CERTIFICATE OF ASSUMPTION

We are pleased to confirm that The Union Life Mutual Assurance Company (“**UV Insurance**”), a mutual company governed by the *Insurers Act* (Québec), and BMO Life Assurance Company (“**BMO Life**”), a company governed by the *Insurance Companies Act* (Canada), have successfully completed an assumption reinsurance transaction in accordance with the *Insurance Companies Act* (Canada) which transaction has been approved by the Superintendent of Financial Institutions (Canada) (“**Superintendent**”).

Effective as of **00:01 a.m.** (Toronto time) **on June 6, 2025** (the “**Effective Time**”), the liabilities under certain insurance policies issued by BMO Life (including your Policy) have been assumed by UV Insurance under an assumption reinsurance agreement between BMO Life and UV Insurance.

All terms and conditions of your Policy remain the same and are not affected by the assumption reinsurance transaction, except that from the Effective Time onwards, UV Insurance has assumed the duties, obligations and liabilities of BMO Life in relation to your Policy, including the processing and payment of assumed claims.

From the Effective Time onwards, in replacement of BMO Life, for so long as your Policy shall remain in effect with UV Insurance, in addition to the terms and conditions of your Policy, UV Insurance undertakes, to comply with, those provisions of the *Insurance Companies Act* (Canada), the *Policyholders Disclosure Regulations*, SOR/2010-234, and the *Guideline E-16: Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders,* in each case, as they are set out in Appendix A attached hereto, and only to the extent that such provisions are applicable to participating policies (what is set out in Appendix A is referred to herein as the “**Federal Legislation**”). It should be noted that as of the Effective Time, your Policy has been assumed by an insurer that is not supervised by the Superintendent. For clarity, any approvals or disallowances of the Superintendent within the provisions in Appendix A shall no longer apply.

As you are now a policyholder of UV Insurance, you have rights as a mutual member of UV Insurance. This includes your right to attend and vote at meetings of the members of UV Insurance (which replaces your previous rights to attend and vote at meetings of the policyholders or shareholders and policyholders of BMO Life), the whole in accordance with the *Insurers Act* (Québec) and UV Insurance’s by-laws.

In the event of a conflict between any applicable provision of the Federal Legislation and the *Insurers Act* (Québec), its regulations and its guidelines, the provision most favorable to the participating policyholders shall prevail, it being understood that this shall not relieve UV Insurance to comply with its obligations under the *Insurers Act* (Québec), its regulations and its guidelines.

This Certificate of Assumption is effective as of the Effective Time. On and after the Effective Time, all notices, claims or actions in respect of your Policy must be made to UV Insurance at 1-800-567-0988, mailed at the following address: P.O. Box 696, Drummondville, Quebec J2B 6W9, or submitted to UV Insurance online at info@uvinsurance.ca.

THE UNION LIFE MUTUAL ASSURANCE COMPANY

APPENDIX A – APPLICABLE PROVISIONS

Terms used below shall have the meaning given to such terms in the *Insurance Companies Act* (Canada) in force as of the date hereof, except that the references as follows are replaced as follows:

- “shareholder” shall be read as and is replaced with “mutual member”;
- “company” shall be read as and is replaced with “UV Insurance”;
- “Act” shall be read as meaning only those provisions of the *Insurance Companies Act* (Canada) that are reproduced in this Appendix A;
- “Regulations” shall be read to mean only those provisions of the Policyholders Disclosure Regulations SOR/2010-234 that are reproduced in this Appendix A;
- “guideline” shall be read to mean only those provisions of the *Guideline E-16: Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders* that are reproduced in this Appendix “A”; and
- when a provision reproduced below includes an obligation to send a document to the “Superintendent”, UV Insurance undertakes to send such document to the “Autorité des marchés financiers”.

