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CANADA LIFE LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Registered Number: 973271

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	K Cranston
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 2007

The directors of Canada Life Limited (the "company") present their annual report and financial statements for the year ended 31 December 2007.

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 £88.2m (2006: £208.8m). Interim dividends of £38.6m (2006: £65.0m) were paid during the year (Note 26) and no final dividend has been proposed (2006: £Nil). An interim dividend of £122m was paid on 31 January 2008.

3 Business Review

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

The company performed strongly in 2007, driven by solid operating results in all major business segments. The company's strategy is to be the leader in our chosen markets – payout annuities, group insurance and wealth management.

Total new business premiums (including investment contracts, but excluding acquisitions in 2006) have increased by 6% to £1,334.5m (2006: £1,255.3m) of which £863.0m relates to pension business (mainly annuity) (2006: £811.0m). New unit linked life premiums have increased by 5% to £442.3m (2006: £422.5m). Investment contract premiums of £467.8m (2006: £454.0m) have been excluded from analysis in Note 2B as investment contract premiums have been eliminated from the technical account.

Total assets increased by £0.4bn during the year to £20.0bn (2006: £19.6bn).

Profit attributable to shareholders for 2007 fell by 58% to £88.2m (2006: £208.8m) as presented in the company's profit and loss account.

With effect from 9 February 2007, the company assumed direct responsibility for the future pension payments to individual annuitants associated with the 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 29. 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.

Canada Life Financial Corporation manages its operations on a divisional basis.

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.

The directors believe that an understanding of the development, performance and position of the business is more useful when viewed on the same basis as that used to manage operations, and reference should be made to key performance data included within the Annual Report of CLFC.

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 28.

The company is financed by share capital, capital contributions and subordinated liabilities (Note 17) from with in the Canada Life Financial Corporation Group.

Details of significant events since the balance sheet date are contained in Note 30 to the financial statements.

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.

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

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 Principal risks, uncertainties and 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.

Directors' Report for the year ended 31 December 2007 (continued)

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.

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 no charitable donations (2006: £35,000).

9 Directors' indemnities

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

CANADA LIFE LIMITED

Directors' Report for the year ended 31 December 2007 (continued)

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
13 June 2008

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; 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.

Independent auditors' report to the members of Canada Life Limited

We have audited the financial statements of Canada Life Limited for the year ended 31 December 2007 which comprise the profit and loss account, balance sheet and related notes 1 to 31. 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.

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 2007 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

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
13 June 2008

CANADA LIFE LIMITED

Profit and Loss Account
Technical account - long term business
for the year ended 31 December 2007

	Note	2007		2006	
		£m	£m	£m	£m
Earned premiums, net of reinsurance					
Gross premiums written	2	1,348.0		5,883.5	
Outward reinsurance premiums	2	(172.4)		(867.5)	
			1,175.6		5,016.0
Investment income	3		846.9		576.2
Unrealised losses	3		(326.3)		(75.8)
Realised gains on investments	3		31.5		222.6
Other technical income	4		35.0		33.5
Claims incurred, net of reinsurance					
Gross amount		(1,266.1)		(1,193.9)	
Reinsurers' share		243.8		233.7	
Change in provision for claims Outstanding		(21.3)		(13.8)	
Net claims incurred			(1,043.6)		(974.0)
Changes in technical provisions					
Long term business provision, net of reinsurance					
Gross amount	5	(212.8)		(4,551.8)	
Reinsurers' share		(98.6)		532.3	
		(311.4)		(4,019.5)	
Technical provisions for linked liabilities net of reinsurance	5	(120.4)		(331.3)	
Net changes in technical provisions			(431.8)		(4,350.8)
Net operating expenses	6		(57.1)		(80.7)
Interest payable			(81.1)		(74.4)
Investment expenses and charges			(6.9)		(8.3)
Tax attributable to the long term business	7		(59.8)		(72.5)
Transfer to / (from) the fund for future appropriations			5.8		(8.5)
Balance on the technical account - long term business			88.2		203.3

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Profit and Loss Account
Non-technical account
for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Balance on the technical account - Long term business		88.2	203.3
Tax attributable to balance on technical account - Long term business	7	37.8	87.1
Shareholders' pre-tax profit from long term business		126.0	290.4
Investment income	3	29.1	18.6
Unrealised (losses) / gains on investments	3	(6.9)	8.5
Interest payable and similar charges		(22.1)	(16.9)
Net operating expenses		-	(0.5)
Amortisation of goodwill	8	(2.8)	(2.8)
Operating profit and profit on ordinary activities before tax		123.3	297.3
Tax charge on profit on ordinary activities	7	(35.1)	(88.5)
Profit for financial year attributable to shareholders		88.2	208.8

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.

The company has no recognised gains or losses other than those included in the profit and loss account above for the current or the preceding year and consequently no statement of total recognised gains and losses is presented.

