



Report to Policyholders of the Manulife Fund of Canada Life Limited

Introduction

In April 2004, we published the Principles and Practices of Financial Management (PPFM), a detailed technical document which describes how Canada Life manages the Manulife Fund. We have since updated the original version of this document. A copy of the latest version is available on request.

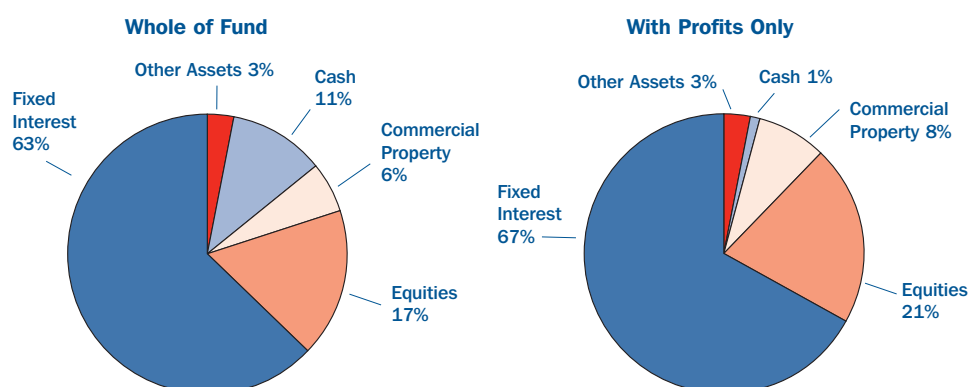
Canada Life has appointed a With-Profits Actuary who is an employee of the company and who provides actuarial advice to the Board in connection with the management of this fund. We have also appointed an Independent Expert who provides an opinion to the Board on its requirements to conduct the with-profits business in accordance with the PPFM.

For financial years starting on or after 1 January 2005, we are required (*by the Financial Services Authority*) to produce a report for the with-profits policyholders which provides a review of the financial year. This report also states whether we have complied with our obligations as covered in the PPFM, for the financial year 2005.

The fund consists of both with-profits and non-profit policies, although approximately 80% of the liabilities relate to the with-profits policies.

Asset allocation

As at 31 December 2005, the split of assets is shown below:



The asset allocation for the whole fund complies with the asset allocation targets as set out in the PPFM.

Investment returns

During 2005, the investment returns on the various asset classes were (%):

	Income	Capital Gain/(Loss)	Total
Fixed Interest	6.0	2.2	8.2
Equities	3.9	19.9	23.8
Commercial Property	5.5	8.7	14.2
Cash	4.1	n/a	4.1
Other Assets	8.0	n/a	8.0
Total (overall return)	5.5	5.0	10.5

The above returns are based on the average of the year start and year end market values of assets. This is the return on the whole fund including assets backing the non-profit policies. The return on the assets backing the with-profit policies (for 2005) is higher than the 10.5% (return on the whole fund), as the excellent returns on the equity and property assets are wholly attributable to the with-profit policies. The returns on fixed interest securities, commercial property and equities were slightly above their respective benchmark indices.

Annual bonus

The annual bonus reflects the investment income (as opposed to capital gains/losses) on the assets supporting the with-profits policies. The annual bonus allocations in respect of 2005 (to be credited in 2006) were reduced on the vast majority of policies. The reduction in annual bonuses takes account of the investment income of the fund and the miscellaneous surplus arising from death and surrender claims. Even after this reduction, the investment income is not large enough to support the annual bonuses. This is likely to result in lower annual bonuses in future, commencing with the bonuses credited in 2007 assuming investment yield at the 2005 level and will be reviewed later in 2006. Annual bonuses once allocated to a policy are guaranteed and cannot be reduced but future bonus allocations will depend on the investment income received and experience on death and surrender claims.

Terminal bonus

For the maturity and death claims arising in 2006, the current terminal bonus rate (applied to the sum insured and attaching annual bonuses) varies from 12% for a 15 year policy to 28% for a policy with a term of 35 years (and over). These rates are higher than those paid in 2005 and reflect the favourable performance of the equity markets in the first half of 2005. It should be noted that terminal bonus rates are not guaranteed and may be changed at short notice to take account of the market value of the assets in the fund.

The approach to declaring the annual and terminal bonus is consistent with that stated in the PPFM.

Surrender payouts

These were reviewed during 2005 and in order to provide a closer link with the value of the underlying assets, a higher terminal bonus (using a different scale to that applied to maturities and death claims) will be payable effective from 1 January 2006. The terminal bonus payable on surrender is linked to that payable on maturities and death claims. This review also resulted in increases in some of the factors used to calculate the surrender value. This review reflected a reasonable balance between the surrendering and maturing policyholders as any changes in the surrender payouts has to be offset by changes to the maturity payouts. As for maturities and death claims, this terminal bonus is not guaranteed and may be changed at short notice.

Expenses and tax

The charges for ongoing policy servicing and investment management are computed using the allowances stated in the PPFM. The tax deducted from the fund is computed on a basis that is consistent with the PPFM.

Summary

It is the Board's opinion that the management of this fund has complied with the PPFM and that the exercise of discretion over the period was appropriate and reflected the fair treatment of the different categories of policyholders, in a reasonable and proportionate manner. This opinion is consistent with that provided by the With-Profits Actuary.

About Canada Life

Canada Life is a UK subsidiary of the Great-West Life Assurance Company which is owned by Great-West Lifeco. Great-West Lifeco, serves the financial security needs of customers across Canada, the United States, the United Kingdom, Isle of Man, the Republic of Ireland and Germany. Great-West Lifeco and Canada Life* are rated by a number of agencies and consistently receive high marks for financial strength, claims-paying ability and operating performance. Canada Life has been operating in the UK since 1903. It is a leading provider of Annuities, Group Insurance and Wealth Management products.

- * The Canada Life Assurance Company (which owns 100% of Canada Life Limited).
Note – past performance is not a guide for the future.

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Canada Life

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The Canada Life Marketing Group consists of Canada Life Limited, Canada Life Asset Management Limited and Canada Life International Limited.
These companies are authorised and regulated by the Financial Services Authority (Canada Life International Limited for UK business only).
Canada Life International Limited is an Isle of Man registered company authorised and regulated by the Isle of Man Government Insurance and Pensions Authority.