

definity.



2022

ANNUAL REPORT

# DEFINITY

Formed in 2021, Definity Financial Corporation is the parent company to some of Canada's most long-standing and innovative property and casualty insurance brands and companies, including Economical Insurance, Sonnet Insurance, Family Insurance Solutions, and Petline Insurance. By investing in businesses and innovations, the companies in our group help our customers, broker partners, employees, and communities adapt and thrive in a world of constant change.



Over  
**150**  
Years of  
Operations  
in Canada



**6<sup>th</sup>**  
Largest  
P&C Insurance  
Carrier in Canada<sup>1</sup>

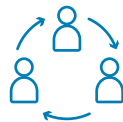


**3<sup>rd</sup>**  
Largest Carrier in  
Broker Channel  
in Canada



PASSION  
FOR INNOVATION  
  
Demonstrated by  
**Award-winning  
Digital Platforms**

DEEPLY  
ENGAGED  
TEAM



**3,500 employees**  
in 15 regional offices and  
a national network of over  
**600 independent brokerage firms**

PROFITABLE  
GROWTH



**GWP CAGR of 10%**  
and Underwriting Income Improvement  
of **\$458M** in 2018-2022

1. Market share of Canadian P&C insurance industry DWP of \$73.2 billion for the year ended December 31, 2022. Industry excludes Lloyds, ICBC, SAF, CGMC, SGI, Green Shield and Genworth. Data per MSA Research.

# definity.

• • •  
**economical**  
INSURANCE

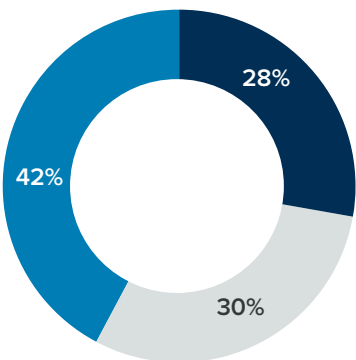
**sonnet**  
INSURANCE

**petline**  
INSURANCE

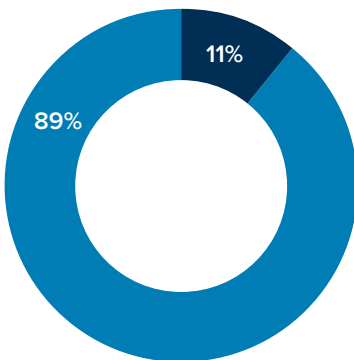
**family**  
INSURANCE

# OUR BUSINESS

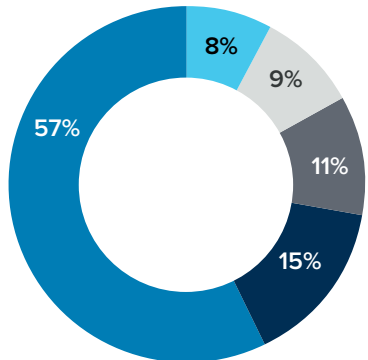
Definity provides Canadians with reliable service and insurance coverage, whether through a licensed broker or our digital direct channel.



- PERSONAL AUTO
- PERSONAL PROPERTY
- COMMERCIAL LINES



- BROKER
- DIRECT



- ONTARIO
- ALBERTA & PRAIRIES
- BRITISH COLUMBIA
- QUÉBEC
- ATLANTIC





## OUR NORTH STAR

### OUR PURPOSE

Building a better world  
by helping our clients  
and communities adapt  
and thrive

### OUR AMBITION

To be one of Canada's  
leading and most  
innovative P&C insurers

### OUR PROMISE

Making insurance better

## STRATEGIC OBJECTIVES

Become one of the  
five largest  
P&C insurers in Canada

Maintain our  
digital leadership

Consistently deliver  
disciplined financial  
management

Position Definity as  
a purpose-driven  
sustainability leader

## STRATEGIC PILLARS

Combine sound fundamentals  
with exceptional experiences

Drive industry-leading  
agility and productivity  
through innovation and  
scalable platforms

Empower top talent with  
a culture that delivers on  
our brand

Augment organic growth  
and diversification  
inorganically

Thoughtfully embed ESG  
priorities to deliver positive  
outcomes in our business  
and communities

## OUR VALUES

WE  
ARE ALL  
**OWNERS**



WE INSPIRE  
CUSTOMER  
**CONFIDENCE**



WE WORK  
TOGETHER TO  
**WIN TOGETHER**



## AWARD-WINNING TEAM

In the last year, Definity has received accolades for our culture, leadership, and navigating our transition from a mutual insurer to a publicly held entity.

**We are proud to have received the following recognition:**



# SUSTAINABILITY AND CORPORATE CITIZENSHIP

## Our Commitment



### OUR ENVIRONMENT:

As a leader in the P&C insurance industry, Definity recognizes the role we can play in reducing emissions to mitigate climate change and support Canadians and their businesses to be more resilient to the effects of our changing climate.

Our goal is to achieve net-zero greenhouse gas emissions in our operations and investment portfolio by 2040 or sooner.



### OUR PEOPLE:

We have established targets for candidates from equity-deserving groups in leadership roles at Definity. Our objective is to have at least 30% women and at least 15% Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities at the Vice President and Executive Leadership Team levels by 2026. To achieve these objectives, we will identify and develop talent more deeply within the organization, broaden our recruitment practices, and review and remove biases from recruitment, selection, and planning policies.



### OUR COMMUNITIES:

Insurance is a people business, inside and out. Helping Canadians when they need us most is our entire reason for being.

So, it makes sense that giving back to our communities through volunteerism and community investment is woven into the very fabric of who we are.





## Our Principles

### ACT SUSTAINABLY

We prioritize sustainability considerations, especially those that have the greatest impact. **“Do the right thing”** is embedded throughout our business, guiding our decisions and informing our actions.

### ACTIVATE EMPLOYEES

We lead by example to create meaningful engagement across our organization. We are authentic and embody our company values through an involved and diverse culture.

### INSPIRE POSITIVE CHANGE

We drive action and impact through longstanding relationships in our communities that are built on trust. We act as an involved and respectful corporate citizen and encourage our stakeholders to do the same.

## ESG Governance

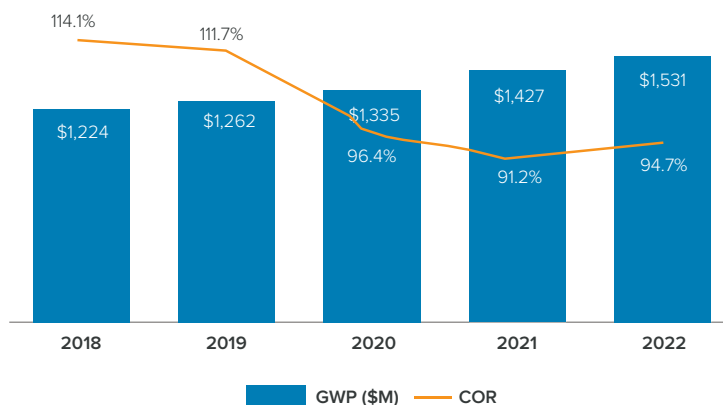
Our Board of Directors maintains oversight of our ESG strategy as we expect it to create long-term value for all of our stakeholders. Our Executive Leadership Team and ESG Steering Committee work with a view to ensuring that the appropriate ESG factors are embedded into Definity’s corporate strategy and that key risks and opportunities are managed effectively. A dedicated ESG function within our Corporate Strategy group provides day-to-day support to our business lines and corporate functions and cross-functional working groups provide further support for the implementation of Definity’s sustainability and corporate citizenship priorities.

# PERFORMANCE AT A GLANCE

## Personal Auto

6% CAGR in annual personal auto GWP in 2018-2022 since the launch of Sonnet and Vyne

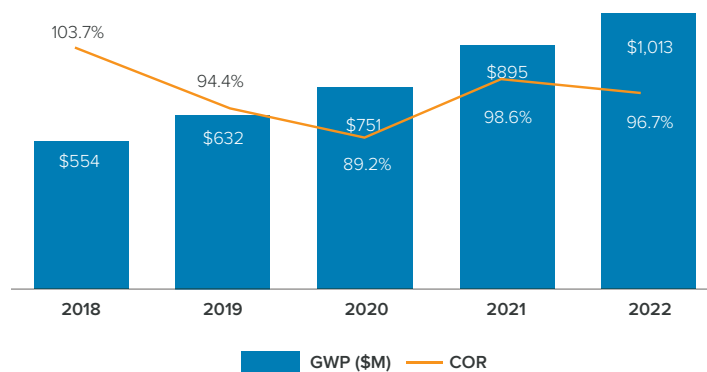
19-point improvement in combined ratio<sup>(1)</sup> from 2018-2022



## Personal Property

16% CAGR in annual personal property GWP in 2018-2022 since the launch of Sonnet and Vyne

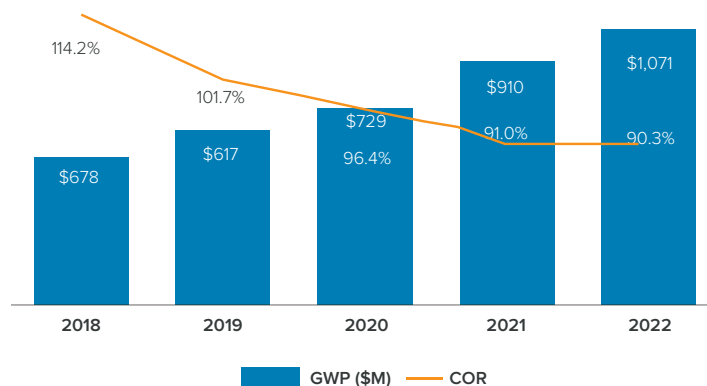
7-point improvement in combined ratio<sup>(1)</sup> from 2018-2022



## Commercial Lines

12% CAGR in annual commercial lines GWP in 2018-2022, reflecting strong growth across each of our segments – Small business, Mid-Market, and Specialty

24-point improvement in combined ratio<sup>(1)</sup> from 2018-2022



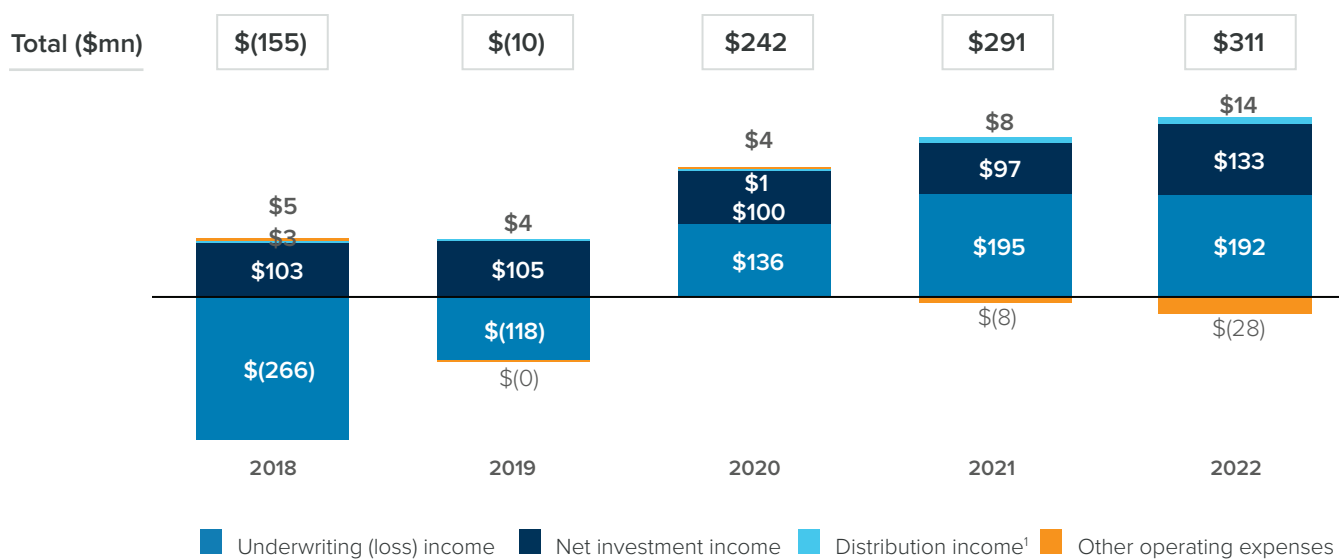
Note: Figures in millions, unless otherwise noted.

This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 12 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2022 MD&A for further details.





## Operating Income (Loss)



Note: Figures in millions, unless otherwise noted.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 12 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2022 MD&A for further details.



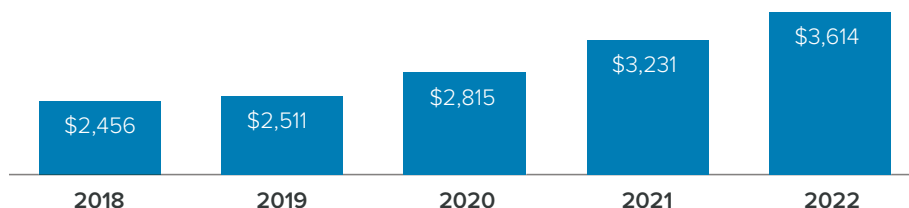


# FINANCIAL TARGETS

Over the next year, our financial targets are to:

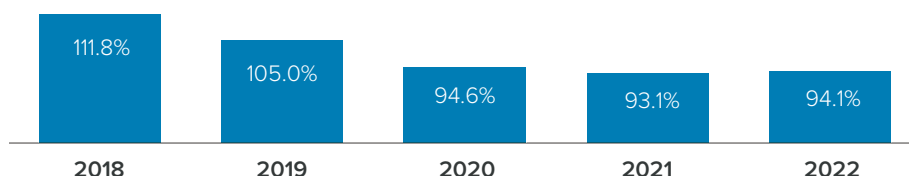
**Grow GWP annually at an upper single digit to approximately 10% rate<sup>(1)</sup>** supported by, among other things, continuing to scale Sonnet, leveraging our investments in the broker channel, and expanding our core commercial insurance and specialty capabilities.