***Insurance Companies Act* (Canada)**

165 (1) Subject to this Act, the directors of a company shall manage or supervise the management of the business and affairs of the company.
(2) Without limiting the generality of subsection (1), the directors of a company shall
(e) in the case of a company that issues participating policies, establish, before issuing any participating policies or, in the case of a former-Act company, within six months after the coming into force of this Part, a policy for determining the dividends and bonuses to be paid to the participating policyholders
(e.1) establish a policy respecting the management of each of the participating accounts maintained under section 456,
(i) if the company has participating policyholders on the day on which this paragraph comes into force, within six months after that day, and
(ii) in any other case, before issuing a participating policy;

(3.1) The company’s actuary shall report to the directors in writing on the fairness to participating policyholders of any policy to be established or amended under paragraph (2)(e) and report at least once during each financial year on its continuing fairness. In the case of a policy established before the day on which this subsection comes into force, the actuary shall within six months after that day report on its fairness to participating policyholders and report at least once during each financial year on its continuing fairness
(3.2) The company’s actuary shall report to the directors in writing on the fairness to participating policyholders of any policy to be established or amended under paragraph (2)(e.1) and report at least once during each financial year on its continuing fairness.
(3.4) The directors shall consider the report prepared under subsection (3.1), (3.2) or (3.3) before establishing or amending a policy under paragraph (2)(e) or (e.1) or the criteria under paragraph (2)(e.2), as the case may be.
(3.5) The report of the actuary referred to in subsections (3.1) to (3.3) shall be prepared in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent.
(4) The company shall, within 30 days after a policy is established or amended under paragraph (2)(e) or (e.1) or criteria are established or amended under paragraph (2)(e.2), send a copy to the Superintendent.
(4.1) The company shall on request and free of charge send a copy of a policy established or amended under paragraph (2)(e) or (e.1) to a shareholder or participating policyholder and on payment of a reasonable fee to any other person.

331(1) The directors of a company shall place before the shareholders and policyholders at every annual meeting
(a.1) in the case of a company that has participating policyholders, the information prescribed in respect of the policies established under paragraphs 165(2)(e) and (e.1) and the other prescribed information;
(3) a company shall include with its annual statement

(a) in the case of a company that has participating policyholders, a summary of the policies established under paragraphs 165(2)(e) and (e.1);

456 A company shall maintain accounts, in the form and manner determined by the Superintendent, in respect of participating policies, separately from those maintained in respect of other policies.

457 There shall be credited to, or debited from, a participating account maintained pursuant to section 456 that portion of the investment income or losses of the company for a financial year, including accrued capital gains or losses, whether or not realized, that is determined in accordance with a method that is
(a) in the written opinion of the actuary of the company, fair and equitable to the participating policyholders;
(b) approved by resolution of the directors, after considering the written opinion of the actuary of the company; and
(c) not disallowed by the Superintendent, on the ground that it is not fair and equitable to the participating policyholders, within sixty days after receiving the resolution.

458 There shall be debited from a participating account maintained pursuant to section 456 that portion of the expenses, including taxes, of the company for a financial year that is determined in accordance with a method that is
(a) in the written opinion of the actuary of the company, fair and equitable to the participating policyholders;
(b) approved by resolution of the directors, after considering the written opinion of the actuary of the company; and
(c) not disallowed by the Superintendent, on the ground that it is not fair and equitable to the participating policyholders, within sixty days after receiving the resolution.

459 A company the directors of which by resolution approve a method of allocating its investment income and losses and expenses to a participating account maintained pursuant to section 456 shall, within thirty days after making the resolution, file a copy of it with the Superintendent, together with a copy of the written opinion of the actuary of the company and any other information relevant to the allocation method that the Superintendent requests.

460 The actuary of a company shall annually report in writing to the directors on the fairness and equitableness of the method used by the company for allocating its investment income and losses and expenses to a participating account maintained pursuant to section 456.

461 A company that has share capital may, from a participating account maintained pursuant to section 456, in a financial year and at any time within six months after the end of that financial year, make a payment to its shareholders, or transfer an amount to an account (other than a participating shareholder account as defined in section 83.01) from which a payment can be made to its shareholders, if
(a) the aggregate of the amounts so paid or transferred in that financial year does not exceed the percentage of the portion of the profits of the participating account that is determined by the directors as the portion to be distributed for that financial year to the shareholders and participating policyholders, which percentage shall not exceed the number, expressed as a percentage, that is the aggregate of
(i) 10 multiplied by the lesser of
(A) the sum of the opening balances for that financial year of all participating accounts of the company, and
(B) two hundred and fifty million dollars,
(ii) 7.5 multiplied by the amount, if any, by which the lesser of
(A) the sum of the opening balances for that financial year of all participating accounts of the company, and
(B) five hundred million dollars
exceeds two hundred and fifty million dollars,
(iii) 5 multiplied by the amount, if any, by which the lesser of
(A) the sum of the opening balances for that financial year of all participating accounts of the company, and
(B) one billion dollars
exceeds five hundred million dollars, and
(iv) 2.5 multiplied by the amount, if any, by which the sum of the opening balances for that financial year of all participating accounts of the company exceeds one billion dollars,
divided by the sum of the opening balances for that financial year of all the participating accounts;

