate, which is fixed at 5.65% per annum for the first ten years, and 5.9% in subsequent years.

The terms of the £80m 2006 undated subordinated debt are similar to the 2006 thirty year term loan, with the exception that the company can elect to defer payment of interest. Deferred interest may be paid by the company in whole or part at any time, but would become payable on cancellation of the facility as a consequence of any steps having been taken to wind up the company.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 18 Long term business provision

On 5 November 1999, the businesses of the UK branch of The Canada Life Assurance Company (CLACO) and Albany Life Assurance Company Limited were transferred to the company in accordance with Schedule 2c of the Insurance Companies Act 1982.

The methodologies used to calculate the long-term business provision are as follows:

For with-profit business, the calculation of the long term business provision is based on a net premium valuation where the premium brought into account at any valuation date is that which, on the valuation assumptions regarding interest, mortality and disability, will exactly provide for the benefits guaranteed. Under the net premium method, no explicit allowance is made for the future costs of maintaining the policy but these are taken into account, if necessary, by adjusting downwards the amount of future premiums included in the calculation.

For all other non-linked business, the calculation of the long term business provision is normally based on the discounted value of future benefits and value of future costs of maintaining the policy.

For linked business, the provision is normally equal to the bid value of units (i.e. the value of the assets to which the contracts are linked) together with, where appropriate, a provision in respect of future expenses and mortality and other risks.

In all cases, the discount rate is based on the return available on suitable investments with allowance for credit and reinvestment risk where appropriate.

The detailed methodology for UK companies is included in regulations contained in the FSA rules.

The principal assumptions used to calculate the long-term business provision are as follows:

Valuation interest rates:-

Product group	This valuation	Last valuation
Term Assurances	3.50%	3.50%
Annuities in payment (CPA)	4.83%	5.27%
Annuities in payment (CPA - PALAL)	4.81%	4.36%
Annuities in payment (CPA - ELAS)	4.72%	n/a
Property linked policies - Life	2.89%	2.80%
Property linked policies - Pensions	3.62%	3.60%

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 18 Long term business provision (continued)

Mortality:-

Product group	This valuation	Last valuation
Term Assurances	Males: 77% TM92 Ult Females: 93% AF92 Ult	Males: 77% TM92 Ult Females: 93% AF92 Ult
Annuities in payment (CPA)	Males: 92% PNMA00 U2006mc with 0.5% floor Females: 82% PNFA00 U2006sc with 0.5% floor	Males: 95% PMA92 U2005mc Females: 90% PFA92 U2005sc
Annuities in payment (CPA - PALAL)	Males: 89% PNMA00 U2006mc Females: 75% PNFA00 U2006sc	Males: 95% PMA92 U2005mc Females: 80% PFA92 U2005sc
Annuities in payment (CPA – ELAS)	Males: 77.5% of PMA92 U2006mc Females: 77.5% of PFA92 U2006sc	n/a
Property linked policies	Males: 85% AM92 Sel Females: 105% AF92 Sel	Males: 90% AM92 Sel Females: 93.5% AF92 Sel

Persistency:-

Product group		Average lapse / surrender / paid-up rate for the policy years			
		1-5	6-10	11-15	16-20
Term Assurances	lapse	18.1	11.9	2.0	2.0

The interest rates assumptions in the valuation are based on the current yields on our assets so they change from year to year. Over 2006, the yield on assets backing annuity business rose and so the valuation interest rates for annuity business rose.

To reflect the latest data on improving life expectancy, we included a 0.5% floor on improvements in Canada Life originated annuity business. We also moved to using the latest available mortality tables and adjusted to reflect the results of our most recent experience investigation.

For annuities, following our integration of the PALAL annuities and the reinsurance of the Equitable block, we set our annuity expense assumption at £16.10 per policy per annum to reflect the impact of these annuity acquisitions on our policy count and cost base. Our Individual Health claims assumption was increased significantly to reflect the extra costs being incurred to manage our claims successfully.

Following the publication of PS06/14 and its incorporation into INSPRU, we have introduced persistency assumptions into our non-linked business and we have removed the restriction of a minimum of zero on any policy's liability.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **18 Long term business provision (continued)**

The significant sensitivities are as follows:-

- A decrease of 10% in our annuity mortality assumptions would increase annuity reserves by approximately 3%, while a decrease of 0.1% in valuation rate of interest would increase annuity reserves by about 1%.
- A decrease of 10% in our Group IP termination rate assumptions would increase these Group IP claims in payment reserves by approximately 2%.

The LTBP for with-profits business includes an allowance for vested bonuses and those vesting in the twelve months following the current valuation. There is an allowance for future regular bonuses but no allowance for terminal bonuses. The allowance for future regular bonuses is made by considering the margins between the value of office premium and the net premium in the current valuation.

The total cost of bonuses attributable to the accounting period, being amounts representing an allocation of surplus for the year, is £17.6m (2005: £16.1m).

The company entered into a financial reinsurance treaty with Canada Life International Re Limited on 30 September 2002 under which £20m was received as an advance reinsurance claim. On 31 December 2003 a further £20m was received under an extension of this treaty. The liabilities at the end of the year are shown in 'deposits received from reinsurers'. The repayment of the liabilities is contingent upon the emergence of future surpluses.

The company entered into a financial reinsurance treaty with CLACO on 31 December 2002 under which £60m was received as an advance reinsurance claim. The liability at the end of the year is shown in 'deposits received from reinsurers'. The repayment of the liability is contingent upon the emergence of future surpluses.

