DEFINITY FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021

REPORT OF MANAGEMENT'S ACCOUNTABILITY

The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and have been approved by the Board of Directors.

Management is responsible for ensuring that these consolidated financial statements, which include amounts based on estimates and judgments, fairly reflect the business transactions and financial position of Definity Financial Corporation (the "Company"), in all material respects.

The system of internal controls is reviewed and evaluated on an ongoing basis by management and the Company's internal auditor. The integrity and reliability of the Company's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees, and appropriate delegation of authority and division of responsibilities. PricewaterhouseCoopers LLP has been retained to act as the Company's internal auditor. The responsibility of the internal auditor is to monitor and assess the integrity of the internal controls within key business processes. The Company's Code of Business Conduct, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the Company's affairs.

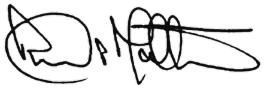
The external auditor, Ernst & Young LLP, whose report on their audit of the consolidated financial statements follows, also reviews the Company's systems of internal accounting control in accordance with Canadian generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

The appointed actuary, who is a member of management, is appointed by the Board of Directors pursuant to the *Insurance Companies Act (Canada)*. The appointed actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, and applicable legislation and associated regulations or directives. The appointed actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities at the consolidated balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness is an important element of the work required to form this opinion.

The Board of Directors annually appoints an Audit Committee comprising of directors who are not employees of the Company. This committee meets regularly with management, the internal auditor, and the external auditor to review significant accounting, reporting, and internal control matters. Both the internal and external auditors and the appointed actuary have unrestricted access to the Audit Committee. Following its review of the consolidated financial statements, the appointed actuary's report, and the report of the external auditor, the Audit Committee submits its report to the Board of Directors recommending approval of the consolidated financial statements.



Rowan Saunders
President and Chief Executive Officer



Philip Mather
Executive Vice-President and Chief Financial Officer

Waterloo, Canada
February 10, 2022

APPOINTED ACTUARY'S REPORT

To the Shareholders of Definity Financial Corporation:

I have valued the policy liabilities and reinsurance recoverables of Definity Financial Corporation for its consolidated balance sheet at December 31, 2021 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the consolidated financial statements fairly present the results of the valuation.



Shawn Doherty
Fellow, Canadian Institute of Actuaries

Waterloo, Canada
February 10, 2022

Independent auditor's report

To the Shareholders of
Definity Financial Corporation

Opinion

We have audited the consolidated financial statements of **Definity Financial Corporation** and its subsidiaries [the "Group"], which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of claim liabilities

The Group describes its significant accounting judgments, estimates and assumptions in relation to the valuation of claim liabilities in Note 5 and Note 10 to the consolidated financial statements. As at December 31, 2021, the Group has reported $3,336 million in claim liabilities on its consolidated balance sheets, which represent 60.7% of its total liabilities.

The principal consideration for our determination that claim liabilities are a key audit matter is that the estimate of the provision involves the application of models, methodologies, and assumptions that require significant judgment. As a result, the audit of claim liabilities requires significant judgment and the involvement of specialists. Claim liabilities are determined in accordance with generally accepted actuarial practices. The main assumption

underlying these estimates is that the Group's past claims development experience can be used to project future claims development. As such, actuarial claims projection techniques extrapolate the development of paid and incurred losses, frequency and severity of claims based on the observed development of earlier years and expected loss ratios. Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, considering the uncertainties involved.

In 2020 and 2021, the impact of the COVID-19 pandemic and the lack of historical data for similar circumstances impacted management's determination of claim liabilities for certain lines of business and required the application of significant judgment. As a result, claim liabilities have a higher than usual degree of estimation uncertainty and inputs used are inherently subject to change, which may materially change the estimate of claim liabilities in future periods.

Our audit procedures related to the valuation of claim liabilities were conducted with the support of our actuarial specialists and included the following, among other procedures:

- Evaluated the objectivity, independence, and expertise of the Appointed Actuary, who is a member of management;
- Tested the design and operating effectiveness of selected key controls related to the Group's claims process, including controls over the integrity of data flow through the Group’s administration systems;
- Performed an independent valuation of claim liabilities for a sample of lines of business that reflects our expectations based on the Group's historical experience, current trends, and benchmarking to our industry knowledge including information relating to forthcoming legislation and the consequences of COVID-19 that may affect claims settlement speed or amount. The high degree of continued uncertainty due to COVID-19 led to a high degree of auditor judgment;
- Obtained an understanding of the Group's actuarial methodologies and assessed whether they are determined in accordance with generally accepted actuarial practices;
- Performed analytical procedures, tests of detail and data integrity testing of incurred claims, paid claims, and earned premiums used in setting the case-by-case provisions, establishing historical loss ratios and in determining the current mix of business used in the valuation of claim liabilities; and
- Assessed the adequacy of the disclosures pertaining to the claim liabilities provided in notes to the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises:

- Management’s Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor’s report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean Musselman.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Waterloo, Canada
February 10, 2022

DEFINITY FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS 8
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 9
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY 10
CONSOLIDATED STATEMENTS OF CASH FLOWS 11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS 12
2. DEMUTUALIZATION AND INITIAL PUBLIC OFFERING 12
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 13
4. STANDARDS ISSUED BUT NOT YET EFFECTIVE 25
5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS 27
6. RISKS RELATED TO THE COVID-19 PANDEMIC AND RELATED FINANCIAL IMPACTS 29
7. INVESTMENTS 30
8. FINANCIAL RISK MANAGEMENT 34
9. POLICY LIABILITIES 39
10. INSURANCE RISK MANAGEMENT 41
11. REINSURANCE CONTRACTS 46
12. PROPERTY AND EQUIPMENT 47
13. INCOME TAXES 48
14. GOODWILL AND INTANGIBLE ASSETS 49
15. OTHER ASSETS 50
16. INVESTMENTS IN ASSOCIATES 51
17. ACCOUNTS PAYABLE AND OTHER LIABILITIES 51
18. SHARE CAPITAL 51
19. CAPITAL MANAGEMENT 51
20. EARNINGS PER COMMON SHARE 53
21. MEDIUM-TERM INCENTIVE PLAN 53
22. POST-EMPLOYMENT BENEFITS 55
23. PREMIUMS 59
24. RATE REGULATION 59
25. COMMITMENTS AND CONTINGENCIES 60
26. RELATED PARTY TRANSACTIONS 60
27. OPERATING SEGMENTS 61
28. SUBSEQUENT EVENT 61

DEFINITY FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

(in millions of dollars)

	Notes		2021		2020
ASSETS					
Cash and cash equivalents		**$**	**387.3**	$	510.3
Restricted cash	**2**		**110.8**		-
Investments	**7**		**5,365.8**		4,366.3
Accrued investment income			**21.3**		16.8
Premiums receivable			**1,075.9**		958.7
Income taxes receivable			**0.2**		2.1
Reinsurance receivable and recoverable	**9,11**		**179.2**		95.6
Deferred policy acquisition expenses	**9**		**295.1**		260.2
Property and equipment	**12**		**57.0**		56.9
Deferred income tax assets	**13**		**62.5**		40.2
Goodwill and intangible assets	**14**		**219.7**		211.6
Other assets	**15**		**116.6**		101.6
		$	**7,891.4**	$	6,620.3
LIABILITIES AND EQUITY					
Unearned premiums	**9**	**$**	**1,599.2**	$	1,433.1
Claim liabilities	**9,10**		**3,336.1**		3,026.3
Accounts payable and other liabilities	**17**		**393.4**		324.2
Income taxes payable			**55.6**		18.7
Demutualization amounts outstanding	**2**		**110.8**		-
			5,495.1		4,802.3
EQUITY					
Share capital	**2,18**		**2,307.8**		-
Contributed surplus	**21**		**19.3**		-
Retained (deficit) earnings			**(28.8)**		1,755.9
Accumulated other comprehensive income			**98.0**		62.1
Total equity	**19**		**2,396.3**		1,818.0
		$	**7,891.4**	$	6,620.3
Commitments and contingencies	**25**				

See accompanying notes.

On behalf of the Board:

J.H. Bowey, Director

R.B. Saunders, Director

Draft

DEFINITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)

	Notes		2021		2020
Gross written premiums	**23**	**$**	**3,231.4**	$	2,814.7
Net written premiums	**11,23**	**$**	**2,991.3**	$	2,639.8
Net earned premiums	**23**	**$**	**2,833.6**	$	2,508.7
Other underwriting revenues			**8.2**		7.5
Total underwriting revenues			**2,841.8**		2,516.2
Net claims and underwriting expenses:					
Net claims and adjustment expenses	**9,11**		**1,721.5**		1,562.3
Net commissions	**11**		**426.5**		379.6
Operating expenses			**392.4**		344.8
Premium taxes			**106.9**		93.1
			2,647.3		2,379.8
Underwriting income			**194.5**		136.4
Impact of discounting	**9**		**44.7**		(114.0)
Underwriting income after the impact of discounting			**239.2**		22.4
Investment income:					
Net investment income	**7**		**96.8**		100.3
Recognized (losses) gains on investments	**7**		**(20.8)**		79.8
			76.0		180.1
Other (expenses) income	**2**		**(34.0)**		(1.9)
Income before income taxes			**281.2**		200.6
Income tax expense	**13**		**(68.0)**		(46.7)
Net income		**$**	**213.2**	$	153.9
Items that may be reclassified subsequently to net income:					
Net unrealized gains on AFS investments	**7**		**96.6**		76.8
Reclassification to net income of net recognized (gains) losses on AFS investments	**7**		**(49.2)**		5.0
Foreign exchange loss on investments in associates			**(0.3)**		(0.5)
Income tax expense	**13**		**(11.2)**		(21.6)
			35.9		59.7
Items that will not be reclassified subsequently to net income:					
Post-employment benefit obligation gain (loss)	**22**		**29.3**		(8.8)
Income tax (expense) recovery	**13**		**(7.6)**		2.2
			21.7		(6.6)
Other comprehensive income			**57.6**		53.1
Comprehensive income		**$**	**270.8**	$	207.0
Earnings per common share (in dollars)	**20**				
Basic		**$**	**2.03**	$	1.48
Diluted		**$**	**2.02**	$	1.48
Weighted average common shares outstanding (millions)	**20**				
Basic			**105.2**		104.0
Diluted			**105.4**		104.0

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)

		2021				
	Notes	**Share capital**	**Contributed surplus**	**Retained earnings (deficit)**	**Accumulated other comprehensive income**	**Total equity**
Balance, beginning of the year		**$ -**	**$ -**	**$ 1,755.9**	**$ 62.1**	**$ 1,818.0**
Net income		**-**	**-**	**213.2**	**-**	**213.2**
Other comprehensive income		**-**	**-**	**21.7**[1]	**35.9**	**57.6**
Total comprehensive income		**-**	**-**	**234.9**	**35.9**	**270.8**
Equity-settled share-based compensation	21	**-**	**19.3**	**-**	**-**	**19.3**
Issuance of common shares	2,18	**2,307.8**	**-**	**-**	**-**	**2,307.8**
Demutualization benefit obligation	2	**-**	**-**	**(2,019.6)**	**-**	**(2,019.6)**
Balance, end of the year		**$ 2,307.8**	**$ 19.3**	**$ (28.8)**	**$ 98.0**[2]	**$ 2,396.3**

	2020				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, beginning of the year	$ -	$ -	$ 1,608.6	$ 2.4	$ 1,611.0
Net income	-	-	153.9	-	153.9
Other comprehensive income	-	-	(6.6)[1]	59.7	53.1
Total comprehensive income	-	-	147.3	59.7	207.0
Balance, end of the year	$ -	$ -	$ 1,755.9	$ 62.1[2]	$ 1,818.0

[1] Actuarial gains (losses) for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of $7.6 million (2020: $2.2 million income tax recovery)).

[2] Included in accumulated other comprehensive income is $3.6 million (2020: $3.9 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

DEFINITY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)

	Notes	2021	2020
Operating activities:			
Receipts:			
Premiums collected (net of reinsurance ceded)		**$ 2,876.4**	$ 2,527.8
Interest received		**89.9**	95.6
Dividends received		**37.8**	29.3
Income taxes recovered		**2.2**	3.4
		3,006.3	2,656.1
Payments:			
Claims paid	**9**	**1,431.8**	1,462.1
Commissions and expenses paid		**767.0**	609.2
Premium taxes paid		**102.3**	93.2
Income taxes paid		**50.0**	1.4
		2,351.1	2,165.9
Net cash provided by operating activities		**655.2**	490.2
Investing activities:			
Investments purchased		**(4,595.4)**	(3,072.8)
Investments sold, redeemed, or matured		**3,587.3**	3,025.8
Commercial loans advanced		**-**	(4.8)
Commercial loans collected		**13.3**	20.0
Other assets purchased		**(49.4)**	(42.8)
Net cash used in investing activities		**(1,044.2)**	(74.6)
Financing activities:			
Net proceeds from the issuance of common shares	**2,18**	**2,285.7**	-
Distribution of demutualization benefits	**2**	**(1,908.9)**	-
Net cash provided by financing activities		**376.8**	-
Cash and cash equivalents, and restricted cash:			
Net (decrease) increase during the year		**(12.2)**	415.6
Balance, beginning of the year		**510.3**	94.7
Balance, end of the year		**$ 498.1**	$ 510.3
Cash		**$ 162.5**	$ 361.1
Cash equivalents		**224.8**	149.2
Total cash and cash equivalents		**$ 387.3**	$ 510.3
Restricted cash	**2**	**110.8**	-
Total cash and cash equivalents, and restricted cash		**$ 498.1**	$ 510.3

See accompanying notes.

1. NATURE OF OPERATIONS

Definity Financial Corporation (the "Company"), through its wholly owned subsidiaries, offers property and casualty ("P&C") insurance in Canada. The Company was incorporated on June 30, 2021 and is domiciled in Canada. Its registered office and principal place of business is 111 Westmount Road South, Waterloo, Ontario, Canada. The Company became the parent company of Definity Insurance Company ("Definity Insurance"), formerly known as Economical Mutual Insurance Company, following completion of the conversion of Definity Insurance from a mutual company to a company with share capital pursuant to the *Insurance Companies Act (Canada)* and regulations thereunder, a process known as "demutualization" as described in note 2 below. The results of Definity Insurance have been consolidated and presented as a continuation of business, and as a result, these financial statements include comparatives for the prior year.

These consolidated financial statements were authorized for issuance and approved by the Company's Board of Directors on February 10, 2022.

2. DEMUTUALIZATION AND INITIAL PUBLIC OFFERING

On November 3, 2015, Definity Insurance's Board of Directors initiated the process for demutualization within the federal demutualization regulatory framework (the "Demutualization"). Under such framework, Definity Insurance held three separate special meetings of eligible policyholders regarding the Demutualization, and following receipt of necessary approvals, Definity Insurance applied to the Minister of Finance (Canada) for approval to complete the Demutualization. On November 23, 2021, Definity Insurance completed the Demutualization and, pursuant to the plan setting out the terms for the conversion of Definity Insurance (the "Conversion Plan") and in connection with completion of the Demutualization, the Company became the parent company of Definity Insurance and issued 8,198,229 common shares to eligible policyholders of Definity Insurance. Immediately following the Demutualization, the Company closed its initial public offering ("IPO") of 63,636,370 common shares at a price of $22.00 per common share (the "Offering Price"), for aggregate gross proceeds of approximately $1.4 billion. An additional 9,545,455 common shares were also issued pursuant to the exercise of the over-allotment option granted to the underwriters of the IPO (the "Over-Allotment") at the Offering Price, for additional gross proceeds of approximately $0.2 billion. Concurrently with the IPO, on November 23, 2021, the Company completed private placements of 20,691,179 common shares to Healthcare of Ontario Pension Plan Trust Fund ("HOOPP") and 11,450,000 common shares to Swiss Re Investments Holding Company Ltd ("Swiss Re"), each at the Offering Price, for aggregate gross proceeds of approximately $0.7 billion (together, the "Cornerstone Private Placements"). After payment of underwriter commissions of approximately $61.5 million (net of applicable taxes), approximately $2.3 billion was recorded as incremental share capital.