4Y CAGR **10%**



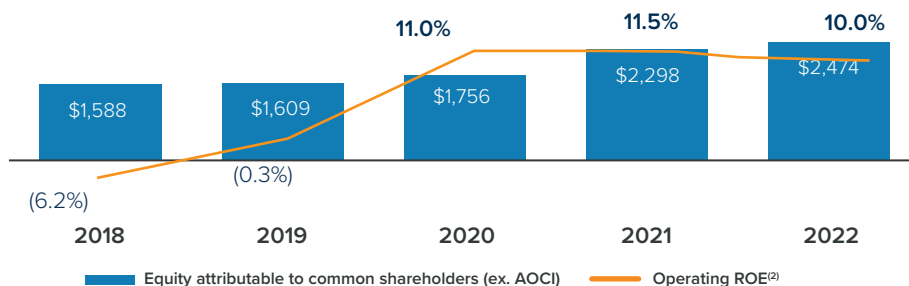
**Maintain a full year combined ratio<sup>(2)</sup> in the mid-90s<sup>(1)</sup>** as our strategic investments drive scale and we continue to generate operational improvements across all lines of business.

2018-22 improvement **18 pts**



**Generate an annual Operating ROE<sup>(2)</sup> in the upper single digit to below teens range<sup>(1)(3)</sup>** through underwriting profitability, investment performance and distribution income, and reflective of the capital levels generated by our business.

2018-22 improvement **16 pts**



Note: Figures in millions, unless otherwise noted.

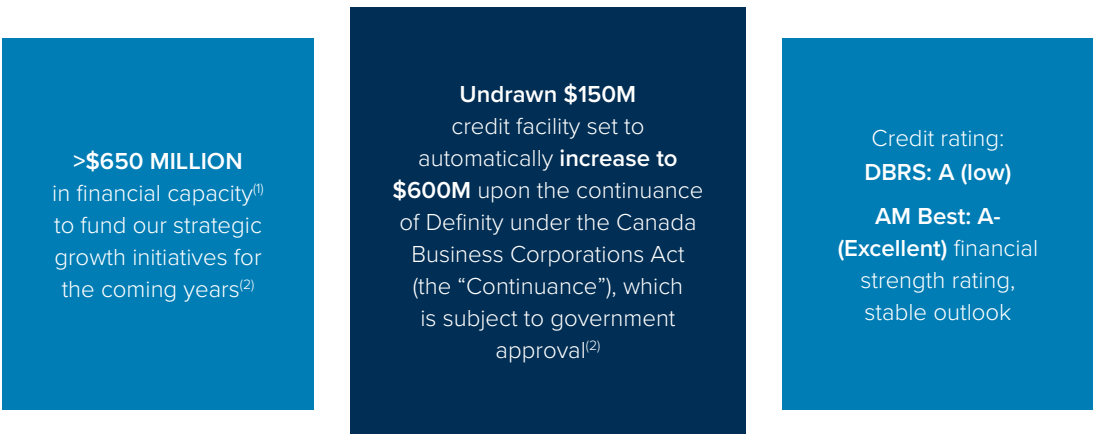
1. Financial targets are expected to be achieved over the next year and do not include the impact of IFRS 17. These targets are subject to the factors and assumptions as described in the "Cautionary note regarding forward-looking information" in the Q4-2022 MD&A. There is no assurance that we will be able to achieve these targets or that the factors and assumptions underlying these targets will prove to be accurate. Our ability to achieve the above targets is subject to a number of risks, challenges and uncertainties that could cause actual future results to differ materially from these targets. See "Cautionary note regarding forward-looking information" in the Q4-2022 MD&A for further details.

2. This is a supplementary financial measure, non non-GAAP financial measure, or a non non-GAAP ratio. Refer to Section 12 – Supplementary financial measures and non non-GAAP financial measures and ratios in the Q4-2022 MD&A for further details.

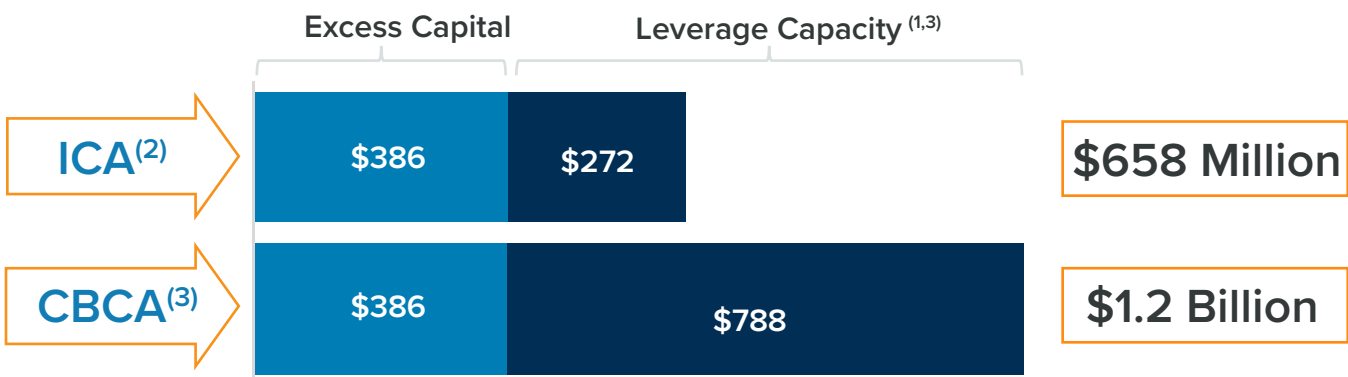
3. We expect to achieve further improvements on Operating ROE over time, targeting the low teens, through future balance sheet optimization.

# SIGNIFICANT FINANCIAL FLEXIBILITY

## Unlevered Balance Sheet with Significant Excess Capital



## Financial Capacity<sup>(1)</sup> as at Q4-2022



## Strategic focus on consistently demonstrating disciplined financial management



Note: Figures in millions, unless otherwise noted.

1. This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 12 – Supplementary financial measures and non-GAAP financial measures and ratios in the Q4-2022 MD&A for further details.

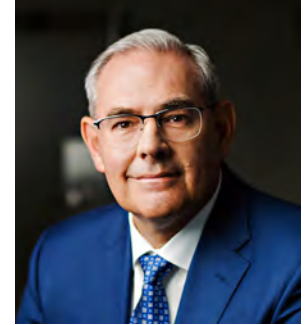
2. Definity is subject to leverage restrictions under the Insurance Companies Act (Canada) (the "ICA"), which provide that its total debt cannot exceed 2% of its total assets. Under the ICA, property and casualty insurance companies must maintain adequate capital and appropriate forms of liquidity. The Office of the Superintendent of Financial Institutions ("OSFI"), has published the Minimum Capital Test guideline which provides the framework within which OSFI assesses whether a property and casualty insurance company maintains adequate capital for purposes of the ICA.

3. Assumes Definity proceeds with the Continuance and establishes financial leverage levels at 20% debt and 5% preferred or hybrids. The Continuance is subject to government approval.

4. Declaration of dividends is subject to Board discretion.



# LETTER FROM THE CEO



Dear shareholders,

In the past year, our industry continued to experience dynamic shifts. Increasingly severe weather throughout the country, rising inflation, and volatility in capital markets all combined to create new hurdles for P&C insurers seeking to deliver for customers and shareholders. Against this backdrop, Definity completed its first full year as a public company. As I reflect on this, I'm proud of the way we have continued to execute our strategy while delivering strong financial performance and, most importantly, delivering on our promise to customers. This was made possible thanks to our talented and highly engaged employees throughout Definity.

When it comes to natural disasters, we are seeing the intensity of these events increasing in Canada and around the world, leading to increased volatility in underwriting results, and changes in the capacity and pricing of coverage provided by global reinsurers. Hurricane Fiona resulted in approximately 3,000 claims for Definity customers, and for each of them our front-line teams were there to help alongside our valued broker partners. As we anticipate more of these events in the future, we are taking steps to proactively position Definity, including ensuring our teams will be there when our customers need us most.

Despite elevated catastrophe losses and significant volatility in fixed income and equity markets, we maintained our strong financial position. We delivered a strong underwriting performance in conjunction with continued top line growth. Our combined ratio of 94.1% marked the third consecutive year below 95%. Strategic investments in our digital platforms enabled us to grow ahead of the industry average and, combined with our expansion efforts in personal property and commercial insurance amid firm market conditions, supported an 11.8% increase in premiums in 2022.

I'm very pleased that all three of our insurance businesses have now exceeded \$1 billion in annual premiums, which was the result of a concerted effort to grow beyond regulated auto insurance by expanding our presence in personal property and commercial lines. Both the Commercial Insurance and Personal Property portfolios exceeded the billion dollar mark for the first time. This diversification component of our strategy has been significantly advanced in recent years. Another strategic goal has been the successful deployment of excess capital. The acquisition of a majority interest in McDougall Insurance was an immediately accretive transaction during the year and now positions us to benefit from a complementary source of income, as an additional part of our focus on diversification to improve the consistency of our operating profitability over time. The anticipated repeatable nature and strong margins of distribution income are particularly attractive, and we believe our expanded partnership will help McDougall accelerate its growth plans in support of its ambition to double its business and reach an annual premium base of \$1 billion.

With the increase in Canadian interest rates and the resulting impact on investment yields, our operating results also benefited from an increase in net investment income in 2022. Overall, our financial performance led to an operating ROE of 10%.

Our capital position at year-end was solid and we continued to hold a significant amount of excess capital, in addition to untapped leverage capacity. In aggregate, our estimated financial capacity remained above \$650 million as an ICA company at year end. In February 2023, we announced a 10% increase in our quarterly dividend, consistent with our objective to sustainably grow our dividend over time.

Our robust performance positions us well to execute on our strategy going forward. Our strategy is underpinned by the following four key objectives:

## **Become one of the five largest P&C insurers in Canada**

- We intend to continue to diversify and strengthen through acquisitions and partnerships, with a focus on opportunities in Canada that are strategically aligned with our business model, accelerate our organic growth plans, and deliver returns in excess of those we could generate otherwise. We continue to enhance our organic growth engines and enjoy tremendous broker support.

## **Maintain our digital leadership**

- We continue to invest in and scale the Sonnet business and have observed high retention rates and better access to the large group and affinity segment of the P&C insurance market.
- Through our Vyne platform for the broker channel, we have driven significant growth in segments that were targeted for expansion. We are continually reviewing the performance of Vyne to enhance the broker experience.

- We are maintaining our pace of innovation by implementing solutions that enable scale, enhance service quality, and innovate with agility. In 2022 we became the first Canadian P&C insurer to have its core insurance platform for personal insurance take advantage of Guidewire Cloud Platform capabilities.

#### **Position Definity as a purpose-driven sustainability leader**

- We are making an impact with the commitments we have made: a focus on the environment with a goal to achieve net zero emissions from operations by 2040 or sooner, and a dedicated focus to build an equitable culture with an objective of having at least 30% women and at least 15% Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities at the Vice- President and Executive Leadership Team levels by 2026.
- Our commitment to building a better world has been integrated into our credit facility with a sustainability-linked loan that links our borrowing cost directly to the company's performance on comparable sustainability objectives.

#### **Consistently deliver disciplined financial management**

- We will continue our focus on disciplined underwriting and strategic capital management to meet our performance targets, which include growing GWP annually at a rate in the upper single digits to approximately 10%, maintaining a full year combined ratio in the mid-90s, and generating an annual operating ROE in the upper single digit to below teens range.
- We believe capital allocation, portfolio construction, sophisticated core capabilities, and empowered talent expertise, alongside leading platforms, will enable consistent delivery of our financial targets.

Integral to achieving these strategic objectives are a number of longer-term guiding principles. We combine sound insurance fundamentals with exceptional experiences to deliver on customer and broker expectations and maintain disciplined focus on key fundamentals such as analytics, underwriting, pricing, and service excellence. As industry conditions change, we are agile and responsive using innovation and scalable platforms. We also augment our organic growth priorities with inorganic acquisitions and partnerships. We empower our top talent with a culture that aligns with our brand promise. As we make progress to deliver on our objectives, we thoughtfully embed ESG priorities to provide positive outcomes in our business and communities.

Investors continue to show their support for our strategy as we have continued to deliver on expectations and produce strong returns for shareholders. We believe we are well positioned to continue delivering value to shareholders as we grow profitably and deploy our capital in a manner that enhances earnings, while maintaining significant capacity for future opportunities.

I am tremendously pleased with our ability to produce strong financial outcomes in our first full year as a public company. Our performance in 2022 is a testament to our team's ability to successfully manage volatility in the insurance and capital markets, demonstrating our resilient business model.