During 2006 the company acquired an annuity block of The Equitable Life Assurance Society as set out in Note 31. As part of this acquisition the company entered into a reinsurance agreement where the company ceded 15% of this acquired book to Canada Life International Re Limited, a fellow group undertaking, on a funds withheld basis. The ceded premium of £694.4m has been reflected in the balance sheet. The impact on the end of the 2006 balance sheet is an increase in 'reinsurers' share of technical provisions' of £640.7m with a corresponding increase in 'deposits received from reinsurers'.

During 2005 the company acquired the annuity book of Phoenix & London Assurance Limited (PALAL) as set out in Note 32. As part of this acquisition the company entered into a reinsurance agreement where the company ceded 40% of this acquired book to Canada Life International Re Limited, a fellow group undertaking, on a funds withheld basis. The impact on the 2006 balance sheet was an increase in 'reinsurers' share of technical provisions' of £781.9m and a corresponding increase in 'deposits received from reinsurers'.

The above acquisitions make up £1,422.6m of the total £1,646.6m asset and £1,531.5m liability respectively as shown in the balance sheet.



## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **19. Change in accounting policies**

For the 2006 year end the company has applied FRS 25 Financial Instruments: Disclosure and Presentation, and FRS 26 Financial Instruments: Recognition and Measurement.

The company has elected to apply FRS 26 paragraph 108D, which provides an exemption from the requirement to restate comparative information in the first year of adoption. The 2006 opening balance sheet has been restated to take account of the changes required by FRS 25 and FRS 26, as discussed further below.

The main impacts of FRS 25 and FRS 26 are as follows;

##### **a) Financial Asset / Liability valuation**

The company has classified its investments as financial assets at fair value through profit or loss with the exception of mortgages, which have been classified as loans and receivables.

This valuation basis differs to that used in previous accounting periods for bonds, which were valued on an amortised cost basis, and mortgages which were valued at net present value.

Subsequent to initial recognition, financial assets are measured at fair value. Changes in the fair value of a financial asset are taken to the profit and loss account in the period in which they arise.

Mortgages have been measured at amortised cost using the effective interest rate method.

The 2006 opening balance sheet has been restated to reflect the change in valuation and has resulted in an increase in assets of £432.6m, which has largely been offset by an increase to the long term business provision of £341.8m and £10.3m to the deferred taxation provision.

##### **b) Deferred acquisition costs (DAC)**

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. They are allocated to particular categories of policies based on available management information.

Historically such costs have been deferred as an explicit deferred acquisition costs asset, gross of tax, and amortised over the period in which the costs are expected to be recoverable out of margins in matching revenues from related policies and in accordance with the pattern of such margins. At the end of each accounting period, deferred acquisition costs have been reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Under FRS 25 and FRS 26, the initial costs that can be deferred for investment contract products are limited to the directly attributable incremental costs of acquisition. The deferred acquisition asset should be tested for recoverability and any change in valuation should be taken to the profit and loss account. Deferred acquisition costs are amortised uniformly over the effective lifetime of the policy. The effective lifetime of the policy is generally defined as the policy term, subject to a maximum of 20 years.

The opening DAC asset has been increased by £21.3m, with a corresponding adjustment to non-distributable reserves.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **19. Change in accounting policies (continued)**

##### **c) Deferred income reserve (DIR)**

FRS 26 requires that a deferred income reserve is recognised on the balance sheet for investment contracts where any front end fees are received which relate to services to be provided in future periods. Initial charges in the service contract should be deferred and spread over the expected lifetime of the service agreement.

A deferred income reserve of £34.3m has been recognised in the 2006 opening balance sheet restatement, with a corresponding adjustment to non-distributable reserves.

##### **d) Eliminate sterling reserves on investment contracts**

Sterling reserves associated with investment contract business of £17.2m have been eliminated as part of the opening balance sheet restatement, with a corresponding adjustment to non-distributable reserves.

Investment contracts are accounted for on a deposit accounting basis and sterling reserves on investment contracts do not meet the definition of a provision in FRS 12 Provisions, Contingent Liabilities and Contingent Assets, so have been written off back to the technical account.

##### **e) Reclassification of long term business provision**

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event would cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under FRS 26 are classified as investment contracts.

##### **f) Investment contract profit and loss account adjustments**

Amounts previously recognised as income and expenses in the technical account, relating to investment contracts, should be eliminated.

For 2006, premiums of £493.8m – including new business premiums of £454.0m, claims of £333.6m and expenses of £15.6m have been eliminated from the technical account. This has had no impact on earnings arising in the technical account as there is a corresponding movement in investment contract liabilities.

Fee income is disclosed in a separate line in the technical account, where previously it has been included in the investment income line.

The summary effect of these changes on the 2006 opening balance sheet are shown below.

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 19. Change in accounting policies (continued)

	31 December 2005	FRS 26 Adjustments	1 January 2006
	£m	£m	£m
<b>Intangible assets</b>			
Goodwill	10.9	-	10.9
<b>Investments</b>			
Land and buildings	510.2	-	510.2
Other financial investments	7,234.5	432.6	7,667.1
Investments in group undertakings and participating interests	131.7	-	131.7
<b>Deposits with ceded undertakings</b>	-	-	-
<b>Assets held to cover linked liabilities</b>	3,828.4	-	3,828.4
<b>Reinsurers' share of technical provisions</b>			
Long term business provisions	1,114.4	-	1,114.4
<b>Debtors</b>			
Debtors arising out of direct insurance operations	79.8	-	79.8
Other debtors	49.2	-	49.2
<b>Other assets</b>			
Tangible assets	10.1	-	10.1
Cash at bank and in hand	24.0	-	24.0
Cash and cash equivalents	-	-	-
<b>Prepayments and accrued income</b>			
Accrued interest and rent	111.5	-	111.5
Deferred acquisition costs	16.3	21.3	37.6
<b>Total assets</b>	<u>13,121.0</u>	<u>453.9</u>	<u>13,574.9</u>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 19. Change in accounting policies (continued)