After the IPO, on November 24, 2021, pursuant to the subscription agreement entered into with HOOPP, HOOPP purchased an additional 2,371,467 common shares at the Offering Price (the "Anti-Dilution Adjustment"). Upon completion of the IPO, the Over-Allotment, the Cornerstone Private Placements, and the Anti-Dilution Adjustment, HOOPP and Swiss Re owned 19.9% and approximately 9.9%, respectively, of the issued and outstanding common shares.

In accordance with the terms of the Conversion Plan, the net proceeds of the IPO and the Cornerstone Private Placements of $2.0 billion (after payment of expenses) were used to fund the distribution of cash benefits of the Demutualization to eligible recipients, including $100 million allocated to Definity Insurance Foundation. This obligation to pay eligible policyholders and Definity Insurance Foundation was recorded as a reduction in retained earnings immediately prior to the IPO. The cash Demutualization amounts outstanding to eligible recipients are reflected as "Restricted cash" in the consolidated balance sheet. The net proceeds of $252.1 million from the issuance of common shares to the underwriters pursuant to the Over-Allotment, and to HOOPP pursuant to the Anti-Dilution Adjustment, were retained by the Company for general corporate purposes.

Demutualization and IPO-related expenses of $30.1 million (2020: $3.8 million) are included in "Other (expenses) income" in the consolidated statements of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Canadian accepted actuarial practice and reflect the requirements of the Office of the Superintendent of Financial Institutions ("OSFI").

These consolidated financial statements have been prepared on a historical cost basis, except for those financial instruments, including those held in the defined benefit pension plan, that have been measured at fair value, and claim liabilities and benefit plan obligations which are valued on a discounted basis in accordance with accepted actuarial practice.

The financial statements of the subsidiaries and material associates are prepared for the same reporting period as the Company. Where necessary, the accounting policies of subsidiaries and associates are adjusted to align with those of the Company. The consolidated financial statements include the accounts of Definity Financial Corporation and its wholly owned subsidiaries, Definity Insurance, Waterloo Insurance Company, Perth Insurance Company, The Missisquoi Insurance Company, Sonnet Insurance Company, Petline Insurance Company ("Petline"), Westmount Financial Inc., Family Insurance Solutions Inc., and TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group, except for the Company and Petline). Each of these subsidiaries operate and are incorporated or established in Canada. The Company has appointed a trust company as its administrative agent and record keeper of its share-based compensation plans as described in note 3(m).

The Company's non-controlling interest investments in companies subject to significant influence are accounted for using the equity method and are included in "Other assets". Under the equity method, the original cost of the investments is increased by the comprehensive income of the non-controlling interest since acquisition and reduced by any dividends received. All intercompany transactions and balances have been eliminated on consolidation to the extent of the interest in the associate.

All amounts in the notes are shown in millions of Canadian dollars, unless otherwise stated.

(b) Basis of consolidation

When the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee, the investee is considered a subsidiary. Subsidiaries are fully consolidated from the date that control is obtained by the Company. Subsidiaries are deconsolidated from the date that control ceases.

When the Company has significant influence over an investee, that is the power to participate in the financial and operating decisions of the investee but does not have control or joint control over those decisions, the investee is considered to be an associate. Associates are accounted for under the equity method.

Business combinations are accounted for using the acquisition method. The acquisition method requires that the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at the acquisition date. Acquisition costs directly attributable to the acquisition are expensed in the year incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest. Any contingent consideration is also measured at fair value at the acquisition date.

The Company measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Insurance contracts

Insurance contracts are those contracts which transfer significant insurance risk at inception. The Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified event (the insured event) with uncertain timing or amount adversely affects the policyholder. Similarly, by purchasing reinsurance, the Company transfers significant insurance risk to the reinsurers. As a general guideline, the Company determines whether significant insurance risk has been transferred for insurance and reinsurance contracts by comparing whether significantly more would be paid or received if the insured event occurs, versus if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums and unearned premiums
Premiums are recognized in “Net earned premiums” in the consolidated statements of comprehensive income on a pro-rata basis over the period of risk. Premiums on policies written are accounted for in full in gross written premiums in the year written. Premiums receivable include the premiums due for the remaining months of the contracts. Written premiums on multi-year policies are recognized in gross written premiums in the year written and are recognized in net earned premiums on a pro-rata basis over the period of risk. Unearned premiums (“UPR”) represent the portion of premiums written relating to periods of insurance coverage subsequent to the reporting date and are presented as a liability gross of amounts ceded to reinsurers. UPR ceded to reinsurers is included in “Reinsurance receivable and recoverable”.

Claim liabilities
Claim liabilities are calculated based on Canadian accepted actuarial practice. The claim liabilities consist of reserves for reported claims as determined on a case-by-case basis by claims adjusters and an actuarially determined provision for incurred but not reported claims (“IBNR”). The estimates include related investigation, settlement, and internal and external adjustment expenses. Measurement uncertainty in these estimates exists due to internal and external factors that can substantially impact the ultimate settlement costs. Consequently, the Company reviews and re-evaluates claims and reserves on a regular basis and any resulting adjustments are included in “Net claims and adjustment expenses” in the consolidated statements of comprehensive income in the period the adjustment is made. Claims and adjustment expenses are reported net of reinsurance. The claim liabilities are valued on a discounted basis using a rate that is derived from the fair value yield of the bonds that have been identified as supporting the claim liabilities. In addition, the claim liabilities include provisions for adverse deviations (“PfAD”). The effect of discounting plus PfAD is included in “Impact of discounting” in the consolidated statements of comprehensive income. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

Deferred policy acquisition expenses
The amount of deferred policy acquisition expenses (“DPAE”) represents the brokers’ commission, premium taxes, and certain direct expenses in respect of the Company’s digital direct business, all of which are associated with the unearned portion of the premiums written during the year to the extent they are considered recoverable. The costs are expensed over the same period in which the related premiums are recognized as income. To the extent deferred commissions, premium taxes, and certain direct expenses in respect of the Company’s digital direct business are considered non-recoverable, they are expensed as incurred in the consolidated statements of comprehensive income. The maximum deferrable amount is calculated through the liability adequacy test.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Insurance contracts (continued)

Liability adequacy test
Quarterly, an assessment is made of whether the policy liabilities are adequate, which includes both claim liabilities and premium liabilities where premium liabilities refer to the Company's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred. Claim liabilities are assessed using current estimates of future cash flows of unpaid claims and adjustment expenses, discounted to reflect the time value of money. If that assessment shows that the carrying amount of the claim liabilities is insufficient in light of the current expected future cash flows, the deficiency is recognized in the consolidated statements of comprehensive income. Premium liabilities are assessed using current estimates of the discounted future claims and expenses associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of DPAE to the extent that the unearned premiums are not considered adequate to cover DPAE and premium liabilities. If the premium deficiency is greater than DPAE, a liability is accrued for the excess deficiency.

Industry pools
When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured by Facility Association ("FA"). In addition, entities can choose to cede certain risks to industry risk sharing pools ("RSP") administered by FA or, in Québec, to the Plan de répartition des risques ("PRR") administered by the Groupement des assureurs automobiles (collectively "the pools"). The related risks associated with FA insurance policies and policies ceded by companies to the pools are aggregated and shared by entities in the P&C insurance industry, generally in proportion to market share and volume of business ceded to the pools. In accordance with the OSFI guidelines, the Company applies the same accounting policies to FA and pool insurance it assumes and cedes as it does to insurance policies issued by the Company directly to policyholders. Amounts ceded to the pools are included as a deduction from gross written premiums. The Company's share of the pool assets backing policy liabilities is included in "Reinsurance receivable and recoverable".

Reinsurance
Reinsurance receivable and recoverable includes reinsurers' share of UPR and claim liabilities. The Company presents third party reinsurance balances in the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders. The estimates for the reinsurers' share of claim liabilities are determined on a basis consistent with the related claim liabilities. Reinsurance assets are reviewed at least quarterly for impairment.

Structured settlements
In the normal course of claims settlement, the Company enters into annuity agreements with various Canadian life insurance companies, that are required to have credit ratings of at least "A-" or higher, to provide for fixed and recurring payments to claimants in full satisfaction of the claim liability. Under such arrangements, the Company removes the liability from its consolidated balance sheets when the liability to its claimants is substantially discharged and legal release has also been obtained from the claimant, although the Company remains exposed to the credit risk that life insurers will fail to fulfil their obligations. See note 8 for further discussion of credit risk.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on deposit with banks, and term deposits having original maturities of ninety days or less. Fair values approximate carrying values for term deposits.

The amount presented as restricted cash in the consolidated balance sheets comprises the cash held to satisfy the obligation outstanding to eligible recipients pursuant to the Conversion Plan. Pursuant to the Conversion Plan, any Demutualization benefits not claimed within 35 months following November 23, 2021 shall, in the case of common shares, be cancelled and, in the case of cash, be transferred to the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments including investments

All of the Company's financial instruments are classified into one of the following four categories as defined below:

- available for sale ("AFS")
- financial assets and liabilities at fair value through profit or loss ("FVTPL")
- loans and receivables
- other financial liabilities

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Instruments voluntarily designated as FVTPL to support the claim liabilities may never be reclassified and, except in very limited circumstances, the reclassification of other financial instruments is not permitted subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement-date basis. Transaction costs are expensed as incurred for FVTPL financial instruments. For other financial instruments, transaction costs are capitalized on initial recognition. The effective interest rate method of amortization is used to account for any transaction costs capitalized on initial recognition and purchased premiums or discounts earned on bonds.

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given. Subsequent to initial recognition, the fair values are determined based on available information. The fair values of investments, excluding commercial loans, are based on quoted bid market prices where available or observable market inputs. The fair values of commercial loans and other financial instruments are obtained using discounted cash flow analysis at the current market interest rate for comparable financial instruments with similar terms and risks.

Financial instruments are no longer recognized when the right to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Available for sale
All short-term investments, equities (including preferred stocks, common stocks, and pooled funds), and bonds, except those voluntarily designated as FVTPL, are designated as AFS. Short-term investments consist of term deposits having original maturities of greater than ninety days and less than one year. AFS financial instruments are carried at fair value. Changes in fair value are recorded, net of income taxes, in "Other comprehensive income" ("OCI") in the consolidated statements of comprehensive income until the disposal of the financial instrument, or when an impairment loss is recognized. When the financial instrument is disposed of, the gain or loss is reclassified from "Accumulated other comprehensive income" ("AOCI") to "Recognized (losses) gains on investments" in the consolidated statements of comprehensive income. Gains and losses on the sale of AFS financial instruments are calculated on an average cost basis.

The Company assesses its AFS financial instruments for objective evidence of impairment at least quarterly. Objective evidence of impairment exists for individual equities (including common stocks and pooled funds) when there has been a significant or prolonged decline in fair value or net asset value below cost. Objective evidence of impairment exists for individual bonds when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Factors that are considered include, but are not limited to, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value. For individual preferred stocks, the key features of the preferred stock are assessed to determine if the instrument is more characteristic of an equity instrument or a debt instrument and objective evidence of impairment is evaluated accordingly. Preferred stock that are redeemable at the Company's option, and perpetual preferred stock purchased to produce dividend income for the long-term, are assessed using the same methodology as the bond impairment analysis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments including investments (continued)

When objective evidence of impairment exists for a financial instrument, the impairment loss is measured as the difference between carrying value and fair value. Impairment losses on AFS financial instruments are reclassified from AOCI to "Recognized (losses) gains on investments" in the consolidated statements of comprehensive income in the period such criteria are met. Subsequent fair value increases on previously impaired individual equities and pooled funds are recognized directly in OCI and not reversed through net income, while subsequent fair value decreases are recognized directly in net income. For individual bonds or preferred stocks, subsequent fair value increases that can be attributed to an observable positive development are recognized directly in net income, but otherwise, are recognized directly in OCI. Any subsequent reversal of an impairment loss on a bond or preferred stock is recognized in net income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Fair value through profit or loss
The Company has voluntarily designated a portion of its bonds as FVTPL. Changes in fair values as well as gains and losses on disposal of FVTPL financial instruments are recorded in "Recognized (losses) gains on investments" in the consolidated statements of comprehensive income with the related tax impact included in "Income tax expense". Gains and losses on the sale of FVTPL financial instruments are calculated on an average cost basis. As changes in the fair value of FVTPL financial instruments are reflected directly within net income in the consolidated statements of comprehensive income, it is not necessary to record an impairment loss when there has been a significant or prolonged decline in the fair value of FVTPL financial instruments.

The designation of the FVTPL bond portfolio aims to reduce the accounting mismatch in net income that would otherwise be generated by the fluctuations in fair values of underlying claim liabilities due to changes in interest rates. In compliance with OSFI guidelines, the Company manages the FVTPL portfolio's quantum and duration so that the impact of changes in interest rates on claim liabilities and on the FVTPL portfolio reasonably offset each other.

Derivative financial instruments
Derivatives are financial instruments that have value derived from underlying interest rates or other financial instrument prices or indices. Derivatives are classified as FVTPL. There are currently no derivatives designated as a hedge for accounting purposes. Derivatives are initially measured at fair value at the settlement date and subsequently remeasured at fair value at the end of each reporting date. The gains and losses arising from remeasuring the derivatives at fair value are recognized in "Recognized (losses) gains on investments" in the consolidated statements of comprehensive income with the related tax impact included in "Income tax expense".

Loans and receivables/Other financial liabilities
Financial instruments classified as loans and receivables, including commercial loans, and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. When there is evidence of impairment, the value of these financial instruments is written down to the estimated net realizable value through "Recognized (losses) gains on investments" in the consolidated statements of comprehensive income.

Evidence of impairment exists for individual commercial loans when there is a deterioration in the counterparties' financial performance to the extent that the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest.

Investment income recognition
Interest income is recognized on bonds and commercial loans on the accrual basis and includes the amortization of premiums and discounts over the life of the investment using the effective interest rate method. The treatment of recognized gains and losses on disposal of AFS and FVTPL investments is discussed in "Available for sale" and "Fair value through profit or loss" above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments including investments (continued)

Dividend income is recognized on the ex-dividend date.

(f) Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes amounts directly attributable to the acquisition of the items of property and equipment. Subsequent costs are added to the cost of the asset only when it is probable that economic benefits will flow to the Company in the future and the cost can be reliably measured.

Property and equipment are depreciated over their expected useful lives on a straight-line basis to their residual value. Each component of property and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately. Residual values, depreciation rates, and useful lives are reviewed at least annually and adjusted, if appropriate, at the reporting date. Land is not subject to depreciation and is carried at cost.

Estimated useful lives are as follows:

Buildings - structure	50 years
Buildings - infrastructure	25 years
Buildings - fixtures	15 years
Furniture and equipment	5 years
Computer equipment	4 years
Right-of-use assets	Lesser of the lease term and useful life

Property and equipment are derecognized upon disposal or when no further future economic benefits are expected from their use or disposal. Gains and losses on disposal are calculated as the difference between proceeds and net carrying value and are recognized in “Operating expenses” in the consolidated statements of comprehensive income. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

(g) Leases

The Company recognizes a right-of-use asset and a corresponding lease liability in the consolidated balance sheets with respect to all lease arrangements in which it is the lessee, except for short-term leases (leases with a lease term of 12 months or less) and leases of low value assets. For short-term and low value leases, the Company recognizes the lease payments in “Operating expenses” in the consolidated statements of comprehensive income on a straight-line basis over the term of the lease unless another systemic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses an estimate of its incremental borrowing rate at the commencement of the lease. Lease payments are allocated between interest expense and a reduction of the outstanding lease liability. Lease liabilities are recognized in “Accounts payable and other liabilities” in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leases (continued)

At the commencement date of the lease, the cost of right-of-use assets comprise the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. These assets are depreciated over the shorter of the lease term or their useful life. Right-of-use assets are recognized in “Property and equipment” in the consolidated balance sheet. Incentives received from the lessor, such as rent-free periods, are recognized as part of the measurement of the right-of-use assets and lease liabilities.

Interest expense and depreciation expense are recognized in “Operating expenses” in the consolidated statements of comprehensive income.

