

BROMPTON



LIFE & BANC SPLIT CORP.

2006
ANNUAL
REPORT

Equal weight portfolio of
the equity securities
of Canadian life
insurance companies
and Canadian banks.

The Preferred shares are
rated Pfd-2 by DBRS.

Management Report of Fund Performance

March 8, 2007

This annual management report of fund performance for Life & Banc Split Corp. (the "Fund") contains financial highlights but does not contain the audited annual financial statements. The audited annual financial statements follow this report.

Shareholders may obtain a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, at no cost, by calling 866-642-6001, or by sending a request to Brompton Funds, Suite 2930, P.O. Box 793, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3.

The Fund

Life & Banc Split Corp. is a mutual fund corporation managed by Brompton Funds Management Limited (the "Manager"). The Fund has Class A and Preferred shares outstanding which trade on the Toronto Stock Exchange (the "TSX") under the symbols LBS and LBS.PR.A, respectively. The Class A and Preferred shares are RRSP, DPSP, RRIF and RESP eligible. The Preferred shares are rated Pfd-2 by Dominion Bond Rating Service Limited. The Class A and Preferred shares are scheduled to be redeemed by the Fund on November 29, 2013. The Fund commenced operations on October 17, 2006.

Investment Objectives and Strategies

The Fund's investment objectives are:

- (i) to provide holders of Preferred shares with fixed, cumulative preferential quarterly cash distributions in the amount of \$0.13125 per share and to return the original issue price to holders of the shares on November 29, 2013; and
- (ii) to provide holders of Class A shares with regular monthly cash distributions targeted to be \$0.10 per share and with the opportunity for growth in net asset value per share.

To achieve these objectives, the Fund invests in a common share portfolio of the following six Canadian banks and four life insurance companies on an equally weighted basis at the time of investment and on rebalancing:

Banks

Bank of Montreal
Canadian Imperial Bank of Commerce
National Bank of Canada
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank

Life Insurance Companies

Great-West Lifeco Inc.
Industrial Alliance Insurance and Financial
Services Inc.
Manulife Financial Corporation
Sun Life Financial Inc.

These banks and life insurance companies have a history of strong earnings growth, which has resulted in increases in their dividend rates and capital appreciation.

Highstreet Asset Management Inc. (“Highstreet”) is the Fund’s advisor and is responsible for investing in the common share portfolio. The portfolio is rebalanced at least annually to adjust for changes in the market value of investments and to reflect the impact of a merger or acquisition affecting one or more of the banks or life insurance companies. In addition, the Fund may sell investments for working capital purposes or replace investments with proceeds from the exercise of covered call options previously written. Highstreet is the option advisor to the Fund and has the discretion to write covered call options and cash covered put options in respect of the portfolio in order to generate additional distributable income for the Fund.

Risks

Changes to the Fund over the financial year ended December 31, 2006 affected the overall risk associated with an investment in the Fund in the following ways:

- (i) Units of a closed-end fund like the Fund may trade on the TSX at a discount to their net asset value. Since the Fund commenced operations in October 2006, the Class A shares and the Preferred shares of the Fund have generally traded at a premium to their net asset value per unit, which reduced the liquidity risk of receiving less than the intrinsic value of the shares when traded on the TSX. In addition, the Class A shares and Preferred shares may be tendered as a unit for retraction in November 2007 and each year thereafter based on net asset value per unit, which reduces the likelihood that such securities of the Fund would trade at a substantial discount to net asset value.
- (ii) The appreciation of the net asset value of the Class A shares over the period reduced the implied leverage of the Preferred shares. The greater the leverage, the more the net asset value per Class A share will appreciate during a rising market for the Fund’s portfolio securities and depreciate during a declining market. Preferred shares as a percentage of total assets of the Fund decreased over the year from 42.1% to 38.5%.
- (iii) While the Fund had no operating history prior to commencement of operations, it successfully invested the net proceeds from its initial public offering in the portfolio of banks and life insurance companies, achieved its investment objectives over its relatively short history, and its Class A and Preferred shares have traded actively on the TSX.