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Balance Sheet
at 31 December 2007

	Note	2007 £m	2006 £m
Intangible assets			
Goodwill	**8**	5.3	8.1
Investments			
Land and buildings	**9**	768.0	666.2
Other financial investments	**9**	12,505.0	8,186.2
Investments in group undertakings and participating interests	**9, 10**	126.9	125.6
Deposits with ceded undertakings		-	4,297.8
Assets held to cover linked liabilities	**12**	4,506.8	4,331.8
Reinsurers' share of technical provisions			
Long term business provisions	**18**	1,548.1	1,646.6
Debtors			
Debtors arising out of direct insurance operations		62.9	72.1
Other debtors	**11**	43.0	66.6
Other assets			
Tangible assets	**14**	0.6	5.2
Cash at bank and in hand		83.7	55.4
Prepayments and accrued income			
Accrued interest and rent		199.7	119.8
Deferred acquisition costs		103.2	57.4
Other prepayments and accrued income		15.7	-
Total assets		19,968.9	19,638.8

CANADA LIFE LIMITED

Balance Sheet
at 31 December 2007 (continued)

	Note	2007 £m	2006 £m
Capital and reserves			
Called up share capital	**15, 16**	14.3	14.3
Capital contribution	**16**	102.0	102.0
Profit and loss account	**16**	655.1	605.5
Shareholders' funds	**16**	771.4	721.8
Subordinated liabilities	**17**	330.0	330.0
Fund for future appropriations		77.5	83.3
Technical provisions			
Long term business provision	**13, 18**	12,456.1	12,250.1
Claims outstanding		82.0	74.4
		12,538.1	12,324.5
Technical provision for linked liabilities	**13**	4,492.6	4,311.7
Deposits received from reinsurers	**18**	1,431.4	1,531.5
Provisions for other risks and charges			
Other provisions	**19**	4.3	5.1
Deferred taxation	**20**	40.3	54.4
Creditors - due within one year			
Creditors arising out of direct insurance operations		24.3	29.8
Other creditors including taxation and social security	**21**	213.2	210.2
Accruals and deferred income			
Deferred income reserve		45.0	35.0
Other accruals and deferred income		0.8	1.5
Total liabilities		19,968.9	19,638.8

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

H C Snow
Director
13 June 2008

Notes to the financial statements for the year ended 31 December 2007

1 Principal accounting policies

A. Basis of presentation

The Company financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and revised in December 2006.

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the more important Company accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

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 31).

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 31).

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.

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.

Compliance with Statement of Standard Accounting Practice ('SSAP') 19 'Accounting for investment properties' requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in Accounting policy H 'Investments' below.

B. Changes in accounting policies

The Company has adopted FRS 29 'Financial instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no impact on current or prior year's profit resulting from the adoption of this standard, as its provisions relate to disclosure.

C. Contract classification

The company issues insurance contracts and investment contracts

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 may also transfer financial risk. A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

1 Principal accounting policies (continued)

C. Contract classification (continued)

Any contracts not considered to be insurance contracts are classified as investment contracts.

Unit-linked contracts written by the Company, where the liability under the contract is dependent on the value of the underlying financial assets, derivatives and/or investment property, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

All with-profits contracts contain a discretionary participation feature ('DPF') which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

a) that are likely to be a significant portion of the total contractual benefits;
b) whose amount or timing is contractually at the discretion of the Company; and
c) that are contractually based on the realised and/or unrealised investment returns on a specified pool of assets held by the Company and other sources of profit of the specific sub-fund.

The terms and conditions of these contracts, together with the principles and practices of financial management (PPFM), set out the basis for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to policy holders.
With-profits contracts are classified as either insurance contracts or investment contracts depending on the level of insurance risk transferred.

D. Insurance contracts and with-profits investment contracts

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

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.

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.

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.

Acquisition costs
The costs of acquiring new business which are incurred during a financial year but expected to be recoverable out of future revenue margins, are deferred. Such costs are disclosed as an asset in the balance sheet, gross of tax, and are determined explicitly
The deferred acquisition cost asset is amortised over the period in which the costs, net of the related deferred tax provision, are expected to be recoverable out of margins in matching revenues from the related policies. The rate of amortisation is consistent with the pattern of emergence of such margins.

1 Principal accounting policies (continued)

D. Insurance contracts and with-profits investment contracts (continued)

Policyholder liabilities under insurance contracts and with-profits investment contracts
See Accounting policies L 'Long-term business provision' and N 'Technical provisions for linked liabilities'.

Reinsurance
Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks:
mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Some contracts which provide for the transfer of significant risk are also structured to provide financing. When, under such contracts, financing components are to be repaid in future accounting periods, the amount outstanding under the contract at the balance sheet date is classified as a liability to the reassurer and included in 'deposits received from reinsurers'. Contracts with the legal structure of reinsurance contracts which do not transfer significant insurance risk are classified as financial assets.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

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

E. Unit-linked investment contracts

Amounts received in respect of unit-linked investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder. Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities' (see Accounting policy Q 'Technical provisions for linked liabilities').

Fees receivable from unit-linked investment contracts (included in 'Other technical income') and investment income and interest payable on contract balances are recognised 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 and recognised as the service is provided.