(b) the company pays dividends or bonuses to its participating policyholders out of the profits of the participating account for that financial year in accordance with its dividend or bonus policy established pursuant to paragraph 165(2)(e); and
(c) the payment to the shareholders, or the transfer to the account from which a payment can be made to the shareholders, would not, in the opinion of the actuary of the company, materially affect the company's ability to continue to comply with its dividend or bonus policy or to maintain the levels or rates of dividends or bonuses paid to the company's participating policyholders.

462 The only transfers that may be made from a participating account maintained pursuant to section 456 are
(a) transfers made pursuant to sections 461 and 463;
(b) transfers made in respect of transfers or reinsurance of all or any portion of the participating policies in respect of which the participating account is maintained;
(c) transfers, with the approval of the Superintendent, of amounts that can be reasonably attributed to sources not related to the participating policies in respect of which the account is or has been maintained, if the transfer would not, in the opinion of the actuary of the company, materially affect the company's ability to continue to comply with its dividend or bonus policy, maintain the levels or rates of dividends or bonuses paid to the company's participating policyholders or meet the company's obligations under its participating policies; and

463 (1) A company may transfer from a participating account maintained pursuant to section 456 to a segregated fund maintained pursuant to section 451 an amount not exceeding the amount determined in accordance with the formula

$$\mathbf{A - (B - C)}$$

where
A is 25 per cent of the unappropriated earned surplus of that account;
B is the aggregate amount of all previous transfers from that account to the segregated funds; and
C is the aggregate amount returned to the participating account from the segregated funds.
(2) The aggregate amount of all transfers from participating accounts maintained pursuant to section 456 to the segregated funds maintained pursuant to section 451 may not exceed the amount determined in accordance with the formula

$$\mathbf{A - (B - C)}$$

where
A is 10 per cent of the aggregate unappropriated earned surplus of the participating accounts;
B is the aggregate amount of all previous transfers from those accounts to those funds; and
C is the aggregate amount returned to those accounts from those funds.

464 (1) Subject to this section, the directors of a company that issues participating policies may declare, and the company may pay or otherwise satisfy, a dividend, bonus or other benefit on those policies in accordance with its dividend or bonus policy established pursuant to paragraph 165(2)(e).
(2) The company's actuary shall, in writing, report to the directors on the fairness to participating policyholders of a proposed dividend, bonus or other benefit and whether it is in accordance with the policy. The directors shall consider the actuary's report before declaring the dividend, bonus or other benefit.
(2.1) The report of the actuary referred to in subsection (2) shall be prepared in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent.
(3) The directors of a company shall not declare a dividend, bonus or other benefit to participating policyholders if there are reasonable grounds for believing that the company is, or the payment or other satisfaction would cause the company to be, in contravention of subsection 515(1), any regulation made under subsection 515(2) or any order made under subsection 515(3).

***Policyholders Disclosure Regulations* SOR/2010-234**

1 The following definitions apply in these Regulations.
Act means the *Insurance Companies Act*.
closed block means an account or sub-account that was created by a company as part of a conversion under section 237 of the Act and is closed to new business and maintained exclusively with respect to participating policies of eligible policyholders.

2 A policy respecting participating policy dividends and bonuses established under paragraph 165(2)(e) of the Act shall include the following information:
(a) a statement indicating
(i) that the dividends or bonuses are declared at the discretion of the board of directors of the company, and
(ii) that the company's policy respecting participating policy dividends and bonuses may be amended from time to time at the discretion of the board of directors of the company;

(b) the frequency with which experience and dividend and bonus scales are examined and, if necessary, adjusted, and the principal factors that, in the opinion of the board of directors of the company, would be expected to affect the amount of the dividends and bonuses declared under section 464 of the Act;
(c) the principal factors that might cause the board of directors of the company to review its policy respecting participating policy dividends and bonuses;
(d) a description of the basis upon which dividends and bonuses are allocated among different classes of participating policies;
(e) a description of the principal sources of income considered for the purpose of declaring dividends and bonuses; and
(f) a description of how specific policyholder behaviour is reflected in the dividend or bonus scale.