Risks associated with an investment in the shares of the Fund are discussed in some detail in the Fund’s annual information form, which will be available on the Fund’s website at www.bromptongroup.com or on SEDAR at www.sedar.com.

Recent Developments

Completion of the Initial Public Offering

On October 17, 2006, the Fund closed its initial public offering of Class A and Preferred shares and commenced operations. A total of 11,600,000 Class A and Preferred shares were issued for gross proceeds of \$290 million. A further 400,000 Class A and Preferred shares were issued pursuant to the exercise of an over-allotment option granted to the underwriters of the offering on October 30, 2006, which raised an additional \$10 million for the Fund.

Results of Operations

Distributions

For the period ended December 31, 2006, the Fund declared distributions of \$0.24839 per Class A share and \$0.10842 per Preferred share. Both of these amounts met the Fund’s objectives. The 2006 Class A share distributions were all classified as return of capital. The amount of any payment received by a shareholder as a return of capital will not be required to be included in the shareholder’s income. Instead, such amount will reduce the adjusted cost base of such share, assuming it is held as capital property. The Fund declared its first quarterly distribution on its Preferred shares for shareholders of record on December 29, 2006, in the amount of \$0.10842 per share. The amount of this distribution represented the partial period between the date when the initial public offering was closed and the end of the quarter, being December 31, 2006. This distribution was subsequently paid in January 2007 and therefore will not have any tax consequences for shareholders until the 2007 taxation year. A breakdown of the tax characteristics of the 2006 distributions paid is provided later in this report under “2006 Tax Information.”

Net Asset Value

In addition to the distributions paid out to shareholders, as described above, the strong performance of the Fund’s investment portfolio returned an increase in the net asset value per Class A share of \$1.98, per share or 14.4%, from \$13.74 to \$15.72. This was achieved over the period from commencement of the Fund’s operations on October 17, 2006 to fiscal year-end. The net asset value of the Fund is determined by taking the total assets of the Fund and deducting the Fund’s liabilities. For these purposes, the Preferred shares are not considered a liability of the Fund. The net asset value of the Fund increased from \$284.9 million at the commencement of operations to \$308.7 million at December 31, 2006 as a result of the growth in value of the investment portfolio.

Investment Portfolio

As of December 31, 2006, the Fund's investments included Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, The Bank of Nova Scotia, The Toronto-Dominion Bank, Great-West Lifeco Inc., Industrial Alliance Insurance and Financial Services Inc., Manulife Financial Corporation, and Sun Life Financial Inc.

During the period of operations, the option advisor, Highstreet, did not write any options on the Fund's portfolio securities because it did not believe the premiums that were available on options throughout the period adequately compensated for the upside that the Fund would have to forego. The Fund recorded net realized and unrealized gains of \$26.9 million during the period, with CIBC providing the greatest contribution.

Liquidity and Capital Resources

As of December 31, 2006, the Fund had no borrowings under its 364-day revolving credit facility. The revolving credit facility is available for working capital purposes and provides for maximum borrowings of \$12.5 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage.

To provide liquidity, the Class A shares and Preferred shares of the Fund are listed on the TSX under the symbol LBS and LBS.PR.A, respectively. Over the period, Class A shares and Preferred shares traded at an average combined premium to their combined net asset value per share of 5.8%. Investors may also retract their shares in accordance with their retraction provisions.

Related Party Transactions

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.60% per annum of the net asset value of the Fund. The Manager is responsible for paying the fees to the option advisor. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Class A shares. The service fee is in turn paid by the Manager to the investment dealers based on the proportionate number of Class A shares held by clients of such dealers at the end of each calendar quarter. In 2006, management and service fees amounted to \$0.4 million and \$0.2 million, respectively.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing net asset value per share. The increase (decrease) in net assets from operations is based on average shares outstanding during the period, and all other numbers are based on actual shares outstanding at the relevant point in time.