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition, and include assets such as brand, distribution network, and customer relationships. Intangible assets include capitalized software costs, where the software is not integral to the hardware on which it operates. Costs that are directly attributable to the development and testing of identifiable and unique software products controlled by the Company are recognized in software when the criteria specified in International Accounting Standard (“IAS”) 38 – *Intangible Assets* (“IAS 38”) are met. Capitalized costs include employee costs for staff directly involved in software development and other direct expenditures related to the project. Other development expenditures that do not meet the capitalization criteria under IAS 38 are recognized as an expense as incurred. Following the initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful economic life. Amortization is recorded in “Operating expenses” in the consolidated statements of comprehensive income. The useful life for intangible assets with a finite useful life are reviewed at least annually. Intangible assets with indefinite lives and intangible assets which are under development are not amortized, but are tested at least annually for impairment.

Estimated useful lives are as follows:

Brand	Indefinite
Distribution network	11 years
Customer relationships	8 years
Software	1 - 10 years

(i) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that its non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company compares the asset’s recoverable amount to the asset’s carrying value. An asset’s recoverable amount is calculated based on its value-in-use (“VIU”) using a discounted cash flow model. For the purposes of testing, assets are grouped into the lowest level in which cash inflows are largely independent of those from other assets or groups of assets. The recoverable amount is determined for the cash-generating unit (“CGU”) to which the asset belongs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of non-financial assets (continued)

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Company's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units.

Goodwill relating to an associate is included in the carrying amount of the investment and is not tested separately for impairment.

The Company performs a goodwill impairment review at least annually and whenever there is an indication that goodwill may be impaired. The fair value of each CGU has been determined based on the VIU using a discounted cash flow model. Impairment occurs when the carrying amount of the CGU exceeds the recoverable amount, in which case goodwill impairment is recognized prior to impairing other assets. Any impairment of goodwill or other assets is recorded in "Other (expenses) income" in the consolidated statements of comprehensive income in the year that such an impairment becomes evident. Previously recorded impairment losses for goodwill are not reversed in future years if the recoverable amount increases.

Investments in associates
After application of the equity method, the Company determines whether there are any indicators of an impairment loss of the Company's investments in associates. If there is objective evidence of impairment, the Company calculates the amount of impairment as the difference between the fair value of the associate and the carrying value, and recognizes this amount in the consolidated statements of comprehensive income in "Other (expenses) income".

(j) Income taxes

Income tax expense is comprised of current and deferred income tax. Income tax is recognized in net income except to the extent that it relates to items recognized in OCI or directly to retained earnings.

Current income tax is the expected tax payable or receivable calculated on the taxable income or loss for the period, based on income tax laws and rates enacted or substantively enacted as at the reporting date. Interest income or expenses arising on tax assessments, if any, are included in "Other (expenses) income" in the consolidated statements of comprehensive income.

Deferred income tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred income tax is calculated using income tax laws and rates enacted or substantively enacted as at the reporting date, which are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Pensions, other post-employment benefits and other employee benefits

The Company provides certain pension and other post-employment benefits to eligible participants upon retirement.

Pension benefits
The Company operates a defined benefit pension plan primarily for certain employees hired prior to January 1, 2002, which requires contributions to be made to a separately administered fund. The benefit is based on the employee's length of service and final average pensionable earnings. The cost of the defined benefits is actuarially determined and accrued using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management's best estimates concerning such factors as salary escalation and retirement ages of employees. Costs recognized in the consolidated statements of comprehensive income include the cost of pension benefits provided in exchange for employees' services rendered during the year, and the net interest cost calculated by applying a discount rate to the net defined benefit obligation. Actuarial gains and losses are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Past service costs, which are a result of a plan amendment or curtailment, are recognized in "Other (expenses) income" in the consolidated statements of comprehensive income when the amendment or curtailment has occurred.

The defined benefit asset or liability comprises the fair value of plan assets less the defined benefit obligation out of which the obligations are to be settled directly. This is recorded in the consolidated balance sheets in "Other assets" if the balance is in an asset position, and is recorded in "Accounts payable and other liabilities" if in a liability position. Plan assets are held by a long-term employee benefit fund and are not available to creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published closing price. The value of any defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company also has a defined contribution pension plan for certain employees, for which Company contributions are expensed in the year. The Company has no further payment obligations once the Company contributions and applicable administration fees have been paid.

Non-pension benefits
The Company provides other post-employment benefits for eligible employees hired prior to July 3, 2012. The Company accounts for the cost of all non-pension post-employment benefits, including medical benefits, dental care and life insurance for eligible retirees, their partners, and qualified dependants, on an accrual basis. These costs are recognized in "Operating expenses" in the consolidated statements of comprehensive income in the year during which services are rendered and are actuarially determined using the projected unit credit valuation method pro-rated on service. This method involves the use of the market interest rate at the measurement date on high-quality debt instruments for the discount rate, and management's best estimates concerning such factors as salary escalation, retirement ages of employees and expected health care costs. The impact of a plan curtailment is recognized in "Other (expenses) income" in the consolidated statements of comprehensive income when an event giving rise to a curtailment has occurred.

Actuarial gains and losses, except for long-term disability benefits, are recognized in full in OCI in the year in which they occur and then immediately in retained earnings. They are not reclassified to net income in subsequent years. Actuarial gains and losses for long-term disability benefits are recognized in "Operating expenses" in the consolidated statements of comprehensive income.

The accumulated value for non-pension post-employment benefits is recorded in the consolidated balance sheets in "Accounts payable and other liabilities".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Pensions, other post-employment benefits and other employee benefits (continued)

Termination benefits
Termination benefits are payable when employment is terminated, without cause, by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Short-term incentive plan
The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration various financial metrics and qualitative performance criteria. The Company recognizes a provision when contractually obliged or where there is a past practice that has created a reasonable expectation of a constructive obligation.

(l) Provisions

Provisions are recognized when the Company determines that there is a present legal or constructive obligation as a result of a past event or decision, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(m) Share-based compensation plans

Medium-term incentive plan
Under the Definity Insurance Medium-Term Incentive Plan (“MTIP”), notional units (Restricted Units (“RUs”) or Performance Units (“PUs”)) were granted annually to certain employees, with a unit value based on the consolidated book value of Definity Insurance. Historically, the value of the RUs fluctuated based solely on the consolidated book value of Definity Insurance, while the value of the PUs fluctuated based on the consolidated book value of Definity Insurance as well as Definity Insurance’s performance measured against certain performance criteria. The PUs have a floor mechanism to ensure that the PUs do not pay when performance is below a minimum threshold. The RUs and PUs vested over one to three years after the grant date and were settled in cash.

Following completion of the IPO on November 23, 2021, no further awards will be granted under the MTIP. Existing MTIP awards granted in 2019, 2020, and 2021 were adjusted so that such awards appreciate and depreciate based on the Company’s share price, rather than with Definity Insurance’s consolidated book value. This resulted in a proportional adjustment to the number of units outstanding under the MTIP to align with the actual number of units issued in the IPO, without amending the total value of the original grant, as provided for under the terms of the plan. The MTIP awards granted in 2019 will be cash-settled, whereas the MTIP awards granted in 2020 and 2021 are expected to be equity-settled through the purchase of common shares on the open market.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share-based compensation plans (continued)

The value of the cash-settled awards is recognized as an expense over the vesting period based on the estimated payout under the plan at the end of the vesting period, with a corresponding financial liability recorded in "Accounts payable and other liabilities". The liability is remeasured at the end of each reporting date, with any changes in fair value recognized in "Operating expenses" in the consolidated statements of comprehensive income. The fair value of the liability is based on the volume weighted average trading price of the Company's common shares during the immediately preceding five trading days prior to the reporting date. For PUs, the liability is also dependent on the number of awards that are expected to vest based on the Company's estimated performance relative to the performance criteria for each grant.

The value of the equity-settled awards is fixed on the grant date and is recognized as an expense over the vesting period, with a corresponding increase to contributed surplus. The Company re-estimates the number of awards that are expected to vest at each reporting period factoring in the Company's estimated performance relative to the performance criteria, but does not revalue the awards based on the current share price. The Company has engaged a third-party administrator to operate a trust with the purpose of future settlement of the equity-settled awards through open market purchases.

Definity share ownership plan
Effective as of November 23, 2021, under the Definity Share Ownership Plan ("DSOP"), employees may elect to make personal contributions to the DSOP up to a maximum of 10% of the employee's base salary to purchase the Company's common shares. Where an employee has made a personal contribution, the Company will match the contribution up to an annual maximum amount as periodically determined by the Company. The Company's common shares are purchased on the open market by a third-party administrator using the personal and Company contributions. The Company's contribution to the DSOP is recorded as an expense at the time of the contribution.

Other share-based compensation plans
While the long-term incentive plan, deferred share unit plan, and stock option plan (described below) are now effective, no grants under these plans were made in 2021.

Long-term incentive plan
Under the Long-Term Incentive Plan of the Company ("LTIP") which became effective as of November 23, 2021, share units (Restricted Share Units ("RSUs") or Performance Share Units ("PSUs")) are granted to certain employees, with a unit value based on the volume weighted average trading price of the Company's common shares during the five trading days immediately preceding the grant date. The RSUs and PSUs vest generally over three years after the grant date. The number of PSUs that ultimately vest is dependent on the Company's performance relative to certain performance criteria. Once vested, the RSUs and PSUs are generally expected to be settled in shares. The method of settlement is determined at the discretion of the Board of Directors of the Company. There is a floor mechanism in place to ensure that the PSUs do not pay when performance is below a minimum threshold.

The value of the equity-settled awards on the grant date is recognized as an expense over the vesting period, with a corresponding increase to contributed surplus. The Company re-estimates the number of awards that are expected to vest at each reporting period factoring in the Company's estimated performance relative to the performance criteria, but does not revalue the awards based on the current share price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share-based compensation plans (continued)

Deferred share unit plan

The Company has deferred share unit plans in place which became effective as of November 23, 2021, in which non-employee directors and certain executives of the Company are eligible to elect to receive all or a portion of their annual remuneration or incentive compensation, respectively, in the form of Deferred Share Units ("DSUs"), cash, or any combination thereof. The unit value of each DSU at the time of grant is equal to the volume weighted average trading price of the Company's common shares during the five trading days immediately preceding the grant date. The DSUs may be redeemed only when the director or executive ceases to be employed by the Company but generally do not have other vesting criteria. DSUs are settled in cash based on the weighted average trading price of the Company's common shares during the five trading days immediately preceding the redemption date.

The DSUs are cash-settled awards and are expensed at the time of the grant with the associated liability recognized in "Accounts payable and other liabilities". The DSU liability is remeasured at the end of each reporting date based on the volume weighted average trading price of the Company's common shares during the immediately preceding five trading days, with any changes in fair value recognized in either "Operating expenses" or "Other (expenses) income" in the consolidated statements of comprehensive income.

Stock option plan

The Company has a stock option plan in place for certain employees which became effective as of November 23, 2021. Under the terms of the plan, options to purchase common shares of the Company can be granted at an exercise price that shall not be lower than the market price on the date the option is granted. The market price is determined using the volume weighted average trading price of the Company's common shares during the five trading days immediately preceding the date of the grant. The term of an option shall not exceed ten years from the date the option is granted.

The fair value of options granted is measured using an option pricing model. The expense is recognized over the vesting period in either "Operating expenses" or "Other (expenses) income" in the consolidated statements of comprehensive income, with a corresponding increase to contributed surplus. When options are exercised, new common shares are issued, and the amount of contributed surplus along with the proceeds on exercise is recorded in share capital.

(n) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented, unless stated otherwise, in millions of Canadian dollars, which is also the functional currency of the Company. Each entity within the consolidated group determines its own functional currency based upon the currency used in the entity's primary operating environment, and measures financial results based on that functional currency.

Translation of foreign subsidiaries' accounts

Assets and liabilities of the Company's foreign subsidiaries are translated from their functional currencies into Canadian dollars at the exchange rate in effect at the reporting date.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenues and expenses are translated at the monthly weighted average rate prevailing during the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recorded in OCI. On the disposal of a foreign operation, the cumulative amount of exchange differences relating to that operation is recognized in net income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Foreign currency translation (continued)

Translation of foreign currency transactions
Transactions incurred in currencies other than the functional currency of the reporting entity are converted to the functional currency at the rate in effect on the transaction date. Monetary assets and liabilities denominated in a currency other than the functional currency are converted to the functional currency at the exchange rate in effect at the reporting date. Unrealized foreign currency gains and losses on AFS financial instruments are included in OCI. All other foreign currency gains and losses are included in net income.

(o) Embedded derivatives

At least annually, the Company conducts a search for embedded derivatives within its significant contracts. No material embedded derivatives were identified that required bifurcation.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IFRS standards have been issued but are not yet effective.

(a) Insurance contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 – *Insurance Contracts* ("IFRS 17"), which replaces IFRS 4 – *Insurance Contracts*. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. There are two measurement methodologies under IFRS 17, the general model and the premium allocation approach. The general model requires insurance contracts to be measured using current estimates of discounted future cash flows, an adjustment for risk, and a contractual service margin representing the profit expected from fulfilling the contracts. The premium allocation approach is a simplified model that can be applied to insurance contracts with coverage periods of one year or less (which is the coverage period of most P&C insurance contracts), or where the premium allocation approach approximates the general model. Presentation changes in the consolidated balance sheets and the consolidated statements of comprehensive income are required in addition to new disclosures.

In June 2020, the IASB approved amendments to IFRS 17. The amendments, among other items, included deferring the effective date of IFRS 17 to be effective for annual reporting periods beginning on or after January 1, 2023; early adoption is permitted. In December 2021, the IASB amended IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets measured under IFRS 9 – Financial Instruments ("IFRS 9") and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. Retrospective application is required unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The Company plans to adopt the new standard on the required effective date together with IFRS 9. The Company is currently analyzing the impact these standards will have on its consolidated financial statements, including assessing whether the Company will use the classification overlay.

The below is a summary of the most significant impacts IFRS 17 is expected to have on the Company's consolidated financial statements:

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(a) Insurance contracts (continued)

Measurement model	The Company expects to apply the premium allocation approach to its insurance contracts.
Insurance acquisition cash flows	The Company plans to defer insurance acquisition cash flows that arise from the costs of selling, underwriting, and starting a group of insurance contracts. IFRS 17 has broadened the costs eligible for deferral, which will likely result in an increase in this amount. These deferred cash flows will be expensed in the year in which the related premiums are recognized as income.
Onerous contracts	Where facts and circumstances indicate that insurance contracts are onerous at initial recognition, the Company will perform additional analysis to determine if a net outflow is expected from the contracts and will recognize a liability for the net outflow if applicable.
Claim liabilities	Claim liabilities will be discounted based on market interest rates on instruments with timing and duration which are consistent with the underlying insurance contract liabilities. The impact of discounting is currently calculated based on investment returns of the individual company's investment portfolio. Under IFRS 17, the impact of discounting will continue to be recorded by the Company entirely in net income. In addition, the measurement of the liability will include an explicit risk adjustment for non-financial risk. The Company is assessing the impact of these changes on its insurance liabilities and results of operations.
Disclosure	The disclosure differences under IFRS 17 are expected to be significant. Results from direct insurance contracts issued and reinsurance contracts held will be presented separately. Costs that do not relate directly to the fulfilment of an insurance contract will be included in "Other (expenses) income" in the consolidated statements of comprehensive income. Insurance contract liabilities presented in the consolidated balance sheets will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the consolidated balance sheets and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. The reclassification of amounts on the consolidated balance sheets are expected to result in a reduction in consolidated assets and liabilities of the Company. The Company is still assessing and quantifying the final impact on the financial statements.

The Company has established a program management office with respect to the adoption of IFRS 17. The Company has various IFRS 17 workstreams, which involve finance, actuarial, change management, and IT resources, involving functional leaders from across the organization. The Company is active in industry working groups and participates in discussions with other stakeholders. Significant modelling activities continue with respect to accounting and actuarial assessments to determine their impacts. Additionally, the Company is implementing an IFRS 17 systems solution with completion of user acceptance testing expected in the first half of 2022.