Despite the recent solid profitability at the industry level, we believe the operating environment is one that is conducive to sustaining firm market conditions. We expect firm market conditions in property lines will persist over the next 12 months, particularly following the dynamics of the recent reinsurance renewal season, while conditions in auto lines have begun to firm as a result of normalizing claims frequency and inflationary cost pressures.

As we look ahead, we expect the firm market conditions in property and commercial lines to persist over the coming year. In auto lines, industry rates began to firm in 2022 following a period of pandemic-related customer relief. We expect this trend to continue in 2023 outside of Alberta. In addition, continued elevated levels of severe weather are likely to lead carriers to focus on long-term profitability and maintaining a sustainable availability of capacity.

Though we are optimistic and ambitious, we remain disciplined as well. The headwinds we will face to make our vision for Definity a reality are many, but I am confident in our strategy and the excellent team we have in place, alongside our supportive broker partners, to continue building on our track record of success. I'm extremely proud of the milestones we achieved together in our first full year as a public company and I continue to be excited by the opportunities that await. I'd like to thank our shareholders, Board of Directors, brokers, and employees for their support throughout 2022.



**ROWAN SAUNDERS**

President and CEO

## LETTER FROM THE BOARD CHAIR



Definity continues to deliver on our promise of making insurance better. Years of dedication have transformed our business from the inside out to build a company that is focused on creating long-term value for our customers, brokers, employees, and shareholders. We have built a national, high-performing multi-line and multi-channel insurer that has performed well during our first full year as a public company and we believe is well positioned to capitalize on strategic opportunities going forward.

Our ambition at Definity is to be one of Canada's leading and most innovative P&C insurers and our 2022 financial results and achievements demonstrate significant progress toward that goal. Importantly, our approach to growth remains disciplined, with a keen focus on sound underwriting, sophisticated pricing, and prudent reserving, which are reflected in a 2022 full year combined ratio of 94.1%. In the context of dynamic economic and industry conditions, that discipline has been a critical part of our progress towards our objective of becoming one of the five largest P&C insurers in Canada as we build upon the momentum and strength we have achieved over the past few years.

The power of our business has also helped our communities adapt and thrive, as it has for many years. We have now extended that dedication with more formal environmental, social, and governance (ESG) commitments and, in 2022, established our goal to achieve net-zero greenhouse gas emissions in our operations and investment portfolio by 2040 or sooner. In addition, we established new targets for individuals from equity-deserving groups in leadership roles at Definity. Our objective is to have at least 30% of roles at the Vice- President and Executive Leadership Team levels be filled by women by 2026 and at least 15% of them be filled by Black, Indigenous, and People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities by 2026. Those targets, and our ESG strategy more broadly, are embedded in our operations and governance processes across the organization and remain a significant priority of our Executive Leadership Team and Board of Directors.



WE HAVE BUILT A NATIONAL, HIGH-PERFORMING MULTI-LINE AND MULTI-CHANNEL INSURER THAT HAS PERFORMED WELL DURING OUR FIRST FULL YEAR AS A PUBLIC COMPANY AND WE BELIEVE IS WELL POSITIONED TO CAPITALIZE ON STRATEGIC OPPORTUNITIES GOING FORWARD.



As we advance toward these goals, we remain dedicated to a culture that's collaborative, ambitious, rewarding, and empowering. As one of Waterstone Canada's Most Admired Corporate Cultures and a Best Workplace in Canada according to Great Place to Work, we will continue to provide a values-based employee experience, one where diverse backgrounds come together with a sense of belonging to support a culture of high-performance for our more than 3,400 employees across the country.

A pillar supporting our progress against our objectives is a shared commitment throughout the organization to sound governance, integrity, and accountability. The Board of Directors plays a critical role in achieving the objectives we've set for ourselves by working closely with senior management to ensure that these values are embedded throughout the organization and providing constructive challenge and strategic insight to help guide Definity on its journey.

On behalf of the entire Definity Board, I'd like to thank Rowan Saunders and the Executive Leadership Team for their leadership and focus in 2022. Alongside engaged employees and dedicated broker partners, they have created a strong foundation for Definity to build upon as a public company for many years to come.

A handwritten signature in black ink, reading "John Bowey". The signature is fluid and cursive, with the first name "John" and last name "Bowey" clearly distinguishable.

**JOHN BOWEY**

Board Chair



# MANAGEMENT'S DISCUSSION AND ANALYSIS

# TABLE OF CONTENTS

<b>Introduction</b>	<b>16</b>
1 CORPORATE OVERVIEW AND STRATEGY	19
2 FINANCIAL PERFORMANCE	22
3 RESULTS BY LINE OF BUSINESS	27
4 OPERATING ENVIRONMENT AND OUTLOOK	32
5 FINANCIAL POSITION	36
6 SELECTED ANNUAL INFORMATION AND SUMMARY OF QUARTERLY RESULTS	41
7 LIQUIDITY AND CAPITAL RESOURCES	42
8 RELATED PARTY TRANSACTIONS	47
9 INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR) AND DISCLOSURE CONTROLS AND PROCEDURES	48
10 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS	49
11 RISK MANAGEMENT AND CORPORATE GOVERNANCE	50
12 SUPPLEMENTARY FINANCIAL MEASURES AND NON-GAAP FINANCIAL MEASURES AND RATIOS	64
13 OUTSTANDING SHARE DATA	68
14 DEFINITIONS	69



# INTRODUCTION

February 9, 2023

The following Management's Discussion and Analysis ("MD&A") is the responsibility of management and has been approved by the Board of Directors ("Board"). This MD&A is intended to enable the reader to assess our financial position and results of operations as at and for the three and twelve-month periods ended December 31, 2022, compared to the corresponding periods in 2021. This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2022. All dollar amounts are in Canadian dollars. Certain totals, subtotals, and percentages may not reconcile due to rounding. Unless otherwise noted in this MD&A, all information was prepared as at February 9, 2023.

As used in this MD&A, references to "Definity", "the Company", "we", "us", and "our" refer to Definity Financial Corporation, and, unless the context otherwise requires or is otherwise expressly stated, its consolidated subsidiaries.

The Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). We measure and evaluate performance of our business using a number of financial measures. Among these measures are the "supplementary financial measures", "non-GAAP financial measures", and "non-GAAP ratios" (as such terms are defined under Canadian Securities Administrators' National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure*) included in this MD&A, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

The information presented in this MD&A includes the following supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios:

<b>Supplementary Financial Measures:</b>	Claims ratio, core accident year claims and adjustment expenses, catastrophe losses, book value per share, financial capacity, leverage capacity, and certain other ratios.
<b>Non-GAAP Financial Measures:</b>	Operating net income, operating income, non-operating gains (losses), distribution income, and underwriting expenses (net of other underwriting revenues)/operating expenses (net of other underwriting revenues).
<b>Non-GAAP Ratios:</b>	Combined ratio, expense ratio, return on equity ("ROE"), operating return on equity ("operating ROE"), and operating earnings per common share.

For more information about these supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios, including (where applicable) an explanation of how that measure provides useful information and a quantitative reconciliation of each non-GAAP financial measure to its most directly comparable GAAP measure disclosed in our consolidated financial statements, see Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

This MD&A may include product and brand names, trade names, and trademarks of Definity, our subsidiaries and other companies, each of which is the property of its respective owners.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future business, financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding possible future events or circumstances.

Forward-looking information in this MD&A is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as at the date such statements are made, and are subject to many factors that could cause our actual results, performance or achievements, or other future events or developments, to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors:

- Definity's ability to appropriately price its insurance products to produce an acceptable return, particularly in provinces where the regulatory environment requires auto insurance rate increases to be approved or that otherwise impose regulatory constraints on auto insurance rate increases;
- Definity's ability to accurately assess the risks associated with the insurance policies that it writes;
- Definity's ability to assess and pay claims in accordance with its insurance policies;
- litigation and regulatory actions, including potential claims in relation to demutualization and our IPO, and COVID-19-related class-action lawsuits that have arisen and which may arise, together with associated legal costs;
- Definity's ability to obtain adequate reinsurance coverage to transfer risk;
- Definity's ability to accurately predict future claims frequency or severity, including the frequency and severity of weather-related events and the impact of climate change;
- Definity's ability to address inflationary cost pressures through pricing, supply chain, or cost management actions;
- the occurrence of unpredictable catastrophe events;
- unfavourable capital market developments, interest rate movements, changes to dividend policies or other factors which may affect our investments or the market price of our common shares;
- changes associated with the transition to a low-carbon economy, including reputational and business implications from stakeholders' views of our climate change approach or that of our industry;
- Definity's ability to successfully manage credit risk from its counterparties;
- foreign currency fluctuations;
- Definity's ability to meet payment obligations as they become due;
- Definity's ability to maintain its financial strength rating or credit rating;
- Definity's dependence on key people;
- Definity's ability to attract, develop, motivate, and retain an appropriate number of employees with the necessary skills, capabilities, and knowledge;
- Definity's ability to appropriately manage and protect the collection and storage of information;
- Definity's reliance on information technology systems and internet, network, data centre, voice or data communications services and the potential disruption or failure of those systems or services, including as a result of cyber security risk;
- failure of key service providers or vendors to provide services or supplies as expected, or comply with contractual or business terms;
- Definity's ability to obtain, maintain and protect its intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology;
- compliance with and changes in legislation or its interpretation or application, or supervisory expectations or requirements, including changes in effective income tax rates, risk-based capital guidelines, and accounting standards;
- failure to design, implement and maintain effective control over financial reporting which could have a material adverse effect on our business;
- deceptive or illegal acts undertaken by an employee or a third party, including fraud in the course of underwriting insurance or settling insurance claims;
- Definity's ability to respond to events impacting its ability to conduct business as normal;
- Definity's ability to implement its strategy or operate its business as management currently expects;
- the impact of public-health crises, such as pandemics or other health risk events including the COVID-19 pandemic and their associated operational, economic, legislative and regulatory impacts, including impacts on Definity's ability to maintain operations and provide services to customers and on the expectations of governmental or regulatory authorities concerning the provision of customer relief;
- general economic, financial, political, and social conditions, particularly those in Canada;
- the competitive market environment and cyclical nature of the P&C insurance industry;
- the introduction of disruptive innovation;
- distribution channel risk, including Definity's reliance on brokers to sell its products;
- Definity's dividend payments being subject to the discretion of the Board and dependent on a variety of factors and conditions existing from time to time;
- there can be no assurance that Definity's normal course issuer bid ("NCIB") will be maintained, unchanged and/or completed;
- Definity's dependence on the results of operations of its subsidiaries and the ability of the subsidiaries to pay dividends;
- Definity's ability to manage and access capital and liquidity effectively;
- Definity's ability to successfully identify, complete, integrate and realize the benefits of acquisitions or manage the associated risks;
- periodic negative publicity regarding the insurance industry or Definity;
- management's estimates and expectations in relation to interests in the broker distribution channel and the resulting impact on growth, income, and accretion in various financial metrics; and
- the completion and timing of Definity continuing under the *Canada Business Corporations Act*.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in Section 11 — “Risk Management and Corporate Governance” should be considered carefully by readers.

Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, the factors above are not intended to represent a complete list and there may be other factors not currently known to us or that we currently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as at the date made. The forward-looking information contained in this MD&A represents our expectations as at the date of this MD&A (or as at the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

# 1 — CORPORATE OVERVIEW AND STRATEGY

## ABOUT DEFINITY

We are one of the leading property and casualty (“P&C”) insurers in Canada.<sup>1</sup> We are the sixth largest provider of P&C insurance in Canada, with a market share of 4.9%.<sup>2</sup> We had over \$3.6 billion in gross written premiums (“GWP”) in 2022.

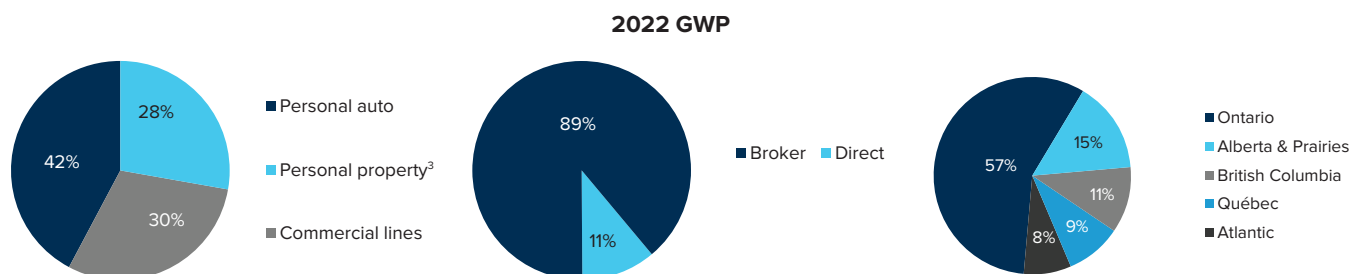
We offer both personal and commercial insurance products. Through our personal lines insurance operations, which represented 70% of our GWP in 2022, we offer auto, property, liability, and pet insurance products to individual customers. Our commercial lines insurance operations, which represented 30% of our GWP in 2022, includes fleet, individually-rated commercial auto, property, liability and specialty insurance products, which are provided to businesses of all sizes in Canada.

As a multi-channel insurer, we distribute our products on a primarily intermediated basis, through brokers, as well as directly to customers. We have active relationships with a network of over 600 independent brokerage firms and a broker base of more than 30,000 individual brokers. Our direct distribution channel includes Sonnet Insurance; our pet insurer, Petline Insurance; and portions of our group insurance offering. In 2022, broker and direct distribution represented 89% and 11%, respectively, of our total GWP.