Net Asset Value per Class A Share

	2006
Net asset value, beginning of period ⁽¹⁾	\$ 13.74
Increase (decrease) from operations: ⁽¹⁾⁽³⁾	
Total revenue	0.17
Total expenses	(0.06)
Preferred share distributions	(0.11)
Realized gain for the period	0.01
Unrealized gain for the period	2.24
Total increase in net assets from operations	\$ 2.25
Distributions to Class A shareholders: ⁽¹⁾⁽²⁾	
Return of capital	\$ 0.25
Total distributions	\$ 0.25
Net asset value, end of period	\$ 15.72

⁽¹⁾ Period from October 17, 2006 (commencement of operations) to December 31, 2006.

⁽²⁾ Net asset value per Class A share and distributions per Class A share are based on the actual number of Class A shares outstanding at the relevant time.

⁽³⁾ The increase (decrease) in net assets from operations per Class A share is based on the weighted average number of Class A shares outstanding over the fiscal period.

Ratios and Supplemental Data

	2006
Net assets (in 000s) – including Preferred shares	\$ 308,663
Number of Class A shares outstanding (in 000s)	12,000
Management expense ratio (“MER”) ⁽¹⁾⁽²⁾	8.12%
MER excluding distributions on Preferred shares and issuance costs ⁽¹⁾⁽³⁾	0.98%
Portfolio turnover rate ⁽⁴⁾	0.51%
Trading expense ratio ⁽⁵⁾	0.11%
Closing market price – Preferred shares	\$ 10.90
Closing market price – Class A shares	\$ 15.20

⁽¹⁾ Annualized for the period from October 17, 2006 (commencement of operations) to December 31, 2006.

⁽²⁾ Management expense ratio is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including distributions on Preferred shares and issuance costs, and is expressed as an annualized percentage of the average net assets of the Fund (includes Class A and Preferred shares) over the period.

⁽³⁾ MER, excluding distributions on Preferred shares and issuance costs, has been presented separately as it expresses only the on-going management and administrative expenses of the Fund as an annualized percentage of average net assets of the period.

⁽⁴⁾ The Fund’s portfolio turnover rate indicates how actively the Fund’s portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund’s portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover rate is not provided when the Fund is less than one year old. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

⁽⁵⁾ The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund during the period.

Expense Ratio

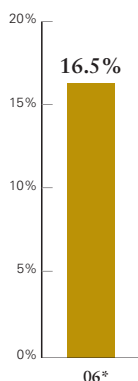
The MER of the Fund was 8.12%. This ratio was greatly exaggerated by the inclusion of distributions declared on the Preferred shares and the costs of issuance of both the Class A and the Preferred shares. Issue costs were incurred in respect of the initial public offering of shares in 2006. The MER, excluding these items, was 0.98% for the period. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on the net asset value per Class A share and assumes that distributions on the Class A shares made by the Fund in the periods shown were reinvested (at net asset value per Class A share) in additional Class A shares of the Fund.

The bar chart shows the Fund’s return since inception to December 31, 2006. The chart shows, in percentage terms, how an investment held in a Class A share on the first day of each fiscal year would have increased or decreased by the last day of the fiscal year.

Return Since Inception



* Period from October 17, 2006 (commencement of operations) to December 31, 2006.

The following table shows the Fund’s compound return on a Class A share since inception, compared with the S&P/TSX Capped Financials Index (“Financials Index”). The Financials Index is derived from the S&P/TSX Composite Index based on the financials sector of the Global Industry Classifications Standards (“GICS”). The Financials Index is calculated without the burden of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses.

Compound Returns

	Since Inception ⁽¹⁾
Life & Banc Split Corp. – Class A shares ⁽²⁾	16.5%
S&P/TSX Capped Financials Index	9.8%

⁽¹⁾ Period from October 17, 2006 (commencement of operations) to December 31, 2006.

⁽²⁾ Based on the net asset value per Class A share and assuming that distributions on the Class A shares made by the Fund in the periods shown were reinvested (at net asset value per Class A share) in additional Class A shares of the Fund.