(b) Financial instruments: Classification and measurement

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This single, principle-based approach replaces existing rule-based requirements and is intended to improve and simplify the reporting for financial instruments.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(b) Financial instruments: Classification and measurement (continued)

Debt instruments are classified as amortized cost, fair value through other comprehensive income ("FVTOCI"), or FVTPL based upon the entity's business model, contractual cash flow characteristics of the instrument, and the entity's election, if any, on classification. Equity instruments are classified as FVTPL unless the entity qualifies and elects them as FVTOCI. Gains or losses on equity instruments classified as FVTOCI are not reclassified to profit and loss and are therefore not required to be reviewed for impairment. Impairment requirements for debt instruments classified as amortized cost or FVTOCI are based on the expected credit loss model which is intended to recognize credit losses earlier compared to IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. The Company is still finalizing its determination of which financial instruments will be classified as FVTPL, and to the extent that more of its investments are designated as FVTPL there will be additional volatility in net income.

An entity whose activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016 is eligible to apply a temporary exemption to adopt IFRS 9 in conjunction with its adoption of IFRS 17. The Company has chosen to apply the temporary exemption from IFRS 9 to defer the application of IFRS 9 until the effective date of IFRS 17. The Company is currently analyzing the impact these standards will have on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as at the reporting date, and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. The most complex and significant judgments, estimates and assumptions used in preparing the Company's consolidated financial statements are discussed below.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements.

The Company has applied judgment in its assessment of the evaluation of current obligations requiring provisions, the determination of CGUs, the identification of the indicators of impairment for property and equipment, goodwill, and intangible assets, the identification of objective evidence of impairment for financial instruments, the determination of control or significant influence over investees, and the recoverability and recognition of deferred tax assets.

Estimates and assumptions
Management has made a variety of estimates that have had a significant impact in the determination of the carrying amounts of certain key assets and liabilities including, but not limited to, the following:

(a) Valuation of claim liabilities

The Company is required by applicable insurance laws, regulations, and IFRS to establish liabilities for payment of claims and claims adjustment expenses that arise from the Company's insurance products. These liabilities represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. The Company establishes its claim liabilities by region, product line, type and extent of coverage, and year of occurrence.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Valuation of claim liabilities (continued)

Claim liabilities fall into two categories: reserves for reported claims and provision for IBNR losses. Additionally, liabilities are held for claims adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalize the settlement of the losses.

Determining the provision for unpaid claims and adjustment expenses, and the related reinsurers' share involves an assessment of the future development of claims. The estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information. This process takes into account the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting claims. Claim liabilities include estimates subject to variability, which could be material. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from past trends.

In general, the longer the term required for the settlement of a group of claims, the greater the potential for variability in the estimate. Any future changes in estimates would be reflected in the consolidated statements of comprehensive income in the year in which the change occurred. Note 10 contains additional analysis of the impact of the key assumptions on claim liabilities.

The principal assumptions made in establishing claim liabilities are best estimates. Claim liabilities have been discounted to reflect estimated future investment income in accordance with Canadian accepted actuarial practice. The rate used to discount the claim liabilities is based on the fair value yield of the bond portfolio supporting the claim liabilities. To increase the likelihood that the claim liabilities are adequate to pay future benefits, margins for adverse deviation are required to be included for assumptions regarding future claims development, interest rates, and reinsurance recoverables. The Canadian Institute of Actuaries recommends a range of appropriate margins for each of these variables. The combined effect of all the margins produces the PfAD.

Reinsurance recoverables include amounts for expected recoveries from reinsurers related to claim liabilities. Amounts recoverable from reinsurers are evaluated in a manner consistent with the provisions of the reinsurance contracts. The failure of reinsurers to honour their obligations could result in losses to the Company, as the ceding of insurance does not relieve the Company of its primary liability to its insured parties.

(b) Impairment of long-lived assets

The Company determines whether long-lived assets are impaired on an annual basis or more frequently if there are indicators of potential impairment. Impairment testing of long-lived assets requires an estimation of the recoverable amount of the CGUs to which the assets are allocated.

(c) Impairment of financial assets

The Company assesses its AFS financial instruments for objective evidence of impairment at each reporting date. Objective evidence of impairment includes a significant or prolonged decline in the fair value or net asset value below cost, or when a loss event that has a reliably estimable impact on the future cash flows of the financial instrument has occurred. Significance of the decline is evaluated against the original cost of the investment and prolonged decline is measured against the period in which the fair value has been below its original cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, a decline in current financial position, defaults on debt obligations, failure to meet debt covenants, significant downgrades in credit status, and severity and/or duration of the decline in value.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(d) Valuation of post-employment benefits obligation

The projected cost of defined benefit pension plans and other non-pension future benefits is determined using actuarial valuations performed by external pension actuaries. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rate, expected health care costs, inflation, and future pension increases. The details of the assumptions are disclosed in note 22. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual experience that differs from the assumptions will affect the amounts of the benefit obligation recognized in the consolidated balance sheet, the expense recognized in net income, and actuarial gains or losses recognized in OCI (or in operating expenses as discussed in note 3) in the consolidated statements of comprehensive income.

(e) Measurement of income taxes

The Company is subject to income tax laws in various federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect the risk of tax positions under discussion, audit dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty.

6. RISKS RELATED TO THE COVID-19 PANDEMIC AND RELATED FINANCIAL IMPACTS

The Company is continuing to respond to the hardships that the COVID-19 pandemic has created for individuals, communities, and businesses across Canada with a mix of customer relief and community impact efforts to provide support for Canadians. The Company's support efforts include reductions of premiums and flexible payment options for personal insurance customers, and tailored solutions for brokers and business owners. The impact of these measures in 2021 was a reduction in gross written premiums of approximately $55 million (2020: $60 million) and a reduction in net earned premiums of approximately $58 million (2020: $25 million). The Company recorded incurred losses of nil in 2021 and $30.0 million in 2020 in "Net claims and adjustment expenses" in the consolidated statements of comprehensive income for potential exposures related to COVID-19.

The Company is continuing to monitor the evolving economic impact of the COVID-19 pandemic to its operations and capital position. The Company's strong capital position and its proactive capital and risk management practices developed in recent years have enabled the Company to react rapidly to the changing environment resulting from the COVID-19 pandemic. Due to the significant uncertainties in the current business environment surrounding the duration of the pandemic and overall economic impact of COVID-19, the extent of the impact on the Company's financial condition and performance in the future remains uncertain.

Along with many other P&C insurers in Canada, Definity Insurance has been named as a defendant in litigation for certain business interruption losses related to the COVID-19 pandemic, seeking to establish coverage under insurance policies, including national and regional class proceedings. An Ontario action on behalf of a national class (businesses in Canada, excluding Québec) was certified as a class proceeding on August 20, 2021. Definity Insurance and other insurer defendants consented to certification, which is a procedural step and not a determination of the merits. An action in Québec (limited to dentists and dental offices in Québec) was denied authorization as a class proceeding on August 18, 2021. The denial represents a rejection of that class proceeding. A second Québec action (all other businesses in Québec) remains outstanding. Definity Insurance denies liability and intends to vigorously defend these proceedings.

7. INVESTMENTS

(a) Investment income and balances

Investment income by financial instrument classification is as follows:

(in millions of dollars)	2021			
	FVTPL	AFS	Loans and receivables	Total
Interest	$ 39.9	$ 30.4	$ 1.2	$ 71.5
Dividends	-	30.7	-	30.7
Investment expenses	-	-	-	(5.4)
Net investment income	39.9	61.1	1.2	96.8
Realized (losses) gains on sale of investments	(5.3)	49.7	-	44.4
Impairment losses on AFS investments	-	(0.5)	-	(0.5)
Unrealized losses on FVTPL investments	(64.7)	-	-	(64.7)
Recognized (losses) gains on investments	(70.0)	49.2	-	(20.8)
	$ (30.1)	$ 110.3	$ 1.2	$ 76.0

(in millions of dollars)	2020			
	FVTPL	AFS	Loans and receivables	Total
Interest	$ 41.2	$ 32.7	$ 1.4	$ 75.3
Dividends	-	29.1	-	29.1
Investment expenses	-	-	-	(4.1)
Net investment income	41.2	61.8	1.4	100.3
Realized gains on sale of investments	0.2	12.6	-	12.8
Impairment losses on AFS investments	-	(17.6)	-	(17.6)
Unrealized gains on FVTPL investments	84.6	-	-	84.6
Recognized gains (losses) on investments	84.8	(5.0)	-	79.8
	$ 126.0	$ 56.8	$ 1.4	$ 180.1

The fair value yield as at December 31, 2021 for the FVTPL bond portfolio was 1.49% (2020: 0.77%) and for the AFS bond portfolio was 1.39% (2020: 0.76%).

Investment carrying values by financial instrument classification are as follows:

(in millions of dollars)	2021			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	$ 47.5	$ 41.3	$ -	$ 88.8
Bonds	2,092.0	2,141.8	-	4,233.8
Preferred stocks	-	405.7	-	405.7
Common stocks	-	570.5	-	570.5
Pooled funds	-	42.7	-	42.7
Commercial loans	-	-	24.3	24.3
	$ 2,139.5	$ 3,202.0	$ 24.3	$ 5,365.8

7. INVESTMENTS (continued)

(a) Investment income and balances (continued)

(in millions of dollars)	2020			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	$ 35.0	$ 183.2	$ -	$ 218.2
Bonds	1,898.8	1,501.9	-	3,400.7
Preferred stocks	-	336.6	-	336.6
Common stocks	-	329.8	-	329.8
Pooled funds	-	43.4	-	43.4
Commercial loans	-	-	37.6	37.6
	$ 1,933.8	$ 2,394.9	$ 37.6	$ 4,366.3

The commercial loans have an amortized cost of $24.3 million (2020: $37.6 million) and fair value of $23.4 million (2020: $35.8 million).

The gross unrealized gains (losses) on AFS investments are detailed below. The cost of all AFS investments, except AFS bonds, is the purchase price less cumulative impairment losses, if applicable. The cost of all AFS bonds is the amortized cost adjusted for cumulative impairment losses.

(in millions of dollars)	2021			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	$ 41.2	$ 0.1	$ -	$ 41.3
Bonds:				
Government	1,324.0	9.1	(3.8)	1,329.3
Corporate	808.5	7.2	(3.2)	812.5
	2,132.5	16.3	(7.0)	2,141.8
Canadian preferred stocks	394.8	19.7	(8.8)	405.7
Common stocks:				
Canadian	318.1	89.8	(2.9)	405.0
Foreign	145.6	23.8	(3.9)	165.5
Foreign pooled funds	42.6	1.3	(1.2)	42.7
	506.3	114.9	(8.0)	613.2
	$ 3,074.8	$ 151.0	$ (23.8)	$ 3,202.0

7. INVESTMENTS (continued)

(a) Investment income and balances (continued)

(in millions of dollars)	2020			
	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	$ 182.9	$ 0.3	$ -	$ 183.2
Bonds:				
Government	920.4	34.8	(0.3)	954.9
Corporate	526.7	20.3	-	547.0
	1,447.1	55.1	(0.3)	1,501.9
Canadian preferred stocks	384.8	6.5	(54.7)	336.6
Common stocks:				
Canadian	231.7	37.5	(4.0)	265.2
Foreign	26.2	38.4	-	64.6
Foreign pooled funds	42.4	1.0	-	43.4
	300.3	76.9	(4.0)	373.2
	$ 2,315.1	$ 138.8	$ (59.0)	$ 2,394.9

(b) Financial instruments measured at fair value

The Company categorizes its fair value measurements according to a three-level hierarchy, which prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The Company recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The three levels of the fair value hierarchy are defined as follows:

(i) Level 1 fair value measurements reflect unadjusted, quoted prices in active markets for identical assets, and liabilities that the Company has the ability to access at the measurement date. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1 and into Level 2 or Level 3 as appropriate. Included in the Level 1 category are exchange-traded derivatives and all stocks, both common and preferred, except the pooled funds.

(ii) Level 2 fair value measurements use inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable but are not prices such as interest rates and credit risks and inputs that are derived from or corroborated by observable market data. Included in the Level 2 category are all bonds which are valued on a discounted cash flow basis, the pooled funds which are valued based on quoted prices of the underlying securities in an active market, and short-term investments which are valued on a discounted cash flow basis. The inputs into the discounted cash flow model for the bonds and short-term investments are an estimate of the expected cash flows discounted at a pre-tax risk-free rate plus an appropriate adjustment for credit risk.

(iii) Level 3 fair value measurements use significant non-market observable inputs, including assumptions about risk or liquidity. As at December 31, 2021, the Company has no financial instruments within its investment portfolio in this category (2020: nil).

Commercial loans are measured at cost, but fair value is disclosed. The fair value is measured on a discounted cash flow basis. The inputs into the discounted cash flow model are an estimate of the expected cash flows discounted at a pre-tax risk-free rate plus an appropriate adjustment for credit risk.

7. INVESTMENTS (continued)

(b) Financial instruments measured at fair value (continued)

Distribution of financial instruments measured at fair value in the three-level hierarchy is as follows:

(in millions of dollars)	2021			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 88.8	$ -	$ 88.8
Bonds	-	4,233.8	-	4,233.8
Preferred stocks	405.7	-	-	405.7
Common stocks	570.5	-	-	570.5
Pooled funds	-	42.7	-	42.7
	$ 976.2	$ 4,365.3	$ -	$ 5,341.5

(in millions of dollars)	2020			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ -	$ 218.2	$ -	$ 218.2
Bonds	-	3,400.7	-	3,400.7
Preferred stocks	336.6	-	-	336.6
Common stocks	329.8	-	-	329.8
Pooled funds	-	43.4	-	43.4
	$ 666.4	$ 3,662.3	$ -	$ 4,328.7

There were no transfers of financial instruments between the levels during the year.

(c) Impairment review

Impairment reclassification of unrealized losses from AOCI to net income is as follows:

(in millions of dollars)	2021	2020
Common stocks:		
Canadian	$ 0.5	$ 15.4
Foreign	-	2.2
	$ 0.5	$ 17.6

The remaining gross unrealized losses of $23.8 million (2020: $59.0 million) on the AFS investments have not been recognized in net income as the Company does not believe there is currently objective evidence of impairment. During 2020, global equity markets experienced significant volatility largely due to the COVID-19 pandemic, leading to an impairment charge of $17.6 million primarily on domestic common stocks.

The Company has determined that there is no evidence of significant impairment of any individual commercial loan. All balances are current, and a review of the financial condition of the debtors and pledged collateral indicates that there is reasonable assurance of timely collection of the full amounts of principal and interest.

(d) Securities lending

The Company participates in a securities lending program managed by a major financial institution, whereby the Company lends securities it owns to borrowers to allow them to meet delivery commitments. The lending agents assume the risk of borrower default associated with the lending activity. As at December 31, 2021, securities with an estimated fair value of $598.9 million (2020: $607.8 million) have been loaned and securities with an estimated fair value of $620.1 million (2020: $628.4 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2021 was 100.0% (2020: 100.0%) held in cash and government-backed securities. The securities loaned under this program have not been removed from “Investments” in the consolidated balance sheets because the Company retains the risks and rewards of ownership.

7. INVESTMENTS (continued)

(d) Securities lending (continued)

The financial compensation the Company receives in exchange for securities lending, amounting to $0.4 million (2020: $0.7 million), is reflected in the consolidated statements of comprehensive income in “Net investment income”.

(e) Derivative financial instruments

The Company holds futures contracts, which are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are exchange-traded and collateralized by cash. As at December 31, 2021, the Company had derivative financial assets with a notional amount of $89.9 million (2020: $102.5 million) and derivative financial liabilities with a notional amount of $15.0 million (2020: nil). These derivatives have an expected maturity date within the next year. The fair value of the derivative financial instruments is not significant.

Fair values of exchange-traded derivatives are based on quoted market prices. Equity or bond index futures are standardized contracts transacted on an exchange. They are based on an agreement to pay or receive a cash amount based on the difference between the contracted price level of an underlying stock or bond index and its corresponding market price level at a specified future date. There is generally no actual delivery of stocks or bonds that comprise the underlying index. These contracts are in standard amounts with standard settlement dates.

