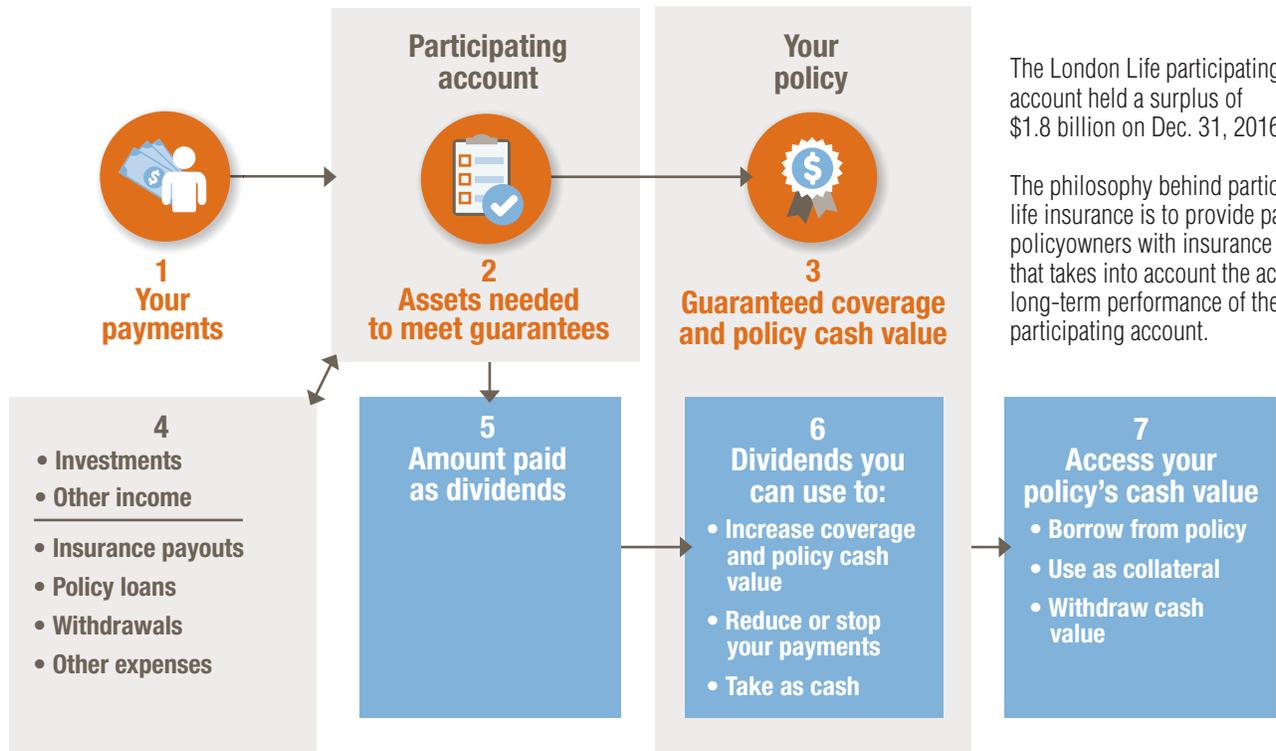




# Understanding how London Life participating life insurance works for you



- 1 When you purchase participating life insurance, your payments go into an account called the participating account, together with funds from other London Life participating policies.
- 2 We manage this account to meet the guarantees and commitments of all our participating life insurance policies, now and in the future.
- 3 Your policy's guaranteed coverage and cash value are backed by assets in the account.
- 4 The account's earnings reflect investment income, insurance payouts, policy loans, withdrawals and other factors.
- 5 When earnings exceed the amount needed to meet guarantees and commitments, policyowners may be able to share, or "participate," in these earnings. We may distribute some of these earnings as policyowner dividends, although this isn't guaranteed.
- 6 You can use dividends in one of several ways: Increase your coverage and your policy's cash value, reduce or stop your payments (this can affect your coverage) or take your dividends as cash.
- 7 You can access your policy's cash value in several ways: Borrow from your policy, use it as collateral for a third-party loan or withdraw cash value. This can affect your coverage and taxes.

To determine guaranteed premiums, guaranteed cash values and guaranteed death benefits, London Life uses long-term assumptions for factors such as investment returns, how long someone is expected to live, expenses, lapses and taxes.

Each year, the board of directors declares the distribution of a portion of the participating account's earnings. Currently, 97.5 per cent of the distribution goes to policyowners in the form of dividends and 2.5 per cent goes to the shareholder account under Section 461 of the Insurance Companies Act.