Incremental costs that are directly attributable to securing unit-linked investment contracts, and are expected to be recoverable, are deferred and recognised in the balance sheet as deferred acquisition costs. Such deferred acquisition costs are amortised uniformly over the effective lifetime of the policy, which is generally defined as the policy term, subject to a maximum of twenty years.

F. Investment Income

Investment return comprises all investment income (which includes the interest income for financial assets carried at amortised cost, using the effective interest method), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable on financial liabilities carried at amortised cost, using the effective interest method.

1 Principal accounting policies (continued)

F. Investment Income (continued)

Dividends are included as investment income on the date that the shares are quoted ex-dividend and include the imputed tax credits. Interest, rent and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

G. 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.

H. Investments

Land and 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.

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of investment properties. The requirement of the Companies Act 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

Depreciation is not provided on properties occupied by the company accounted for in accordance with FRS 15 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.

Investments in group undertakings

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

1 Principal accounting policies (continued)

H. Investments (continued)

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.

Other financial investments
The Company classifies its other financial assets into the following categories:

a) Shares and other variable yield securities and units in unit trusts – at fair value through profit or loss;
b) Debts and other fixed income securities – at fair value through profit or loss; and
c) Deposits with credit institutions – loans and receivables

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.

1 Principal accounting policies (continued)

I. Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

a) significant financial difficulty of the issuer or debtor;
b) a breach of contract, such as a default or delinquency in payments;
c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
d) the disappearance of an active market for that financial asset because of financial difficulties; or
e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of issuers or debtors in the group; or
    - national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred on investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. If an investment carried at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

J. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

1 Principal accounting policies (continued)

J. Derivative financial instruments (continued)

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

K. 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%

L. Long-term business provision

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 valuation uses a gross premium method in respect of the majority of the company's business, with a small block of acquired business valued on a net premium basis.

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 General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Insurers (INSPRU) 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.

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). Other assumptions reflect a prudent assessment of future experience of mortality, morbidity and other relevant factors, including margins sufficient to ensure that there is no foreseeable risk that liabilities to policyholders in respect of long-term insurance contracts will not be met as they fall due.

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

With-profits 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 and include explicit allowance for future expenses.

1 Principal accounting policies (continued)

L. Long-term business provision (continued)

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.

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.

M. Surplus arising from the long term business and the fund for future appropriations

Surplus arising from the company's with-profits business, as a result of the annual actuarial valuations of the related assets and liabilities, are subject to appropriation to with-profits policyholders by way of bonuses and to shareholders, which determines their profit reported in respect of this business.

Any unappropriated surplus arising in long-term funds which include with-profits business is carried forward in the fund for future appropriations. All surplus in other businesses is attributable to shareholders and included in profit.

The fund for future appropriations represents all funds, the allocation of which to with-profits policyholders and shareholders has not been determined at the balance sheet date. Transfers between the fund for future appropriations and the long-term business technical account represent the changes in these unallocated amounts between balance sheet dates.

N. Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property.
Unit-linked contracts which are classified as insurance contracts are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date.

Unit-linked contracts which are classified as investment contracts are carried in the balance sheet at amortised cost. The amortised cost of these financial liabilities is equivalent to the amount payable on demand without penalty.

O. Financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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.

Notes to the financial statements for the year ended 31 December 2007

1 Principal accounting policies (continued)

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, but 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.

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.

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. Operating leases

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

T. Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the Board of Directors passing a written resolution.

2 Segmental information

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

	2007 £m	2006 £m
Life		
Non participating contracts	67.2	64.9
Participating contracts	9.3	10.9
Unit linked contracts	30.5	33.1
	107.0	108.9
Pension		
Non participating contracts (see below)	1,085.2	5,638.2
Participating contracts	-	-
Unit linked contracts	18.3	16.0
	1,103.5	5,654.2
Permanent Health	137.5	120.4
Total direct insurance written premiums	1,348.0	5,883.5
Periodic premiums	520.1	510.0
Single premiums (see below)	827.9	5,373.5
Total gross direct insurance premiums	1,348.0	5,883.5
Reinsurance premiums (see below)	(172.4)	(867.5)
Net written premiums	1,175.6	5,016.0

Included in pension non-participating contracts is £Nil (2006: £4,608m) from The Equitable Life Assurance Society as described in Note 29. Included in reinsurance premiums is £Nil (2006: £694m) payable to Canada Life International Re Limited, relating to this block of business, as described in Note 29.

Premiums include £0.5m (2006: £0.5m) of overseas contracts written in Hong Kong. Recurring single premiums are treated as single premiums.

Included in gross written premiums are £429.0m (2006: £386.1m) with respect to group contracts and £919.0m, (2006: £5,497.4m, including the £4,608m premium from The Equitable Life Assurance Society) in respect to individual business.