	31 December 2005 £m	FRS 26 Adjustments £m	1 January 2006 £m
<b>Capital and reserves</b>			
Called up share capital	14.3	-	14.3
Capital contribution	62.0	-	62.0
Non-distributable reserve	309.1	73.3	382.4
Profit and loss account	79.1	0.2	79.3
<b>Shareholders' funds</b>	<b>464.5</b>	<b>73.5</b>	<b>538.0</b>
<b>Subordinated liabilities</b>	<b>135.0</b>	<b>-</b>	<b>135.0</b>
<b>Fund for future appropriations</b>	<b>63.5</b>	<b>11.3</b>	<b>74.8</b>
<b>Technical provisions</b>			
Long term business provision	7,381.0	324.6	7,705.6
Claims outstanding	60.6	-	60.6
	7,441.6	324.6	7,766.2
<b>Technical provision for linked liabilities</b>	<b>3,828.4</b>	<b>-</b>	<b>3,828.4</b>
<b>Deposits received from reinsurers</b>	<b>966.2</b>	<b>-</b>	<b>966.2</b>
<b>Provisions for other risks and charges</b>			
Other provisions	5.9	-	5.9
Deferred taxation	45.4	10.2	55.6
<b>Creditors - due within one year</b>			
Creditors arising out of direct insurance operations	24.2	-	24.2
Other creditors including taxation and social security	139.3	-	139.3
<b>Accruals and deferred income</b>			
Deferred income reserve	-	34.3	34.3
Other accruals and deferred income	7.0	-	7.0
<b>Total liabilities</b>	<b>13,121.0</b>	<b>453.9</b>	<b>13,574.9</b>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 19. Change in accounting policies (continued)

	(a) Investment valuation £m	(b) Deferred acquisition costs £m	(c) Deferred income reserve £m	(d) Eliminate sterling reserves £m	Total FRS 26 adjustments £m
<b>Intangible assets</b>					
Goodwill	-	-	-	-	-
<b>Investments</b>					
Land and buildings	-	-	-	-	-
Other financial investments	432.6	-	-	-	432.6
Investments in group undertakings and participating interests		-	-	-	-
<b>Deposits with ceded undertakings</b>	-	-	-	-	-
<b>Assets held to cover linked liabilities</b>	-	-	-	-	-
<b>Reinsurers' share of technical provisions</b>					
Long term business provisions	-	-	-	-	-
<b>Debtors</b>					
Debtors arising out of direct insurance operations	-	-	-	-	-
Other debtors	-	-	-	-	-
<b>Other assets</b>					
Tangible assets	-	-	-	-	-
Cash at bank and in hand	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
<b>Prepayments and accrued income</b>					
Accrued interest and rent	-	-	-	-	-
Deferred acquisition costs	-	21.3	-	-	21.3
<b>Total assets</b>	<b>432.6</b>	<b>21.3</b>	<b>-</b>	<b>-</b>	<b>453.9</b>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 19. Change in accounting policies (continued)

	(a) Investment valuation £m	(b) Deferred acquisition costs £m	(c) Deferred income reserve £m	(d) Eliminate sterling reserves £m	Total FRS 26 adjustments £m
<b>Capital and reserves</b>					
Called up share capital	-	-	-	-	-
Capital contribution	-	-	-	-	-
Non-distributable reserve	69.0	15.1	(26.3)	15.5	73.3
Profit and loss account	0.2	-	-	-	0.2
<b>Shareholders' funds</b>	69.2	15.1	(26.3)	15.5	73.5
<b>Subordinated liabilities</b>	-	-	-	-	-
<b>Fund for future appropriations</b>	11.3	-	-	-	11.3
<b>Technical provisions</b>					
Long term business provision	341.8	-	-	(17.2)	324.6
Claims outstanding	-	-	-	-	-
	341.8	-	-	(17.2)	324.6
<b>Technical provision for linked liabilities</b>	-	-	-	-	-
<b>Deposits received from reinsurers</b>	-	-	-	-	-
<b>Provisions for other risks and charges</b>					
Other provisions	-	-	-	-	-
Deferred taxation	10.3	6.2	(8.0)	1.7	10.2
<b>Creditors - due within one year</b>					
Creditors arising out of direct insurance operations	-	-	-	-	-
Other creditors including taxation and social security	-	-	-	-	-
<b>Accruals and deferred income</b>					
Deferred income reserve	-	-	34.3	-	34.3
Other accruals and deferred income	-	-	-	-	-
<b>Total liabilities</b>	432.6	21.3	-	-	453.9

The restated long term business provision includes £7,655.3m relating to insurance contracts and £50.3m relating to investment contracts.

The technical provision for linked liabilities includes £995.1m relating to insurance contracts and £2,833.3m relating to investment contracts.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 20 Other provisions – closed branch provisions

	2006 £m	2005 £m
At 1 January	5.9	6.7
Amounts utilised during the year	<u>(0.8)</u>	<u>(0.8)</u>
Provision for closed branches at 31 December	<u>5.1</u>	<u>5.9</u>

The provision for closed branches represents the shortfall between the commitment to rent payable and either the rent receivable (where the property has been sub-let) or the directors' estimate of the rent which may be obtained (where the property remains vacant). The provision assumes that present rentals payable or receivable will continue to the end of the lease term.