3 A participating account management policy established under paragraph 165(2)(e.1) of the Act shall include the following information:
(a) a description of the participating account and its associated policies;
(b) a description of the investment policy for the participating account;
(c) a description of the method, under section 457 of the Act, for allocating investment income to the participating account;
(d) a description of the method, under section 458 of the Act, for allocating expenses, including taxes, to the participating account;
(e) a description of the company's approach in respect of managing and using the surplus, if any, in the participating account;
(f) the principal factors that might cause the board of directors of the company to change the policy;
(g) if the company does not accept new business in the participating account, information on how the company would manage and dispose of the surplus, if any, in the participating account;
(i) the percentage that the amount that the company intends to transfer to shareholders or a shareholder account of the company out of the company's participating accounts in a financial year in accordance with section 461 of the Act represents of the total amount that the company intends to transfer to shareholders or a shareholder account of the company and participating policyholders from those participating accounts in that year in accordance with that section.

4 For the purpose of paragraph 331(1)(a.1) of the Act, a company that has participating policyholders must provide the following information:
(a) a summary of all the information required under sections 2 and 3;
(b) a statement of changes for each participating account for the two financial years immediately preceding the annual meeting, showing such information and particulars as in the opinion of the directors of the company are necessary to present fairly, in accordance with the accounting principles referred to in subsection 331(4) of the Act, the financial position of the account as at the end of each financial year to which the statement relates and the results of the operations and changes in the financial position of the account for each financial year;
(c) the surplus in each participating account of the company for the two financial years immediately preceding the annual meeting;

(d) in the case of a converted company under section 237 of the Act, the amount by which the value of the assets in a closed block exceeds the amount of the policy liabilities in that closed block;
(e) the amounts from each participating account that are invested in segregated funds of the company or its subsidiaries, and the performance of those funds for the two financial years immediately preceding the annual meeting, if applicable;
(f) the actual amounts that have been transferred to shareholders or a shareholder account of the company out of the company's participating accounts in accordance with section 461 of the Act in the two financial years immediately preceding the annual meeting;
(g) the percentage that the amounts referred to in paragraph (f) represent of the total amount paid to shareholders or a shareholder account of the company and participating policyholders from the company's participating accounts in accordance with section 461 of the Act, which, in the case of a converted company under section 237 of the Act, shall be calculated without taking into account any amounts paid out of a closed block, in the corresponding financial year;
(h) a statement that the company's policies referred to in sections 2 and 3 are available on request to a shareholder or participating policyholder and, on payment of a reasonable fee, to any other person; and
(i) information on the manner in which the company's policies referred to in sections 2 and 3 may be obtained from the company.

5 If a company sends to participating policyholders the information required under section 4 it must include, with its annual financial statement to shareholders, a notice indicating how to proceed if the shareholder wishes to obtain a copy of the information from the company.

Guideline E-16: Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders

2. Operation of participating accounts

Unless specifically excluded, the expectations set out in this guideline apply to all separate participating accounts established by a company pursuant to section 456 of the Act.

The term "closed block" used in this guideline refers exclusively to closed participating blocks resulting from demutualization.

The Superintendent expects companies to develop and publish meaningful descriptions of the investment income and expense allocation methodologies required pursuant to sections 457 and 458 of the Act.

Given the importance of fairness to participating policyholders, the Act requires that the allocation methodologies must:

- in the written opinion of the Appointed Actuary of the company, be fair and equitable to the participating policyholders; and
- be approved by resolution of the Board, after considering the written opinion of the Appointed Actuary of the company.

3. Requirements and opinions of the Appointed Actuary

However, the Act and the Regulations do not explicitly specify how fairness is to be determined. The following are general principles for deciding on fairness for policy dividends:

- Dividend classes, or cohorts, should be set at issue;
- Policyholders with similar characteristics and classified in the same dividend class or cohort, at issue and projected, should be treated consistently;
- There should be no post-issue changes in policy classifications to a dividend class or cohort, except as justified or required as a result of external circumstances, beyond the control of the company, arising post-issue;
- There should be no material, planned, or systemic cross-subsidization, such as dividends or contributory amounts (e.g. contribution to surplus), of one cohort by another;
- The method for determining dividends should be objective, unbiased, impartial, and conform to rules established at issue;