We have a national presence and conduct our business in all provinces and territories of Canada. Ontario is our largest market, representing 57% of GWP in 2022.

Our P&C insurance business is supported by our investment management activities. We had approximately \$4.9 billion in investments as at December 31, 2022. A key tenet of our investment philosophy is the preservation of capital through portfolio diversification and a strong focus on high quality assets. Our investment portfolio is comprised primarily of short-duration, investment grade fixed income investments.

The following charts illustrate the breakdown of our 2022 GWP by business line, distribution channel, and region, respectively.



<sup>3</sup> Personal property includes pet insurance business.

## CORPORATE STRATEGY

Our goal is to be the P&C insurance partner Canadians choose to protect what they value most. This has driven us to build a national, high-performing multi-line and multi-channel insurer that we believe is well positioned to capitalize on multiple growth opportunities. Our strategic objectives are to become one of the five largest P&C insurers in Canada, maintain our digital leadership, consistently deliver disciplined financial management, and position Definity as a purpose-driven sustainability leader.

Integral to our strategy are a number of longer-term guiding principles. We **combine sound insurance fundamentals with exceptional experiences** to deliver on customer and broker expectations and maintain disciplined focus on key fundamentals such as analytics, underwriting, pricing, and service excellence. As industry conditions change, we are **agile and responsive using innovation and scalable platforms**. We also **augment our organic growth priorities with inorganic acquisitions and partnerships**. We **empower our top talent with a culture** that aligns with our brand promise. As we make progress to deliver on our objectives, we **thoughtfully embed ESG priorities** to provide positive outcomes in our business and communities.

We intend to execute our strategy over the medium-term through the following key focus areas.

### Capitalize on the Expanding Digital Direct Insurance Market with Sonnet

Sonnet’s operating model employs advanced data analytics from multiple third-party data sources to enable personalized product customization and pricing within minutes, and an exceptional customer experience in easy-to-understand language.

We continue to invest in and scale our Sonnet business and we observed high retention rates in the digital direct business. Despite an industry slowdown in new business, Sonnet’s GWP has grown 13.3% from \$293.3 million in 2021 to \$332.4 million in 2022 reflecting resiliency in Sonnet’s value proposition in the digital direct channel.

<sup>1</sup> Based on market share by DWP.

<sup>2</sup> Market share of Canadian P&C insurance industry DWP of \$70.5 billion for the twelve months ended June 30, 2022.



Relative to our competition, Sonnet also enables better access to the large group and affinity segment of the P&C insurance market. Group and affinity volume within Sonnet grew strongly in 2022 representing 20% of Sonnet's portfolio, despite this segment historically having significant barriers to entry. Our sophisticated origination capabilities enable us to reach those same customers directly or through partnerships that allow us to access target customers at a lower acquisition cost.

We are continuing to build on our leading customer experience with the launch of digital claims first notice of loss ("FNOL"). The new option will allow our customers to report claims digitally, complementing our award-winning digital experience.

### **Leverage Vyne to Increase Our Share of the Broker Channel**

The broker channel continues to be an integral part of our distribution strategy driving an attractive mix of growth, diversification, and profitability.

Through our Vyne platform, we have been able to drive significant growth in segments we have targeted for expansion. We are continuing to see growth in our broker channel as GWP grew from \$2.9 billion in 2021 to \$3.2 billion in 2022, a growth rate of 11.7%. The industry slowdown in new business activity observed in 2022 supports higher retention rates which has benefitted our broker business. Vyne is integrated with all major broker management systems and leading quoting vendors, which enables us to be one of the first guaranteed quotes available to the broker. We are continuing to refine our models and leverage advanced analytics to advance our pricing capabilities and customer segmentation. Vyne also processes renewals seamlessly and allows brokers to switch existing policies from other carriers onto our platform more quickly and easily than traditional processes. We are continuing to build on the success of Vyne by reviewing and enhancing the broker experience.

### **Grow and Diversify Our Commercial Insurance Business**

For the first time, we exceeded \$1 billion GWP this year achieving growth of 17.6% as compared to 2021.

In the small business segment our Vyne Commercial platform, launched in 2021, enables brokers to instantly quote and bind new policies for small and medium enterprises across a range of products. To continue to enhance the broker experience and drive growth, we have expanded product segments available through the platform and increased support options for brokers.

Within mid-market, we have a comprehensive product suite and continue to leverage our cross-border capabilities to further penetrate this segment. Our regional footprint allows us to develop exceptionally strong relationships with our broker partners coast to coast.

The specialty segment provides an attractive opportunity for us to profitably grow our business. Industry dynamics in the Canadian specialty market are attractive, and success in this segment depends on sophisticated underwriting expertise and strong client relationships. Our immediate focus is expansion in five key segments, which include Specialty Energy & Property, Professional Lines, Surety, Agribusiness, and the Sharing Economy. Within the Sharing Economy, we have demonstrated our capabilities by continuing our successful collaboration with Uber into its third year and by establishing an additional collaboration with Turo in 2022.

### **Deliver a Superior Claims Experience that Supports and Satisfies Customers**

Claims has been undergoing a multi-year transformation program focused on developing our technological capabilities to improve our customer experience, increase early intervention, decrease claims duration, and streamline the customer journey. For example, we launched digital FNOL for our Sonnet customers allowing auto claims to be submitted digitally. We are continuing to mature our use of data, predictive models, and advanced analytics to mitigate fraud and triage claims.

We have increased integrations with third-party service providers to improve the customer experience through real-time information sharing and enhance our responsiveness to customers during these important touchpoints. As catastrophes are expected to increase due to climate change, we have also made investments in our in-house catastrophe response team to be there for our customers when they need us the most.

### **Maintain Our Pace of Innovation**

We continued to strengthen our enterprise innovation capabilities, through our ongoing progress on multi-cloud strategy, partnerships with industry leading players, and routinely evolving existing platforms to reflect ongoing changes in market dynamics, customer expectations, and technology. We became the first Canadian P&C insurer to have its core insurance platform for personal insurance take advantage of Guidewire Cloud Platform capabilities. This has better positioned us to scale, enhance service quality, and innovate with agility to explore new possibilities within the P&C industry.

We are continuing to invest in our data platform to simplify automation, incorporate machine learning, build scalable infrastructure in our personal lines and individually-rated commercial auto insurance origination, and enhance claims and underwriting operations. We continued to expand our use of application programming interfaces (APIs) to support our ability to integrate with existing and emerging partners to build a seamless experience for our customers and brokers. We are working on an innovative insurance solution to offer personal auto customers alternatives to traditional insurance products. We have a robust cyber strategy to enable digital trust and confidence amongst customers, brokers, employees, partners and other stakeholders and create and maintain integrity across all our digital assets.

We are continuing to pursue strategic partnerships with innovative companies to incorporate innovation throughout our enterprise. In 2022, we announced a new relationship with Google Cloud which will allow the two companies to collaborate and leverage Google's advanced data systems, analytics, artificial intelligence, and machine learning to support development of innovative personalized solutions within a highly secure cloud environment.

### **Diversify and Strengthen Our Growth through Acquisitions and Partnerships**

We have a largely unlevered balance sheet and significant excess capital available to deploy in support of acquisitions, and we are well positioned to actively participate in industry consolidation in both insurance carriers and distribution partners. We remain committed to being financially disciplined in evaluating potential transactions and ensuring the right conditions are in place for value creation. We intend to focus on opportunities in Canada that are strategically aligned with our business model, accelerate our standalone organic growth plans, and deliver returns in excess of those we could generate on our own.

To broaden our reach, we intend to continue enhancing our existing strategic partnerships and to explore new relationships to enable growth in target business segments, promote innovation, access new markets, and facilitate development of new capabilities. In 2022, we increased our interest in McDougall Insurance Brokers Limited ("McDougall") from approximately 25% to 75%, expanding our relationship while bolstering our distribution income. Founded in 1946, McDougall is one of Ontario's largest P&C insurance brokerages with proven M&A expertise. The acquisition builds on a strong, pre-existing relationship between Definity and McDougall with the goal to further expand McDougall's distribution footprint.

### **Attract and Retain Top Talent to Empower a High-Performance Culture that Delivers on Our Brand**

We believe it's better at Definity and that sets the tone for our employee experience. In 2022, we launched our Employee Promise of CARE, to provide an employee experience that is:

- Collaborative — contribute to a team that values what employees bring
- Ambitious — challenge the status quo to deliver better results
- Rewarding — achieve professional growth, learn, and be organized for high performance
- Empowering — make a difference every day in a flexible, values-based environment.

We uphold a caring, inclusive, and equitable environment where employees have the confidence to innovate with each other and implement even better ways of doing things. We take a holistic view with employees by investing in their growth, supporting their goals, and helping them thrive in their career and as individuals.

In 2022, Definity received Great Place to Work Certification and the following recognitions for our people and workplace culture practices: Canada's Most Admired Corporate Cultures, Best Places to Work for Inclusion, and Best Workplaces in Financial Services & Insurance.

In 2022, as our workforce moved back towards in-office collaboration, we launched our hybrid work model which focuses on a flexible blend of in-person and remote time to help us foster culture, deliver on our objectives, and enhance the sense of belonging for our employees.

### **Deliver on our Inclusion, Diversity, Equity, and Accessibility (IDEA) Targets, Climate Goals, and Other ESG Priorities**

ESG is integral to delivering on our purpose of building a better world by helping our clients and communities adapt and thrive. In 2022, we made specific ESG commitments focused on the priorities of IDEA and Climate & Environmental Sustainability:

- IDEA — To have at least 30% women and at least 15% Black, Indigenous, People of Colour (BIPOC), LGBTQ+, and/or persons with [dis]abilities at the vice-president and executive leadership team levels by 2026.
- Climate & Environmental Sustainability — To achieve net-zero emissions from both operations and investments (listed equities and corporate bonds) by 2040 or sooner. Accordingly, we have continued to invest in energy efficiency and emissions reductions in our owned facilities and embedded our climate change objectives into Definity's investment policy statement and process.

To help make progress, our CEO is executive sponsor overall for ESG and IDEA at Definity and several of the executive leadership team are members of our ESG Steering Committee and our IDEA Advisory Committee. Both committees are comprised of leaders and employees from across the organization, and they play prominent roles in establishing, developing, and implementing Definity's IDEA strategy.

As part of our demutualization process, Definity pledged to contribute 1% of its income before income taxes to the Definity Insurance Foundation ("Foundation") until at least 2026. In 2022, this amount was \$2.8 million, which included expenses previously paid by Definity on behalf of the Foundation during its setup and a \$2.3 million restricted gift to the Foundation. We have identified two high priority areas where Definity will invest to generate positive impacts for our communities moving forward, enabling us to deliver on our Purpose and Promise:

- Climate-ready communities, focused on improving adaptation and resilience
- Closing equity gaps, focused on reducing barriers and improving accessibility and affordability

## 2 — FINANCIAL PERFORMANCE

### HIGHLIGHTS:

- Premium growth of 11.3% in the fourth quarter of 2022, and 11.8% for the full year, was driven by our strategic expansions in commercial lines, Sonnet and personal property, supported by ongoing firm market conditions in property and commercial lines
- Combined ratio of 91.7% in the fourth quarter of 2022 was reflective of the strong performance in our commercial and property lines; full year combined ratio remained solid at 94.1%
- Operating net income of \$79.0 million in the fourth quarter of 2022, compared to \$46.5 million in the fourth quarter of 2021, resulted in Operating EPS of \$0.67 per share. Operating ROE of 10.0% over the last twelve months
- Full year net income attributable to common shareholders of \$252.0 million, inclusive of a \$67 million revaluation gain on our previous investment in McDougall, drove book value per share to \$20.74
- 10% quarterly dividend increase to \$0.1375 per share supported by our strong financial position and operational outlook
- Our application to continue under the Canada Business Corporations Act has been submitted to the federal Minister of Finance

