Co-operators Life Insurance Company

Participating Accounts Management Policy

The following is the policy for managing participating accounts established by the Board of Directors at its regularly scheduled meeting in August 2023.

PARTICIPATING ACCOUNTS MANAGEMENT POLICY

This Policy deals with the management of the Participating Accounts of Co-operators Life Insurance Company (the "Company"). To gain further understanding you may also wish to consult the Policyholder Dividend Policy ("Dividend Policy").

1. PARTICIPATING POLICIES

Participating Policies are policies issued by the Company that entitle the policyholder to participate in the profits of the Company. Participation is usually achieved through policyholder dividends. Participating Policies are designated as such in the policy contract.

2. THE PARTICIPATING ACCOUNTS

Applicable legislation requires that the Company maintain accounts for Participating Policies in a prescribed form and separate from those maintained for non-Participating policies.

The Company maintains two Participating Accounts and tracks experience separately for each Account. Policies included in the Original Participating Account are individual life insurance, individual annuities, and group annuities issued by Co-operators Life Insurance Company. Policies included in the CUMIS Participating Account are individual life insurance, individual annuities, creditor insurance, group Life insurance and group annuities originally issued by CUMIS Life Insurance Company which was amalgamated into Co-operators Life Insurance Company on December 31, 2021. The CUMIS Participating Account is closed to new business.

3. ASSET SEGMENTS

The Company has segmented its liabilities and corresponding assets by product type. Assets are allocated to each segment by class and duration. The investment objective for each portfolio of assets is intended to match the liability structure and specific needs of the products in that segment in accordance with the Investment Policy and Asset Liability Management ("ALM") Policy.

The Asset Segments within the Participating Accounts include:

- Individual Life Insurance – Participating Dividend-Paying;
- Individual Life Insurance – Participating Non-Dividend-Paying;
- Creditor Insurance;
- Deferred Annuities;
- Wealth Management;
- Group Pension; and
- Surplus

Certain segments support both participating and non-participating product lines for efficiency purposes and to gain some advantages in ALM by combining products with complementary features.

Asset Classes

Assets of the Participating Accounts may include:

- Bonds – government and corporate
- Commercial mortgages
- Private placements
- Common and preferred Shares
- Alternative investments
- Policy Loans and

- Short-term investments and cash equivalents.

The ALM guidelines for each Asset Segment specify the specific target mix of these assets.

Derivatives
The Company's Derivative Policy allows the use of derivatives to meet specific requirements of liabilities. It does not allow the use of derivatives for speculative purposes.

4. INVESTMENT POLICY

The investments of the Company in all accounts are governed by the Investment Policy of the Co-operators Group of Companies. There is not a separate Investment Policy for the Participating Accounts.

Overview
The Investment Policy follows the prudent portfolio approach which is based on the concept of "investment and lending policies, standards and procedures that a reasonable and prudent person would apply to avoid undue risk of loss and obtain a reasonable return".

Objectives of the Investment Policy:
The objectives of the Investment Policy are:
1) To invest in compliance with the Insurance Companies Act and any other applicable legislation, regulations, and standard;
2) To recognize that the first concern is for the policyholders and their protection;
3) To meet the nature and duration of liabilities in accordance with the ALM Policy;
4) To achieve competitive investment performance under defined and controlled levels of risk.
5) To ensure assets in each class are of appropriate quality based on public ratings and internal guidelines;
6) To diversify investments among classes of securities (bonds, equities, etc.) and among regions, industries and companies in each class, and to avoid an undue exposure to a single entity;
7) To provide the required level of liquidity so the Company has the ability to honour all cash outflow commitments as they fall due;
8) To give strong preference to investment instruments offered by co-operatives including credit unions, which meet our investment standards; and
9) To ensure we invest in a socially responsible manner within other constraints balancing economic, environmental and social priorities.

Processes are in place to ensure compliance with the limits set and that the objectives of the Investment Policy are met. This is reviewed and monitored by the Risk Committee of the Board which also reviews the Investment Policy annually. Incidents of non-compliance (and corrective action) are reported as required.