Notes to the financial statements for the year ended 31 December 2007

2 Segmental information (continued)

2B New business premiums

	2007 Gross £m	2006 Gross £m
Life		
Individual and group		
Unit linked	7.9	9.6
Non participating	15.4	9.2
	23.3	18.8
Pension		
Individual and group		
Unit linked	33.3	12.4
Non participating	796.3	757.9
	829.6	770.3
Permanent Health		
Individual	0.3	0.3
Group	13.5	11.9
	13.8	12.2
Total new business premiums	866.7	801.3
Periodic premiums	38.8	35.1
Single premiums	827.9	766.2
New business premiums	866.7	801.3

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. The above analysis excludes the impact of the Equitable Life Assurance Society annuity book acquisition in 2006.

2 Segmental information (continued)

2C Balance on the technical account – long term business

	2007	2006
	£m	£m
Non-participating	54.3	178.1
Linked	33.9	25.2
Balance on the technical account – long term business	88.2	203.3

The total assets of the long term fund of the company at 31 December 2007 were £19,408.1m (2006: £19,150.9m).

Notes to the financial statements for the year ended 31 December 2007

3 Investment return

	Technical account long term business		Non-technical account	
	2007	2006	2007	2006
	£m	£m	£m	£m
Income from land and buildings	67.2	56.1	-	-
Income from group undertakings	1.7	1.8	-	-
Income from financial assets at fair value through profit or loss				
▪ Designated as such on initial recognition	616.6	397.0	20.5	8.6
▪ Designated as held for trading	-	-	-	-
Loans and receivables valued at amortised cost	48.0	32.0		-
Other investment income	113.4	89.3	8.6	10.0
Investment income	846.9	576.2	29.1	18.6
Unrealised gains/(losses) from land and buildings	(178.5)	53.8	-	-
Unrealised gains/(losses) from group undertakings	0.6	(2.5)	-	-
Unrealised gains/(losses) from financial assets at fair value through profit or loss				
▪ Designated as such on initial recognition	(165.2)	(179.1)	(6.9)	8.5
▪ Designated as held for trading	-	-	-	-
Loans and receivables valued at amortised cost	12.9	11.5	-	-
Other unrealised gains on investments	3.9	40.5	-	-
Unrealised gains/(losses) on investments	(326.3)	(75.8)	(6.9)	8.5
Realised gains/(losses) from land and buildings	-	82.4	-	-
Realised gains/(losses) from group undertakings	-	-	-	-
Realised gains/(losses) from financial assets at fair value through profit or loss				
▪ Designated as such on initial recognition	31.3	131.3	-	-
▪ Designated as held for trading	-	-	-	-
Loans and receivables valued at amortised cost	0.2	-	-	-
Other realised gains on investments	-	8.9	-	-
Realised gains on investments	31.5	222.6	-	-
Investment return	552.1	723.0	22.2	27.1

4 Other technical income

	2007	2006
	£m	£m
Fees from investment contracts	25.4	15.5
Movement in deferred income reserve	(10.0)	(0.7)
Other fee income	19.6	18.7
	35.0	33.5

5 Changes in technical provisions

Changes in long term business provision

	2007	2006
	£m	£m
Insurance contract liabilities	211.0	4,550.5
Investment contract liabilities	1.8	1.3
Changes in long term business provision	212.8	4,551.8

Changes in technical provision for linked liabilities

	2007	2006
	£m	£m
Insurance contract liabilities	(67.8)	11.4
Investment contract liabilities	188.2	319.9
Changes in technical provision for linked liabilities net of reinsurance	120.4	331.3

Notes to the financial statements for the year ended 31 December 2007

6 Net operating expenses

	2007	2006
	£m	£m
Acquisition costs	52.3	47.4
Changes in deferred acquisition costs	(45.8)	(19.9)
Other expenses	50.6	53.2
	57.1	80.7

Net operating expenses include:

	2007	2006
	£m	£m
Technical account		
Commission in respect of direct insurance	48.9	42.6
Auditors' remuneration in respect of		
• Audit services		
-Fees payable to the company's auditor for the audit of the company's annual accounts	1.0	0.9
• Other services		
- Other services pursuant to legislation	0.1	0.1
- Litigation services	-	0.6
Rentals under operating leases	-	0.8
Depreciation of tangible assets (Note 14)	4.9	5.0

7 Taxation

(a) Long term business

Tax charged in the long term business technical account comprises:

	2007 £m	2006 £m
Current tax		
UK corporation tax	74.2	75.2
Change in prior year estimations – UK	(1.8)	0.7
	72.4	75.9
Deferred tax		
Origination and reversal of timing differences	(12.7)	(4.3)
Decrease in discount	0.1	0.9
	(12.6)	(3.4)
Total tax charged in the long term business technical account	59.8	72.5

(b) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2007 £m	2006 £m
Current tax		
UK corporation tax	(1.3)	(0.9)
Prior year adjustment	-	-
Tax charge attributable to balance on long term business technical account	37.8	87.1
Total current tax	36.5	86.2
Deferred tax		
Origination and reversal of timing differences	(1.4)	2.3
Total tax charged in the non-technical account	35.1	88.5

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:

