

The London Life participating account:

Historical performance and financial statements

Included in this brochure is the historical performance of the participating account, dividend scale interest rate, and the financial statements for the London Life participating account.

Participating account return

The participating account return is the return on the total participating account assets that back both liabilities and surplus after investment expenses are deducted. The participating account return is reported for the calendar year Jan. 1 to Dec. 31. In 2019, investment expenses were 9.6 basis points for the London Life participating account. Investment expenses may vary every year due to changes in the asset mix of the total participating account, economies of scale and other factors.

The participating account return is a short-term indicator of investment performance.

Participating account historical average returns (at Dec. 31, 2019)

Participating account asset class	1-year (2019)	2-year (2018-2019)	3-year (2017-2019)	4-year (2016-2019)	5-year (2015-2019)	10-year (2010-2019)
Public bonds and private placements	3.8%	3.4%	3.3%	3.3%	3.5%	4.0%
Mortgages	3.4%	3.4%	3.5%	3.6%	3.7%	4.4%
Equities	16.6%	6.0%	7.3%	9.5%	7.1%	8.5%
Total participating account return (after investment expenses) ¹	6.2%	4.0%	4.2%	4.6%	4.3%	5.1%

NOTES

With the exception of unrealized gains and losses on bonds, which are excluded because bonds in the participating account are generally held until maturity, the participating account return is calculated in accordance with the following:

- From 2007-10, the Canadian Institute of Chartered Accountants (CICA) handbook
- Effective Jan. 1, 2011, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

1. The total participating account return includes returns on assets such as policy loans and cash and equivalents.

Historical performance of the London Life dividend scale interest rate

A low standard deviation means the range of performance has been narrow. This indicates there has been low volatility.

Historical average returns (at Dec. 31, 2019)

Years	1 (2019)	5 (2015 -2019)	10 (2010 -2019)	20 (2000 -2019)	30 (1990 -2019)	60 (1960 -2019)	30-year standard deviation (1990-2019)
London Life dividend scale interest rate (%)	5.0	5.2	5.8	6.8	7.7	7.4	1.7
S&P/TSX composite total return index (%)	22.9	6.3	6.9	6.3	7.7	9.3	16.4
5-year GICs (%)	2.1	1.6	1.7	2.5	3.9	n/a	2.5
Government of Canada 5- to 10-year bonds (%)	1.5	1.5	1.8	3.1	4.6	6.4	2.6
Consumer Price Index (%)	2.2	1.8	1.7	1.9	2.0	3.7	1.0

All historical average annual returns are geometric means.

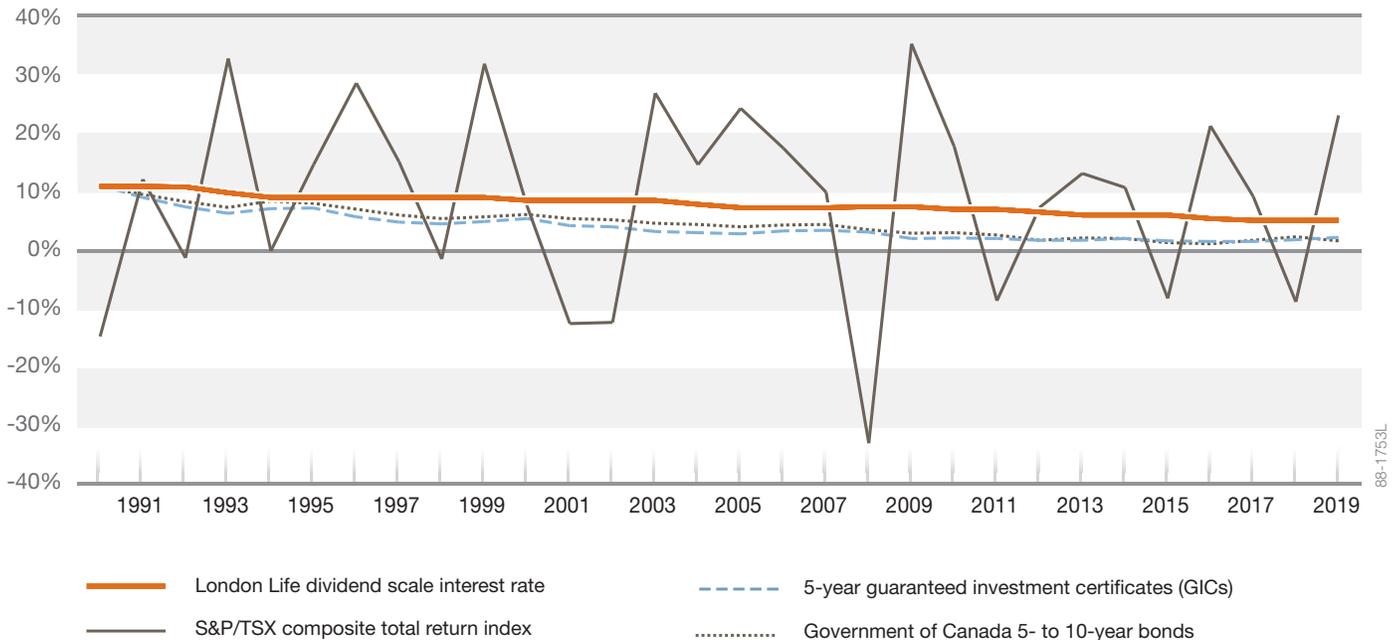
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- The historical average annual dividend scale interest rate for 30 years or less applies to policies issued post-September 1968, which have a variable policy loan rate provision. Policies issued before this date have a fixed policy loan rate provision and may have a different dividend scale interest rate. The 60-year average annual rate is a blended average of the dividend scale interest rate that applies to policies that have a variable policy loan rate provision (1969 to 2019) and the dividend scale interest rate that applies to policies that have a fixed policy loan rate provision (1960 to 1968).
- The dividend scale interest rate is used to calculate the investment component of participating policyowner dividends. It is based on assets backing the participating account liabilities. It does not include the returns on assets backing the participating account surplus.
- S&P/TSX composite total return index includes the reinvestment of dividends. TSX © Copyright 2020 TSX Inc. All rights reserved.
- Five-year guaranteed investment certificate (GIC) returns are the nominal yields to maturity. Source: Statistics Canada, CANSIM table 176-0043, series V80691341 (Bank of Canada website), Feb. 28, 2020.
- Government of Canada five- to 10-year bond returns. Source: Statistics Canada, CANSIM table 176-0043, series V122486 (Statistics Canada website), Feb. 28, 2020. For each calendar year, the average of the monthly values was used.
- Consumer Price Index inflation rates are based on the change from December to December. Source: Statistics Canada, CANSIM table 326-0020, series V41690973 (Statistics Canada website), Feb. 28, 2020.