8. FINANCIAL RISK MANAGEMENT

The Company’s financial instruments, including investments, are exposed to interest rate risk (including the impact of credit spreads), equity market price risk and preferred stock price risk, credit risk, foreign exchange risk, and liquidity risk. The Company’s Investment Policy Statement (“IPS”) establishes asset mix parameters and risk limits which minimize undue exposure to these risks in the investment portfolio. The IPS is reviewed at least annually by the Executive Investment Committee. Compliance with the IPS is monitored quarterly by the Executive Investment Committee.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of assets and liabilities as they either mature or are contractually repriced. Changes in interest rates can occur from both changes in the Government of Canada yield curve and changes in relevant market credit spreads. Typically, interest income will be reduced during sustained periods of declining interest rates, but this will also generally increase the fair value of the bond portfolio. The opposite is true during a sustained period of increasing interest rates.

Interest rate risk is a significant risk to the Company due to the nature of its investments and claim liabilities. Accordingly, a portion of the Company’s bond portfolio has been voluntarily designated as FVTPL financial assets which, together with a portion of AFS bonds, is managed to offset the effect that interest rate changes have on the Company’s claim liabilities. The effect of interest rate risk associated with discounting claim liabilities is disclosed in note 10.

The impact of an immediate hypothetical one percentage point change in interest rates (assuming a parallel shift across the yield curve), on the FVTPL and AFS bond portfolios, with all other variables held constant is as follows:

(in millions of dollars)	2021		2020	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Fair value of FVTPL bonds and income before income taxes	$ (87.1)	$ 96.8	$ (88.0)	$ 98.2
Fair value of AFS bonds and OCI before income taxes	$ (72.5)	$ 82.5	$ (60.8)	$ 69.8

8. FINANCIAL RISK MANAGEMENT (continued)

(b) Common equity market price risk and preferred stock price risk

General economic conditions, stock market conditions, investor sentiment, and many other factors can positively or adversely impact the equity markets and, consequently, the value of equity investments the Company holds. The Company's AFS portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the Toronto Stock Exchange 60 Index, and foreign stocks and pooled funds with fair values that are benchmarked against movements in the MSCI World Index. Also included in the AFS portfolio are the Company's holdings of preferred stocks. Economic trends, interest rates, credit conditions, regulatory changes, and other factors can positively or adversely impact the value of preferred stocks that the Company holds. The fair value sensitivity of the Company's preferred stocks is assessed against movements in the S&P Preferred Share Index.

The estimated impact of a 10% movement in the aforementioned indices to the value of the Company's equity portfolio, with all other variables held constant, to the extent the Company does not dispose of any of these equities during the year, is as follows:

(in millions of dollars)	2021		2020	
Impact on:	+ 10%	- 10%	+ 10%	- 10%
Fair value of Canadian stocks and OCI before income taxes	$ 40.5	$ (40.5)	$ 26.6	$ (26.6)
Fair value of foreign stocks, pooled funds and OCI before income taxes	$ 20.8	$ (20.8)	$ 11.0	$ (11.0)
Fair value of preferred stocks and OCI before income taxes	$ 51.8	$ (51.8)	$ 36.5	$ (36.5)

(c) Credit risk

Credit risk is the risk of financial loss caused by the Company's counterparties not being able to meet payment obligations as they become due. The Company's credit risk arises primarily in the bond, preferred stock and commercial loan portfolios, the securities lending program, premiums receivable, amounts owing from reinsurers, and structured settlements. Unless otherwise stated, the Company's credit exposure is limited to the carrying amount of these assets. The Company's principal approach to mitigate credit risk is to maintain high credit quality standards and to diversify credit exposures by limiting single name concentrations. Concentration risk also exists where multiple counterparties may be financially affected by changing economic conditions in a similar manner. As noted below, the Company has a concentration of investments in Canada and within the financial sector. These risk concentrations are regularly monitored and adjusted as deemed necessary.

Bonds and preferred stocks

The Company manages its credit risk associated with bonds and preferred stocks by investing in bonds and preferred stocks that are primarily of high credit quality, and limits exposure with respect to any one issuer. On a regular basis, the Company also monitors publicly available information referencing the investments held in the investment portfolio to determine whether there are investments which require closer monitoring of the credit risk. Of the bonds held as at December 31, 2021, 93.4% (2020: 92.0%) were rated "A-" or better and 78.2% (2020: 81.1%) of the preferred stocks were rated "P2L" or better. "A-" and "P2L" represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively.

8. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Of the preferred stocks and corporate bonds held, the industry of issuer is as follows:

	2021	2020
Financial services	64.6%	61.3%
Utilities	9.4%	10.0%
Energy	8.8%	9.4%
Industrials	5.7%	7.1%
Communication services	4.4%	3.6%
Other	7.1%	8.6%
	100.0%	100.0%

Of the preferred stocks and bonds held, the country of issuer is as follows:

	2021	2020
Canada	99.6%	99.8%
United States	0.4%	0.1%
Other	-	0.1%
	100.0%	100.0%

Securities lending
As disclosed in note 7, the Company participates in a securities lending program. The Company manages credit risk associated with this program by obtaining indemnification against security borrower counterparty default from the major financial institution and by obtaining collateral with a fair value in excess of the value of the securities loaned under the program. The ratio of fair value of collateral obtained in excess of the fair value of the securities loaned as at December 31, 2021 is 103.6% (2020: 103.4%).

Premiums receivable
The Company's credit exposure to any one individual policyholder or broker included in premiums receivable is not significant. The Company regularly monitors amounts due from policyholders and follows up on all overdue accounts. As permitted by legislation, when premiums are overdue for an extended period of time the Company cancels the insurance coverage under the applicable policy. Before a broker is granted a contract, due diligence reviews are conducted by the Company. Delinquent accounts are regularly monitored, and the Company takes action against non-payment. The allowance for doubtful accounts in the current and comparative periods is immaterial as overdue receivables are not significant.

Commercial loans
The Company periodically issues commercial loans to brokers. Collateral, principally in the form of security over a borrowing brokerage's operating assets, is held to protect the Company against loss in the event of a default of any of these loans. Annually, and where required more frequently, financial reviews are undertaken to determine if the broker is expected to be able to make the payments required by the loan as and when due. The Company's gross credit exposure on these commercial loans is limited to their carrying value as disclosed in note 7. Management does not consider any of these current commercial loans to be impaired as at December 31, 2021.

Reinsurance receivable and recoverable
Credit exposures on the Company's reinsurance receivable and recoverable balances exist to the extent that any reinsurer may not be willing or able to reimburse the Company under the terms of the relevant reinsurance arrangements. The Company has policies which limit the exposure to individual reinsurers and a regular review process to assess the creditworthiness of reinsurers from whom the Company purchases coverage. The Company's reinsurance risk management policy generally precludes the use of reinsurers with credit ratings less than "A-".

8. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Currently, 97.5% (2020: 97.3%) of the Company's reinsurers have a credit rating of "A-" or better as determined by independent rating agencies. Where appropriate, the Company obtains collateral for outstanding balances in the form of cash, letters of credit, offsetting balances payable, guarantees, or assets held under reinsurance security agreements. The Company has recorded an allowance for losses on reinsurance receivable and recoverable of $0.5 million (2020: $0.5 million).

Structured settlements
The Company has purchased annuities from life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent to which any of the life insurers fail to fulfil their obligations. This risk is managed by acquiring annuities from multiple life insurers with proven financial stability, all of which are rated "A-" or better by independent rating agencies. As at December 31, 2021, no information has come to the Company's attention that would suggest any weakness or failure in life insurers from which it has purchased annuities. Consequently, no provision for credit risk was recorded (2020: nil). The original purchase price of the outstanding annuities is $321.1 million (2020: $318.4 million).

(d) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates relative to the Canadian dollar. The Company's foreign exchange risk relates primarily to its foreign common stock and pooled fund holdings in the AFS portfolio which are denominated in various foreign currencies.

The Company's largest foreign currency exposure is to the US dollar. The impact on the fair value of US dollar foreign stocks, pooled funds, and OCI before income taxes from a 10% change in the US dollar relative to the Canadian dollar is $14.2 million (2020: $7.0 million). Under this same scenario, the impact on the fair value of non-US dollar foreign stocks, pooled funds, and OCI before income taxes is $2.8 million (2020: $1.5 million) assuming historical correlations between currency pairs remain intact.

(e) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations, particularly those related to claim payments. Currently, the liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities, and investment returns. Liquidity risk arises in relation to each of those funding sources. Cash provided from these sources normally exceeds cash requirements to meet claim payments and operating expenses. As disclosed in note 19, the Company also has access to a revolving credit facility.

As at December 31, 2021, the Company has $387.3 million (2020: $510.3 million) of cash and cash equivalents and $88.8 million (2020: $218.2 million) of short-term investments. The Company also has a highly liquid investment portfolio. As at December 31, 2021, Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly traded Canadian and foreign equities and the pooled funds have a fair value of $5,164.3 million (2020: $4,046.9 million).

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company.

For claim liabilities and reinsurance receivable and recoverable, maturity profiles are determined based on estimated timing of net cash flows on an undiscounted basis. DPAE, UPR, and the reinsurers' share of UPR have been excluded from the analysis as they are not of themselves contractual obligations. Included in accounts payable and other liabilities are undiscounted lease payments of $5.3 million (2020: $5.6 million) (< 1 year), $13.5 million (2020: $14.6 million) (Over 1 to 5 years), $2.7 million (2020: $5.0 million) (Over 5 to 10 years), and nil (2020: nil) (> 10 years).

8. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

(in millions of dollars)	2021				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Assets:					
Cash and cash equivalents	$ 387.3	$ -	$ -	$ -	$ 387.3
Short-term investments	88.8	-	-	-	88.8
FVTPL bonds	217.5	1,145.9	684.4	44.2	2,092.0
AFS bonds	504.8	843.0	784.3	9.7	2,141.8
Preferred stocks	87.9	311.5	6.3	-	405.7
Commercial loans	5.6	11.8	6.9	-	24.3
Accrued investment income	21.3	-	-	-	21.3
Premiums receivable	1,075.9	-	-	-	1,075.9
Income taxes receivable	0.2	-	-	-	0.2
Reinsurance receivable and recoverable	52.4	56.5	20.2	4.1	133.2
	$ 2,441.7	$ 2,368.7	$ 1,502.1	$ 58.0	$ 6,370.5
Liabilities:					
Claim liabilities	$ 1,136.0	$ 1,482.1	$ 431.4	$ 123.3	$ 3,172.8
Accounts payable and other liabilities	347.6	19.9	9.7	18.8	396.0
Income taxes payable	55.6	-	-	-	55.6
	$ 1,539.2	$ 1,502.0	$ 441.1	$ 142.1	$ 3,624.4

(in millions of dollars)	2020				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Assets:					
Cash and cash equivalents	$ 510.3	$ -	$ -	$ -	$ 510.3
Short-term investments	218.2	-	-	-	218.2
FVTPL bonds	229.6	856.4	789.0	23.8	1,898.8
AFS bonds	246.8	548.4	686.6	20.1	1,501.9
Preferred stocks	58.9	270.0	7.7	-	336.6
Commercial loans	3.9	18.7	15.0	-	37.6
Accrued investment income	16.8	-	-	-	16.8
Premiums receivable	958.7	-	-	-	958.7
Income taxes receivable	2.1	-	-		2.1
Reinsurance receivable and recoverable	17.5	27.3	9.4	1.3	55.5
	$ 2,262.8	$ 1,720.8	$ 1,507.7	$ 45.2	$ 5,536.5
Liabilities:					
Claim liabilities	$ 881.9	$ 1,402.8	$ 420.2	$ 114.8	$ 2,819.7
Accounts payable and other liabilities	261.9	22.9	14.6	28.3	327.7
Income taxes payable	18.7	-	-	-	18.7
	$ 1,162.5	$ 1,425.7	$ 434.8	$ 143.1	$ 3,166.1

Note 22(c) contains the maturity profile for other post-employment benefit obligations.

The Company believes that it currently has the flexibility to obtain the funds needed to meet cash requirements on an ongoing basis.

9. POLICY LIABILITIES

These consolidated financial statements contain an actuarial estimate of the policy liabilities of the Company. Policy liabilities represent the amount of the obligation of the Company on account of policies effective on or before the reporting date and consist of premium and claim liabilities. Claim liabilities are associated with claims that have occurred on or before the reporting date, whether the claim has been reported to the Company at that time or not, whereas premium liabilities are associated with claims that may occur in the future on policies in force on the reporting date.

(a) Premium liabilities

Premium liabilities are represented by the amount of net UPR less the amount of net DPAE. Generally, broker commissions, premium taxes, and certain direct expenses in respect of the Company's digital direct business, corresponding to the net UPR are deferrable; however, this amount is written down if the resulting expected future net policy costs are greater than the net UPR. No such write-down to DPAE was considered necessary for the year ended December 31, 2021 (2020: nil).

The following changes have occurred in the DPAE during the year:

(in millions of dollars)	2021	2020
DPAE, beginning of year	$ 260.2	$ 235.6
Acquisition costs deferred	524.6	465.9
Amortization of acquisition costs	(489.7)	(441.3)
DPAE, end of year	$ 295.1	$ 260.2

The following changes have occurred in UPR during the year:

(in millions of dollars)	2021			2020		
	Gross	Ceded (Note 11)	Net	Gross	Ceded (Note 11)	Net
UPR, beginning of year	$ 1,433.1	$ 54.7	$ 1,378.4	$ 1,294.5	$ 47.2	$ 1,247.3
Premiums written during year	3,231.4	240.1	2,991.3	2,814.7	174.9	2,639.8
Premiums earned during year	(3,065.3)	(231.7)	(2,833.6)	(2,676.1)	(167.4)	(2,508.7)
UPR, end of year	$ 1,599.2	$ 63.1	$ 1,536.1	$ 1,433.1	$ 54.7	$ 1,378.4

The following table presents the Company's UPR by line of business as at December 31:

(in millions of dollars)	2021		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	$ 732.7	$ 27.5	$ 705.2
Property	444.7	15.6	429.1
Commercial lines	421.8	20.0	401.8
	$ 1,599.2	$ 63.1	$ 1,536.1

(in millions of dollars)	2020		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	$ 695.6	$ 25.9	$ 669.7
Property	373.4	13.5	359.9
Commercial lines	364.1	15.3	348.8
	$ 1,433.1	$ 54.7	$ 1,378.4

9. POLICY LIABILITIES (continued)

(b) Claim liabilities

Claim liabilities are established to reflect the estimate of the full amount of all liabilities associated with the insurance contracts at the end of the year, including IBNR. The ultimate cost of these liabilities may vary from the estimate made at any point in time. Note 5 contains additional information on the judgments, estimates and assumptions used in determining claim liabilities. The discount rate as at December 31, 2021 used to discount the claim liabilities was 1.57% (2020: 0.82%).

The following table presents the movement of the Company's claim liabilities during the year:

(in millions of dollars)	2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of year	$ 3,026.3	$ 69.2	$ 2,957.1
Current year claims incurred	1,900.1	102.6	1,797.5
Prior year favourable claims development	(78.2)	(2.2)	(76.0)
Claims and adjustment expenses	1,821.9	100.4	1,721.5
(Decrease) increase due to discounting (including PfAD)	(43.6)	1.1	(44.7)
Claims and adjustment expenses, discounted	1,778.3	101.5	1,676.8
Claims paid during the year	1,468.5	36.7	1,431.8
Claim liabilities, end of year	$ 3,336.1	$ 134.0	$ 3,202.1

(in millions of dollars)	2020		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of year	$ 2,808.2	$ 65.3	$ 2,742.9
Current year claims incurred	1,641.8	49.9	1,591.9
Prior year (favourable) adverse claims development	(29.1)	0.5	(29.6)
Claims and adjustment expenses	1,612.7	50.4	1,562.3
Increase due to discounting (including PfAD)	116.0	2.0	114.0
Claims and adjustment expenses, discounted	1,728.7	52.4	1,676.3
Claims paid during the year	1,510.6	48.5	1,462.1
Claim liabilities, end of year	$ 3,026.3	$ 69.2	$ 2,957.1

The following table presents the Company's claim liabilities by line of business as at December 31:

(in millions of dollars)	2021		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	$ 2,009.3	$ 51.5	$ 1,957.8
Property	311.7	22.4	289.3
Commercial lines	1,015.1	60.1	955.0
	$ 3,336.1	$ 134.0	$ 3,202.1

(in millions of dollars)	2020		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	$ 1,945.3	$ 41.3	$ 1,904.0
Property	171.2	4.6	166.6
Commercial lines	909.8	23.3	886.5
	$ 3,026.3	$ 69.2	$ 2,957.1

10. INSURANCE RISK MANAGEMENT

By the very nature of an insurance contract, there is uncertainty as to whether an insured event will occur and the amount of loss that would arise in such an event. In the course of these insurance activities, there are several risks the Company must address by applying appropriate underwriting and claims policies and processes. The following discussion outlines the most significant insurance risks and the practices employed to mitigate these risks.

