



2018 Sources of Earnings

Co-operators Life Insurance Company

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

2018

\$ millions	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Credit Insurance	P&C Insurance	Life Surplus	Total
Expected profit on in-force business	28.4	15.7	7.5	2.4	8.5	-	-	62.5
Impact of new business	4.5	-	(4.3)	-	5.2	-	-	5.4
Experience gains and losses	(36.0)	(10.3)	6.8	(8.6)	3.8	-	-	(44.3)
Management actions and changes in assumptions	(4.7)	-	0.8	-	3.9	-	-	(0.0)
Other	(0.1)	(0.9)	(0.7)	-	0.8	2.4	146.6	148.1
Earnings on Surplus	-	-	-	-	-	-	2.4	2.4
Operating income (loss) before income taxes	(7.9)	4.5	10.1	(6.2)	22.2	2.4	149.0	174.1
Income tax expense (recovery)	(6.7)	0.2	2.7	(1.7)	8.2	-	34.4	37.1
Net operating income (loss)	(1.2)	4.3	7.4	(4.5)	14.0	2.4	114.6	137.0
Net transfer to shareholders	-	-	-	-	-	-	-	-
Net income (loss)	(1.2)	4.3	7.4	(4.5)	14.0	2.4	114.6	137.0
Net income by account								
Participating account net income	(9.3)	-	1.2	-	-	-	8.9	0.8
Non-controlling interest net income (loss)	1.7	0.4	0.2	-	3.8	0.7	(0.9)	5.9
Shareholder account net income (loss)	6.4	3.9	6.0	(4.5)	10.2	1.7	106.6	130.3

Experience losses are primarily due to equity losses in individual insurance, expenses in group insurance, and unfavourable morbidity experience in travel insurance. Losses are partially offset by net gains in wealth management and credit insurance.

Management actions and assumption changes consist of gains from changes to mortality, expense and reinvestment assumptions, as well as valuation model refinements. These gains are partially offset by the strengthening of individual insurance lapse assumptions.

Included under Life Surplus Other is a one-time gain of \$82.4 million from the sale of a subsidiary to a related party. The P&C subsidiary was sold effective April 1, 2018. The remainder of this balance relates to a one-time gain of \$64.2 million from a contribution of business to a joint venture.

SOURCES OF EARNINGS ANALYSIS

2017

\$ millions	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Credit Insurance	P&C Insurance	Life Surplus	Total
Expected profit on in-force business	28.3	14.7	7.4	3.1	7.0	-	-	60.5
Impact of new business	(2.0)	-	(2.0)	-	9.9	-	-	5.9
Experience gains and losses	9.2	(21.8)	2.7	(5.6)	3.4	-	-	(12.1)
Management actions and changes in assumptions	4.5	9.9	(8.7)	-	8.4	-	-	14.1
Other	-	0.4	-	5.4	0.6	15.0	(5.5)	15.9
Earnings on Surplus	-	-	-	-	-	-	56.9	56.9
Operating income (loss) before income taxes	40.0	3.2	(0.6)	2.9	29.3	15.0	51.4	141.2
Income tax expense (recovery)	7.0	-	(0.1)	(1.0)	8.9	-	13.2	28.0
Net operating income (loss)	33.0	3.2	(0.5)	3.9	20.4	15.0	38.2	113.2
Net transfer to shareholders	(0.7)	-	(0.1)	-	-	-	0.8	-
Net income (loss)	32.3	3.2	(0.6)	3.9	20.4	15.0	39.0	113.2
Net income by account								
Participating account net income	15.5	-	2.0	-	0.2	-	35.9	53.6
Non-controlling interest net income	0.9	0.4	-	0.3	5.5	4.1	0.7	11.9
Shareholder account net income (loss)	15.9	2.8	(2.6)	3.6	14.7	10.9	2.4	47.7

Experience losses are mainly due to expenses in group insurance, unfavourable morbidity experience in travel insurance, and surrenders in credit insurance. The losses are partially offset by gains in individual insurance, wealth management and credit insurance. Net experience gains in individual insurance consist of gains from mortality, expenses, and equities, and losses from lapses and fixed income investments.

Management actions and assumption changes consist of gains from changes to mortality and morbidity assumptions, lower expenses, future tax reserve adjustments and changing the asset mix backing policy liabilities. These gains are partially offset by the strengthening of individual insurance lapse assumptions and lower ultimate reinvestment rates.