- All experience factors and other contributory factors (e.g. contribution to surplus) to dividend determination should be taken into consideration when deciding on fairness of policy dividends. Dividend experience factors should be consistent with the associated underlying experience of each participating account and applied consistently to maintain fairness to participating policyholders. Post-issue changes to dividend experience factors (if any) should be justified and not be disadvantageous to participating policyholders;
- Contributory amounts, including the contribution to surplus (if applicable) should be similarly defined for all policies within each dividend class or cohort to promote fairness to participating policyholders.
- Dividend policy should be applied consistently and equitably over time and as respects different cohorts of policyholders;
- Materiality in dividend determination should be judged from the point of view of the participating policyholder, even if it only applies to a relatively small block of policies. Materiality should not be judged from the point of view of a total participating account or the company. However, ensuring strict fairness to small cohorts should not result in unreasonable implementation expenses;
- The actual dividends paid should be kept up to date, reflecting underlying experience of participating accounts, and other contributory factors, so as to maintain equity between different cohorts of policyholders; and
- Smoothing of dividends should be allowed, and may even be desirable, but should not result in cross-subsidization of one cohort by another. Smoothing should only be used to avoid undue yearly fluctuations in the dividend scale and the method used should be reasonably justifiable and documented. An internal guideline on smoothing should be established in advance as part of the dividend and/or management policies required by the Regulations.

In addition to the above general principles on fairness, the Superintendent expects that the company will consider PRE. PRE are the reasonable expectations by policyholders of the company's exercise of discretion in matters concerning their policies. PRE arises from the company's communications in marketing materials, from information provided at the point of sale (such as policy dividend and investment performance illustrations), from its past and continuing administration practices and from general standards of market conduct. Past practice includes the non-exercise of discretion by the company.

4. Policyholder Disclosure Regulations Requirements

The disclosures made pursuant to the Regulations are expected to have the following characteristics for participating accounts and adjustable products:

- The description should be understandable by a person with a rudimentary understanding of life insurance concepts and vocabulary. Expert technical knowledge should not be required to understand the descriptions . Technical terminologies used should be clearly defined and explained;
- The goal should be clear and straightforward communication that is informative and transparent and leads to an understanding of the company's participating accounts and adjustable policies;
- The disclosure should provide the context within which the information should be considered;
- The disclosure should avoid being overly generic or "boilerplate";
- Disclosure should not include immaterial information or material that does not promote understanding by the reader. Materiality for policyholder disclosures should be judged based on the policyholders' perspectives, and consider Policyholder Reasonable Expectations. However, if in doubt about whether to include or exclude certain disclosures, the company should err on the side of inclusion; and
- The disclosure should recognize the balance between presenting information clearly and understandably while not over-simplifying important complex information or sacrificing appropriate levels of complexity or distinctions.
- The description of items in public disclosures should be consistent. As an example, if contributions to participating account surplus are disclosed through both the policy for determining dividends and the policy with respect to management of the participating accounts, the descriptions in both policies should be consistent.
- The disclosure should be up to date such that policyholders are able to relate the information to current actions by the company, including actions on policy dividends.

The Superintendent expects companies that have participating policies in force to provide the information necessary for the policyholder to have an understanding of the operations of participating accounts. Such appropriate disclosure should contribute to enabling policyholders to form reasonable expectations with respect to dividends, and to obtain reasonable knowledge of the nature of participation, the operation of participating accounts and the methods used in deciding on the distribution of participating account surplus to policyholders.

Subsections of regulations - 2(a) (i) and (ii)

A statement indicating:

i. that the dividends or bonuses are declared at the discretion of the board of directors of the company, and
ii. that the company's policy respecting participating policy dividends and bonuses may be amended from time to time at the discretion of the board of directors of the company.

Comment

The statement of the company's policy should begin with a clear description of the principles used to determine the company's policy respecting participating policy dividends.

The company should explain its policy concerning the determination of distributable surplus which is to be paid as participating policy dividends.

If a permanent contribution to participating account surplus is expected under the policy, this methodology should be explained and the rationale for this approach should be provided. Guidance should be given with respect to the effect on the participating accounts. If other methods are used to manage participating account surplus, they should be explained and the rationale should be provided.