(a) Underwriting risk

Underwriting and pricing
Underwriting risk is the risk of adverse financial exposures arising from various activities integral to the underwriting of insurance products, including product design, pricing, risk acceptance, and claims settlement. The Company's exposure to concentrations of insured risks is mitigated by the use of segmentation, policy issuance and risk acceptance rules, individual limits, and reinsurance.

The concentration of gross written premiums, net claims and adjustment expenses, and underwriting expenses (the sum of net commissions, operating expenses, premium taxes, and net of other underwriting revenues) by line of business is as follows:

	Gross written premiums		Net claims and adjustment expenses		Underwriting expenses	
	2021	2020	2021	2020	2021	2020
Personal auto	44.1%	47.4%	48.1%	54.2%	42.1%	44.3%
Personal property	27.7%	26.7%	27.9%	22.1%	29.5%	28.1%
Commercial lines	28.2%	25.9%	24.0%	23.7%	28.4%	27.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The concentration of gross written premiums by region is as follows:

	2021	2020
Ontario	57.9%	58.3%
Alberta and Prairies	14.4%	14.2%
British Columbia	9.7%	10.4%
Québec	9.1%	8.4%
Atlantic	8.9%	8.7%
	100.0%	100.0%

A financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. The Company prices its products by taking into account numerous factors including product design and features, claim frequency and severity trends, product line expense ratios, special risk factors, capital requirements, regulatory requirements, competitive forces, and expected investment returns. These factors are reviewed and adjusted on an ongoing basis with a view to confirming that they are reflective of current trends and market conditions. The Company endeavours to maintain pricing levels that produce an acceptable return by appropriately measuring and incorporating these factors into its pricing decisions. New products and material product changes are subject to a detailed review by management, including the Company's actuarial specialists, prior to their launch in order to mitigate the risk that they are priced at an inadequate level. Pricing segmentation and risk selection are used together with a view to attracting and retaining risks at acceptable return rates. The process of calculating pricing involves the use of models, which exposes the Company to the risk that actual results differ from those modelled (model risk), due to model limitations, data issues, human error, or other factors.

The performance and pricing of all of the Company's products are regularly monitored, and corrective action is taken as considered necessary, including modification of product pricing, terms, conditions, or eligibility requirements, modification of the level of capacity provided, the use of reinsurance, or industry risk sharing pools, as applicable, and eliminating the offering of some products or product features.

10. INSURANCE RISK MANAGEMENT (continued)

(a) Underwriting risk (continued)

To manage the risk arising from underwriting, the Company has policies that set out the underwriting risk appetite and criteria, as well as specified tolerances for maximum risk retention and management processes to monitor compliance with these limits. The Company utilizes reinsurance and industry risk sharing pools, where available, in order to manage its exposure to insured risks.

Claims settlement
To control the Company's exposure to unpredictable future developments that could negatively impact claims settlement, the Company promptly responds to new claims and actively manages existing claims, thereby shortening the claims cycle. In addition, the Company's regular detailed review of claims handling procedures, active litigation management, and proactive identification and investigation of possible fraudulent claims seeks to ensure the claims risk exposure, at a portfolio level, does not exceed the claim cost expectations inherent in the pricing of the Company's products.

Legal and regulatory implications
In the normal course of business, the Company is, from time to time, subject to a variety of legal and regulatory actions relating to its operations. In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative and regulatory activity may increase the Company's exposure to these types of legal claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. When necessary, claims reserves are adjusted to reflect potential legal defence costs and potential settlements.

The P&C insurance industry is subject to significant government regulation. As a result, it is possible that future legislative or regulatory changes or changes in interpretations may limit the Company's ability to adjust prices, adjudicate claims, or take other actions that would impact operating results. The Company seeks to mitigate this risk through regular discussions with regulators and P&C insurance industry groups to ensure the Company is aware of proposed changes and by providing feedback to regulators on proposed changes. The Company monitors compliance with relevant regulations and considers the implications of potential changes in regulation or interpretation on future results. Note 19 provides information on regulatory capital requirements. Note 24 provides additional details on rate regulation.

Quality review procedures
Quality review procedures seek to ensure that the Company's underwriting and claim activities fall within established guidelines, expected practices, and pricing structures. Centralized and field level reviews are conducted on a test basis. The results of these quality reviews are shared with the appropriate management and staff with the intention that any issues identified can be promptly addressed.

Reinsurance
The Company uses reinsurance to manage its exposure to insurance risks. Reinsurance coverage risk arises because reinsurance terms, conditions, availability, and pricing may change on renewal, particularly following domestic, foreign, or global catastrophe events, or as a result of higher-than-expected claims activity on non-catastrophe reinsurance treaties. In addition, reinsurers may seek to impose terms that are inconsistent with corresponding terms in the policies written by the Company. Ceding risk to reinsurers does not relieve the Company of the obligation to its policyholders for claims; therefore, the Company manages the level of credit risk associated with reinsurers and the Company's recoverable balances. Management reviews the Company's reinsurance program with the intention of ensuring its cost effectiveness and the adequacy of coverage obtained, which reflects the Company's risk tolerances, underwriting practices, and financial strength, while at the same time complying with its reinsurance and capital risk management policies.

10. INSURANCE RISK MANAGEMENT (continued)

(b) Reserve estimate risk

Reserve estimate risk is the risk that the Company's claim liability estimates are insufficient to cover future insurance claim payments. The Company establishes claim liabilities to cover the estimated liability for payment of all claims and claims adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claim liabilities do not represent an exact measurement of the liability. Rather, they are the Company's best estimate of the expected ultimate future cost of resolution and administration of claims. The process of estimating claim liabilities involves the use of models, which exposes the Company to model risk in the event that actual results differ from those modelled, due to model limitations, data issues, human error, or other factors. To address inflation risk, expected inflation is taken into account when estimating claim liabilities.

Claim liabilities include an estimate for reported claims, as established by the Company's claims adjusters based on the details of reported claims, plus a provision for IBNR, as established by the Company's corporate actuaries.

Individual claims estimates are determined by claims adjusters on a case-by-case basis in accordance with documented policies and procedures. These specialists apply their experience, knowledge, and expertise, after taking into account available information regarding the circumstances of the claim to set individual case reserve estimates. Uncertainty exists on reported claims in that all information may not be available at the valuation date. Uncertainty also exists regarding the number and size of claims not yet reported as well as the timing of when the claims will be reported. Accordingly, the IBNR provision is intended to cover future additional costs emerging on both reported claims and claims that have occurred but have not yet been reported.

The valuation of claim liabilities is based on estimates derived by region and line of business using generally accepted actuarial techniques. Numerous individual assumptions that impact average claim costs or frequency of late reported claims are made for each line of business. The main assumption in the majority of actuarial techniques employed is that future claims development will follow a pattern similar to recent historical experience. However, there are times where historical experience is deemed inappropriate for evaluating future development because there is insufficient credible data, or because changes in claims handling practices, climate patterns, inflationary cost pressures, recent judicial decisions, legislation or major shifts in a book of business indicate a departure from historical trends. Such instances can require significant actuarial judgment, often supported by industry benchmarks and studies, in establishing an adequate provision for claim liabilities.

As the outstanding claim liabilities are intended to represent payments that will be made in the future, they are discounted to reflect the time value of money. The discount rate used to discount the actuarial value of claim liabilities is based on the fair value yield of the Company's bond investments that support the claim liabilities (note 7). In assessing the risks associated with investment income and therefore the discount rate, the Company considers the nature of the bond portfolio and the timing of claim payments, and the extent to which they match, to expected investment cash flows. Future changes in the bond portfolio could change the value of claim liabilities by impacting the fair value yield.

The following table presents the interest rate sensitivity analysis for a one percentage point change in interest rates on the net claim liabilities:

(in millions of dollars)	2021		2020	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Net claim liabilities	$ (82.8)	$ 88.6	$ (83.6)	$ 89.6

10. INSURANCE RISK MANAGEMENT (continued)

(b) Reserve estimate risk (continued)

Establishing an adequate provision for claim liabilities is an inherently uncertain process and is closely monitored by the Company's corporate actuarial department. Claim liabilities, including the provision for IBNR as established by the Company's corporate actuaries, are subject to an internal and external peer review process to assess the adequacy of the provision for claim liabilities and compliance with professional standards. The sheer volume and diversity of considerations makes it impracticable to measure the impact on the Company's insurance contracts resulting from a change in a particular assumption or group of assumptions. The analysis below demonstrates the impact of changing assumptions for all lines of business and regions in such a way that the average claim severity and frequency is altered significantly. The analysis below also isolates the impact within the average claims severity of a change in internal claims expenses on claim liabilities. The impacts below are on the reported claim liabilities as at December 31.

(in millions of dollars)	2021		2020	
Impact of change in net claim liabilities due to:	+5%	-5%	+5%	-5%
Change in average claims severity	$ 151.4	$ (151.4)	$ 140.0	$ (140.0)
Change in frequency on unreported claims	$ 13.4	$ (13.4)	$ 12.5	$ (12.5)
Change in internal claims expenses	$ 8.4	$ (8.4)	$ 7.6	$ (7.6)

Assumptions and methods of estimation have been used that the Company believes produce reasonable results given current information. As additional experience and other data become available, the estimates could be revised. Any future changes in estimates would be reflected in the consolidated statements of comprehensive income in the year in which the change occurred.

The following table shows the development of claims over a period of time. The table reflects development for net claims, which is gross claims less reinsurance recoveries. The triangle in the table ("Estimate of ultimate claims") shows how the ultimate estimates of total claims for each accident year develop over time as more information becomes known regarding individual claims and overall claims frequency and severity. Each column tracks the claims relating to a particular "accident year" which is the year in which such loss events occurred, regardless of when they were reported. The rows reflect the estimates in subsequent years for each accident year's claims. Claims are presented on an undiscounted basis in the triangle. "Cumulative claims paid" in the table presents the cumulative amounts paid for claims for each accident year as at December 31, 2021.

The claims development table excludes the FA, RSP/PRR and the effect of discounting (including PfAD), which are shown as separate reconciling items below the table.

10. INSURANCE RISK MANAGEMENT (continued)

(b) Reserve estimate risk (continued)

Claims development table, net of reinsurance:

	Accident Year										
(in millions of dollars)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims											
At end of accident year	$1,058.6	$1,225.0	$1,258.5	$1,273.5	$1,425.5	$1,602.6	$1,686.9	$1,704.0	$1,550.6	$1,758.0	
1 year later	1,005.6	1,211.9	1,241.1	1,248.0	1,445.0	1,586.3	1,672.1	1,681.0	1,507.4		
2 years later	1,003.5	1,211.5	1,238.1	1,278.9	1,448.9	1,581.3	1,664.9	1,669.7			
3 years later	1,003.4	1,225.1	1,245.2	1,277.0	1,446.7	1,549.3	1,658.4				
4 years later	1,010.5	1,234.6	1,252.7	1,273.6	1,430.1	1,564.4					
5 years later	1,014.6	1,232.9	1,252.9	1,281.1	1,426.1						
6 years later	1,015.0	1,228.7	1,264.8	1,289.0							
7 years later	1,016.3	1,233.0	1,262.4								
8 years later	1,021.4	1,230.8									
9 years later	1,022.5										
Adverse (favourable) development recognized in the year, undiscounted	1.1	(2.2)	(2.4)	7.9	(4.0)	15.1	(6.5)	(11.3)	(43.2)		$ (45.5)
Favourable development recognized from 2011 and prior accident years											(22.4)
Favourable development recognized from FA and RSP/PRR ceded and assumed in the year											(8.1)
Total favourable development recognized in the year											$ (76.0)
Reconciliation to the consolidated balance sheet											
Current estimate of ultimate claims	1,022.5	1,230.8	1,262.4	1,289.0	1,426.1	1,564.4	1,658.4	1,669.7	1,507.4	1,758.0	$ 14,388.7
Cumulative claims paid	997.0	1,193.5	1,191.3	1,196.8	1,275.6	1,318.3	1,313.3	1,255.0	982.9	755.6	11,479.3
Current unpaid and unreported claims before discounting	25.5	37.3	71.1	92.2	150.5	246.1	345.1	414.7	524.5	1,002.4	2,909.4
Current unpaid and unreported claims before discounting pertaining to 2011 and prior accident years											83.9
Impact of discounting (including PfAD)											158.3
FA and RSP/PRR ceded and assumed, unpaid and unreported											50.5
Unpaid and unreported claims, net of reinsurance											$ 3,202.1

(c) Catastrophe risk

Catastrophe risk may arise if the Company experiences a considerable number of claims arising from man-made or natural catastrophes that result in significant impacts on claims costs. Catastrophes can cause losses in a variety of different lines of business and may have continuing effects which, by their nature, could impede efforts to accurately assess the full extent of the damage they cause on a timely basis. Although the Company evaluates catastrophe events and assesses the probability of occurrence and magnitude of impact through various commonly used, industry accepted modelling techniques and through the aggregation of limits exposed in each region in which it operates, such events are inherently unpredictable and difficult to quantify. In addition, the incidence and severity of catastrophe events may become increasingly unpredictable as climate patterns change. Severe weather caused by climate change is expected to continue to affect the P&C insurance industry and result in higher claims costs.

The Company manages its catastrophe events exposure by monitoring exposure to concentrations of insured risks, by considering the potential impact on capital position and overall risk tolerances, through the deductibles charged to policyholders, by limitations on policy terms, by limiting underwriting capacity for particular risks or regions, and by purchasing reinsurance.

10. INSURANCE RISK MANAGEMENT (continued)

(d) Climate change risk

The impact of changing weather patterns arising from climate change poses significant risks for P&C insurers. Climate change has implications for all aspects of the Company's business. The Company is continuously enhancing its modeling capabilities to better understand changes in key climate risk exposures, with a view to confirming pricing, coverage options, risk accumulations and claim liability estimates remain appropriate. Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles or carbon-intensive industries. The Company has developed relationships with its reinsurers and has worked with them to help them understand the risk profile present in the Company's book of business in relation to climate change risk. These relationships, along with proactive management of its reinsurance program, helps the Company to maintain access to sufficient and cost-effective reinsurance.

11. REINSURANCE CONTRACTS

The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the liability of the Company for individual large losses and in the event of a series of claims arising out of a single occurrence. These limits were as follows:

(in millions of dollars)	2021	2020
Individual loss		
Property		
Net company retention[1]	$ 3.0	$ 3.0
Maximum limit	100.0	100.0
Auto and general liability		
Net company retention	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retentions[2]	30.0	30.0
Maximum limit	1,450.0	1,050.0

[1] In addition to the property net retention, the Company had a maximum $2.0 million (2020: $1.8 million) per loss participation in lower layers of the treaty.

[2] In addition to the catastrophe net retention, the Company had a maximum $61.6 million (2020: $64.9 million) participation in higher layers of the treaty. If a catastrophe breaches the retention level, the Company is required to pay an automatic reinstatement premium commensurate with the reinsurance coverage utilized. Further reinstatement coverage may be sought by the Company at an additional cost.

The Company participated in a quota share treaty in 2019 through 2021, ceding a proportion of certain broker personal lines business to facilitate overall growth levels. Effective January 1, 2022, the quota share treaty was not renewed but claims occurring prior to January 1, 2022 will continue to be managed on the previous treaty years as applicable. The Company also has a catastrophe aggregate treaty to provide protection against the potential for increased frequencies of smaller value catastrophe losses. In addition, the Company purchases facultative reinsurance coverage as required by its underwriting guidelines.