The Fund's Class A shares generated a compound return of 16.5% based on net asset value in the 2½ months since inception. The Class A shares outperformed the Financials Index by 6.6% largely due to the leverage provided by the Preferred shares. The portfolio of four life insurance companies and six Canadian banks have outperformed the Financials Index since the Fund's inception.

Summary of Investment Portfolio

As at December 31, 2006

Total net asset value of the Fund ⁽¹⁾	\$ 308,662,783
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Portfolio Composition	% of Portfolio	% of NAV
Financials	99.4%	100.0%
Cash and short-term investments	0.6%	0.6%
Total investment portfolio	100.0%	100.6%
Other net liabilities ⁽²⁾		(0.6%)
Total net asset value		100.0%

Holdings	% of Portfolio	% of NAV
Canadian Imperial Bank of Commerce	10.3%	10.4%
Royal Bank of Canada	10.3%	10.4%
Industrial-Alliance Life Insurance Co.	10.1%	10.2%
National Bank of Canada	10.0%	10.0%
Toronto-Dominion Bank	9.9%	10.0%
Manulife Financial Corp.	9.9%	10.0%
Bank of Montreal	9.9%	9.9%
Great-West Lifeco Inc.	9.9%	9.9%
Sun Life Financial Inc.	9.8%	9.9%
Bank of Nova Scotia	9.3%	9.3%
Cash and short-term investments	0.6%	0.0%

⁽¹⁾ Net asset value of the Fund deducts the liabilities of the Fund excluding its Preferred shares.

⁽²⁾ Excluding Preferred shares.

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

2006 Tax Information

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold shares as capital property outside of an RRSP, RRIF or DPSP. Shareholders should receive a T5 slip from their investment dealer providing this information.

The following table outlines the breakdown of the Fund's distributions on Class A shares in 2006 on a per share basis.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of the Fund units.

Class A Shares

Record Date	Payment Date	Return of Capital	Total Distribution
Oct. 31, 2006	Nov. 14, 2006	\$ 0.04839	\$ 0.04839
Nov. 30, 2006	Dec. 14, 2006	0.10000	0.10000
Total		\$ 0.14839	\$ 0.14839

This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Option Advisor

Highstreet Asset Management Inc.

Highstreet Asset Management is a quantitatively oriented investment manager with over \$5 billion in assets under management. Highstreet has significant experience in the derivatives and options markets. Highstreet uses its quantitative approach to selectively write covered call and put options from time to time to enhance potential returns.

Results of Operations

Investment Performance

We have seen a strong year-to-date performance from the financials sector. Since inception in October 2006, the Fund has delivered a total return of 10.3%. Class A shareholders have earned 16.4%, net of fees, due to the leverage provided by the Preferred shares. The portfolio outperformed the broader Canadian equity market over this period, largely due to the strong performance of the banking segment, which was led by CIBC.

The upward momentum that we saw in the third quarter continued into the fourth quarter as the sector registered strong gains. The banks reported strong fourth quarter earnings, led by CIBC, which easily exceeded expectations. The only exception was the Bank of Montreal which missed analysts' expectations slightly. All four insurers reported their fourth quarter earnings for 2006 and delivered results that were in line with expectations.

Given the underlying fundamental strength in the Canadian financials sector and the recent strong stock performance, implied volatilities in the sector have declined and remain unattractive for covered call writing opportunities. The potential upside from selling options is limited in this environment. We did not overlay options onto the portfolio during the period from inception to December 31, 2006.

Recent Developments

On December 1, 2006, the partners of Highstreet Asset Management, the Fund's option advisor, sold 80% of the shares of Highstreet to AGF Management. Highstreet's management and investment professionals have retained the remaining 20% of the firm's shares. Highstreet's chief executive officer, Rob Badun, was appointed president of AGF Private Investment Management and he now oversees four investment counsel firms including Highstreet. There were no further changes to Highstreet's team and no changes to the company's investment philosophy as a result of the ownership change.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.