The policyholder's participation in the experience of the company (which is common policy contract language) should be explained such that policyholders understand that they are participating in the results of the participating account to which the particular policy belongs. It should be clear how that participation is achieved, e.g., through policy dividends, bonuses, etc.

The statement should be clear that since actual levels of experience cannot be known in advance, dividends cannot be guaranteed. It is also important for the statement to note that experience can deteriorate over time and that, as a result, dividends may be reduced.

The company should explicitly state whether or not it pays terminal dividends, as well as under what circumstances terminal dividends will be paid. If the company pays terminal dividends, it should describe 1) the discretionary aspects when deciding on the level of the terminal dividends, and 2) any difference between terminal dividends and normal periodic policy dividends.

Subsection of regulations - 2(b)

The frequency with which experience and dividend and bonus scales are examined and, if necessary, adjusted, and the principal factors that, in the opinion of the board of directors of the company, would be expected to affect the amount of the dividends and bonuses declared under section 464 of the Act.

Comment

The frequency with which experience and dividend scales are examined and adjusted should be disclosed. If this differs among major segments of the participating business, this difference should be explained.

The company should disclose whether or not smoothing is used for dividend determination. When smoothing is used, the disclosure on smoothing is expected to include:

- the objective of smoothing
- the factors considered when deciding on smoothing
- any differences in smoothing by sub-account or by dividend class; and
- whether or not the company has established an internal guideline to govern the practices of dividend smoothing.

Subsection of regulations - 2(c)

The principal factors that might cause the board of directors of the company to review its policy respecting participating policy dividends and bonuses.

Comment

The Board's dividend policy is required to include the principal factors that might cause it to review its dividend policy. These factors are meant to refer to higher level deliberations than the factors used in the setting of dividends.

Subsection of regulations - 2(d)

A description of the basis upon which dividends and bonuses are allocated among different classes of participating policies.

Comment

The description should include a statement that the dividend recommendations the Appointed Actuary made and/or opined on were prepared in compliance with any relevant standards of practice of the Canadian Institute of Actuaries. If the actual distribution of policy dividends differs materially from the dividend recommendations the Appointed Actuary made and/or opined on, this should be disclosed and explained.

Subsection of regulations - 2(e)

A description of the principal sources of income considered for the purpose of declaring dividends and bonuses and, in the case of a mutual company, if income other than income derived from the participating business of the company is not considered, the use to which that other income is put.

Comment

The company should clearly describe the principal sources of income considered for the purpose of declaring dividends. The description is expected to include:

- all factors that enter into the determination of policy dividends
- any constraints on experience sharing along with the supporting rationale; and
- whether or not the investment returns from the participating account surplus are included in the determination of dividends.

It is important to indicate that policy dividends are generated by the differences between actual levels of experience for certain factors (e.g. mortality, expenses, investment income, etc.) and assumed levels of experience for these factors.

The company should clearly disclose whether the experience factors to determine policy dividends can be changed post-issue and the underlying principles that would drive any changes. Any post-issue changes should be in accordance with the contractual terms of the policy contracts and any representations made to policyholders.

In the case of a company that distributes profits from sources other than participating business to participating policyholders, the company's policy and practice should be described.

Subsection of regulations - 2(f)

A description of how specific policyholder behaviour is reflected in the dividend or bonus scale.

Comment

The company should clearly describe whether or not specific policyholder behaviour (e.g. policy loans taken at guaranteed rates, bonus payable if policy not lapsed for a certain number of years, etc.) is reflected in policy dividends. If specific policyholder behaviour is reflected in policy dividends, the company should describe how this behaviour impacts policy dividends.

Subsection of regulations - 3(a)

A description of the participating account and its associated policies.

Comment

If a company has established one or more participating accounts, this should be described in plain language.

For each participating account, the methods used for the measurement of experience of these participating accounts should each be described.

It should be clear which participating accounts, if any, are closed to new business. The company should disclose whether there are cohorts or dividend classes in a specific participating account that are closed to new business. The company should also disclose the implications of being in a cohort or dividend class that is closed to new business.

Subsection of regulations - 3(b)

A description of the investment policy for the participating account.