5. ALLOCATIONS TO THE PARTICIPATING ACCOUNTS

Allocation of Investment Income
Where the segment contains only participating (or non-participating) liabilities, the allocation of investment income follows directly from the segmentation (i.e. investment income from the assets allocated to the segment is retained in the segment).

Annual investment income allocation therefore deals primarily with the situations where mixed participating and non-participating blocks are contained in the same segment. Net investment income, including the amortization of realized and unrealized gains and losses, as calculated separately for each asset segment, is allocated between the product lines and where appropriate split participating and non-participating within an asset segment by pro-rating net investment income based on liability balances.

In the surplus asset segment, the allocation of investment income between the Participating and Non-participating Accounts' surplus is done by pro-rating net investment income using the account balances after adjusting for investment in subsidiaries and other account specific items.

Allocation of Expenses, including Taxes

The Company incurs expenses to issue and administer insurance policies. These expenses include salaries, benefits, operating expenses, selling expenses and taxes. Expenses incurred (excluding premium taxes and income taxes) are reported at the cost centre level and are then allocated to various products and where appropriate split between the Participating and Non-participating Accounts.

Some expenses, such as agent compensation and external claims investigation costs, can be directly attributed to a line of business, whether participating or not.

Premium taxes are apportioned to taxable premium. Income taxes are apportioned based on taxable income from each Participating and Non-participating account. Investment income tax is allocated directly by line of business.

Non-Standard Allocations

It may occur that an investment or expenditure is considered to have a strategic implication for an account out of proportion to the standard allocation. Provided a documented identifiable benefit exists, a portion of the investment income or expense outside the normal range may be allocated to that account. Such an action must be approved by senior management and will be reported annually to the Board.

6. MANAGING AND USING THE SURPLUS OF THE PARTICIPATING ACCOUNTS

The assets supporting the surplus of the Participating Accounts are invested in accordance with the Investment Policy.

The company manages the Participating Accounts on the permanent contribution to surplus principle. Permanent contribution to the Company's surplus means that any earnings of the Participating Accounts which are not distributed to Participating Policies or to the shareholders as allowed by legislation become a permanent part of the Company's Surplus. The portion of earnings to be distributed to Participating Policyholders is calculated as described in the Dividend Policy, less a deduction representing the Company's cost of capital. Contribution to surplus is the primary source of surplus in the Company's Participating Accounts.

While the Company accounts for Surplus in both the Participating and Non-participating Accounts as required by legislation, Surplus is managed as if it were an overall resource of the Company. It is considered to be available to support the future financial and operational viability of the Company.

Investment earnings on surplus are not distributed to Participating Policies.

The Company may, at its discretion, use surplus to top up dividends to existing policyholders to smooth experience or satisfy policyholder reasonable expectations.

Surplus assets are managed separately from assets backing policy liabilities to allow the Company to take advantage of market opportunities. The Life Management Investment Committee establishes the surplus asset strategy, monitors performance and ensures compliance. The overall level of surplus is managed to ensure that internal minimum capital targets are satisfied.

Amount to be Transferred to Shareholders
Our governing legislation allows a portion of the earnings distributed from the Participating Account to be transferred to the shareholders' account every year. The maximum amount which can be transferred is determined by a formula based on the size of the Participating Account and the amount distributed to Participating Policyholders. The Company intends to make the maximum such transfer allowed every year in respect of the Original Participating Account. No such transfer will take place in respect of the CUMIS Participating Account.

7. FACTORS WHICH MAY LEAD TO AMENDMENT OF THIS POLICY

The Board may amend this Policy at their discretion from time to time. Reasons for doing so may include (but are not limited to) one or more of the following:

- Changes in legislation and regulation or their interpretation;
- Changes in accounting or actuarial standards;
- Changes in taxation;
- Acquisition of an existing block of Participating Policies;
- A change in the ownership of the Company;
- Partition of the Participating Account into sub-accounts; or
- Changes to the methods of allocation of expenses and investment income.