Stability

Historically, during times of economic change, the London Life dividend scale interest rate has been relatively stable, compared to returns on many financial investments. The graph below shows how the participating account asset mix and London Life's approach of smoothing¹ returns have helped stabilize the dividend scale interest rate.

Returns (at Dec. 31, 2019)



NOTES

- The dividend scale interest rate is used to calculate the investment component of participating policyowner dividends and is based on assets backing participating account liabilities. It does not include the returns on assets backing participating account surplus. The rate shown applies to policies issued post-September 1968. These policies have a variable policy loan rate provision, whereas policies issued before this date have a fixed policy loan rate provision and may have a different dividend scale interest rate.
 - The S&P/TSX composite total return index includes the reinvestment of dividends. TSX © Copyright 2020 TSX Inc. All rights reserved.
 - Five-year guaranteed investment certificate (GIC) returns are the nominal yields to maturity. Source: Statistics Canada, CANSIM table 176-0043, series V80691341 (Bank of Canada website), Feb. 28, 2020.
 - Government of Canada five- to 10-year bond returns. Source: Statistics Canada, CANSIM table 176-0043, series V122486 (Statistics Canada website), Feb. 28, 2020. For each calendar year, the average of the monthly values was used.
1. The smoothing method is subject to change without notice.

Financial statements

The London Life participating account (\$ millions)

Summary of participating account operations	2018 (\$)	2019 (\$)	Participating account balance sheet	Dec. 31, 2018 (\$)	Dec. 31, 2019 (\$)
Participating policyowner premiums	2,460	2,535	Assets	28,179	30,371
+ Investment income	445	1,925	- Liabilities	26,352	28,505
- Benefits paid	952	973	= Closing balance for participating account surplus	1,827	1,866
- Changes in actuarial liabilities	620	2,114			
- Expenses and taxes	408	430	Participating account surplus		
- Distribution to participating policyowners and shareholders	885	904	Opening balance Dec. 31 (previous year)	1,796	1,827
Participating policyowner dividends	852	879	+ Participating account net income (loss)	40	39
Change in dividend liability	10	1	+ Other comprehensive income (loss)	(9)	-
Shareholder portion			= Closing balance for participating account surplus	1,827	1,866
Cash payment	22	23			
Accrual	1	1			
= Participating account net income (loss)	40	39			

NOTES

- Investment income, asset values and changes in actuarial liabilities are determined in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), effective Jan. 1, 2011.
- Certain assets, such as public bonds, common stocks and real estate, are marked to market. They are not smoothed. Investment income is reported for the calendar year, Jan. 1 to Dec. 31. It includes assets backing participating account liabilities and surplus.
- In 2019, London Life participating policyowner insurance claims totaled \$440 million.
- Changes in actuarial liabilities are made from time to time to reasonably ensure the total amount of actuarial liabilities is sufficient to meet all participating policyowner obligations.
- The dividend liability represents participating policyowner dividends earned but not paid at the calendar year-end.
- The accrual account represents a portion of shareholder surplus that is held within the participating account and has been recognized but not paid. It is dependent on the future payment of participating policyowner dividends.
- In 2019, total distribution of the profits to participating policyowners was 97.5% and the total distribution of the profits to shareholders was 2.5% under section 461 of the *Insurance Companies Act (ICA)* of Canada.
- To be consistent with the company's financial statements, accumulated other comprehensive income is included in the participating account surplus. Other comprehensive income includes specific unrealized investment gains and losses, which may be temporary.