	2007 £m	2006 £m
Profit on ordinary activities before tax	123.3	297.3
Current tax charge at standard UK corporation tax rate of 30%	37.0	89.2
Non-assessable dividends	(1.3)	(0.5)
Movements in asset values	0.6	(2.8)
Amortisation of goodwill	0.2	0.2
Expenses not deductible for tax purposes	-	0.1
Current tax charge for the year (note 7(b))	36.5	86.2

8 Goodwill on acquisition

	2007 £m	2006 £m
At 1 January	8.1	10.9
Amortisation	(2.8)	(2.8)
At 31 December	5.3	8.1

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

9 Investments

	2007	2006
	£m	£m
Investments in group undertakings and participating interests		
Shares in group undertakings	126.9	125.6
Other financial investments Financial assets designated at fair value through profit or loss		
Designated as such on initial recognition:		
• Shares and other variable yield securities and units in unit trusts – Listed	296.4	297.0
• Debts and other fixed income securities – Listed	10,306.9	6,421.4
• Deposits with credit institutions	802.2	773.7
Designated as held for trading:	-	-
Financial liabilities designated at fair value through profit or loss		
Designated as held for trading:	-	-
Loans and receivables:		
• Loans secured by mortgages	1,088.0	681.4
• Loans secured by policies of insurance	11.5	12.7
	12,505.0	8,186.2

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.

9 Investments (continued)

Land and buildings

Land and buildings at current market value:

	Freehold 2007 £m	Freehold 2006 £m
At 1 January	666.2	510.2
Additions	194.1	102.7
Disposals	-	(8.6)
Surplus on revaluation	(92.3)	61.9
At 31 December	768.0	666.2
Land and buildings at cost:		
At December 2007	732.5	
At December 2006	538.5	

All properties held by Canada Life Limited were valued as at 25 December 2007. The valuation of different parts of the portfolio was conducted by qualified professional valuers working for two companies: DTZ Debenham Thorpe (formerly Donaldsons) and Atis Real Weatheralls, 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 £11.5m (2006 restated: £13.0m) in respect of buildings which are owned and occupied by the company.

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.

	Business Type
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:

		2007 £m	2006 £m
Cost :	At 1 January	422.3	422.3
	Additions	-	-
	Disposals	-	-
	At 31 December	422.3	422.3
Valuation adjustment :	At 1 January	(296.7)	(290.6)
	Disposals	-	-
	Movement during year	1.3	(6.1)
	At 31 December	(295.4)	(296.7)
Carrying value :	At 31 December	126.9	125.6

Notes to the financial statements for the year ended 31 December 2007

11 Other debtors

	2007 £m	2006 £m
Due in less than one year		
UK corporation tax	3.1	-
Other debtors	7.6	40.9
	10.7	40.9
Due in more than one year		
Other debtors	32.3	25.7
Total	43.0	66.6

12 Assets held to cover linked liabilities

	2007		2006	
	Market value £m	Historical Cost £m	Market value £m	Historical Cost £m
Assets held to cover linked liabilities	4,506.8	3,906.7	4,331.8	3,748.5

13 Technical provisions

Long term business provision

	2007 £m	2006 £m
Insurance contract liabilities	12,416.9	12,205.9
Investment contract liabilities	39.2	44.2
Long term business provision	12,456.1	12,250.1

Technical provision for linked liabilities

	2007 £m	2006 £m
Insurance contract liabilities	938.8	1,006.5
Investment contract liabilities	3,553.8	3,305.2
Technical provision for linked liabilities	4,492.6	4,311.7

Notes to the financial statements for the year ended 31 December 2007

14 Tangible assets

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

	Fixtures and fittings	Office machinery	Computer equipment	Computer software	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2007	1.8	0.7	2.2	28.8	33.5
Additions	0.1	-	0.2	-	0.3
Disposals	-	-	-	-	-
At 31 December 2007	1.9	0.7	2.4	28.8	33.8
Depreciation					
At 1 January 2007	1.4	0.6	1.8	24.5	28.3
Charge for the year	0.1	-	0.5	4.3	4.9
On disposals	-	-	-	-	-
At 31 December 2007	1.5	0.6	2.3	28.8	33.2
Net book value at					
31 December 2006	0.4	0.1	0.4	4.3	5.2
31 December 2007	0.4	0.1	0.1	-	0.6

15 Called up share capital

	2007	2006
	£m	£m
Authorised		
Equity interest		
30,000,000 ordinary shares of £1 each	30.0	30.0
Allotted, called up and fully paid		
Equity interest		
14,250,010 ordinary shares of £1 each	14.3	14.3

Notes to the financial statements for the year ended 31 December 2007

16 Reconciliation of movements in shareholders' funds

	Ordinary share capital	Capital contribution	Profit and loss account	Total shareholders' funds
	£m	£m	£m	£m
Balance at 1 January 2007	14.3	102.0	605.5	721.8
Profit attributable to shareholders			88.2	88.2
Dividend paid (Note 26)			(38.6)	(38.6)
Balance at 31 December 2007	14.3	102.0	655.1	771.4

All shareholders' funds are attributable to equity shareholders.

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 29. 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. Other than in these circumstances the lender can not call for repayment of the loan within the term. 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 May 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 May 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.