### RESULTS OF OPERATIONS

The following table sets forth certain of our results from operations for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars, except as otherwise noted)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Gross written premiums	\$ 942.5	\$ 846.6	11.3%	\$3,613.8	\$ 3,231.4	11.8%
Net written premiums	886.4	777.1	14.1%	3,452.1	2,991.3	15.4%
Net earned premiums	850.6	745.0	14.2%	3,248.6	2,833.6	14.6%
Net claims and adjustment expenses	500.1	470.2	29.9	1,987.9	1,721.5	266.4
Underwriting expenses (net of other underwriting revenues) <sup>(1)</sup>	280.3	234.5	45.8	1,068.4	917.6	150.8
Underwriting income	\$ 70.2	\$ 40.3	29.9	\$ 192.3	\$ 194.5	(2.2)
Impact of discounting	2.8	9.4	(6.6)	162.6	44.7	117.9
Underwriting income after the impact of discounting	\$ 73.0	\$ 49.7	23.3	\$ 354.9	\$ 239.2	115.7
Net investment income	39.5	25.1	14.4	133.1	96.8	36.3
Recognized losses on investments	(4.9)	(9.2)	4.3	(228.3)	(20.8)	(207.5)
Distribution revenues	19.9	—	19.9	19.9	—	19.9
Other income (expenses)	39.0	(20.5)	59.5	25.6	(34.0)	59.6
Income before income taxes	\$ 166.5	\$ 45.1	121.4	\$ 305.2	\$ 281.2	24.0
Income tax expense	(24.3)	(11.4)	(12.9)	(52.6)	(68.0)	15.4
Net income	\$ 142.2	\$ 33.7	108.5	\$ 252.6	\$ 213.2	39.4
Net income attributable to common shareholders	141.6	33.7	107.9	252.0	213.2	38.8
Net income attributable to non-controlling interests	0.6	—	0.6	0.6	—	0.6
Non-operating gains (losses) <sup>(1)</sup>	60.9	(17.3)	78.2	(6.2)	(9.7)	3.5
Operating income <sup>(1)</sup>	104.7	62.4	42.3	310.5	290.9	19.6
Operating net income <sup>(1)</sup>	79.0	46.5	32.5	238.9	220.4	18.5
Distribution income <sup>(1)</sup>	4.2	1.7	2.5	13.5	8.0	5.5
Earnings per common share, basic (in dollars)	\$ 1.23	\$ 0.31	0.92	\$ 2.19	\$ 2.03	0.16
Earnings per common share, diluted (in dollars)	\$ 1.21	\$ 0.31	0.90	\$ 2.15	\$ 2.02	0.13
Operating earnings per common share (in dollars) <sup>(3)</sup>	\$ 0.67	\$ 0.42	0.25	\$ 2.04	\$ 2.09	(0.05)
Book value per share (in dollars) <sup>(2)</sup>	\$ 20.74	\$ 20.68	0.06	\$ 20.74	\$ 20.68	0.06
Financial capacity <sup>(2)</sup>	\$ 658.5	\$ 1,057.8	(399.3)	\$ 658.5	\$ 1,057.8	(399.3)
Claims ratio <sup>(2)</sup>	58.8%	63.1%	(4.3) pts	61.2%	60.8%	0.4 pts
Expense ratio <sup>(3)</sup>	32.9%	31.5%	1.4 pts	32.9%	32.3%	0.6 pts
Combined ratio <sup>(3)</sup>	91.7%	94.6%	(2.9) pts	94.1%	93.1%	1.0 pts
Return on equity <sup>(3)</sup>	10.6%	10.7%	(0.1) pts	10.6%	10.7%	(0.1) pts
Operating return on equity <sup>(3)</sup>	10.0%	11.5%	(1.5) pts	10.0%	11.5%	(1.5) pts

Notes:

<sup>(1)</sup> Underwriting expenses (net of other underwriting revenues), non-operating gains (losses), operating income, operating net income, and distribution income are non-GAAP financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

<sup>(2)</sup> Book value per share, financial capacity, and claims ratio are supplementary financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

<sup>(3)</sup> Expense ratio, combined ratio, return on equity, operating return on equity, and operating earnings per common share are non-GAAP ratios. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

## GROSS WRITTEN PREMIUMS

GWP for the fourth quarter of 2022 increased by \$95.9 million or 11.3% compared to the fourth quarter of 2021, with growth across all our lines of business. Personal lines GWP was up 8.9% with increases in both our broker and direct businesses. Commercial lines GWP increased 17.0% as we continued to focus on profitable growth in this line of business. Customer relief related to the COVID-19 pandemic ended in May 2022 and did not impact GWP in the fourth quarter of 2022 (Q4 2021: decrease of approximately \$13 million), but did reduce net earned premiums ("NEP") by approximately \$7 million (Q4 2021: \$14 million).

Full year GWP increased by \$382.4 million or 11.8% compared to 2021. Personal lines GWP increased 9.6% and commercial lines GWP increased 17.6%. The full year impact of the customer relief related to the COVID-19 pandemic on our underwriting results was a reduction in GWP of approximately \$21 million (2021: \$55 million) and a reduction in NEP of approximately \$43 million (2021: \$58 million).

Further details regarding our premiums by line of business are provided in Section 3 — "Results by line of business".

## UNDERWRITING RESULTS

The composition of the combined ratio for the three months and years ended December 31, 2022 and 2021 is as follows:

(in millions of dollars, except as otherwise noted)	Three months ended December 31,					Years ended December 31,				
	2022		2021		Change	2022		2021		Change
	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>		(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	
Net earned premiums	\$ 850.6		\$ 745.0		\$ 105.6 14.2%	\$ 3,248.6		\$ 2,833.6		\$ 415.0 14.6%
Net claims and adjustment expenses	500.1	58.8%	470.2	63.1%	29.9 (4.3) pts	1,987.9	61.2%	1,721.5	60.8%	266.4 0.4 pts
Underwriting expenses (net of other underwriting revenues) <sup>(2)</sup>	280.3	32.9%	234.5	31.5%	45.8 1.4 pts	1,068.4	32.9%	917.6	32.3%	150.8 0.6 pts
Combined ratio <sup>(3)</sup>		91.7%		94.6%	(2.9) pts		94.1%		93.1%	1.0 pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP.

<sup>(2)</sup> Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(3)</sup> Combined ratio is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The growth in NEP was due primarily to a high level of GWP growth in 2021 and in 2022, and the impact of a quota share treaty which was not renewed in 2022.

Our underwriting income for the fourth quarter of 2022 was \$70.2 million and our combined ratio was 91.7%, compared to underwriting income of \$40.3 million and a combined ratio of 94.6% in the same quarter a year ago. The combined ratio improved due to a decrease in catastrophe losses as we benefitted from recoveries under our multi-year aggregate catastrophe reinsurance treaty, and a reduction in the core accident year claims ratio which was impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation. These were partially offset by lower favourable prior year claims development.

Our full year underwriting income decreased slightly by \$2.2 million and led to a combined ratio of 94.1% in 2022 compared to 93.1% in 2021. Full year results were impacted by a higher commissions ratio and elevated catastrophe losses, which included the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter, as well as an increase in the core accident year claims ratio as a result of normalizing auto claims frequencies.



## NET CLAIMS AND ADJUSTMENT EXPENSES

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021, illustrating the impact of core accident year claims and adjustment expenses incurred, catastrophe losses and prior year claims development, is as follows:

(in millions of dollars, except as otherwise noted)	Three months ended December 31,						Years ended December 31,					
	2022		2021		Change		2022		2021		Change	
	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio
Core accident year claims and adjustment expenses <sup>(2)</sup>	\$ 519.6	61.1%	\$ 469.3	62.7%	\$ 50.3	(1.6) pts	\$ 1,971.5	60.4%	\$ 1,705.8	60.2%	\$ 265.7	0.2 pts
Catastrophe losses <sup>(3)</sup>	4.3	0.5%	33.8	4.8%	(29.5)	(4.3) pts	108.9	3.6%	91.7	3.3%	17.2	0.3 pts
Prior year favourable claims development	(23.8)	(2.8%)	(32.9)	(4.4%)	9.1	1.6 pts	(92.5)	(2.8%)	(76.0)	(2.7%)	(16.5)	(0.1) pts
Net claims and adjustment expenses <sup>(4)</sup>	\$ 500.1	58.8%	\$ 470.2	63.1%	\$ 29.9	(4.3) pts	\$ 1,987.9	61.2%	\$ 1,721.5	60.8%	\$ 266.4	0.4 pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of catastrophe losses and prior year favourable claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

<sup>(2)</sup> Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(3)</sup> Catastrophe losses is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(4)</sup> The ratio shown for this line item is our claims ratio, which is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The core accident year claims ratio, which excludes catastrophe losses and prior year claims development, decreased in the fourth quarter of 2022 driven by our auto lines of business, which were impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation. For the year, the core accident year claims ratio increased slightly.

Catastrophe losses decreased in the fourth quarter of 2022 as compared to the same quarter a year ago. For the year, catastrophe losses increased driven by the wind storm in Ontario and Québec in the second quarter, and Hurricane Fiona in the third quarter. In the fourth quarter, we benefitted from our multi-year aggregate catastrophe reinsurance treaty which reduced the net impact of catastrophe losses to \$4.3 million.

We experienced lower levels of favourable prior year claims development in the fourth quarter of 2022 as compared to the same quarter a year ago, driven by our auto lines of business. For the year, we experienced higher levels of favourable claims development driven by our personal property and commercial lines of business.

## UNDERWRITING EXPENSES

The key components of our underwriting expenses (net of other underwriting revenues) and our expense ratio for the three months and years ended December 31, 2022 and 2021 are as follows:

(in millions of dollars, except as otherwise noted)	Three months ended December 31,						Years ended December 31,					
	2022		2021		Change		2022		2021		Change	
	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio <sup>(1)</sup>	(\$)	Ratio
Net commissions	\$ 136.3	16.0%	\$ 100.8	13.5%	\$ 35.5	2.5 pts	\$ 520.4	16.0%	\$ 426.5	15.0%	\$ 93.9	1.0 pts
Operating expenses (net of other underwriting revenues) <sup>(2)</sup>	112.4	13.2%	105.4	14.2%	7.0	(1.0) pts	427.6	13.2%	384.2	13.5%	43.4	(0.3) pts
Premium taxes	31.6	3.7%	28.3	3.8%	3.3	(0.1) pts	120.4	3.7%	106.9	3.8%	13.5	(0.1) pts
Underwriting expenses (net of other underwriting revenues) <sup>(2)(3)</sup>	\$ 280.3	32.9%	\$ 234.5	31.5%	\$ 45.8	1.4 pts	\$ 1,068.4	32.9%	\$ 917.6	32.3%	\$ 150.8	0.6 pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The ratio of each of net commissions and premium taxes as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(2)</sup> Operating expenses (net of other underwriting revenues) and underwriting expenses (net of other underwriting revenues) are non-GAAP financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(3)</sup> The ratio shown for this line item is our expense ratio, which is a non-GAAP ratio. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The net commissions ratio increased in the fourth quarter of 2022 as compared to 2021, due primarily to the reduction in commission income resulting from the non-renewal of the quota share treaty in January 2022, and unusually low contingent profit commission accruals in the fourth quarter of 2021. For the year, the net commissions ratio increased due to the non-renewal of the quota share treaty. These were partially offset by the elimination on consolidation of commission paid to McDougall in the fourth quarter.

The operating expense ratio decreased in the fourth quarter of 2022 and for the year due to the growth in NEP outpacing the increase in operating expenses.

## NET INVESTMENT INCOME

The composition of net investment income for the three months and years ended December 31, 2022 and 2021 is as follows:

(in millions of dollars)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Interest income	\$ 32.3	\$ 18.5	\$ 13.8	\$ 105.3	\$ 71.5	\$ 33.8
Dividend income	8.8	8.5	0.3	33.4	30.7	2.7
Investment expenses	(1.6)	(1.9)	0.3	(5.6)	(5.4)	(0.2)
Net investment income	\$ 39.5	\$ 25.1	\$ 14.4	\$ 133.1	\$ 96.8	\$ 36.3

Net investment income increased in the fourth quarter of 2022 and for the year, driven primarily by higher fixed income yields, as well as the investment of funds generated from our underwriting results, business growth, and net proceeds retained by the Company from the initial public offering ("IPO") and related transactions.

## NON-OPERATING GAINS (LOSSES)

The composition of non-operating gains (losses) for the three months and years ended December 31, 2022 and 2021 are as follows:

(in millions of dollars)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Recognized (losses) gains on investments						
Realized (losses) gains on sale of AFS investments	\$ (5.3)	\$ 3.3	\$ (8.6)	\$ (44.0)	\$ 49.7	\$ (93.7)
Net gains (losses) on FVTPL investments	2.8	(12.0)	14.8	(161.4)	(70.0)	(91.4)
Impairment losses on AFS investments	(2.4)	(0.5)	(1.9)	(22.9)	(0.5)	(22.4)
Impact of discounting	2.8	9.4	(6.6)	162.6	44.7	117.9
Demutualization and IPO-related expenses, and interest on funds held in trust <sup>(1)</sup>	1.7	(16.7)	18.4	0.7	(30.1)	30.8
Amortization of intangible assets recognized in business combinations <sup>(1)</sup>	(3.5)	(0.6)	(2.9)	(5.4)	(3.5)	(1.9)
Revaluation gain on acquisition of McDougall <sup>(1)</sup>	67.0	—	67.0	67.0	—	67.0
Other <sup>(1)(2)</sup>	(2.2)	(0.2)	(2.0)	(2.8)	—	(2.8)
Non-operating gains (losses) <sup>(3)</sup>	\$ 60.9	\$ (17.3)	\$ 78.2	\$ (6.2)	\$ (9.7)	\$ 3.5

Notes:

<sup>(1)</sup> Included in Other income (expenses) in our consolidated financial statements.

<sup>(2)</sup> Other represents foreign currency translation of insurtech venture capital funds, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.

<sup>(3)</sup> Non-operating gains (losses) is a non-GAAP financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

Realized losses on our Available for Sale ("AFS") portfolio shifted from gains in the fourth quarter of 2021 and for the year to losses in 2022. In 2022, the significant increase in fixed income yields resulted in increased volatility in the period. In the first quarter of 2021, we recorded realized gains of \$37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities. The investment impairment losses in 2022 were driven by the volatility in equity markets.

Net losses of \$161.4 million on our Fair Value Through Profit or Loss ("FVTPL") portfolio in 2022 were more than offset by the discounting recovery of \$162.6 million, driven by the increase in yields. Refer to Section 5 — "Financial position" for additional details of our investment portfolio mix.

Demutualization and IPO-related expenses decreased due to the completion of the demutualization process, and the initial public offering and cornerstone private placements in the fourth quarter of 2021.