(a) Underwriting impact of reinsurance contracts

The following amounts relate to reinsurance ceded recorded in the consolidated statements of comprehensive income:

(in millions of dollars)	Notes	2021	2020
Premiums written	9,23	$ 240.1	$ 174.9
Premiums earned	9	231.7	167.4
Claims and adjustment expenses	9	100.4	50.4
Commissions earned on ceded reinsurance		45.5	34.8

11. REINSURANCE CONTRACTS (continued)

(b) Reinsurance receivable and recoverable

The amounts presented under reinsurance receivable and recoverable in the consolidated balance sheets represent the Company's contractual rights under reinsurance contracts and are evaluated in a manner consistent with the gross liabilities.

(in millions of dollars)	Notes	2021	2020
Reinsurers' share of UPR	9	$ 63.1	$ 54.7
Reinsurers' share of claim liabilities	9	134.0	69.2
Reinsurer receivables		47.8	14.7
Reinsurer payables		(43.7)	(24.7)
Unearned reinsurance commissions		(22.0)	(18.3)
		$ 179.2	$ 95.6

12. PROPERTY AND EQUIPMENT

Property and equipment, as presented in the consolidated balance sheet, is composed of the following:

(in millions of dollars)	2021						
	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of-use assets	Total
Cost:							
Balance, beginning of year	$ 35.4	$ 17.4	$ 12.7	$ 19.6	$ 10.3	$ 31.0	$ 126.4
Additions	1.5	2.5	0.2	1.4	2.2	2.3	10.1
Disposals	-	-	-	-	(0.8)	(0.9)	(1.7)
Balance, end of year	$ 36.9	$ 19.9	$ 12.9	$ 21.0	$ 11.7	$ 32.4	$ 134.8
Accumulated depreciation:							
Balance, beginning of year	$ 15.3	$ 9.3	$ 8.2	$ 18.0	$ 8.1	$ 10.6	$ 69.5
Depreciation charge	1.7	0.6	0.1	0.8	1.2	5.4	9.8
Depreciation on disposals	-	-	-	-	(0.6)	(0.9)	(1.5)
Balance, end of year	$ 17.0	$ 9.9	$ 8.3	$ 18.8	$ 8.7	$ 15.1	$ 77.8
Net book value, end of year	$ 19.9	$ 10.0	$ 4.6	$ 2.2	$ 3.0	$ 17.3	$ 57.0

(in millions of dollars)	2020						
	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of-use assets	Total
Cost:							
Balance, beginning of year	$ 35.2	$ 15.2	$ 9.2	$ 19.7	$ 11.6	$ 31.0	$ 121.9
Additions	0.2	2.2	3.5	0.1	1.1	-	7.1
Disposals	-	-	-	(0.2)	(2.4)	-	(2.6)
Balance, end of year	$ 35.4	$ 17.4	$ 12.7	$ 19.6	$ 10.3	$ 31.0	$ 126.4
Accumulated depreciation:							
Balance, beginning of year	$ 13.6	$ 8.8	$ 7.7	$ 16.5	$ 9.0	$ 5.2	$ 60.8
Depreciation charge	1.7	0.5	0.5	1.7	1.5	5.4	11.3
Depreciation on disposals	-	-	-	(0.2)	(2.4)	-	(2.6)
Balance, end of year	$ 15.3	$ 9.3	$ 8.2	$ 18.0	$ 8.1	$ 10.6	$ 69.5
Net book value, end of year	$ 20.1	$ 8.1	$ 4.5	$ 1.6	$ 2.2	$ 20.4	$ 56.9

13. INCOME TAXES

(a) Income tax expense

The reconciliation of income tax calculated at the Canadian statutory tax rate to the income tax expense at the effective tax rate recorded in net income in the consolidated statements of comprehensive income is provided in the table below:

(in millions of dollars)	2021		2020	
Income tax expense calculated based on statutory tax rates	26.3%	$ 74.0	26.5%	$ 53.1
Canadian dividend income not subject to tax	(2.5%)	(7.0)	(3.5%)	(7.0)
Effect of change in tax rates	-	-	0.1%	0.2
Non-deductible expenses	-	0.1	0.1%	0.1
Other	0.4%	0.9	0.1%	0.3
Income tax expense recorded in net income	24.2%	$ 68.0	23.3%	$ 46.7

The major components of the income tax expense are as follows:

(in millions of dollars)	2021	2020
Current income taxes		
Income taxes related to current year	$ 74.4	$ 26.1
Income taxes related to prior years	1.7	(1.2)
Deferred income taxes	(8.1)	21.8
Income tax expense	$ 68.0	$ 46.7

Income taxes included in OCI are as follows:

(in millions of dollars)	2021	2020
Income tax on items that may be reclassified subsequently to net income:		
Net unrealized gains on AFS investments	$ 25.4	$ 20.2
Reclassification to net income of net recognized (gains) losses on AFS investments	(14.2)	1.4
	11.2	21.6
Income tax on items that will not be reclassified subsequently to net income:		
Post-employment benefit obligation gain (loss)	7.6	(2.2)
Income tax expense	$ 18.8	$ 19.4

(b) Deferred income taxes

The components comprising net deferred income tax assets are as follows:

(in millions of dollars)	2021	2020
Net claim liabilities	$ 42.1	$ 38.9
Post-employment benefit plans	3.3	11.0
Property and equipment	(1.5)	(2.8)
Intangible assets	(17.4)	(21.2)
Unused tax credits	-	1.1
Deferred expenses for tax purposes	30.4	6.0
Other	5.6	7.2
	$ 62.5	$ 40.2

The Company anticipates that it will generate taxable income from ordinary operations sufficient to utilize its deferred income tax assets.

13. INCOME TAXES (continued)

(b) Deferred income taxes (continued)

The net movement of the deferred income taxes is as follows:

(in millions of dollars)		2021		2020
Balance, beginning of year	$	40.2	$	89.8
Income tax expense:				
Recorded in net income		8.1		(21.8)
Recorded in OCI		(7.6)		(27.8)
Recorded in share capital		21.8		-
Balance, end of year	$	62.5	$	40.2

14. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets, as presented in the consolidated balance sheet, is composed of the following items:

(in millions of dollars)		2021		2020
Goodwill	$	46.1	$	46.1
Intangible assets		173.6		165.5
	$	219.7	$	211.6

(a) Goodwill

Goodwill has been allocated to two individual CGUs. The carrying amount of goodwill allocated to each of the CGUs is shown below:

(in millions of dollars)		2021		2020
Definity Insurance	$	26.9	$	26.9
Petline		19.2		19.2
	$	46.1	$	46.1

Goodwill is subject to an impairment test that is performed at least annually. When testing for impairment, the recoverable amount of the CGU is determined based on VIU calculations using a discounted cash flow model based on financial forecasts approved by management covering a five-year period and an estimate of the terminal values for the period beyond the five-year forecast.

The key assumptions used for the impairment calculations are as follows:

- Growth rates represent the rates used to extrapolate new business contributions beyond the business plan period. The growth rates are based on management expectations and do not exceed the historic long-term average growth rates. The growth rates of 2.0% (2020: 2.0%) for Definity Insurance and 4.0% (2020: 4.0%) for Petline are used in the terminal value calculations.
- Pre-tax, market adjusted discount rates of 8.5% (2020: 7.8%) for Definity Insurance and its subsidiaries, and 14.0% (2020: 11.8%) for Petline are used to discount expected profits from future new business. The higher discount rate in Petline reflects its higher risk profile given its size.

Management does not believe that a reasonable change in these assumptions would result in the carrying value of the CGUs exceeding the recoverable amounts.

The goodwill impairment testing for the current year determined that there was no evidence of impairment (2020: nil).

14. GOODWILL AND INTANGIBLE ASSETS (continued)

(b) Intangible assets

(in millions of dollars)	2021			
	Brand	Software	Other intangible assets	Total
Cost:				
Balance, beginning of year	$ 4.2	$ 264.4	$ 11.9	$ 280.5
Additions	-	54.1	-	54.1
Disposals	-	(1.3)	-	(1.3)
Balance, end of year	$ 4.2	$ 317.2	$ 11.9	$ 333.3
Accumulated amortization:				
Balance, beginning of year	$ -	$ 109.8	$ 5.2	$ 115.0
Amortization expense	-	43.4	1.3	44.7
Balance, end of year	$ -	$ 153.2	$ 6.5	$ 159.7
Net book value, end of year	$ 4.2	$ 164.0	$ 5.4	$ 173.6

(in millions of dollars)	2020			
	Brand	Software	Other intangible assets	Total
Cost:				
Balance, beginning of year	$ 4.2	$ 235.8	$ 11.9	$ 251.9
Additions	-	41.5	-	41.5
Disposals	-	(12.9)	-	(12.9)
Balance, end of year	$ 4.2	$ 264.4	$ 11.9	$ 280.5
Accumulated amortization:				
Balance, beginning of year	$ -	$ 83.2	$ 3.9	$ 87.1
Amortization expense	-	39.2	1.3	40.5
Amortization on disposals	-	(12.6)	-	(12.6)
Balance, end of year	$ -	$ 109.8	$ 5.2	$ 115.0
Net book value, end of year	$ 4.2	$ 154.6	$ 6.7	$ 165.5

Included in software is $26.2 million (2020: $3.6 million) that has not yet commenced being amortized as the assets are still under development. Other intangible assets include the distribution network and customer relationships arising from the acquisition of Petline.

15. OTHER ASSETS

Other assets, as presented in the consolidated balance sheet, are composed of the following:

(in millions of dollars)	Notes	2021	2020
Investments in associates	16	$ 77.1	$ 81.8
Pension asset	22	21.4	6.6
Prepaid expenses and other		18.1	13.2
		$ 116.6	$ 101.6

16. INVESTMENTS IN ASSOCIATES

The Company has only individually immaterial associates. Key financial information about the Company's investments in immaterial associates is shown below, on a gross basis in aggregate:

(in millions of dollars)	2021	2020
Total assets	$ 503.7	$ 548.4
Total liabilities	301.5	338.4
Total revenue	219.4	192.5
Total net income	19.5	17.6

The Company's share of the comprehensive income of individually immaterial associates is $10.1 million (2020: income of $2.8 million).

17. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities, as presented in the consolidated balance sheet, are composed of the following:

(in millions of dollars)	Notes	2021	2020
Accounts payable and other		$ 191.7	$ 141.5
Commissions payable		86.5	61.1
Premium and other taxes payable		39.9	28.8
Pension and non-pension benefit obligations	22	33.9	48.3
Cash-settled employee liabilities		22.5	22.8
Lease liabilities		18.9	21.7
		$ 393.4	$ 324.2

18. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares issuable in series. The Company's issued and outstanding common shares were as follows:

(in millions of dollars, except as otherwise noted)	Notes	2021	
		Number of shares (in millions)	Amount
Issued and outstanding, beginning of year		-	$ -
Initial public offering and Cornerstone Private Placements	2	104.0	2,053.0
Over-Allotment and Anti-Dilution Adjustment	2	11.9	254.8
Issued and outstanding, end of year[1]		115.9	$ 2,307.8

[1] Proceeds are net of after-tax transaction costs of $61.5 million ($83.6 million transactions costs, less income tax effect of $22.1 million).

No preferred shares were issued and outstanding. No dividends were declared or issued in 2021.

19. CAPITAL MANAGEMENT

Capital deployment is carefully considered within the context of the Company's corporate objectives and capital management related policies. This includes the impact of any capital deployment on the Company's key operating and risk metrics. The Company's objectives when managing capital include:

- Maintaining strong regulatory capital in the Company's operating insurance entities to ensure policyholders are well protected; and
- Maximizing long-term shareholder value through capital optimization and establishment of flexible capital management tools to support the business strategy.

19. CAPITAL MANAGEMENT (continued)

The amount of capital required in any company is dependent on its risk profile and strategic plans, as well as regulatory requirements. The Company actively monitors and manages capital with the objective of maintaining levels that are above the relevant regulatory minimum:

- The Company and each of its insurance subsidiaries are subject to regulatory capital requirements established by OSFI and the *Insurance Companies Act (Canada)*.
- These entities are each required, at a minimum, to maintain a Minimum Capital Test ("MCT") ratio of 100%.
- OSFI has also established a regulatory supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement.

Management develops the capital strategy for the Company and supervises the capital management processes. The Board of Directors is responsible for overseeing management's compliance with the capital management policies. The Company's capital position is monitored by OSFI. OSFI evaluates capital adequacy through the MCT, which measures available capital against required risk-weighted capital. Available capital comprises total equity plus or minus adjustments prescribed by OSFI. Capital required is calculated by applying risk factors to the assets and liabilities. As at December 31, 2021, the capital available of Definity Insurance is $1,789.1 million and capital required is $651.6 million. The MCT ratio of Definity Insurance is 274.6% as at the reporting date and exceeds the minimum capital ratio of 150% required by OSFI.

Management actively monitors the MCT and the effect that external and internal actions have on the capital base of the Company. In particular, management determines the estimated impact on capital before entering into any significant transactions to seek to ensure that policyholders are not put at risk through the depletion of capital to unacceptable levels. The Board of Directors reviews the MCT on, at least, a quarterly basis. In accordance with regulatory requirements and the Company's capital management policies, the Board of Directors has set internal targets at levels higher and more stringent than OSFI's minimum requirements. Management also conducts its own risk and solvency assessment on at least an annual basis and provides regular updates to its Management Risk Committee, the Risk Review Committee, and the Board of Directors. Regulatory capital guidelines change from time to time and may impact the Company's capital levels. The Company carefully monitors all proposed and actual changes to those guidelines.

On July 22, 2021, Definity Insurance entered into a $150 million unsecured committed credit facility, which will increase automatically to $400 million if and when the Company is continued under the *Canada Business Corporations Act*. The facility has a five-year term and contains certain financial covenants. As at December 31, 2021, Definity Insurance is in compliance with these covenants and no amounts had been drawn under this facility. On January 1, 2022, the Company became a co-borrower under the unsecured committed credit facility. The May 4, 2020 credit facility was terminated at the time of entering into the new credit facility on July 22, 2021.

20. EARNINGS PER COMMON SHARE

Basic earnings per common share ("EPS") is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the net earnings available to common shareholders, if applicable, and the weighted average number of common shares outstanding for the effects of dilutive instruments pertaining to the Company's MTIP awards.

(in millions of dollars, except as otherwise noted)		2021		2020
Net income	$	213.2	$	153.9
Weighted average common shares outstanding (in millions)		105.2		104.0
Dilutive effect of share-based compensation plans (in millions)		0.2		-
Weighted average of diluted common shares outstanding (in millions)		105.4		104.0
EPS (in dollars)				
Basic	$	2.03	$	1.48
Diluted	$	2.02	$	1.48

The common shares issued upon IPO, excluding the Over-Allotment and Anti-Dilution Adjustment, were included in the weighted average common shares outstanding calculation for both 2020 and 2021 given the IPO was considered to be an exchange of ownership instruments without additional resources being received. The Over-Allotment and Anti-Dilution Adjustment were included in the weighted average common shares outstanding calculation commencing from November 23, 2021, the date of the IPO.

21. MEDIUM-TERM INCENTIVE PLAN

Following completion of the IPO on November 23, 2021, existing MTIP awards granted in 2019, 2020, and 2021 were adjusted so that such awards appreciate and depreciate based on the Company's share price, rather than with Definity Insurance's consolidated book value. This resulted in a proportional adjustment to the number of units outstanding under the MTIP to align with the actual number of units issued in the IPO, without amending the total value of the original grant, as provided for under the terms of the plan. The MTIP awards granted in 2019 will be cash-settled, whereas the MTIP awards granted in 2020 and 2021 are expected to be equity-settled through the purchase of common shares on the open market. Prior to the IPO, all the MTIP awards were settled in cash and any outstanding liability until the point of settlement was included in accounts payable and other liabilities.