Total interest expense of £22.1m (2006: £16.9m) has been recognised in the non-technical account in respect of subordinated liabilities.

17 Subordinated liabilities (continued)

The following table provides information about the maturity periods of the company's subordinated liabilities as at 31 December 2007:

Subordinated liabilities	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
GBP LIBOR + 2.25% £70 million subordinated loan 2032 **(a)**				70	70
GBP LIBOR + 2.25% £40 million undated subordinated loan **(a)**				40	40
GBP LIBOR + 0.80% £25 million subordinated loan 2035 **(b)**				25	25
GBP LIBOR + 0.80% £65 million subordinated loan 2035 **(b)**				65	65
Fixed 5.65% £50 million subordinated loan 2036 **(c)**				50	50
Fixed 5.65% £80 million undated subordinated loan **(c)**				80	80
				330	330

The following table provides information about the maturity periods of the company's subordinated liabilities as at 31 December 2006:

Subordinated liabilities	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
GBP LIBOR + 2.25% £70 million subordinated loan 2032 **(a)**				70	70
GBP LIBOR + 2.25% £40 million undated subordinated loan **(a)**				40	40
GBP LIBOR + 0.80% £25 million subordinated loan 2035 **(b)**				25	25
GBP LIBOR + 0.80% £65 million subordinated loan 2035 **(b)**				65	65
Fixed 5.65% £50 million subordinated loan 2036 **(c)**				50	50
Fixed 5.65% £80 million undated subordinated loan **(c)**				80	80
				330	330

(a) The interest rate changes to GBP LIBOR + 2.90% in 2012
(b) The interest rate changes to GBP LIBOR + 1.05% in 2015
(c) The interest rate changes to 5.90% in 2016

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	3.04%	2.86%
Annuities in payment (CPA)	5.31%	4.83%
Annuities in payment (CPA - PALAL)	5.26%	4.81%
Annuities in payment (CPA - ELAS)	5.13%	4.72%
Property linked policies - Life	3.00%	2.89%
Property linked policies - Pensions	3.75%	3.62%

18 Long term business provision (continued)

Mortality:-

Product group	This valuation	Last valuation
Term Assurances	Males: 77% TM92 Select with adjustments M1 Females: 93.5% TF92 Select with adjustments M1	Males: 77% TM92 Select with adjustments M1 Females: 93% AF92 Select with adjustments M1
Annuities in payment (CPA)	Males: 93% PNMA00 U2007mc with variable floor Females: 80% PNFA00 75% of U2007mc with variable floor both with adjustments M2	Males: 92% PNMA00 U2006mc with 0.5% floor Females: 82% PNFA00 U2006sc with 0.5% floor both with adjustments M2
Annuities in payment (CPA - PALAL)	Males: 93% PNMA00 U2007mc with variable floor Females: 80% PNFA00 75% of U2007mc with variable floor both with adjustments M2	Males: 89% PNMA00 U2006mc Females: 75% PNFA00 U2006sc
Annuities in payment (CPA – ELAS)	Males: 75% PNMA00 U2007mc with variable floor Females: 71% PNFA00 75% of U2007mc with variable floor	Males: 77.5% of PMA92 U2006mc Females: 77.5% of PFA92 U2006sc
Property linked policies	Males: 85% AM92 Sel Females: 110% AF92 Sel	Males: 85% AM92 Sel Females: 105% 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 2007, 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 variable floor on improvements for all business ranging from 2% for males and 1.5% for females for ages up to 70 to 0.5% for both genders for ages of 90 and above. We also moved to using the latest available mortality tables and adjusted to reflect the results of our most recent experience investigation.

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.

18 Long term business provision (continued)

The total cost of bonuses attributable to the accounting period, being amounts representing an allocation of surplus for the year, is £21.6m (2006: £17.6m).

The company entered into a financial reassurance 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 reassurance 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 29. 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 impact on the end of the 2007 balance sheet is an increase in 'reinsurers' share of technical provisions' of £609.8m with a corresponding increase in 'deposits received from reinsurers'.

During 2005 the company acquired the annuity book of Phoenix & London Assurance Limited (PALAL). 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 2007 balance sheet was an increase in 'reinsurers' share of technical provisions' of £730.1m and a corresponding increase in 'deposits received from reinsurers'.

The above acquisitions make up £1,339.9m of the total £1,548.1m asset and £1,431.4m liability respectively as shown in the balance sheet.

19 Other provisions

	2007 £m	2006 £m
Other provisions at 1 January	5.1	5.9
Amount of closed branch provision utilised during the year	(0.8)	(0.8)
Other provisions at 31 December	4.3	5.1

The majority of other provisions are for closed branches. This 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.