## DISTRIBUTION INCOME

As part of our strategy to become one of the five largest P&C insurers in Canada, we intend to diversify and strengthen our growth through acquisitions and partnerships. Distribution partnerships are a key component of our strategy, given the diversification benefits they can provide as a complementary source of income. On October 3, 2022, we increased our ownership interest in McDougall from approximately 25% to 75%. On October 3, 2022, we also acquired 100% of the shares of T.G Colley & Sons Limited and Integrisure Group Insurance Inc. Distribution income was \$4.2 million in the fourth quarter of 2022 compared to \$1.7 million in the fourth quarter of 2021, due primarily to the increased ownership position. For the year, distribution income was \$13.5 million compared to \$8.0 million in 2021.

Distribution income is a non-GAAP financial measure. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

## 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 is provided in the table below:

(in millions of dollars)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Income tax expense calculated based on statutory tax rates	<b>26.3%</b>	26.3%	—	<b>26.3%</b>	26.3%	—
Canadian dividend income not subject to tax	<b>(1.0%)</b>	(3.7%)	2.7 pts	<b>(2.5%)</b>	(2.5%)	—
Non-deductible expenses	<b>0.1%</b>	—	0.1 pts	<b>0.2%</b>	—	0.2 pts
Non-taxable gain arising on business combinations	<b>(10.7%)</b>	—	(10.7) pts	<b>(5.8%)</b>	—	(5.8) pts
Other	<b>(0.1%)</b>	2.7%	(2.8) pts	<b>(1.0%)</b>	0.4%	(1.4) pts
Income tax expense recorded in net income	<b>14.6%</b>	25.3%	(10.7) pts	<b>17.2%</b>	24.2%	(7.0) pts

The effective tax rates for the fourth quarter and the full year of 2022 and 2021 were lower than the statutory rate of 26.3% (2021: 26.3%) due to a revaluation gain of \$67.0 million on our previous ownership interest in McDougall which is non-taxable and the impact of non-taxable Canadian dividend income.

## NET INCOME

Net income attributable to common shareholders was \$141.6 million in the fourth quarter of 2022 compared to \$33.7 million in the fourth quarter of 2021. Net income attributable to common shareholders included a revaluation gain of \$67.0 million on our previous ownership interest in McDougall and further increased as a result of higher underwriting income and net investment income.

Full year net income attributable to common shareholders was \$252.0 million compared to \$213.2 million in 2021. The increase was due in part to the revaluation gain on McDougall and higher net investment income. These were partially offset by higher market value losses on our bond portfolio due to the significant increase in fixed income yields, and investment impairment charges of \$22.9 million in 2022 due to significant equity market volatility. In 2021, we also recorded realized gains of \$37.5 million on our equity portfolio that were triggered on the sale of certain investments to facilitate a transfer to a new investment manager for foreign equities.

## OPERATING NET INCOME

Operating net income increased to \$79.0 million in the fourth quarter of 2022 compared to \$46.5 million in the fourth quarter of 2021 due to higher underwriting, net investment, and distribution income. Full year operating net income was \$238.9 million compared to \$220.4 million in 2021. Operating net income is a non-GAAP financial measure. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

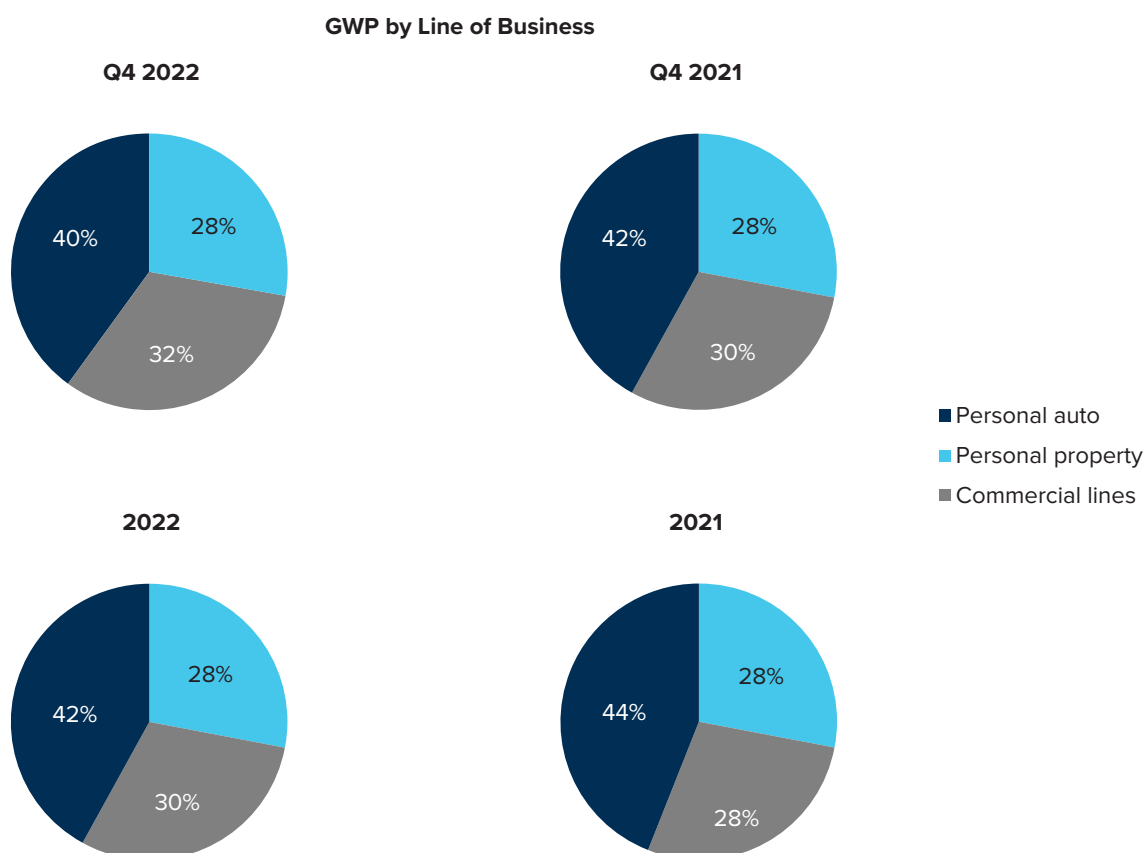
## OPERATING ROE

Operating ROE was 10.0% in 2022 compared to 11.5% in 2021. Operating ROE was lower, despite higher operating net income, due to the impact of year over year increases in our average equity position. Operating ROE is a non-GAAP ratio. Refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

### 3 — RESULTS BY LINE OF BUSINESS

We provide a wide range of P&C insurance products throughout Canada in two broad lines of business: personal insurance and commercial insurance. Personal lines business is further subdivided between auto and property, the latter of which includes pet insurance products.

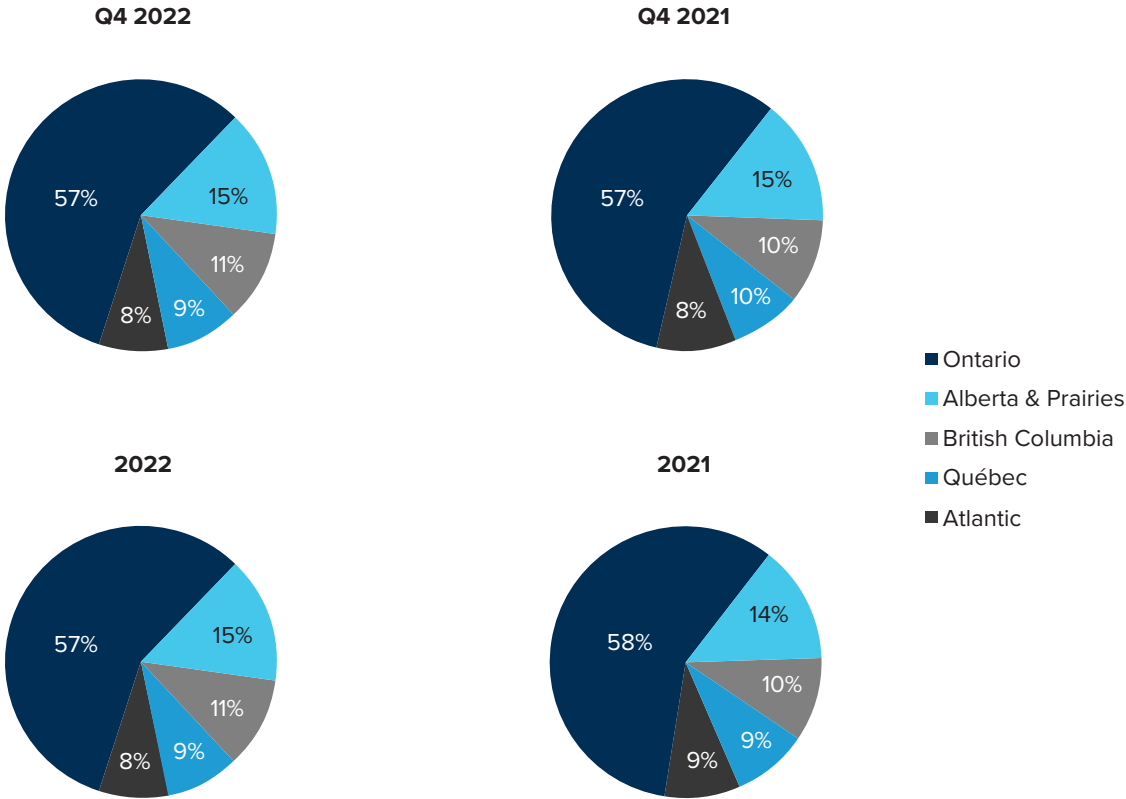
The following charts illustrate our GWP mix on this basis for the three months and years ended December 31, 2022 and 2021:



The shift in business mix for the fourth quarter of 2022 and for the year was due to our strategy to diversify the portfolio by a heightened focus on growth in our personal property and commercial lines businesses. We continued to make progress with personal auto now representing 42% of our total GWP in 2022, a decrease from 50% in 2018.



GWP by Region



There were slight shifts in the regional mix in the fourth quarter of 2022 and for the year compared to the same periods in the prior year.

## UNDERWRITING — PERSONAL LINES

The table below sets forth selected results of operations of our personal lines of business for the three months and years ended December 31, 2022 and 2021 and the policies in force as at December 31, 2022 and 2021.

(in millions of dollars, except as otherwise noted)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Policies in force (thousands) (at period end)						
Auto	<b>785.0</b>	761.6	3.1%	<b>785.0</b>	761.6	3.1%
Property	<b>837.6</b>	789.1	6.1%	<b>837.6</b>	789.1	6.1%
Total	<b>1,622.6</b>	1,550.7	4.6%	<b>1,622.6</b>	1,550.7	4.6%
Gross written premiums						
Auto	<b>\$ 377.2</b>	\$ 355.5	6.1%	<b>\$ 1,530.6</b>	\$ 1,426.5	7.3%
Property	<b>268.0</b>	237.1	13.0%	<b>1,012.7</b>	894.6	13.2%
Total	<b>\$ 645.2</b>	\$ 592.6	8.9%	<b>\$ 2,543.3</b>	\$ 2,321.1	9.6%
Net earned premiums						
Auto	<b>\$ 379.4</b>	\$ 344.3	10.2%	<b>\$ 1,470.7</b>	\$ 1,332.5	10.4%
Property	<b>240.1</b>	203.7	17.9%	<b>907.0</b>	761.2	19.2%
Total	<b>\$ 619.5</b>	\$ 548.0	13.0%	<b>\$ 2,377.7</b>	\$ 2,093.7	13.6%
Net claims and adjustment expenses						
Auto	<b>\$ 246.5</b>	\$ 229.4	\$ 17.1	<b>\$ 959.6</b>	\$ 829.1	\$ 130.5
Property	<b>126.8</b>	121.5	5.3	<b>542.8</b>	479.8	63.0
Total	<b>\$ 373.3</b>	\$ 350.9	\$ 22.4	<b>\$ 1,502.4</b>	\$ 1,308.9	\$ 193.5
Underwriting expenses (net of other underwriting revenues) <sup>(1)</sup>						
Auto	<b>\$ 110.6</b>	\$ 97.2	\$ 13.4	<b>\$ 433.4</b>	\$ 386.6	\$ 46.8
Property	<b>90.2</b>	68.4	21.8	<b>334.2</b>	270.6	63.6
Total	<b>\$ 200.8</b>	\$ 165.6	\$ 35.2	<b>\$ 767.6</b>	\$ 657.2	\$ 110.4
Underwriting income						
Auto	<b>\$ 22.3</b>	\$ 17.7	\$ 4.6	<b>\$ 77.7</b>	\$ 116.8	\$ (39.1)
Property	<b>23.1</b>	13.8	9.3	<b>30.0</b>	10.8	19.2
Total	<b>\$ 45.4</b>	\$ 31.5	\$ 13.9	<b>\$ 107.7</b>	\$ 127.6	\$ (19.9)

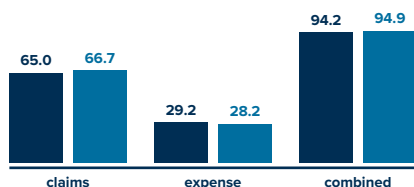
Notes:

<sup>(1)</sup> Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

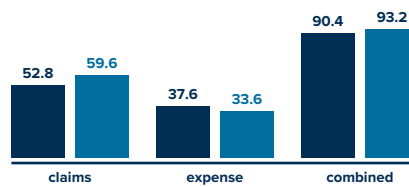
Overall, personal lines GWP increased 8.9% in the fourth quarter of 2022 (9.6% for the year). Sonnet GWP was \$87.2 million in the fourth quarter of 2022, an increase of 12.2% compared to \$77.7 million in the fourth quarter of 2021. Sonnet GWP was \$332.4 million for the year, an increase of 13.3% compared to \$293.3 million in 2021. In the quarter, we experienced a lower growth rate in Sonnet personal auto attributed to current market conditions, which include higher customer acquisition costs and lower levels of online shopping for insurance. Personal auto GWP increased 6.1% in the quarter (7.3% for the year), driven by an increase in average written premiums and growth in Sonnet. Customer relief related to the COVID-19 pandemic ended in May 2022. The impact of customer relief was nil in the quarter versus a reduction in GWP of approximately \$11 million in the fourth quarter of 2021. Personal property GWP increased 13.0% in the quarter (13.2% for the year), benefitting from continued firm market conditions and growth in Sonnet.

