RBC Life Insurance Company

Participating Account Management Policy – Participating Whole Life Product

This Policy applies to RBC Life Insurance Company

December 2023

Per paragraph 165 (2) (e.1) of the *Insurance Companies Act* (ICA) the directors of a company shall "...*establish a policy respecting the management of each of the participating accounts maintained under section 456*". This policy addresses the management of the participating account for the Participating Whole Life product launched by RBC Life Insurance Company in January 2021.

a. This management policy is for the Participating Whole Life policies issued by RBC Life Insurance Company. This is an open block of business – and includes all polices sold since the launch date. This participating account is managed with regard to Company's enterprise risk management framework.

   The Company maintains a separate participating account for a closed block of participating life insurance policies that were previously acquired from Mutual of Omaha. This closed block is completely ringfenced and managed separately from the open block according to its own operating rules.

b. The Company's Investment Policy provides governance for assets in the participating account. Changes to the Investment Policy require approval of the Company's Investment Committee and Board of Directors. Further details of the Investment Policy for this account are provided in Appendix 1.

c. The Company maintains a separate participating account for the purpose of measurement of the earnings attributable to the participating account. The assets backing the participating account are segmented; no allocation methodology is required to split investment income between par accounts or with the shareholder. The participating account is credited with investment income earned on the segmented assets and charged with investment losses on those same assets. The actuarial liabilities charged to the account include best estimate liabilities and include provision for adverse deviation. Liabilities are determined using assumptions appropriate for the participating block in accordance with standards of practice set by the Canadian Institute of Actuaries.

d. Investment expenses, investment income tax, and policy administration expenses pertaining to the sale and administration of these policies are charged to the participating account. Expenses associated with the development and set up of this new product will also be charged to the participating account but amortized so as not to penalize those policyholders who purchased their policy in the early stages of the product launch. The Company allocates expenses including overhead expenses in accordance with infrastructure and services provided in administering that line of business including participating accounts. Expenses are allocated to participating accounts and other lines of businesses in proportion to appropriate business statistics. Certain expenses such as but not limited to agent compensation can be directly allocated.

   In certain instances, the Company may decide to invest in projects and development outside the normal course of administering policies. These expenses may include, but are not limited to, capital expenditures such as IT infrastructure, restructurings, product developments and acquisitions. The principle for allocating these expenses would include as appropriate the contribution made by that line of business in incurring the expense and the future benefit derived by that line of business. The decision to incur such expenses and the resulting allocation will be reported and justified to the Appointed Actuary and reported to the Board.

   Taxes are allocated to the participating account using the relevant characteristics of the participating and non-participating accounts that are determinative of the tax costs under consideration.

e. The Company manages the participating account on the permanent contribution to surplus principle. Permanent contribution means that any earnings of the participating account which are not distributed to participating policies or transferred to an account other than the participating account, as allowed by legislation become a permanent part of the participating account surplus.

   The surplus is managed with the goal of ensuring that the Company can meet its obligations to participating policyholders, help ensure financial strength and stability of the Company, finance new business growth and acquisitions which may benefit the participating account, provide for transitions during periods of major change, and avoid undue fluctuations in dividends; subject to items such as practical considerations and limits, legal and regulatory requirements, and industry practices. A portion of earnings for each financial period is retained in the participating account surplus. The participating account surplus position is reviewed annually, having regard for the specific circumstances of the participating account. Based on the review, policyholders' future contributions to surplus may be adjusted by increasing or decreasing the dividend scale. There are currently no constraints or limits on the level of surplus. Transfers of surplus to an account other than a participating account are limited by the ICA.

f. The participating account is managed in accordance with the commitments made to policyholders at the time this product was launched. The Company is committed to make additional investment into the participating account at the initial launch of this product, to fund initial development costs, strengthen the surplus position and ensure stability in dividends during the start-up period. Under the ICA, the Company has the right to transfer its initial investment with reasonable rate of return accrued back to the company when it is no longer required to support the participating business with the permission of the Office of the Superintendent of Financial Institutions (OSFI).

g. Per section 461 of the ICA, "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…". The Appointed Actuary will inform the Board of Directors and seek their approval with regards to Company's intention of making a transfer to an account other than a participating account and that the proposed transfer is permitted under the ICA. The Company intends to transfer the maximum amount allowed under section 461 of the ICA every year.

h. The Board of Directors may amend this policy from time to time due to changes in the external environment such as legislative, regulatory, taxation, accounting rules or other fundamental changes in circumstances.

i. This Policy is reviewed by the Appointed Actuary in accordance with generally accepted actuarial practice and pursuant to OSFI guidance. As per OSFI Guideline E-16, a written opinion of the Appointed Actuary is provided annually to the Board on the fairness of the policy to the participating policyholders.

Policy Review

This Participating Account Management Policy will be reviewed by the Board triennially. The Policy will be reviewed in 2023 and 2026, and in the interim if amended.

Policy Approval

Any establishment or amendment of the Policy shall be considered by The Board.

Appendix 1: Summary of Investment Policy for Participating Whole Life Account

The investment policy for the participating account is set based on the specific objectives and liability characteristics of the participating account. The Board of Directors are required to approve any changes to the investment policy.

Investment Philosophy

The investment objective for this participating account is to construct a well-diversified portfolio of long-term assets consisting of a combination of high quality fixed income and non-fixed income investments. This long-term investment philosophy is aligned with the steady and long-term nature of the cash flows associated with participating policies and long-term needs of the policy owners. The investments will usually be limited to Canadian investments.

Description of Assets

The fixed income assets mainly consist of investments with defined cash flows including investment grade government and corporate bonds, term-loans, private debt and commercial mortgages. The non-fixed income assets mainly consist of investments in equities.

Investment Objectives

The investment portfolio is managed by RBC Life’s experienced investment management team. The investment strategy is conducted within the parameters of the investment guidelines and constraints, as laid out in Company’s Statement of Investment Policies and Procedures, supporting asset quality, target mixes, liquidity requirements and duration of assets with the guiding principles of long-term growth, stability of participating account dividends, adequate level of liquidity, prudent interest-rate risk management and tax efficiency.

Risk management guidelines are in place with established tolerances and limits to ensure a prudent level of credit, market, interest-rate and liquidity risk consistent with RBC’s risk appetite framework, policies and guidelines. Consistent with Management’s appetite for risk, assets will be managed to ensure that an A.M. Best Rating for the Company of “A” is maintained. The Company may use derivative products for risk management purposes.

The investment strategy and activity for the participating account is monitored by the Company to ensure compliance with the investment policy and risk appetite guidelines described above. The investment policy and risk appetite guidelines are regularly reviewed by management and the Board.

Asset Segmentation

Instead of being fully segregated, assets for the participating account are segmented. Cash premium payments and cash benefit payments for the participating policies are processed using the same Company bank account as for the non-participating policies. Strict accounting and investment department controls are in place to ensure that the participating policy transactions are identified separately from the non-participating policy transactions, so that money is appropriately applied to the participating segment's assets. Transactions are reconciled monthly. This ensures that the participating segment is being credited with the appropriate amount of investment income.