

With-Profits Fund of Canada Life Limited

Annual report 2009

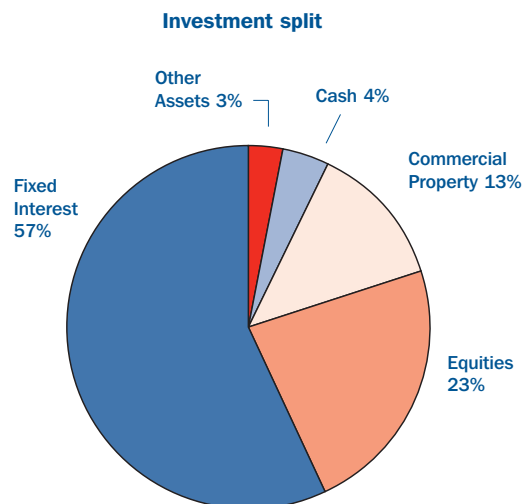
This report has been produced to update you on the With-Profits Fund of Canada Life Limited at the end of 2009 and to explain how we used our discretion when making key decisions.

It covers:

- how the fund is invested
- how the fund has performed
- regular bonuses
- final bonuses
- expenses
- principles and practices of financial management
- independent review, and
- the opinion of the Canada Life Limited's Board and the With-Profits Actuary.

How the fund is invested

The split of the fund's investments on 31 December 2009 is shown in the chart below.



The With-Profits Fund has a wide range of investments. The fund holds bonds (which are loans to companies or governments, shown in the chart as Fixed Interest), Equities (shares in companies), Commercial Property, Policy Loans (shown in the chart as Other Assets) and Cash.

How the fund has performed

During 2009, the investment returns were:

Investment Type	Income	Growth	Total
Fixed Interest	6.0%	-2.7%	3.3%
Equities	4.2%	19.4%	23.6%
Commercial Property	6.1%	0.3%	6.4%
Cash	1.8%	0.0%	1.8%
Other Assets	4.2%	0.0%	4.2%
Total (overall return)	5.1%	3.2%	8.3%

For each of the investment types, we compare the actual return with the average return across the UK market for similar investments. The fixed interest return was slightly under the benchmark of 3.5%. The equity return was, despite a strong overall result, worse than the benchmark FTSE All Share index which returned just over 30% during 2009. The fund's equity portfolio maintained a defensive bias in 2009 which the index did not favour. In particular we remained underweight in financials which performed particularly well, and overweight in oil producers and mobile telecoms which lagged the index. The commercial property return was better than the relevant benchmark return of 2.8%. Overall, the fund's return of 8.3% was below the overall investment benchmark 9.4% due to the equity performance.

Regular bonus (also known as annual bonus)

We increase the value of your policy by adding bonuses. We add regular bonuses to most policies every year. We calculate these based on the income from the fund's investments plus other sources of gains or losses. For example, the gains or losses arising from the level of death claims, expenses charged to the fund and for some policies, the gains from other policyholders cashing in their policies early.

The regular bonus allocation rate we will use in 2010 is unchanged from the 2009 level for all policies. This is one of the key areas where we use our discretion.

Regular bonuses already added cannot be reduced at any time whilst premiums continue to be paid. Future rates of regular bonus are not fixed and may be higher or lower than the current rates or could even be zero.

Final bonus (also known as terminal bonus)

A final bonus is added when your policy pays out. We use this final bonus to make sure that we share out the With-Profits Fund fairly. Future rates of final bonus are not fixed and may be higher or lower than current rates, and can be zero.

The March 2010 final bonus rate varies from 0% for a 15 year policy to 80% for a 44 year policy for maturity and death claims in 2010. The actual final bonus rate payable for any particular policy is dependent on the performance of the With-Profits Fund over its term.

We calculate the final bonus rate by taking into account:

- the total value of the With-Profits Fund
- the expected premiums to be paid in
- the expected payouts due to maturities and deaths, and
- the number of policies that are likely to be cashed in early.

We use these figures to predict the level of payouts on all the remaining policies to make sure the fund is shared out fairly.

Another key area where we use our discretion is in the regular review of final bonus rates. We can change these at short notice so that payouts reflect changes to the value of the fund's investments. During 2009, we changed the rates twice – first, in April, to reflect falling equity and property values in early 2009 and subsequently, in September, to reflect the equity rises during the later part of 2009. This makes sure all policyholders are treated fairly by setting policy returns in line with the investment return for the period their policy was held.

All policies with the same number of years from the start date to the payout date (known as the policy term) get the same final bonus rate. We apply different rates to policies with longer or shorter policy terms. If a policy is cashed in early, the policy term used is the number of years the policy was actually held, rather than the original policy term. The final bonus rates for policies being cashed in early are a proportion of the final bonus scale appropriate for a maturity or death claim on a policy with the same term.

Final bonus is not guaranteed, it may be changed at short notice and can be zero.

Charges and expenses

We deduct a charge of £35.79 per policy per year (as at 1 January 2010) from the fund. This charge is updated monthly in line with changes in the Retail Price Index (RPI). During 2009 the changes in RPI have not always been positive and this has resulted in the charge for some months being lower than the preceding month. Investment management charges are made at the rate of 0.11% per year of the average market value of funds under management. Investment dealing charges are paid directly out of the fund as these happen.

Principles and practices of financial management

We have published the Principles and Practices of Financial Management (PPFM), a detailed and technical document which describes how we manage the With Profits Fund. If you would like a copy of the PPFM, please call us on **0845 6060708**.

We have also produced a document called 'The With-Profits Fund – A guide to how your fund and policy are managed', which provides a summary of the PPFM. This document is also available on our website www.canadalife.co.uk or by calling us on **0845 6060708**.

Independent review

An independent review is carried out annually to make sure the management of the With-Profits Fund complies with the PPFM. The review is carried out by an independent expert and they give their report directly to the Board of Canada Life Limited.

We employ a With-Profits Actuary to give actuarial advice to the Board in connection with the management of this fund.

Opinion of the Board of Canada Life Limited and the With-Profits Actuary

It is the Board's opinion that the management of this fund has been in accordance with the PPFM, except for the equity content being below the minimum stated. All of the different categories of policyholders have been treated in a reasonable and proportionate manner. The Board is also satisfied that appropriate discretion was used when reviewing regular and final bonus rates. This opinion is shared by the With-Profits Actuary (see Appendix for his opinion).

About Canada Life

The Canada Life Assurance Company provides insurance and wealth management products and services through domestic operations in Canada and international operations in the Republic of Ireland, Isle of Man, Germany and the U.K. as well as branch and subsidiary operations in other countries. Canada Life is a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies.

Contact us

Telephone: **0845 6060708**
E-mail: customer.services@canadalife.co.uk
Website: www.canadalife.co.uk
Mail: **Canada Life Limited
Canada Life Place
High Street
Potters Bar
Herts EN6 5BA**

Appendix – annual report from the With-Profits Actuary

In my opinion, for the financial year 2009, the management of the fund has complied with the PPFM. There are areas where discretion has been exercised by the company and I believe that this has reflected the interests of the different categories of policyholders in a reasonable and proportionate manner.

Hitesh Shah
With Profits Actuary
24 March 2010



Canada Life Limited, registered in England no. 973271. Registered office: Canada Life Place, Potters Bar, Hertfordshire EN6 5BA
Telephone 0845 6060708 Facsimile 01707 646088 www.canadalife.co.uk

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