Restricted units

The following table shows the movements in the RUs during the year:

	Notes	2021 Number of units	2020 Number of units
Outstanding, beginning of year		880,567	688,566
Adjustment in outstanding units	2	26,658	-
Awarded		467,090	379,647
Forfeited		(43,357)	(27,132)
Settled		(228,704)	(160,514)
Outstanding, end of year		1,102,254	880,567

The number of cash-settled RUs granted in 2019 that remain outstanding at December 31, 2021 is 297,492. The liability associated with these units on December 31, 2021 is $9.8 million and the change in the liability recorded as a compensation expense through earnings during the year was $5.0 million.

21. MEDIUM-TERM INCENTIVE PLAN (continued)

Restricted units (continued)

The number of equity-settled RUs granted in 2020 and 2021 that remain outstanding at December 31, 2021 is 804,762. For accounting purposes, upon the adjustment to the plan discussed above these RUs were remeasured at fair value based on the Company's IPO share price of $22 per unit. The amendment of these RUs from cash-settled to equity-settled units resulted in a reclassification of $8.0 million from liabilities to contributed surplus. Additionally, the recorded compensation expense during the year for these RUs is $6.1 million, and the aggregate contributed surplus balance attributable to these RUs at December 31, 2021 is $8.5 million.

In the prior year, all RUs were accounted for as cash-settled. The liability for RUs on December 31, 2020 was $10.4 million and the change in the liability recorded as a compensation expense through earnings during 2020 was $6.2 million.

Performance units

The following table shows the movements in the PUs during the year:

	Notes	2021 Number of units	2020 Number of units
Outstanding, beginning of year		794,566	594,741
Adjustment in outstanding units	2	24,627	-
Awarded		341,104	346,188
Forfeited		(10,251)	-
Settled		(177,294)	(146,363)
Outstanding, end of year		972,752	794,566

The number of cash-settled PUs granted in 2019 that remain outstanding at December 31, 2021 is 284,744. The liability associated with these units on December 31, 2021 is $12.7 million and the change in the liability recorded as a compensation expense through earnings during the year was $7.9 million.

The number of equity-settled PUs granted in 2020 and 2021 that remain outstanding at December 31, 2021 is 688,008. For accounting purposes, upon the adjustment to the plan discussed above these PUs were remeasured at fair value based on the Company's IPO share price of $22 per unit. The amendment of these PUs from cash-settled to equity-settled units resulted in a reclassification of $10.3 million from liabilities to contributed surplus. Additionally, the recorded compensation expense during the year for these PUs is $7.8 million, and the aggregate contributed surplus balance attributable to these PUs at December 31, 2021 is $10.8 million.

In the prior year, all PUs were accounted for as cash-settled. The liability for PUs on December 31, 2020 was $12.4 million and the change in the liability recorded as a compensation expense through earnings during 2020 was $8.7 million.

22. POST-EMPLOYMENT BENEFITS

The Company provides certain pension and other post-employment benefits through defined benefit, defined contribution, and other post-employment benefit plans to eligible participants upon retirement.

The contributory defined benefit pension plans provide pension benefits based on length of service and final average pensionable earnings. The most recent actuarial valuation was prepared as of January 1, 2020. The contribution to be paid by the Company is determined each year by the Company's pension actuaries. The Company's funding policy is to make contributions in amounts that are required to discharge the benefit obligations over the life of the plan. Based on the latest actuarial valuations of all its plans, the total required contributions by the Company to the pension plans are expected to be $1.7 million in 2022. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2021 were nil (2020: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority.

Plan assets associated with the pension plans are funded pursuant to a trust agreement through a trust company as selected by the Company. The Executive Investment Committee and the Human Resources and Compensation Committee assist the Company's Board of Directors in fulfilling its responsibility for governance of the plans and assign or delegate certain oversight and administration duties to the Management Pension Committee as appropriate.

Under the defined contribution component of the pension plan, the Company contributes a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan totalled $15.9 million (2020: $13.5 million).

(a) Plan movements

The following table presents the movement of the Company's pension plan and other benefit plan obligations and plan assets during the year:

(in millions of dollars)	2021				
	Amounts recognized in net income	(Gains) losses recognized in OCI	Present value of benefit plan obligations		Fair value of plan assets
			Other benefit plans	Pension plans	Pension plans
Balance, beginning of year			$ 48.3	$ 238.8	$ 245.4
Current service cost	$ 3.3	$ -	0.7	2.6	-
Interest cost	7.0	-	1.1	5.9	-
Interest income	(6.0)	-	-	-	6.0
Return on plan assets excluding interest income	-	(2.6)	-	-	2.6
Actuarial (gains) losses					
Due to changes in demographic assumptions	-	-	-	-	-
Due to changes in financial assumptions	(0.1)	(26.9)	(15.0)	(12.0)	-
Due to changes in experience losses	0.1	0.2	0.3	-	-
Contributions by employer	-	-	-	-	3.3
Administration cost	0.6	-	-	-	(0.6)
Contributions by plan participants	-	-	-	0.2	0.2
Benefits paid	-	-	(1.5)	(10.1)	(10.1)
Balance, end of year	$ 4.9	$ (29.3)	$ 33.9	$ 225.4	$ 246.8

22. POST-EMPLOYMENT BENEFITS (continued)

(a) Plan movements (continued)

(in millions of dollars)	2020				
	Amounts recognized in net income	(Gains) losses recognized in OCI	Present value of benefit plan obligations		Fair value of plan assets
			Other benefit plans	Pension plans	Pension plans
Balance, beginning of year			$ 45.6	$ 221.3	$ 234.0
Current service cost	$ 3.8	$ -	0.6	3.2	-
Interest cost	8.1	-	1.4	6.7	-
Interest income	(7.1)	-	-	-	7.1
Return on plan assets excluding interest income	-	(11.9)	-	-	11.9
Actuarial (gains) losses					
Due to changes in demographic assumptions	-	-	-	-	-
Due to changes in financial assumptions	-	21.5	3.4	18.1	-
Due to changes in experience losses	(0.6)	(0.8)	(1.4)	-	-
Contributions by employer	-	-	-	-	3.5
Administration cost	0.6	-	-	-	(0.6)
Contributions by plan participants	-	-	-	0.3	0.3
Benefits paid	-	-	(1.3)	(10.8)	(10.8)
Balance, end of year	$ 4.8	$ 8.8	$ 48.3	$ 238.8	$ 245.4

The amounts recognized in net income were recorded in operating expenses.

The actual return on plan assets was a gain of $8.6 million (2020: $19.0 million).

(b) Funding status of defined benefit plans

The amounts recognized for pension plans in the consolidated balance sheets in other assets at the reporting date are as follows:

(in millions of dollars)	2021	2020
Defined benefit obligation	$ (225.4)	$ (238.8)
Fair value of plan assets	246.8	245.4
Net defined benefit asset	$ 21.4	$ 6.6
Actuarial gains on plan assets	$ (2.6)	$ (11.9)
Actuarial (gains) losses on plan liabilities	$ (12.0)	$ 18.1

The amounts recognized for other benefit plans in the consolidated balance sheets in accounts payable and other liabilities at the reporting date are as follows:

(in millions of dollars)	2021	2020
Defined benefit obligation	$ (33.9)	$ (48.3)
Actuarial (gains) losses on plan liabilities	$ (14.7)	$ 2.0

22. POST-EMPLOYMENT BENEFITS (continued)

(c) Maturity analysis of defined benefit obligations

The weighted average duration of the pension plan obligation is 13 years (2020: 14 years) and the weighted average duration of the other benefit plans obligation is 13 years (2020: 14 years).

The expected maturity of the defined benefit obligations are as follows:

(in millions of dollars)	2021				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Pension plans	$ 10.5	$ 42.7	$ 49.3	$ 122.9	$ 225.4
Other benefit plans	1.7	6.4	7.0	18.8	33.9
	$ 12.2	$ 49.1	$ 56.3	$ 141.7	$ 259.3

(in millions of dollars)	2020				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Pension plans	$ 10.3	$ 52.3	$ 49.0	$ 127.2	$ 238.8
Other benefit plans	2.1	8.3	9.6	28.3	48.3
	$ 12.4	$ 60.6	$ 58.6	$ 155.5	$ 287.1

(d) Pension plan asset allocation

The table below shows the allocation of defined benefit pension plan assets:

(in millions of dollars)	2021		2020	
Cash	$ 9.9	4.0%	$ 8.9	3.6%
Canadian fixed income securities (investment grade)				
Government of Canada	29.4	11.9%	17.5	7.1%
Provincial and municipal	59.6	24.2%	48.8	19.9%
Corporate	72.1	29.2%	57.9	23.6%
Pooled equity funds				
Canadian	25.8	10.5%	29.2	11.9%
Foreign	40.9	16.6%	74.4	30.3%
Other	9.1	3.6%	8.7	3.6%
	$ 246.8	100.0%	$ 245.4	100.0%

Of the corporate bonds held in the pension plan, the industry of issuer is as follows:

	2021	2020
Financial services	41.8%	39.0%
Utilities	13.3%	19.0%
Energy	9.7%	14.3%
Communication services	9.4%	7.5%
Consumer staples	8.0%	5.6%
Industrials	7.2%	5.0%
Real estate	6.4%	7.2%
Other	4.2%	2.4%
	100.0%	100.0%

The Company undertakes an asset-liability study as deemed necessary. The goal of the asset-liability study is to balance the expected long-term cost of the plan with the risk tolerance of the Company. To achieve this balance, the assets in the plan are allocated to fixed income securities, foreign equities, and Canadian equities.

22. POST-EMPLOYMENT BENEFITS (continued)

(e) Assumptions applied

The principal actuarial assumptions used in determining the defined benefit obligations for the Company's pension plans and other benefit plans are as follows:

	Other benefit plans		Pension plans	
	2021	2020	2021	2020
To determine benefit obligation, end of year:				
Discount rate	3.0%	2.5%	2.9%	2.5%
Future salary increases	-	-	2.5%	2.5%
Inflation assumption	-	-	2.0%	2.0%
Prescription drug cost increase	4.5%	6.6%	-	-
Medical claims cost increase	4.5%	4.0%	-	-
To determine benefit expense for the year:				
Discount rate	2.5%	3.1%	2.5%	3.1%
Future salary increases	-	-	2.5%	2.5%
Inflation assumption	-	-	2.0%	2.0%
Prescription drug cost increase	6.6%	6.7%	-	-
Medical claims cost increase	4.0%	4.0%	-	-

The mortality assumptions used to assess the Company's defined benefit obligations for the pension and other post-employment benefit plans as of December 31, 2021 are based on the Canadian Pensioners' Mortality – Private Sector mortality tables as established by the Canadian Institute of Actuaries.

The discount rate is the assumption that has the largest impact on the value of these obligations. The impact of a 1% change in this rate is as follows:

(in millions of dollars)	2021		2020	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Defined benefit obligation – pension plans	$ (26.0)	$ 31.9	$ (29.0)	$ 35.9
Defined benefit obligation – other benefit plans	$ (3.8)	$ 4.6	$ (5.9)	$ 7.2

The impact of a 1% change in the health care cost assumption is as follows:

(in millions of dollars)	2021		2020	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Defined benefit obligation – other benefit plans	$ 3.7	$ (3.1)	$ 7.3	$ (6.1)
Aggregate of total service cost and interest cost	$ 0.1	$ (0.1)	$ 0.2	$ (0.2)

(f) Risks arising from post-employment benefits

The key risks to which the Company is exposed to as a result of sponsoring the defined benefit pension plans and other post-employment benefit plans include inflation risk, interest rate risk, equity market price risk, foreign exchange risk, and life expectancy risk.

23. PREMIUMS

Net written premiums and net earned premiums, as presented in the consolidated statements of comprehensive income, are composed of the following:

(in millions of dollars)	Notes	2021	2020
Direct written premiums		$ 3,227.0	$ 2,812.4
Premiums assumed from other companies		4.4	2.3
Gross written premiums		3,231.4	2,814.7
Premiums ceded to other companies	11	(240.1)	(174.9)
Net written premiums		2,991.3	2,639.8
Change in gross unearned premiums		(166.1)	(138.6)
Change in ceded unearned premiums		8.4	7.5
Net earned premiums		$ 2,833.6	$ 2,508.7

24. RATE REGULATION

In common with the P&C insurance industry in general, the Company is subject to regulation in certain jurisdictions whereby rates charged to customers for certain automobile insurance policies must be approved by the applicable regulatory body. This type of business comprises 47.4% (2020: 49.7%) of the Company's total direct written premiums during the year. The Company is subject to three types of regulatory processes as follows:

Category	Description
File and use	Insurers file their rates with the regulatory authority and wait for a certain amount of time before implementing them.
File and approve	Insurers file their rates with the regulatory authority and wait for approval before implementing them.
Use and file	Insurers file their rates with the regulatory authority within a specified period after they are implemented.

The following table outlines the jurisdictions, regulatory authorities, and regulatory processes that the Company is subject to:

Jurisdiction	Regulatory authority	Regulatory process
Alberta	Alberta Automobile Insurance Rate Board	File and approve
New Brunswick	New Brunswick Insurance Board	File and approve
Nova Scotia	Nova Scotia Utility and Review Board	File and approve
Ontario	Financial Services Regulatory Authority	File and use or file and approve
Prince Edward Island	Island Regulatory and Appeals Commission	File and approve
Québec	Autorité des Marchés Financiers	Use and file

25. COMMITMENTS AND CONTINGENCIES

Commitments

The Company's commitments include lease commitments and certain non-cancellable contractual commitments. The Company's non-owned buildings, motor vehicles, computers, and office equipment are supplied through leases. The future contractual aggregate minimum lease payments under non-cancellable leases and other commitments are as follows:

(in millions of dollars)		2021		2020
Within 1 year	$	36.8	$	36.5
Later than 1 year but not later than 5 years		75.6		41.9
Later than 5 years		26.3		12.0

Under certain circumstances, the Company may be required to acquire outstanding share ownership of various strategically aligned brokers in accordance with the terms of the Company's contracts with those brokers.

Contingencies

In addition to litigation relating to claims made in respect of insurance policies written, the Company is subject to other litigation arising in the normal course of conducting its business. The Company is of the opinion that this non-claims litigation will not have a significant effect on its financial position, results of operations, or cash flows. The Company's process for ensuring appropriate provisions are recorded for reported and unreported claims is discussed in note 10.

26. RELATED PARTY TRANSACTIONS

From time to time, the Company enters into transactions in the normal course of business with certain directors, senior officers, and companies with which it is related. These transactions are measured at their exchange amounts. Management has established procedures to review and approve transactions with related parties, and reports annually to the Corporate Governance Committee of the Board of Directors on the procedures followed and the results of the review.

The compensation of key management personnel, defined as the Company's directors, president and chief executive officer, executive vice-presidents, and senior vice-presidents, is as follows:

(in millions of dollars)		2021		2020
Salaries	$	5.3	$	5.3
Short-term incentive plan		5.4		5.6
Medium-term incentive plan		14.0		8.8
Retention and signing bonuses		1.4		2.3
Post-employment defined contribution pension benefits		0.7		0.6
Other short-term employment benefits		0.1		0.1
Directors' fees*		1.8		1.7
	$	28.7	$	24.4

*Directors' fees disclosed above include fees accrued in respect of all controlled entities in the group.

Post-employment benefit plans

The Company makes contributions to post-employment benefit plans on behalf of its employees, including both defined contribution and defined benefit plans. Information regarding transactions with the plans is included in note 22.

Associates

At the reporting date, commercial loans of $0.5 million (2020: $10.9 million) are due from companies subject to significant influence. The loans are included in "Investments" in the consolidated balance sheets and are initially measured at the exchange amount. The loans are subsequently measured in accordance with the accounting policy for loans and receivables (note 3).

27. OPERATING SEGMENTS

The Company's management and directors review the results of operations based on one reportable segment, the P&C insurance segment. The operating results of this segment are regularly reviewed by the Company's senior management to make decisions about the allocation of resources and to assess the performance of the Company.

28. SUBSEQUENT EVENT

The Board of Directors declared a $0.175 per share dividend on February 10, 2022 (representing an inaugural quarterly amount of $0.125 per share in respect of the first quarter of 2022 in addition to $0.05 per share for the period between the IPO and December 31, 2021), payable on March 28, 2022 to shareholders of record at the close of business on March 15, 2022.