## Asset mix

A large portion of the total participating account assets is invested in bonds and mortgages (fixed income) to support long-term stable growth and core guarantees within London Life participating life insurance policies.

Asset class	Total assets on Dec. 31, 2016 (\$ millions)	Per cent of total invested assets
Short term	\$606.7	2.6%
Fixed income	\$18,465.7	77.7%
Equities	\$4,686.9	19.7%
<b>Total invested assets</b>	<b>\$23,759.3</b>	<b>100.0%</b>
<b>Total participating assets*</b>	<b>\$26,046.7</b>	

### NOTES:

Asset values are based on International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective Jan. 1, 2011.

London Life has guidelines in place to manage the level of invested assets by asset class. These ranges don't include policy loans or other assets.

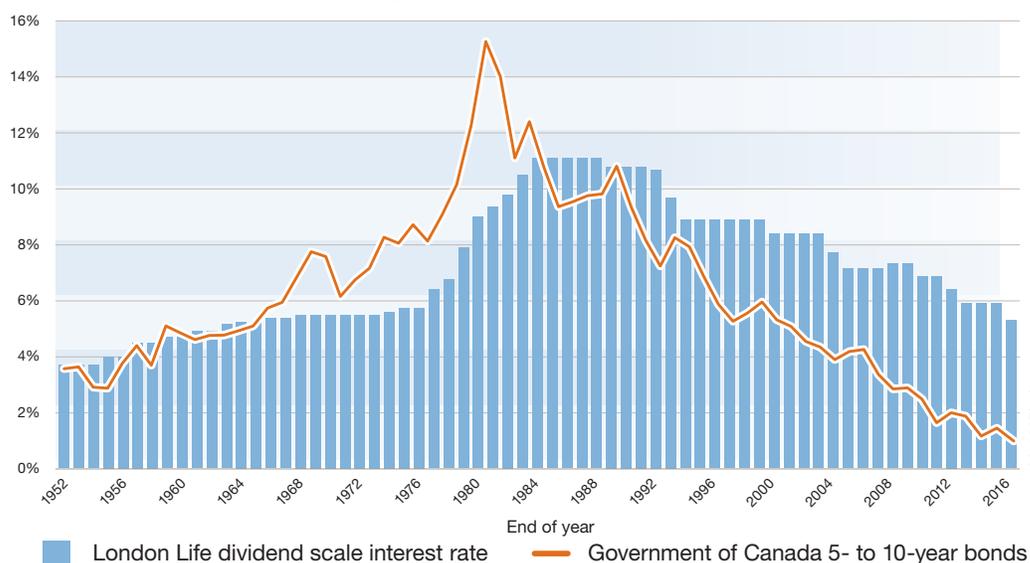
Any change to the investment guidelines must be approved by the board of directors.

\*Total participating assets include policy loans and other assets, primarily composed of investment income due and accrued, outstanding premiums (receivables) and future income tax assets and reinsurance assets.

## Stability

Due in part to the smoothing, the London Life dividend scale interest rate has been relatively stable compared to returns on many other financial instruments. The graph below shows how the long-term focus for participating account investments and smoothing of returns has had a stabilizing effect on the rate.

### London Life participating account dividend scale interest rate since 1952



Returns from investments backing the participating account's liabilities are reflected in the dividend scale interest rate. The returns are brought into the rate over a period of time. This smoothing helps reduce the effects of short-term volatility on the investment component of participating policyowner dividends.

## Performance

- London Life has the largest Canadian participating account, as measured by assets.<sup>1</sup>
- London Life had 1.5 million participating policies in force at Dec. 31, 2016.
- London Life has distributed participating policyowner dividends every year since 1886.
- London Life continues to have strong credit ratings relative to its North American peer group due to its conservative risk profile and stable earnings track record.<sup>2</sup>

<sup>1</sup> Based on competitive data currently available, as not all companies report this information.

<sup>2</sup> Based on the latest credit ratings given by A.M. Best Company, DBRS Limited, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services at time of publication. The credit rating associated with DBRS Limited changed in 2015 as a result of a methodology adjustment to include the replacement of the claims paying ability category within the financial strength category. For current information on London Life's ratings and financial strength, see the corporate information section at londonlife.com.

Throughout this document, numbers may have been rounded to one decimal place.

This is intended for information purposes only; it's accurate to the best of our knowledge as of April 19, 2017.

For more information about the participating account, see the About us section on londonlife.com.