Personal lines underwriting income was \$45.4 million in the fourth quarter of 2022 compared to \$31.5 million in the same quarter a year ago. Full year personal lines underwriting income was \$107.7 million compared to \$127.6 million in 2021.

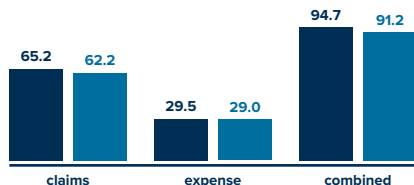
#### Q4 PERSONAL AUTO RATIOS<sup>1</sup>



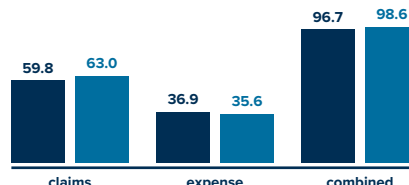
#### Q4 PERSONAL PROPERTY RATIOS<sup>1</sup>



#### YTD PERSONAL AUTO RATIOS<sup>1</sup>



#### YTD PERSONAL PROPERTY RATIOS<sup>1</sup>



Three months and years ended December 31,

■ 2022 ■ 2021

Notes:

<sup>(1)</sup> Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our personal auto line of business is as follows:

	Three months ended December 31 <sup>(1)</sup>			Years ended December 31 <sup>(1)</sup>		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses <sup>(2)</sup>	<b>70.5%</b>	75.7%	(5.2) pts	<b>68.6%</b>	67.1%	1.5 pts
Catastrophe losses <sup>(3)</sup>	—	0.1%	(0.1) pts	<b>0.3%</b>	0.5%	(0.2) pts
Prior year favourable claims development	<b>(5.5%)</b>	(9.1%)	3.6 pts	<b>(3.7%)</b>	(5.4%)	1.7 pts
Claims ratio <sup>(3)</sup>	<b>65.0%</b>	66.7%	(1.7) pts	<b>65.2%</b>	62.2%	3.0 pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP.

<sup>(2)</sup> Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(3)</sup> Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal auto combined ratio of 94.2% in the fourth quarter of 2022 (Q4 2021: 94.9%) improved due primarily to a reduction in the core accident year claims ratio, which was impacted in the fourth quarter of 2021 by reserve strengthening for auto inflation, partially offset by lower favourable prior year claims development. For the year, the personal auto combined ratio was impacted by lower favourable prior year claims development, and an increase in the core accident year claims ratio driven by higher claims frequency combined with inflationary cost pressures, largely within the auto physical damage coverage.

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our personal property line of business is as follows:

	Three months ended December 31 <sup>(1)</sup>			Years ended December 31 <sup>(1)</sup>		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses <sup>(2)</sup>	<b>50.5%</b>	46.2%	4.3 pts	<b>53.4%</b>	53.1%	0.3 pts
Catastrophe losses <sup>(3)</sup>	<b>3.4%</b>	12.7%	(9.3) pts	<b>8.4%</b>	9.4%	(1.0) pts
Prior year (favourable) adverse claims development	<b>(1.1%)</b>	0.7%	(1.8) pts	<b>(2.0%)</b>	0.5%	(2.5) pts
Claims ratio <sup>(3)</sup>	<b>52.8%</b>	59.6%	(6.8) pts	<b>59.8%</b>	63.0%	(3.2) pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

<sup>(2)</sup> Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

<sup>(3)</sup> Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

The personal property combined ratio was 90.4% in the fourth quarter of 2022 (2021: 93.2%). Improvements in the combined ratio for the quarter and the year were due to a decrease in catastrophe losses and an increase in favourable prior year claims development. These were partially offset by an increase in the core accident year claims ratio.

## UNDERWRITING — COMMERCIAL LINES

The table below sets forth selected results of operations of our commercial lines of business for the three months and years ended December 31, 2022 and 2021.

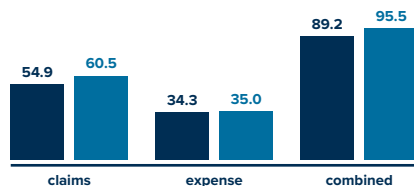
(in millions of dollars, except as otherwise noted)	Three months ended December 31,			Years ended December 31,		
	2022	2021	Change	2022	2021	Change
Gross written premiums	\$ 297.3	\$ 254.0	17.0%	\$ 1,070.5	\$ 910.3	17.6%
Net earned premiums	\$ 231.1	\$ 197.0	17.3%	\$ 870.9	\$ 739.9	17.7%
Net claims and adjustment expenses	\$ 126.8	\$ 119.3	\$ 7.5	\$ 485.5	\$ 412.6	\$ 72.9
Underwriting expenses (net of other underwriting revenues) <sup>(1)</sup>	\$ 79.5	\$ 68.9	\$ 10.6	\$ 300.8	\$ 260.4	\$ 40.4
Underwriting income	\$ 24.8	\$ 8.8	\$ 16.0	\$ 84.6	\$ 66.9	\$ 17.7

Notes:

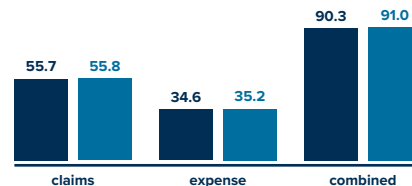
<sup>(1)</sup> Underwriting expenses (net of other underwriting revenues) is a non-GAAP financial measure. For more information, including a quantitative reconciliation of Underwriting expenses (net of other underwriting revenues) on a consolidated basis, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

Strong growth momentum in commercial lines continued in the fourth quarter of 2022. GWP increased 17.0% in the fourth quarter of 2022 (17.6% for the year), as we benefitted from continued broker support as a result of our strong value proposition, rate achievement in a firm market environment, and further scaling of specialty capabilities, with an ongoing focus on strong underwriting execution.

Q4 COMMERCIAL LINES RATIOS<sup>1</sup>



YTD COMMERCIAL LINES RATIOS<sup>1</sup>



Three months and years ended December 31,

■ 2022 ■ 2021

Notes:

<sup>(1)</sup> Claims ratio is a supplementary financial measure. Expense ratio and combined ratio are non-GAAP ratios. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

The composition of the claims ratio for the three months and years ended December 31, 2022 and 2021 for our commercial lines of business is as follows:

	Three months ended December 31 <sup>(1)</sup>			Years ended December 31 <sup>(1)</sup>		
	2022	2021	Change	2022	2021	Change
Core accident year claims and adjustment expenses <sup>(2)</sup>	56.6%	57.0%	(0.4) pts	54.2%	54.4%	(0.2) pts
Catastrophe losses <sup>(3)</sup>	(1.6%)	5.0%	(6.6) pts	3.7%	2.3%	1.4 pts
Prior year favourable claims development	(0.1%)	(1.5%)	1.4 pts	(2.2%)	(0.9%)	(1.3) pts
Claims ratio <sup>(3)</sup>	54.9%	60.5%	(5.6) pts	55.7%	55.8%	(0.1) pts

Notes:

<sup>(1)</sup> The ratio shown for each line item is the financial measure expressed as a percentage of NEP. The impact of reinsurance reinstatement premiums on the claims ratio is fully reflected in catastrophe losses.

<sup>(2)</sup> Core accident year claims and adjustment expenses is a supplementary financial measure. The ratio shown for this line item is our core accident year claims ratio, which is also a supplementary financial measure. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

<sup>(3)</sup> Catastrophe losses and claims ratio are supplementary financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

Commercial lines underwriting income was \$24.8 million in the fourth quarter of 2022 compared to \$8.8 million in the same quarter a year ago. For the year, the commercial lines underwriting income was \$84.6 million compared to \$66.9 million in 2021.

The commercial lines combined ratio was 89.2% in the fourth quarter of 2022 compared to the combined ratio of 95.5% in the same quarter a year ago. The combined ratio improvement was driven by a decrease in catastrophe losses. Full year commercial lines combined ratio was 90.3% compared to 91.0% in 2021. Improvements in underwriting profitability were due primarily to higher favourable prior year claims development, partially offset by an increase in catastrophe losses.



# 4 — OPERATING ENVIRONMENT AND OUTLOOK

## OPERATING ENVIRONMENT

<b>Economic uncertainty</b>	<ul style="list-style-type: none"> <li>• Rising inflation and geopolitical events have increased economic uncertainty.</li> <li>• Inflation levels across the world surged to 40-year highs in 2022 due to supply chain disruptions, capacity constraints, and low unemployment following the lifting of restrictions related to the COVID-19 pandemic. To manage inflation, central banks have significantly increased interest rates while governments have implemented numerous programs to address affordability issues. Inflation has come off its recent highs but remains at elevated levels with increased risk of a near-term global recession.</li> <li>• Significant changes in interest rates will result in fluctuations in recurring investment returns as well as the market value of our interest sensitive assets and liabilities (such as claims and pension obligations).</li> <li>• Russia's invasion of Ukraine in February 2022 resulted in new international sanctions against Russia. The conflict between the two countries continues to evolve and foreign governments continue to respond accordingly. This has increased volatility in global financial markets and presented further economic challenges and global supply chain disruptions.</li> <li>• We do not have direct investments nor underwriting exposures of significance in Russia or Ukraine, and are continuing to monitor the evolving economic impact of the above on our operations and capital position.</li> <li>• We remain well capitalized with a high-quality-focused investment portfolio and a DBRS Limited financial strength rating of A (low) for Definity Insurance Company ("Definity Insurance"). Our liquidity remains strong and our bank facilities remain undrawn and fully accessible.</li> <li>• Our strong balance sheet and capital level positions us well for a period of continued uncertainty.</li> </ul>
<b>Personal auto environment</b>	<ul style="list-style-type: none"> <li>• Driving mobility has returned to pre-pandemic levels which has resulted in increased claims frequency. Driving patterns in the larger urban centers continue to be impacted by hybrid working environments and auto claims frequencies in these areas remain slightly lower than pre-pandemic levels.</li> <li>• Increased severity with respect to auto physical damage has been a persistent issue since the fourth quarter of 2021. Cost increases are due in part to supply chain challenges related to automotive parts, which has resulted in a shortage of new and used vehicles. While supply issues have declined in late 2022, they continue to remain elevated.</li> <li>• Increasing trends in frequency and severity have led most insurers to unwind their COVID-19 relief measures and, in some cases, increase rates beyond pre-pandemic levels.</li> <li>• We expect an active auto rate environment to continue into 2023 with insurers responding to the elevated loss costs with higher rate filings and a focus on underwriting actions.</li> <li>• On January 25, 2023, the Alberta government precluded new unapproved increases in personal auto rates until December 31, 2023, and the Alberta insurance regulator indicated its view that certain underwriting practices are no longer permissible. As a result, we expect auto underwriters in the province to reassess their strategies.</li> </ul>
<b>Climate change</b>	<ul style="list-style-type: none"> <li>• Changing weather patterns are increasing the frequency and severity of extreme weather events, resulting in increased catastrophe events and more volatile claim costs, particularly in the property lines of business.</li> <li>• We are continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, and to ensure pricing, coverage options, risk accumulations, and claim liability estimates remain appropriate.</li> <li>• Our exposure to and/or concentrations of insured risks are actively monitored with risk tolerance consideration given to expected loss exposures and the potential impact on our financial performance and capital position. We manage our exposure to catastrophe events by limiting underwriting of particular risks or regions, managing the policy terms, including deductibles provided to policyholders and purchasing reinsurance.</li> <li>• Climate change risks may also influence the cost, coverage, and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. Reinsurers have been particularly hard hit by global catastrophes in 2022 which has resulted in tightening capacity and increased cost of reinsurance. We believe this has led many primary insurers, including ourselves, to increase their net retention to specific reinsurable events.</li> <li>• Furthermore, to reduce our direct impact on climate change, we announced in March 2022 our commitment to achieve net-zero emissions for both our operations and investments (listed equities and corporate bonds) by 2040 or sooner.</li> <li>• In July 2022, we announced the implementation of a Sustainability-Linked Loan structure that links its borrowing costs directly to the Company's performance on ESG targets, including achieving Scope 1 and Scope 2 operational greenhouse gas emissions targets.</li> </ul>

<b>Investment environment</b>	<ul style="list-style-type: none"> <li>• The World Bank recently cut global growth forecasts and warned of the growing prospects for a global recession in 2023 in the face of high inflation, interest-rates hikes, and Russia's ongoing invasion of Ukraine.</li> <li>• Similar to other major developed central banks, the Bank of Canada raised rates significantly throughout 2022, bringing the policy rate to 4.5% in January 2023 which is now in restrictive territory based on the Bank's 2-3% neutral range.</li> <li>• Slowing economic activity, high levels of inflation, rising interest rates, and increasing global volatility led to an unprecedented year in financial markets marked by losses in virtually every global asset class.</li> <li>• Canadian stocks fell less than their global peers, with the TSX60 decreasing 9.2% in 2022 compared with the MSCI World Index declining 19.4% over the same period.</li> <li>• Our investment strategy focuses on maximizing our long-term capital strength, while seeking to optimize risk-adjusted returns. We have an established investment policy and strategy that is based on our risk appetite, the prudent person approach and regulatory guidelines, and reflects the expected settlement pattern of claim liabilities.</li> </ul>
-------------------------------	--

## INDUSTRY OUTLOOK

Below is an overview of our expectations for the P&C insurance industry over the next 12 months.

