

Co-operators Life Insurance Company

Participating Account Management Policy

This Policy deals with the management of the Participating Account 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 specify in the contract that they are participating.

Other policies issued by the Company are non-participating. The Company continues to issue policies on both a participating and non-participating basis.

2. The Participating Account

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 only one Participating Account. Individual life insurance, individual annuity, and group annuity policies are included in the Participating Account.

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 which support the Participating Account assets include:

- > Individual Life Insurance – Participating;
- > Universal Life Insurance;
- > Deferred Annuities;
- > Immediate Annuities – Participating; and
- > Group Pension.

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 Account may include:

- > Bonds – Government and Corporate
- > Commercial Mortgages
- > Private placements
- > Equities and Preferred Shares
- > 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 and Inner-Segment Notes

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.

Inter-Segment Notes under which cash flows are transferred between segments are allowed provided they are documented, approved by management, provide a benefit to at least one of the segments involved, do not disadvantage any segment and follow the limits set out by the Inter-Segment Note Policy.

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 Account.

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 standards;
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 Investment Policy Committee of the Board of Directors (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 Account

Allocation of the 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 Account 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, sales 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 or not participating.

Premium taxes are apportioned to taxable premium. Income taxes are apportioned based on taxable income from each 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 Account

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

The company manages the Participating Account on the permanent contribution to surplus principle. Permanent contribution to the Company's surplus means that any earnings of the Participating Account which are not distributed to Participating Policies or to the shareholders as allowed by legislation become a permanent part of the Company's Surplus.

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.

Surplus assets are managed separately from assets backing policy liabilities in one Surplus asset segment to allow the Company to take advantage of market opportunities.

The Surplus Management Committee establishes the surplus asset strategy, monitors performance and ensures compliance.

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.

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.

Reconciliation of the Participating Account

(Amounts in thousands of Canadian dollars except where otherwise noted)

	2017	2016
Surplus, beginning of year	743,943	678,733
Comprehensive income before the payment of policyholder dividends	66,024	65,110
Policyholder dividends distributed during the year	(4,018)	(2,391)
Amounts transferred to shareholder under s.461 of the Insurance Companies Act	(179)	(105)
Other transfers	2,351	2,596
Surplus, end of year	808,121	743,943
Total assets	2,441,913	2,299,843

The accrual method is used to determine the shareholder portion of participating income. The participating policyholder account at December 31, 2017 includes accumulated other comprehensive income of \$69,257 (2016 - \$60,887).

Copies of the Policyholder Dividend Policy and the Participating Account Management Policy are available on request to a shareholder or participating policyholder and, on payment of a reasonable fee, to any other person by contacting the Company at:

Dividend Actuary
Co-operators Life Insurance Company
1920 College Ave
Regina, SK S4P 1C4