20 Provisions for taxation

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

	2007	2006
	£m	£m
Unrealised gains on investments	28.1	44.1
Provisions and other timing differences	12.2	10.3
Undiscounted provision for deferred tax	40.3	54.4
Discount	-	-
Discounted deferred tax liability	40.3	54.4

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

	2007	2006
	£m	£m
At 1 January	54.4	45.4
Prior year adjustment	-	10.2
Profit and loss account	(14.1)	(1.2)
At 31 December	40.3	54.4

21 Other creditors including taxation and social security

	2007	2006
	£m	£m
Due in less than one year		
UK corporation tax	45.8	54.9
Amounts owed to group companies	29.2	19.5
Other creditors	104.1	106.6
	179.1	181.0
Due in more than one year		
Other creditors	34.1	29.2
Total	213.2	210.2

22 Staff costs

The company has no employees during the year (including directors) (2006: nil).

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.

23 Directors' emoluments

None of the directors received any fees or remuneration for services as directors of the Company during the year (2006: £nil).

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.

24 Operating leases

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

	2007 Land and buildings £m	2006 Land and buildings £m
Expiring within one year	0.3	0.3
Expiring between two and five years	0.3	0.6
Expiring in over five years	1.2	1.3
	1.8	2.2

The leases relate to closed branches, see note 19.

25 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.

26 Dividend paid

	2007 £m	2006 £m
Dividend paid	38.6	65.0
	38.6	65.0

Notes to the financial statements for the year ended 31 December 2007

27 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.

2007 Capital Statement Table

	UK with profits	Manulife with profits	UK non participating	Shareholders' funds	2007 Total L&P business
	£m	£m	£m	£m	£m
Shareholders' funds					
outside fund	-	-	-	411	411
inside fund	-	-	360	-	360
	-	-	360	411	771
Other qualifying capital					
Subordinated Debt	-	-	-	330	330
Fund For Future Appropriations	38	40	-	-	78
	38	40	-	330	408
Regulatory adjustments					
assets	(3)	0	16	(127)	(114)
Total available capital resources	35	40	376	614	1,065
Capital requirement					
UK Capital Resources Requirement					721
					721
Overall surplus capital over regulatory requirements					344

Notes to the financial statements for the year ended 31 December 2007

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

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
Shareholders' funds					
outside fund	-	-	-	250	250
inside fund	-	-	472	-	472
	-	-	472	250	722
Other qualifying capital					
Subordinated Debt	-	-	-	330	330
Fund For Future Appropriations	44	39	-	-	83
	44	39	-	330	413
Regulatory adjustments					
assets	(4)	0	30	(8)	18
Total available capital resources	40	39	502	572	1,153
Capital requirement					
UK Capital Resources Requirement					689
					689
Overall surplus capital over regulatory requirements					464

Movement in the year

The overall surplus capital has decreased by £120m in the year comprising a £88m decrease in total available capital resources and a £32m increase in the UK Capital Resources Requirement.

	UK with profits	Manulife with profits	UK non participating	Shareholders' funds	Total L&P business
	£m	£m	£m	£m	£m
Capital resources 2006	40	39	502	572	1,153
Capital movements			(200)	42	(158)
Investment Gains	7	8	44		59
Other experience gains	1	3	61		65
Assumption changes			(42)		(42)
New Business Margin			8		8
Cost of Bonus	(13)	(9)			(22)
Other Factors		(1)	3		2
Capital resources 2007	35	40	376	614	1,065

Capital movements within shareholders' funds comprise of dividends paid of £36m, a foreseeable dividend of £122m which is recorded within the FSA return (see note 30) and a transfer from the non-participating to the shareholders' funds of £200m.

The main sources of other experience gain are group mortality (£28m), group morbidity (£21m) and expenses (£8m) net of tax.

27 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 £376m (2006: £502m).

The shareholders' funds held outside the life and pensions funds are shown separately in the capital statement. These funds include £330m of subordinated debt (2006: £330m).

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.

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 individual and group life 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.

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

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 £72m (2006: £92m).

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 £10m (2006: £12m).

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.

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

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.

28 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 and financial liabilities.

The company is also exposed to market risk through the 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.

28. 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 £84.3m (2006 £44.4m) are mitigated using foreign currency swaps. The nominal value of the foreign currency denominated securities is £150m (2006: £70.0m). The net derivative assets and liabilities are disclosed as other debtors of £0.4m (2006: £0.5m) and other creditors of £5.4m (2006: £4.0m).

(ii) 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.

Interest rate risk is managed 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.

The company's maximum exposure to fair value interest rate risk is £9,106m (2006: £10,341m).

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.

To manage the exposure arising from guarantees and options, a number of interest rate swaptions have been purchased, shown within other debtors (Note 11), to manage exposures to falls in interest rates. As at 31 December 2007 this portfolio was valued at £19.5m (2006: £26.6m). The nominal value of this holding is £252.9m (2006: £273.8m).

In addition to this, in 2007 we have purchased a number of interest rate swaps. As at 31 December 2007 this portfolio was valued at £13.9m (2006: £nil). The nominal value of this holding is £167.1m (2006: nil).

The company's maximum exposure to cash flow interest rate risk is £2,325m (2006: £1,472m).

28 Risk Management Objectives and policies for mitigating risks (continued)

(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 the holdings in equity investments. The company has a defined investment policy which sets limits on 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 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.