Comment

The description of the investment policy for the participating account is expected to include:

- the asset segment(s) supporting participating policies
- the quality of assets supporting the participating accounts, including different classes of assets, credit quality and liquidity quality
- the investment strategy, policies, and procedures to be followed in respect of assets supporting the participating accounts and the factors that drive the company's investment strategy
- any material changes from the previous year to the investment policy. Such changes should be disclosed and explained
- any external constraints on the company's investment policy (e.g., regulatory constraints); and
- the company's approach to the use of derivatives to support the participating accounts. If derivatives are not used, the company should explicitly state so.

Subsection of regulations - 3(c)

A description of the method, under section 457 of the Act, for allocating investment income to the participating account.

Comment

The description of the method for allocating investment income both between shareholders and participating policyholders and between participating accounts. is expected to include:

- whether or not there is any commingling of assets between different participating accounts (e.g. the commingling of assets between open participating accounts and closed participating accounts)
- the company's degree of reliance on income generated by assets that support both the participating and non-participating accounts; and
- whether or not the investment income allocation methodology can be changed, and the circumstances that would drive any changes.

Subsection of regulations - 3(d)

A description of the method, under section 458 of the Act, for allocating expenses, including taxes, to the participating account.

Comment

The description of the method of expense allocation, including taxes, to participating accounts should explain how expenses arise and are charged to participating accounts and should include an explanation of how the level of expenses is affected by the nature of the business and of the assets supporting the participating account. The description is expected to include:

- the expenses, including taxes, that are currently allocated to participating accounts
- the criteria that the company uses to apportion expenses, including taxes, between participating accounts and shareholder accounts, and between participating accounts; and
- example(s) of the circumstances under which the company would charge expenses to the participating account at an amount other than allocated cost along with the supporting rationale.

Subsection of regulations - 3(e)

A description of the company's approach in respect of managing and using the surplus, if any, in the participating account.

Comment

The description of the company's approach in respect of managing and using the surplus in the participating account is expected to include:

- objectives of maintaining surplus within participating accounts, including its use for acquisition of future business
- the sources of surplus (e.g. seed capital and contribution to surplus)
- criteria used to determine the use of surplus to top up dividends to existing policyholders; and
- any limits/constraints to the level of surplus.

Subsection of regulations - 3(f)

The principal factors that might cause the board of directors of the company to change the policy.

Comment

The Superintendent has no additional comments on this subsection of the Regulations.

Subsection of regulations - 3(g)

If the company does not accept new business in the participating account, information on how the company would manage and dispose of the surplus, if any, in the participating account.

Comment

With respect to any closed blocks resulting from demutualization, and participating accounts not accepting new business, describe policies and practices of the company to manage the participating accounts' surplus and to avoid a tontine effect.

In the case of closed accounts resulting from demutualization, such practices were required to be implemented upon demutualization and the description should make reference to the company's obligation in this regard.

Subsection of regulations - 3(h)

In the case of a converted company under section 237 of the Act, the measures taken by the company to ensure fairness to participating policyholders whose policies form part of a closed block.

Comment

The Superintendent has no additional comments on this subsection of the Regulations.

Subsection of regulations - 3(i)

The percentage that the amount that the company intends to transfer to shareholders or a shareholder account of the company out of the company's participating accounts in a financial year in accordance with section 461 of the Act represents of the total amount that the company intends to transfer to shareholders or a shareholder account of the company and participating policyholders from those participating accounts in that year in accordance with that section.

Comment

This subsection requires the participating account management policy to specify the percentage of the total distributable amount[1] that the company intends to transfer to shareholders from the participating accounts in a financial year in accordance with section 461. Subsection 4(g) of the Regulations requires this to be disclosed.

If this amount is less than the maximum allowable percentage that the company may transfer to shareholders, this is expected to be disclosed.

The policy is expected to indicate if the company intends to transfer the full permitted percentage of distributable participating profits to shareholders. If the company has a practice of limiting the amount of this transfer, this should be disclosed.

Subsection of regulations - 4(a)

A summary of all the information required under sections 2 and 3.

Comment

This subsection states that the company must provide a summary of the information required for the dividend policy (subsection 2) and the participating account management policy (subsection 3). In deciding on the appropriate level of summarization, the characteristics of disclosure stated earlier in this guideline are expected to be followed. Such disclosure is for the benefit of the policyholders and should be supportive to this expectation.

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[1] Per section 461 of the Act, this refers to the portion of the profits of the participating account that is determined by the directors as the portion to be distributed for that financial year to the shareholders and participating policyholders.

