



2015
Co-operators Life Insurance Company

Sources of Earnings

Co-operators Life Insurance Company

(Consolidated)

For the year ended December 31, 2015

CO-OPERATORS LIFE INSURANCE COMPANY - SOURCES OF EARNINGS

This is an alternative presentation of life insurance net income, in a different format from the traditional GAAP income statement presentation. It is an analysis of the difference between actual income and the income that would have been reported had all the actuarial assumptions at the start of the year been realized during the year.

The terminologies used in the sources of earnings analysis are described below.

Expected Profit on In-force Business – The expected income based on business in force at the beginning of the year and on the achievement of the best estimate assumptions.

Impact of New Business – The impact on income at the time of sale from new business written during the year.

Experience Gains and Losses – The impact on income from differences between our actual experience during the year compared to the assumptions made for our actuarial liabilities at the start of the year. It includes the impact of foreign currency rate changes.

Management Actions and Changes in Assumptions – The impact on income from management's actions, changes in actuarial assumptions, changes to margin levels in actuarial liabilities, changes to actuarial methodologies and error corrections made during the year.

Other – Any other variance from expected profit on in-force business not included in the above categories. Sources of Earnings analysis is not designed for property and casualty (P&C) insurance so it is reported in this category in its entirety.

Earnings on Surplus – Surplus income is the result of investment gains on the assets backing the surplus account less certain corporate expenses not attributable to any single line of business.

SOURCES OF EARNINGS ANALYSIS

2015

\$ millions	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Credit Insurance	P&C Insurance	Life Surplus	Total
Expected profit on in-force business	23.6	14.8	8.5	(1.2)	10.2	-	-	55.9
Impact of new business	0.1	-	(0.2)	-	7.4	-	-	7.3
Experience gains and losses	8.8	(41.2)	3.2	(9.3)	(3.1)	-	-	(41.6)
Management actions and changes in assumptions	3.5	(0.2)	0.2	-	4.7	-	-	8.2
Other	1.1	0.9	0.1	2.0	(2.0)	8.4	(11.5)	(1.0)
Earnings on Surplus	-	-	-	-	-	-	25.9	25.9
Operating income (loss) before income taxes	37.1	(25.7)	11.8	(8.5)	17.2	8.4	14.4	54.7
Income tax expense (recovery)	8.0	(6.0)	3.1	(2.3)	4.0	-	2.5	9.3
Net operating income (loss)	29.1	(19.7)	8.7	(6.2)	13.2	8.4	11.9	45.4
Net transfer to shareholders	(0.5)	-	(0.1)	-	-	-	0.6	-
Net income (loss)	28.6	(19.7)	8.6	(6.2)	13.2	8.4	12.5	45.4
Net income by account								
Participating account net income	8.6	0.7	2.6	-	-	-	17.3	29.2
Non-controlling interest net income (loss)	1.1	(0.9)	0.5	(0.5)	3.6	2.2	(0.2)	5.8
Shareholder account net income (loss)	18.9	(19.5)	5.5	(5.7)	9.6	6.2	(4.6)	10.4

Experience losses are mainly due to expenses in group and creditor insurance, equity investments and unfavourable morbidity experience in travel and group insurance. The losses are partially offset by gains in individual insurance and wealth management. Net experience gains in individual insurance consist of gains from mortality, morbidity related to disability insurance, and expenses, partially offset by investment income losses in equities. Wealth management experience gains are mainly a result of favourable mortality and expense experience.

Management actions and changes in assumptions consist of gains from the purchase of additional equities to back policy liabilities, higher historical average risk spreads used in the valuation, lower maintenance expenses, and other valuation model changes. These gains are partially offset by losses resulting from changes to individual insurance lapse assumptions.

SOURCES OF EARNINGS ANALYSIS

2014

\$ millions	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Credit Insurance	P&C Insurance	Life Surplus	Total
Expected profit on in-force business	22.0	17.8	7.9	1.3	9.2	-	-	58.2
Impact of new business	1.7	-	(11.4)	-	1.8	-	-	(7.9)
Experience gains and losses	(22.6)	(29.9)	2.5	2.8	2.1	-	-	(45.1)
Management actions and changes in assumptions	12.8	(1.5)	2.7	-	3.2	-	-	17.2
Other	0.8	-	(0.2)	0.1	(5.4)	4.3	(0.8)	(1.2)
Earnings on Surplus	-	-	-	-	-	-	44.9	44.9
Operating income (loss) before income taxes	14.7	(13.6)	1.5	4.2	10.9	4.3	44.1	66.1
Income tax expense (recovery)	2.4	(3.5)	0.2	1.0	3.4	-	6.9	10.4
Net operating income (loss)	12.3	(10.1)	1.3	3.2	7.5	4.3	37.2	55.7
Net transfer to shareholders	(0.1)	-	-	-	-	-	0.1	-
Net income (loss)	12.2	(10.1)	1.3	3.2	7.5	4.3	37.3	55.7
Net income by account								
Participating account net income	0.5	0.5	1.4	-	-	-	27.6	30.0
Non-controlling interest net income (loss)	1.8	(0.2)	0.6	0.1	2.0	1.2	0.8	6.3
Shareholder account net income (loss)	9.9	(10.4)	(0.7)	3.1	5.5	3.1	8.9	19.4

New business losses are mainly due to the first year reserve strain on three large blocks of payout annuities. The losses are partly offset by small gains on individual insurance and credit insurance.

Experience losses are mainly due to lower interest rates, group insurance expenses, adverse individual insurance lapses and unfavourable morbidity experience. Losses are partly offset by gains from equity investments and mortality experience.

Changes in assumptions consist of gains from changes in the valuation standards of practice affecting reinvestment assumptions, losses due to term insurance lapses, and gains due to lower maintenance expenses.