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.

(iv) Sensitivity to market risk

Results of sensitivity testing on the long-term business fund and shareholder funds to market risk are set out below:

Sensitivity factors

- ***Interest rates*** – the impact of a change in market interest rates + / - 1% as at the balance sheet date
- ***Equity / property market values*** – the impact of a change in equity / property market values + / - 10% as at the balance sheet date

Sensitivities as at 31 December 2007:

	Interest rates + 1%	Interest rates - 1%	Equity / Property - 10%
Profit before tax / equity (£m)	(36.2)	46.6	(68.4)

Sensitivities as at 31 December 2006:

	Interest rates + 1%	Interest rates - 1%	Equity / Property - 10%
Profit before tax / equity (£m)	(41.8)	38.3	(59.0)

28 Risk Management Objectives and policies for mitigating risks (continued)

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.

Limits are placed on 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, a 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 and other structures are used for new treaties to reduce the exposure.

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 financial security of reinsurers is regularly reviewed.
- Collateral is held in respect of its derivative exposure with third parties.

The following table provides information regarding the carrying value of financial assets and the ageing of financial assets that are past due but not impaired:

As at 31 December 2007:

Balance sheet category	Not past due	0-3 mths	3-6 mths	6-12 mths	12 mths +	Impaired	Total (£m)
Other financial investments							
• Financial assets designated at fair value through profit and loss	100.0%	-	-	-	-	-	11,405.5
• Loans and receivables	100.0%	-	-	-	-	-	1,099.5
Assets held to cover linked liabilities	100.0%	-	-	-	-	-	4,506.8
Debtors arising from direct insurance operations	38.7%	53.6%	3.4%	1.6%	2.7%	-	62.9
Other debtors	99.2%	0.7%	-	0.1%	-	-	43.0
Accrued interest and rent	98.0%	2.0%	-	-	-	-	199.7

28 Risk Management Objectives and policies for mitigating risks (continued)

As at 31 December 2006:

Balance sheet category	Not past due	0-3 mths	3-6 mths	6-12 mths	12 mths +	Impaired	Total (£m)
Other financial investments							
• Financial assets designated at fair value through profit and loss	100.0%	-	-	-	-	-	7,492.2
• Loans and receivables	100.0%	-	-	-	-	-	694.1
Assets held to cover linked liabilities	100.0%	-	-	-	-	-	4,331.8
Debtors arising from direct insurance operations	46.5%	46.9%	3.1%	2.1%	1.4%	-	72.1
Other debtors	100.0%	-	-	-	-	-	66.6
Accrued interest and rent	96.9%	3.0%	0.1%	-	-	-	119.8

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.

As at 31 December 2007

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	2,392	1,885	2,714	399	7	1	0	7,398
Gilts	2,909							2,909
Total as at 31 December 2007	5,301	1,885	2,714	399	7	1	0	10,307
%	51%	18%	26%	4%	0%	0%	0%	100%

As at 31 December 2006

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Corporate bonds	1,238	1,186	1,823	391	7		17	4,662
Gilts	1,758							1,758
Total as at 31 December 2006	2,996	1,186	1,823	391	7	0	17	6,420
%age	47%	18%	28%	6%	0%	0%	0%	100%

For over-the-counter derivative transactions undertaken, 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 2007 the fair value of such collateral relating to interest rate swaptions, interest rate swaps and foreign currency bond swaps was £24.7m (2006: £22.1m).

28 Risk Management Objectives and policies for mitigating risks (continued)

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 strategic objectives.

Underpinning the management of policy cashflow risk is:

- adherence to an approved underwriting policy that takes into account the level of risk 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 (or zero) 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.

28 Risk Management Objectives and policies for mitigating risks (continued)

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 or more 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.

(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 and to an extent through the nature of its liabilities.

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.

28 Risk Management Objectives and policies for mitigating risks (continued)

The following table shows a maturity analysis of undiscounted investment contract liabilities and derivatives:

As at 31 December 2007

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Investment contract liabilities	3,593.0	-	-	-	3,593.0
Derivative financial liabilities	0.3	2.7	1.0	31.5	35.5
	3,593.3	2.7	1.0	31.5	3,628.5

As at 31 December 2006

	< 1yr £m	1-5 yrs £m	5-15 yrs £m	15 yrs + £m	Total £m
Investment contract liabilities	3,349.4	-	-	-	3,349.4
Derivative financial liabilities	-	-	-	30.8	30.8
	3,349.4	-	-	30.8	3,380.2

A maturity analysis of subordinated liabilities is presented in Note 17.

29 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 up to the transfer date of 9 February 2007.

With effect from 9 February 2007, the company assumed direct responsibility for the future pension payments to individual annuitants associated with the 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 29. 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.

30 Events after the balance sheet date

The company paid a £122m interim dividend on 31 January 2008 to its parent undertaking, The Canada Life Group (UK) Limited.

31 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 Corporation of Canada, is incorporated in Canada. In the directors' opinion Power Corporation of Canada 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 Corporation of Canada can be obtained from the company's registered office.