The company can satisfy the requirement to provide a summary by providing the policies themselves, provided they meet the characteristics of disclosure stated earlier.

Subsections of regulations - 4(b)-(d)

b. A statement of changes for each participating account for the two financial years immediately preceding the annual meeting, showing such information and particulars as in the opinion of the directors of the company are necessary to present fairly, in accordance with the accounting principles referred to in subsection 331(4) of the Act, the financial position of the account as at the end of each financial year to which the statement relates and the results of the operations and changes in the financial position of the account for each financial year.
c. The surplus in each participating account of the company for the two financial years immediately preceding the annual meeting.
d. In the case of a converted company under section 237 of the Act, the amount by which the value of the assets in a closed block exceeds the amount of the policy liabilities in that closed block.

Comment

This section of the Regulations and Section 331(1)(e) of the Act require each company to include in its annual financial statement a statement of changes for the financial year in each participating account. This is expected to be a statement of the change in surplus in each participating account. This disclosure is intended to inform policyholders of the status of the account(s) containing their policies.

It is the Superintendent's view that disclosure of just the total annual change in surplus provides insufficient information to policyholders to form their expectations. This is due to a number of factors:

- There may be several participating accounts that contain blocks of business with significantly different surplus amounts relative to liabilities, different experience and different dividend scales.
- Closed participating accounts resulting from demutualization do not contain surplus. Any amounts accumulating from operations are held in a dividend stabilization reserve (DSR) (individual companies may use different terms) that is technically considered to be part of the actuarial liabilities of the account. As such, it is generally not visible to policyholders.
- It is difficult to understand the status of a participating account simply by measuring the annual change in a single quantity.

Consequently, the Superintendent expects that disclosure will include the following items for participating accounts other than closed participating accounts resulting from demutualization:

- Opening surplus;
- Currency adjustment;
- Net earnings before the payment of policy dividends;
- Policy dividends distributed during the year;
- Amounts transferred to shareholders under s. 461 of the Act;
- Other transfers under s. 462;
- Closing surplus; and
- Total assets.

For closed participating accounts resulting from demutualization, the corresponding items are:
('Excess' is defined as the amount by which the value of the assets in a closed block exceeds the amount of the policy liabilities in that closed block.)

- Opening Excess;
- Currency adjustment;
- Net earnings before the payment of policy dividends;
- Policy dividends distributed during the year;
- Closing Excess; and

- Total assets.

To facilitate transparency, consistency and comparability in the disclosure to policyholders, the following information should be included in the annual financial statement.

- The approximate percentage of the policy dividends that is based on investment experience, and the approximate percentage that is derived from other factors (e.g. mortality, expense, etc.)
- The current year, and the historical 5-, 10-, and 20-year average annual dividend scale interest rate, participating account investment rate of return, participating surplus investment rate of return […]. Investment rate of return should be expressed as a market yield without smoothing and net of investment expenses. Historical average annual rates prior to 2023 should be reported on a best effort basis.
- Whether or not the investment returns from the participating account surplus are included in the determination of dividends.
- The current year target asset mix vs. the actual asset mix

Subsections of regulations - 4(e) – (h)

e. The amounts from each participating account that are invested in segregated funds of the company or its subsidiaries, and the performance of those funds for the two financial years immediately preceding the annual meeting, if applicable.
f. The actual amounts that have been transferred to shareholders or a shareholder account of the company out of the company's participating accounts in accordance with section 461 of the Act in the two financial years immediately preceding the annual meeting.
g. The percentage that the amounts referred to in paragraph (f) represent of the total amount paid to shareholders or a shareholder account of the company and participating policyholders from the company's participating accounts in accordance with section 461 of the Act, which, in the case of a converted company under section 237 of the Act, shall be calculated without taking into account any amounts paid out of a closed block, in the corresponding financial year.
h. A statement that the company's policies referred to in sections 2 and 3 are available on request to a shareholder or participating policyholder and, on payment of a reasonable fee, to any other person.

Comment

The Superintendent has no additional comments on these subsections of the Regulations.

Subsection of regulations - 4(i)

Information on the manner in which the company's policies referred to in sections 2 and 3 may be obtained from the company.

Comment

The Superintendent expects that the company makes the summary of the information required for the dividend policy (subsection 2) and the participating account management policy (subsection 3), or the policies, available on its publicly accessible websites, with appropriate notification to policyholders as to the availability of this information.