

Co-operators Life Insurance Company  
2017 Sources of Earnings

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The Co-operators

## 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

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
<b>Net income by account</b>								
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.

SOURCES OF EARNINGS ANALYSIS

2016

\$ millions	Individual Insurance	Group Insurance	Wealth Management	Travel Insurance	Credit Insurance	P&C Insurance	Life Surplus	Total
Expected profit on in-force business	25.1	16.5	9.3	2.0	6.2	-	-	59.1
Impact of new business	0.5	-	(2.8)	-	6.9	-	-	4.6
Experience gains and losses	26.2	(26.8)	3.1	(4.9)	(2.9)	-	-	(5.3)
Management actions and changes in assumptions	6.6	8.1	(3.4)	-	2.1	-	-	13.4
Other	(0.1)	0.5	0.1	3.9	0.8	6.6	(10.1)	1.7
Earnings on Surplus	-	-	-	-	-	-	41.8	41.8
Operating income (loss) before income taxes	58.3	(1.7)	6.3	1.0	13.1	6.6	31.7	115.3
Income tax expense (recovery)	13.0	(0.5)	1.7	(1.3)	3.6	-	6.9	23.4
Net operating income (loss)	45.3	(1.2)	4.6	2.3	9.5	6.6	24.8	91.9
Net transfer to shareholders	(1.3)	-	(0.1)	-	-	-	1.4	-
Net income (loss)	44.0	(1.2)	4.5	2.3	9.5	6.6	26.2	91.9
<b>Net income by account</b>								
Participating account net income	28.8	0.3	0.7	-	-	-	28.4	58.2
Non-controlling interest net income (loss)	1.0	(0.2)	0.2	0.5	2.5	1.8	1.3	7.1
Shareholder account net income (loss)	14.2	(1.3)	3.6	1.8	7.0	4.8	(3.5)	26.6

Experience losses consist mainly of expenses in group insurance, surrenders in credit insurance, and unfavourable morbidity experience in travel. 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, expenses, and equities, and are partially offset by losses from lapses. Wealth management experience gains are mainly a result of favourable expense experience.

Management actions and assumption changes are due to gains from changing the asset mix backing policy liabilities, experience refund calculations in group insurance, lower mortality and expenses, and other valuation model changes. These gains are partially offset by strategic project expenses in wealth management and the strengthening of individual insurance lapse assumptions.