#### 21 Provisions for taxation

(i) The discounted deferred tax liability, included within provisions for other risks and charges comprises:

	2006 £m	2005 £m
Unrealised gains on investments	44.1	31.6
Provisions and other timing differences	<u>10.3</u>	<u>13.8</u>
Undiscounted provision for deferred tax	54.4	45.4
Discount	<u>-</u>	<u>-</u>
Discounted deferred tax liability	<u>54.4</u>	<u>45.4</u>

(ii) Movements in the deferred tax balances are analysed as follows:

	2006 £m	2005 £m
At 1 January	45.4	(0.2)
Prior year adjustment (see Note 20)	10.2	
Profit and loss account	(1.2)	44.3
Movement in pension deficit deferred tax asset	-	1.3
At 31 December	<u>54.4</u>	<u>45.4</u>

**CANADA LIFE LIMITED****Notes to the financial statements for the year ended 31 December 2006****22 Other creditors including taxation and social security**

	2006	2005
	£m	£m
<b>Due in less than one year</b>		
UK corporation tax	54.9	-
Amounts owed to group companies	19.5	29.9
Other creditors	106.6	77.6
	<u>181.0</u>	<u>107.5</u>
<b>Due in more than one year</b>		
Other creditors	29.2	31.8
	<u>29.2</u>	<u>31.8</u>
<b>Total</b>	<u>210.2</u>	<u>139.3</u>



## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 23 Staff costs

	2006 £m	2005 £m
Wages and salaries	-	5.8
Social security costs	-	0.6
Other pension costs	-	1.5
	<u>-</u>	<u>7.9</u>

The average number of employees, including executive directors, during the year was as follows:

	2006 No.	2005 No.
Sales	-	10
Management	-	20
Administration	-	103
	<u>-</u>	<u>133</u>

With effect from 1 April 2005 all staff contracts of employment with the company were transferred to CLFIS (UK) Limited, a fellow subsidiary of The Canada Life Group (UK) Limited. The associated costs were recharged back to the company, where appropriate.

#### 24 Directors' emoluments

The aggregate amount of emoluments paid or receivable by directors during the year was as follows:

	2006 £'000	2005 £'000
Emoluments	<u>-</u>	<u>1,945</u>
Highest paid director Emoluments	<u>-</u>	<u>437</u>

The directors of this company have served during the year as directors of fellow subsidiaries. This remuneration was incurred by CLFIS (UK) Limited, a fellow subsidiary of The Canada Life Group (UK). The directors do not believe that it is possible to apportion the total remuneration between their services as directors of the company and their services as directors of entities whose businesses form part of the group. Accordingly the whole remuneration for the year is disclosed in the accounts of CLFIS (UK) Limited.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **25 Regulatory and other risks**

Note 18 gives details of the principal assumptions used in determining the long-term business provision which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, there is uncertainty in respect of this liability.

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. Following the FSA review, all of the company's UK mortgage policyholders received policy specific letters advising them whether their investment was on track to cover their mortgage. The company has an obligation to review any complaint of mis-selling from those policyholders holding these products.

From May 2003 until early 2004, in accordance with FSA requirements, the company sent out the second round of mortgage endowment policy update letters, marked red/amber/green. These re-projection letters provided policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The company has continued to mail policyholders with statements on the performance of these plans and introduced a time-bar for complaints of mis-selling on these plans. The last mailing to policyholders took place in April 2006, and the time bar would come into full force one year from the date on these letters.

At the balance sheet date a reserve of £1.8m (2005: £8.6m), included as part of the long term business provision, has been made to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the company's view that there will be no material effect either on the company's ability to meet the expectations of policyholders or on shareholders.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 26 Operating leases

The company has annual commitments in respect of non-cancellable operating leases as follows:

	2006 Land and buildings £m	2005 Land and buildings £m
Expiring within one year	0.3	0.3
Expiring between two and five years	0.6	0.9
Expiring in over five years	1.3	1.2
	<u>2.2</u>	<u>2.4</u>

#### 27 Related party transactions

No contracts of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8 Related Party Disclosures. No other contracts of significance existed at any time during the year between the company and other related parties that similarly require disclosure under FRS 8.

#### 28 Dividend paid

	2006 £m	2005 £m
Dividend paid	65.0	17.5
Common share dividend	-	188.1
	<u>65.0</u>	<u>205.6</u>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 29 Supplementary Information in respect of Financial Reporting Standard 27 Life Assurance

#### Introduction

In December 2004, the Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 27 on Life Assurance. In summary, FRS 27 requires large with-profits life assurance businesses to account for liabilities (including options and guarantees) 'realistically' and to provide detailed disclosures of the liabilities and financial strength of the business as a whole.

#### Realistic valuation

Canada Life has two UK with-profits funds both of which are below the £500m value level that the FSA has determined should be applied for calculating liabilities under the realistic methodology and therefore only the required disclosures have been provided.

#### Capital Statement

The capital statement in respect of the company's life and pensions business is set out below. This statement shows an analysis of available capital resources calculated on a regulatory basis. It also shows the regulatory capital requirements and, in total, the overall surplus capital over regulatory requirements.

