

## **Information about Participating Policies**

The premiums our clients pay for participating policies are deposited into an account called the Participating Account. The money in this account is invested and used to pay for operating expenses, policy benefits and cash values for all participating policies.

The Participating Account is managed separately from other accounts in compliance with applicable legislative and regulatory requirements. This ensures that the performance of the Participating Account is not affected by any profit or loss experienced by DFS in its Non-Participating Account.

It is our responsibility to carefully manage the Participating Account to make sure there is always enough money to cover our participating policyholders' current and long-term needs. For this reason, the investment objective of the Participating Account is achieved through a portfolio that includes longer term assets of high quality.

Participating policies have guaranteed values, such as basic premiums or maximum premiums, basic amount of insurance or minimum amount of insurance, or basic guaranteed cash values. These guaranteed values are determined using long-term assumptions for factors such as investment returns, mortality and expenses.

Earnings are generated in the Participating Account when the overall experience of the account for those factors is better than the long-term assumptions supporting the guaranteed values.

Each year, we distribute a portion of these earnings to participating policyholders in the form of dividends, as approved by the Board of Directors, for products that include a dividend scale at issue. A surplus is also kept in the Participating Account to ensure the sustainability of the account in the future.

The amount available for distribution as dividends is divided among classes of participating policyholders based on different dividend scales. We follow the contribution principle when setting dividend scales. This means that the amount of dividends available for distribution is divided among classes of participating policyholders in proportion to their contribution to earnings. When applying the contribution principle, our goal is to achieve equity between the different classes and generations of participating policyholders. We must also take into account legal requirements and practices prevailing in the industry.

Dividends are credited according to the terms of each participating policy.

Before the Board of Directors declares the dividends, our appointed actuary must confirm that:

- the proposed dividends are in accordance with our dividend policy and in compliance with applicable legislative and regulatory requirements; and
- applicable professional practice standards have been followed.

We review the dividend scales and Participating Account actuarial reserves annually to ensure the surplus in the Participating Account always remains sufficient.

Dividends are not guaranteed and could be higher or lower than those shown in sales illustrations. To see how changes in the dividend scales will impact your policy, you can request a new illustration that will show the projection of your policy's future values based on the current dividend scale. For more information about your participating policy or to receive a new illustration, contact your representative or visit the "Contact Us" section of the DFS website.