#### 2006 Capital Statement Table

	UK with profits	Manulife with profits	UK non participating	Shareholders' funds	2006 Total L&P business
	£m	£m	£m	£m	£m
<b>Shareholders' funds</b>					
outside fund	-	-	-	250	250
inside fund	-	-	472	-	472
	-	-	472	250	722
<b>Other qualifying capital</b>					
Subordinated Debt	-	-	-	330	330
Fund For Future Appropriations	44	39	-	-	83
	44	39	-	330	413
<b>Regulatory adjustments</b>					
assets	(4)	0	30	(8)	18
<b>Total available capital resources</b>	<b>40</b>	<b>39</b>	<b>502</b>	<b>572</b>	<b>1,153</b>
<b>Capital requirement</b>					
UK Capital Resources Requirement					689
					689
<b>Overall surplus capital over regulatory requirements</b>					<b>464</b>

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 29 Supplementary Information in respect of Financial Reporting Standard 27 Life Assurance (continued)

#### 2005 Capital Statement Table

	UK with profits	Manulife with profits	UK non participating	Shareholders' funds	2005 Total L&P business
	£m	£m	£m	£m	£m
<b>Shareholders' funds</b>					
outside fund	-	-	-	169	169
inside fund	-	-	296	-	296
	-	-	296	169	465
<b>Other qualifying capital</b>					
Subordinated Debt	-	-	-	135	135
Fund For Future Appropriations	42	21	-	-	63
	42	21	-	135	198
<b>Regulatory adjustments</b>					
assets	(1)	9	107	(11)	104
<b>Total available capital resources</b>	<b>41</b>	<b>30</b>	<b>403</b>	<b>293</b>	<b>767</b>
<b>Capital requirement</b>					
UK Capital Resources Requirement					486
					486
<b>Overall surplus capital over regulatory requirements</b>					<b>281</b>

#### Movement in the year

The overall surplus capital has increased by £183m in the year comprising a £386m increase in total available capital resources offset by a £203m increase in the UK Capital Resources Requirement.

Notes	UK with profits	Manulife with profits	UK non participating	Shareholders' funds	Total L&P business
	£m	£m	£m	£m	£m
<b>Capital resources 2005</b>	<b>41</b>	<b>30</b>	<b>403</b>	<b>293</b>	<b>767</b>
Capital movements			(100)	270	170
Investment Gains	7	3	114	9	133
Other experience gains	1	2	56		59
Valuations regulations changes		0	31		31
Assumption changes	1	11	(25)		(13)
New Business Margin			27		27
Cost of Bonus	(10)	(7)			(17)
Other Factors			(4)		(4)
<b>Capital resources 2006</b>	<b>40</b>	<b>39</b>	<b>502</b>	<b>572</b>	<b>1,153</b>

Capital movements within shareholders' funds comprise a capital contribution of £40m, an increase in subordinated liabilities of £195m, dividends paid of £65m and a transfer from the non-participating to the shareholders' funds of £100m.

The main sources of other experience gain are mortality (£12m) and expenses (£10m) net of tax.

The valuation regulation changes are those arising from PS06/14.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **29 Supplementary Information in respect of Financial Reporting Standard 27 Life Assurance (continued)**

##### ***Basis of calculating available capital resources in life and pensions business***

The available capital of the two UK with profits funds has been calculated under the Modified Statutory Solvency Basis (MSSB) and includes the Fund for Future Appropriations (FFA). The MSSB is defined by the Companies Act and UK GAAP (as interpreted by the ABI SORP). The FFA represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements of the funds. Adjustments have been made to restate the UK GAAP assets and liabilities onto a regulatory basis.

The available capital in the company's UK non-participating business has been determined in accordance with FSA regulations and amounts to £502m (2005: £403m).

The shareholders' funds held outside the life and pensions funds are shown separately in the capital statement. These funds include £330m of subordinated debt (2005: £135m).

It is the company's policy to ensure that it is adequately capitalised to support its life business and exceed regulatory capital requirements.

##### ***Basis of calculating the regulatory capital requirement in life and pensions business***

Each life assurance company must retain sufficient capital to meet the regulatory capital requirements mandated by the FSA. Under the FSA Integrated Prudential Sourcebook, the capital requirements of life funds are determined from the maximum of the Pillar 1 assessment (based upon specific FSA valuation rules) and the Pillar 2 risk based capital assessment (based on the firm's individual assessment of risk and controls). The regulatory capital requirement is a combination of amounts held in respect of actuarial reserves and sums at risk (the Long-Term Insurance Capital Requirement) and amounts required to cover various stress tests. The regulatory capital requirement is deducted from the available capital resources to give "statutory excess capital".

##### ***Constraints over available capital resources***

The two with profits funds are ring fenced and any surplus cannot support the non-profit fund. Otherwise there are no constraints on the utilisation of assets between funds to meet the solvency requirements.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **29 Supplementary Information in respect of Financial Reporting Standard 27 Life Assurance (continued)**

##### ***Sensitivity analysis***

The company's capital position is sensitive to changes in market conditions, both due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to mortality and morbidity and to a lesser extent, expenses and persistency.

The most significant sensitivities arise from the following risks:

- Longevity risk - in relation to the UK annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used for reserving; or
- Mortality risk - in relation to the UK term assurance business, which would arise if mortality of the lives insured was heavier than that assumed, possibly because of an epidemic or catastrophe; or
- Morbidity risk - in relation to the UK individual and group health claims in payment, which would arise if morbidity of the lives insured was heavier than that assumed; or
- Market risk – the company invests in equities and properties. The capital position is therefore sensitive to increases in the value of these assets. There is also a further exposure to expense margins through the unit linked funds exposures to equity and property.

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact then assumptions relating to future experience used in determining the appropriate levels of technical provisions would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact on the capital position. Examples of possible management actions include changes to with profits bonus rates and changes to discretionary surrender terms.

##### **Options and guarantees**

Options and guarantees are features of life assurance and pensions contracts that confer potentially valuable benefits to policyholders.

The company's material life and pension options and guarantees are within its non-participating funds. These are valued stochastically and included within technical liabilities.

These comprise Guaranteed Annuity Options (GAOs) and Keybond Guaranteed Minimum Pensions (KGMPs).

GAOs guarantee rates at which annuities can be purchased. The cost of the guarantees is assessed using a market consistent stochastic model and is calculated using 2,000 investment scenarios. The unit growth rate, the interest rate used in the cost of providing an annuity at maturity and the discount rate are varied within each scenario. All other scenario variables are fixed. The maturity value allows for future premiums at the current level and unit growth. No allowance is made for surrenders, policies becoming paid-up or one-off future contributions. The cost of these guarantees has been calculated at £92m (2005: £105m).

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **29 Supplementary Information in respect of Financial Reporting Standard 27 Life Assurance (continued)**

The liability for the KGMPs arises from the transfer of guaranteed minimum pensions into the Keybond Plan. The cost of this liability is valued as a non-profit deferred annuity using a market consistent stochastic model and is calculated using the same 2,000 investment scenarios as applied in the calculation of the GAO liability. The cost of these guarantees has been calculated at £12m (2005: £13m).

There are also options and guarantees in respect of the company's other life assurance business, but these are not considered material to the company's future cash flows.

##### ***Assumptions***

The assumptions that have the greatest effect on the measurement of liabilities, including options and guarantees are:

- Economic assumptions;
- Mortality;
- Morbidity; and
- Expenses.

##### ***Economic assumptions***

For the purposes of the determination of regulatory basis liabilities, economic assumptions are based on the prevailing market rates and current asset mix of each fund and includes a margin for prudence.

##### ***Mortality***

These assumptions are calculated in line with standard actuarial methodology, on the basis of past experience adjusted for a best estimate of how the various factors affecting the parameters may worsen in future – for example mortality improvements for annuity business.

##### ***Morbidity***

These assumptions are calculated in line with standard actuarial methodology, on the basis of past experience.

##### ***Expenses***

Expenses are based on past experienced levels allowing for inflation and other foreseeable significant adverse changes in future years.



## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 30 Risk Management Objectives and policies for mitigating risks

The company's risk management policies and the processes for identifying risks include identification and control of financial, insurance and other risks. The key components are:

- **Market risk** – the risk of loss arising from changes in the values of, or income from, assets or in interest or exchange rates. A risk of loss also arises from changes in the volatility of asset prices, interest rates or exchange rates.
- **Credit risk** – the risk of loss due to the default of a company, individual or country, or a change in investors' risk appetite.
- **Insurance risk** – the risk of loss due to the inherent uncertainties as to the occurrence, amounts and timing of insurance liabilities.
- **Liquidity risk** – the risk of loss because a firm, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations as they fall due, or can secure them only at excessive cost.

For each of the above risks, the company determines its risk appetite and sets its investment and underwriting policies accordingly. Risk policy is documented in each of the above areas, including the actions to mitigate those risks. A summary of how each risk is mitigated is provided below with quantitative information on the exposure to that risk, where appropriate.

#### Market Risk

The most important components of market risk are:

- Currency risk;
- Fair value interest rate risk; and
- Price risk.

The company is exposed to market risk through its financial assets, financial liabilities reinsurance assets and policyholder liabilities. In particular, the key risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due.

The company manages these positions through its asset liability management (ALM) approach that has been developed to ensure that the assets match the liabilities arising from insurance contracts under a wide range of financial conditions. A separate portfolio of assets is maintained for each distinct category of liabilities. This helps to manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of liabilities.

Earnings are exposed to market risk to the extent that the income from policyholder funds is based on the value of assets held within those unit-linked or with-profits funds and also to the extent that shareholder assets have been invested.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **30 Risk Management Objectives and policies for mitigating risks (continued)**

##### **(i) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company invests in financial instruments denominated in currencies other than its measurement currency (sterling). Consequently, the company is exposed to the risk that the exchange rate of its measurement currency relative to other currencies may change in a manner that has an adverse effect on the value of the company's financial assets and liabilities.

For unit-linked contracts, currency risk is borne by the policyholder. As noted above, the company is subject to currency risk only to the extent that income from policyholder funds is based on the value of the financial assets held in those funds, and also to the extent that shareholder assets have been invested.

The company's investments in foreign currency denominated securities of £44.4m (2005 £3.5m) are mitigated using foreign currency swaps. The nominal value of this holding is £70.0m (2005 £5.0m). The net derivative assets and liabilities are disclosed as other debtors of £0.5m (2005 £nil) and other creditors of £4.0m (2005 £nil).

##### **(ii) Interest rate risk**

The company's mortgage portfolio is not exposed to interest rate risk.

##### **Fair value interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is based on interest rates, liabilities to policyholders are exposed to interest rate risk.

The company manages interest rate risk by cashflow matching the investment portfolio and the policyholder liabilities. Assets of the appropriate duration are bought and sold to maintain this match which is regularly monitored.

##### **Cash flow interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's investment in variable interest rate bonds are exposed to cash flow interest rate risk (see maturity analysis below).

To manage the exposure arising from guarantees and options, the company has purchased a number of interest rate swaptions, shown within other debtors (Note 11), to manage exposures to falls in interest rates. As at 31 December 2006 this portfolio was valued at £26.6m (2005: £36.2m). The nominal value of this holding is £273.8m (2005: £169.3m).

# CANADA LIFE LIMITED

## Notes to the financial statements for the year ended 31 December 2006

### 30 Risk Management Objectives and policies for mitigating risks (continued)

The following table indicates the maturity dates for the company's significant financial assets that are exposed to interest rate risk. Assets and liabilities held within unit-linked funds where all financial risks are borne by the policyholder are excluded from the table below, as are any assets not directly exposed to interest rate risk.

#### 2006 Maturity Analysis

	Less than one year £m	1-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	More than 20 years £m	No fixed term £m	Total 2006 £m
<b>Financial and insurance assets:</b>								
<b>Cash flow interest rate risk</b>								
Debt securities and other fixed income securities	0	97	137	81	101	207	16	639
Derivative financial instruments	1	13	26	6		13		59
Deposits with credit institutions	774							774
<b>Fair value interest rate risk</b>								
Shares and other variable yield securities							159	159
Units in unit trusts and share in open ended investment companies							138	138
Debt securities and other fixed income securities	219	804	837	746	858	1,864	454	5,782
Derivative financial instruments		(3)	(16)			(16)		(35)
Deposits with ceded undertakings	150	415	728	722	597	1,490	195	4,297

#### 2005 Maturity Analysis

	Less than one year £m	1-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	More than 20 years £m	No fixed term £m	Total 2005 £m
<b>Financial and insurance assets:</b>								
<b>Cash flow interest rate risk</b>								
Debt securities and other fixed income securities	7	67	115	77	75	156	6	503
Derivative financial instruments	2	21	17					40
Deposits with credit institutions	843							843
<b>Fair value interest rate risk</b>								
Shares and other variable yield securities							156	156
Units in unit trusts and share in open ended investment companies							116	116
Debt securities and other fixed income securities	145	747	773	670	745	2,093	438	5,611
Derivative financial instruments		(3)						(3)

#### (iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The company is exposed to equity price risk as a result of its holdings in equity investments. The company has a defined investment policy which sets limits on the company's exposure to equities both in aggregate terms and by geography, industry and counterparty. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the company exposure limits, which are more stringent than the relevant regulatory limits for solvency purposes. Investments held are listed and traded on UK recognised stock exchanges.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **30 Risk Management Objectives and policies for mitigating risks (continued)**

For with-profits and unit-linked policies, the policyholder bears the majority of the investment risk. Any change in asset values is broadly matched by a change in the liability. Shareholder funds also invest in equities and are subject to risk from fluctuation in their value. Charges which are expressed as a percentage of fund are also impacted.

##### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Key areas where the company is exposed to credit risk are:

- exposure to corporate bonds; and
- exposure to the reinsurers' share of insurance liabilities.

The company places limits on its exposure to a single counterparty and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered when treaties are entered into on an on-going basis.

To mitigate credit risk:

- Investment mandates for many funds will have a prescribed minimum credit rating of bonds that may be held. Investing in a diverse portfolio reduces the impact from individual companies defaulting.
- Counterparty limits are set for investments, cash deposits, foreign exchange trade exposure and stock lending. All derivative transactions are covered by collateral and derivatives are only taken out with counterparties with a suitable credit rating.
- The company regularly reviews the financial security of its reinsurers.
- The company holds collateral in respect of its derivative exposure with third parties.

## CANADA LIFE LIMITED

### Notes to the financial statements for the year ended 31 December 2006

#### 30 Risk Management Objectives and policies for mitigating risks (continued)

The following table gives an indication of the level of creditworthiness of those categories of assets which are most exposed to credit risk using principally ratings prescribed by Standard & Poor's and Moody's. Assets held within unit-linked funds have been excluded from the table below as the credit risk on these assets is borne by the policyholders rather than the shareholders.

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	1,238	1,186	1,822	391	7		17	4,662
Gilts	1,758							1,758
Total as at 31 December 2006	2,997	1,186	1,823	391	7	0	17	6,421
% age	47%	18%	28%	6%	0%	0%	0%	100%

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	1,224	1,124	1,773	403	7			4,531
Gilts	1,583							1,583
Total as at 31 December 2005	2,807	1,124	1,773	403	7	0	0	6,114
% age	46%	18%	29%	7%	0%	0%	0%	100%

Note- the comparatives have been presented at fair value through profit or loss

For over-the-counter derivative transactions undertaken by the company, collateral is received from the counterparty if the contract is in-the-money (i.e. is an asset of the company's and over any agreed minimum threshold). At 31 December 2006 the fair value of such collateral relating to interest rate swaptions and foreign currency bond swaps was £22.1m (2005: £33.5m).

#### Policy cash flow risk (including insurance risk)

Policy cash flow risk consists of the following four main areas:

Insurance risks:

- mortality risk – risk of loss arising due to policyholder deaths experience being different from expectations; or for annuities, risk of annuitants living longer than expected (called annuity longevity risk); and
- morbidity risk – risk of loss arising due to policyholder health experience being different from expectations.

Other risks:

- policyholder decision risk – risk of loss arising from experience of actual policyholder behaviour (e.g. lapses or option take-up) being different from expectations; and
- expense risk – risk of loss due to expense experience being different from expectations.

The company actively pursues mortality risk and morbidity risk in those areas where it considers it has a competitive advantage in managing these risks to generate shareholder value without compromising the interests of policyholders and the need to treat customers fairly. Policyholder decision risk and expense risk are taken on when it is deemed financially beneficial for the organisation to do so or where the taking of these risks is in support of the company's strategic objectives.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **30 Risk Management Objectives and policies for mitigating risks (continued)**

Underpinning the company's management of policy cashflow risk is:

- adherence to an approved underwriting policy that takes into account the level of risk that the company is prepared to accept;
- controls around the development of products and their pricing; and
- regular analysis of actual mortality, morbidity and lapse experience which feeds into the development of products and policies.

Risks in excess of agreed underwriting limits may be reinsured. The company's objective is to purchase reinsurance in the most cost effective manner from reinsurers whose creditworthiness is deemed appropriate.

##### **(i) Mortality and morbidity risk**

###### **Life assurance**

Most insurance policies other than annuities and deferred annuity policies include life assurance. When pricing policies, an assumption is made as to the likelihood of death and this assumption is reviewed as part of the annual valuation of policies. To the extent that actual mortality experience is worse than that anticipated in pricing and subsequently in the insurance liability valuation a loss will be made. The risk is greater for those policies such as term assurance where the maturity or surrender benefit is small in relation to the death benefit. Other policies which have a savings element, such as endowment assurance have significant liabilities relating to the maturity benefit, particularly as the policy approaches maturity.

###### **Critical illness**

The company writes a number of critical illness policies that pay out in the event of a policyholder's ill health. As for life assurance, the amount payable on ill health can be significantly higher than the amount payable if the policy is surrendered.

###### **Income protection**

Income protection policies pay a regular level of benefit if the policyholder is unable to work due to incapacity for more than a specified period. The two main risks involved are an increase in the frequency of claims (the inception rate) and an increase in the average length of the claim (a reduction in recovery rate). Most income protection policies are regular premium with the premium and cover fixed at inception. Some company policies allow premiums to be reviewed but the premium rates are usually guaranteed for two years.

###### **Annuities**

Life annuities are contracts that, in return for a lump sum, pay a regular amount (usually monthly or annually and sometimes increasing at a fixed or index-linked rate), until the death of the policyholder. As a result, if annuitants live longer than expected on average, profits will reduce. In many cases the annuity is guaranteed payable for a fixed term (usually five years) even in the event of death. Many policies are written on joint lives so that when the first life dies the benefit continues, sometimes at a reduced level. These features tend to reduce the volatility of results to random fluctuations in experience but not the impact of a general increase in longevity.

Deferred annuities are contracts whereby there is a promise to pay a life annuity starting from a specified date in the future. These policies are subject to a similar risk from the impact of longevity, the only difference being that the risk of adverse impact is greater given that the annuity is payable further into the future.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **30 Risk Management Objectives and policies for mitigating risks (continued)**

##### **(ii) Policyholder decision risk**

Persistency experience varies over time as well as from one type of contract to another. Factors that will cause lapse rates to vary over time include changes in investment performance of the assets underlying the contract where appropriate, regulatory changes that make alternative products more attractive, customer perceptions of the insurance industry in general and the company in particular, and the general economic environment.

##### **Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

For policyholder funds liquidity risk could potentially arise from:

- A short term mis-match between assets and liabilities;
- Having to realise assets to meet liabilities when asset values are depressed; and
- An unexpectedly high level of lapses, surrenders or claims.

The company's exposure to liquidity risk is limited due to more than adequate holdings in liquid assets.

As previously discussed, the company manages these positions through its asset liability management (ALM) approach that has been developed to ensure that the assets match the liabilities arising from insurance contracts under a wide range of financial conditions.

#### **31 Transfer of Equitable Life Annuity Book to Canada Life**

On 11 May 2006, the company entered into an agreement to acquire the assets and liabilities associated with the bulk of The Equitable Life Assurance Society's non profit pension annuity in payment business, comprising approximately 130,000 policies. Under the agreement, with effect from 1 January 2006, Canada Life Limited assumed 100% of this business block on an indemnity reinsurance basis. This transaction resulted in an increase in assets and actuarial liabilities of £4,608m as at that date.

The company entered into a reinsurance agreement where the company ceded 15% of this acquired book to Canada Life International Re Limited, a fellow group undertaking, on a funds withheld basis. The ceded premium of £694m has been reflected in the Technical Account as a reduction in earned premiums with a corresponding reduction in the technical provision for insurance contract liabilities. Within the balance sheet the transaction has been disclosed as an increase in 'reinsurers' share of technical provisions' and as a corresponding increase in 'deposits received from reinsurers'.

The assets of the business were deposited back with The Equitable Life Assurance Society pending a court approval to transfer the business to Canada Life, as described in Note 33.

## **CANADA LIFE LIMITED**

### **Notes to the financial statements for the year ended 31 December 2006**

#### **32 Acquisition of Phoenix & London Assurance Limited annuity book**

On 12 May 2005 the company entered into an agreement to acquire the assets and liabilities associated with the in-force annuity in payment business of Phoenix & London Assurance Limited, part of the Resolution Life Group which is based in the UK. Under the agreement, from 1 July 2005, the company assumed 100% of this business block on an indemnity reinsurance basis and, through court sanction, this reinsured business transferred to the company on 31 December 2005. This transaction resulted in an increase in invested assets and policyholder liabilities of £2,172.6m at 1 July 2005.

As part of this acquisition, the company entered into a reinsurance agreement where the company ceded 40% of this acquired book to Canada Life International Re Limited, a fellow group undertaking, on a funds withheld basis. The ceded premium of £867.6m was reflected in the Technical Account in 2005 as a reduction of premium income with a corresponding reduction to the movement in actuarial liabilities. Within the balance sheet the transaction was disclosed as an increase in 'reinsurers' share of technical provisions' and as a corresponding increase in 'deposits received from reinsurers'.

#### **33 Events after the balance sheet date**

With effect from 9 February 2007, the company assumed direct responsibility for the future pension payments to individual annuitants associated with the prior agreement to acquire the bulk of The Equitable Life Assurance Society's non profit pension annuity in payment business, and at that date acquired legal ownership of £4,234m of assets which were transferred to the company from The Equitable Life Assurance Society, as described in Note 31. The transfer was achieved under a legal process set out in Part VII of the Financial Services and Markets Act 2000 which was sanctioned by the High Court on 1 February 2007.

#### **34 Parent company and controlling party**

At the balance sheet date the ultimate parent company, which is also the parent company of the largest group of companies for which group financial statements are drawn up and of which the company is a member, Power Financial Corporation, is incorporated in Canada. In the directors' opinion Power Financial Corporation is the controlling party. The parent of the smallest such group was The Canada Life Group (U.K.) Limited, a company registered in England and Wales.

Copies of the group financial statements for both The Canada Life Group (U.K.) Limited and Power Financial Corporation can be obtained from the company's registered office.