Industry results improved significantly in 2021 and remained strong in the first nine months of 2022, bolstered by continued low, but increasing, claims frequency in auto portfolios and solid results in property and commercial insurance, despite elevated catastrophe losses. Overall, the industry reported a return on equity of approximately 16.5% in 2021 and 13.9% in the first nine months of 2022.<sup>3</sup> We continue to expect the combination of normalizing auto claims frequency, continued weather events, and higher severity related to inflation to bring the industry's return on equity closer to its long run average of 10% over time.

Fixed income yields increased significantly in recent quarters and are now supporting growth in net investment income, albeit at the cost of mark to market valuations. Given the heightened macro risk environment, we believe underwriting discipline remains important for the industry to sustainably achieve desirable levels of profitability.

Despite the recent solid profitability at the industry level, we believe the operating environment is one that is conducive to sustaining firm market conditions. We expect firm market conditions in property lines will persist over the next 12 months, particularly following the dynamics of the recent reinsurance renewal season, while conditions in auto lines have begun to firm as a result of normalizing claims frequency and inflationary cost pressures.

<b>Personal auto</b>	<ul style="list-style-type: none"> <li>• We expect the frequency of claims to continue to normalize toward pre-pandemic levels over the next six to nine months as people continue to return to on-site work environments. We also expect the inflationary pressures affecting vehicle damage claims to remain elevated but not escalate much further. With some early indicators of improving supply chain in production and a slight decline in used car prices, we could see severity continue to level off or slightly decline in the coming quarters. Both frequency and severity trends as well as the lag in the recognition of earned premium are expected to continue to drive firming industry pricing and a focus on disciplined underwriting.</li> </ul>
<b>Personal property</b>	<ul style="list-style-type: none"> <li>• The volatility of weather events, such as floods, severe winds, and wildfires, continues to be a key risk for this line of business across most regions of the country. Combined with the ongoing inflationary pressure on building materials and labour, claim costs are expected to increase and will be reflected in firm premium pricing over the next 12 months.</li> <li>• We expect this volatility to continue, with commensurate rate actions, coverage and appetite changes, and an enhanced focus on loss prevention and mitigation. It could also lead to ongoing changes in the capacity or pricing provided by global reinsurers.</li> <li>• We expect the reinsurance market will drive firmer pricing across the entire property portfolio, but this will be more pronounced in the higher catastrophe risk regions of the country.</li> </ul>
<b>Commercial lines</b>	<ul style="list-style-type: none"> <li>• Elevated inflation and interest rates are expected to continue in the foreseeable future, which increases the probability of an economic slowdown. This will likely impact industry growth somewhat in the near term.</li> <li>• We expect the commercial lines market to remain firm over the next 12 months as carriers focus on ensuring long-term profitability and sustainable availability of capacity. We expect the hard pricing environment to be influenced by inflation trends, weather events, expected investment returns, and the industry's overall underwriting performance.</li> <li>• Hardening reinsurance conditions in 2023 are expected to prolong firm commercial lines market conditions and pricing.</li> </ul>

<sup>3</sup> MSA Research.

## FINANCIAL TARGETS

Our continuing focus on key strategic priorities are to capitalize on the expanding digital direct insurance market with Sonnet, leverage Vyne to increase our share of the broker channel, grow and diversify our commercial insurance business, maintain our pace of innovation, diversify and strengthen our growth through acquisitions and partnerships including in our distribution business, and attract and retain top talent to empower a high-performance culture that delivers on our brand. As a leading Canadian P&C insurer, with a seasoned management team focused on key priorities, we have the confidence in our ability to achieve these objectives and inform our financial targets. The financial targets set out below are based on certain other factors and assumptions, including the key assumptions and factors set out below.

Over the next year, our financial targets are to:

- **Grow GWP at an upper single digit to approximately 10% rate** supported by, among other things, continuing to scale Sonnet, leveraging our investments in the broker channel, and expanding our core commercial insurance and specialty capabilities. This target compares to our GWP growth rates of 11.8% in 2022 (as compared to 2021) and 14.8% in 2021 (as compared to 2020);
- **Maintain a full year combined ratio in the mid-90s** as our strategic investments drive scale and we continue to generate operational improvements across all lines of business. This target compares to our combined ratios of 94.1% in 2022 and 93.1% in 2021 (which was positively impacted by the COVID-19 pandemic); and
- **Generate an annual operating ROE in the upper single digit to below teens range** through underwriting profitability, investment performance and distribution income, and reflective of the capital levels generated by our business. This target compares to our operating ROE of 10.0% in 2022 and 11.5% in 2021 (which was positively impacted by the COVID-19 pandemic).

We expect to achieve further improvements to operating ROE over time, targeting the low teens, through future capital optimization.

The above financial targets are based on management's current views and strategies, assumptions and expectations concerning our growth opportunities, and assessment of the opportunities for our business and the insurance industry. The financial targets have been calculated using accounting policies that we used to prepare the financial statements or, in the case of operating ROE, in the manner described under Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios". In particular, the above financial targets have been prepared in accordance with current IFRS applicable to the insurance industry, but are also reflective of the adoption of IFRS 17 — *Insurance Contracts* ("IFRS 17") and IFRS 9 — *Financial Instruments*, effective for annual reporting periods beginning on or after January 1, 2023. We may update the above financial targets in conjunction with our reporting for the first quarter of 2023 once the impact of IFRS 17 is confirmed, but do not currently expect any such updated targets to differ materially from the ranges disclosed above or their definitions.

All three of our targets are also based on the following key assumptions and factors:

- we are able to maintain rate adequacy, particularly for auto rates in regulated provinces;
- firm market conditions across most commercial line and personal property segments continue in line with our industry outlook over the next 12 months, and will support continued rate increases for these lines of business;
- catastrophe losses of approximately 4% of net earned premiums for the full year;
- auto claims frequencies normalize in line with those experienced prior to the COVID-19 pandemic between 2016 and 2019 as customer driving patterns and behaviour return to historical trends;
- there is no new customer rate relief action;
- recorded claim liabilities are adequate with no significant prior year claims development or overall reserve strengthening required during the outlook period for the financial targets;
- claims severity in 2023 will grow from the elevated level in 2022 at more normal rates;
- there are no significant changes in the P&C insurance regulatory environment, including with respect to capital requirements;
- there is no downgrade of the financial strength ratings of Definity Insurance;
- our operating environment is in line with our expectations for the P&C insurance industry over the next 12 months described above under "Industry Outlook"; and
- unanticipated cost increases can be addressed during the outlook period by pricing changes.

In addition, our operating ROE target is also based on the following key assumptions and factors and assumes we achieve the above combined ratio target:

- fixed income market yields remain at current levels throughout the outlook period, resulting in net investment income of approximately \$150 million in 2023;
- investment market returns and the capital appreciation generated in our investment portfolio normalize over the outlook period from the volatile levels experienced in 2022;
- broker investments generate operating income of approximately \$40 million in 2023 through a combination of distribution income and lower commission expenses;
- taxation rates remain consistent with the current substantively enacted rates; and
- retained earnings increase commensurate with expected net income attributable to common shareholders less expected dividends to common shareholders.

Our expectation for further improvements in operating ROE through future capital optimization assumes that we receive regulatory approval for, and proceed with, continuing the Company under the *Canada Business Corporations Act* (the "Continuance"), and will be, in part, a function of whether we are successful in identifying and completing appropriate acquisition opportunities. As such, there is currently no definitive time frame for this balance sheet optimization.

Management currently believes that the above financial targets, and the factors and assumptions underlying those targets, are reasonable in the current industry environment. However, there is no assurance that we will be able to achieve these targets or that the factors and assumptions underlying these targets will prove to be accurate. Our ability to achieve the above targets is subject to a number of risks, challenges and uncertainties that could cause actual future results to differ materially from these targets.

The above outlook and financial targets, and the assumptions and factors underlying them, constitute forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See “Cautionary note regarding forward-looking information”.

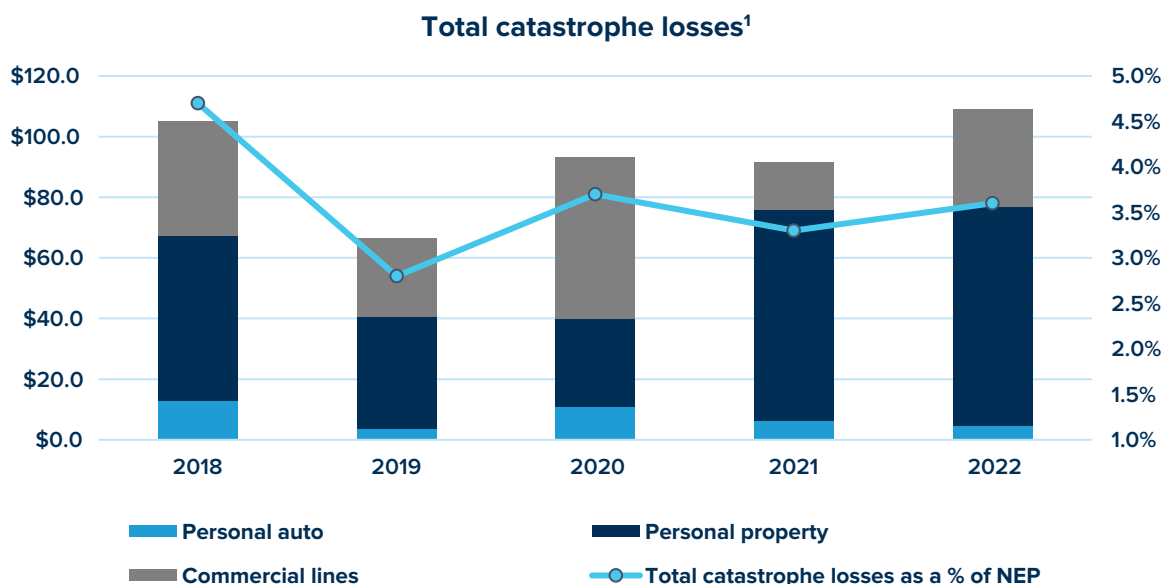
## CATASTROPHE LOSSES

We consider losses to be catastrophe losses if they are the result of either i) an event causing gross losses in excess of \$2 million, and generally greater than 100 claims, or ii) a single claim with a gross loss in excess of \$3 million. Although often related to weather (such as wildfires, windstorms, or floods), catastrophe losses may also relate to non-weather events (such as large commercial fires or liability losses).

Increasing frequency and severity of extreme weather events have resulted in increased catastrophe events and claims. We respond to claims caused by weather-related events through our catastrophe response teams, our reinsurance program, and our claims vendors, who are evaluated with a view to whether they can offer quality service even when responding to the demands of catastrophe events.

We routinely enhance our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, with a view to confirming pricing, coverage options, risk accumulations, and claim liability estimates remain appropriate.

The volatility surrounding the frequency and severity of catastrophe losses is unpredictable and can have a significant impact on our underwriting performance by quarter and by line of business.



Notes:

<sup>(1)</sup> Catastrophe losses is a supplementary financial measure. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”. Dollar amounts exclude reinstatement premiums, which are reflected in NEP.

We expect annual catastrophe losses of approximately 4% of our net earned premiums, reflecting our business mix and our reinsurance program for 2023. We generally expect approximately 60% of catastrophe losses to impact personal insurance and about 70% of the annual catastrophe loss estimate to occur during the second and third quarters.

We will consider publicly announcing the estimated catastrophe losses for a given quarter in advance of our earnings announcement with respect to that quarter when:

- Our catastrophe loss estimate, net of reinsurance, is expected to have an impact greater than \$0.25 on operating earnings per share and is materially above our expectations for the quarter; or
- We believe that market expectations for the quarter’s catastrophe losses are materially different than our actual experience.

If we decide to issue a public announcement, it will typically be issued once the required information is readily available following the end of the quarter.

# 5 — FINANCIAL POSITION

## FINANCIAL HIGHLIGHTS AS AT DECEMBER 31, 2022:

- Our financial position remained strong with equity attributable to common shareholders exceeding \$2.3 billion at the end of the year, which decreased slightly from December 31, 2021 driven by a significant decline in the value of our bond and equity portfolios as a result of the ongoing volatility in capital markets, largely offset by strong underwriting income and increasing net investment income
- Total assets increased by \$425.4 million (5.4%) compared to December 31, 2021, due in part to goodwill and intangible assets arising from the acquisitions in the fourth quarter
- Gross claim liabilities decreased by \$81.8 million (2.5%) compared to December 31, 2021 and benefitted from a \$162.6 million discounting recovery

The following table summarizes our consolidated balance sheets as at December 31:

(in millions of dollars)	As at December 31,		
	2022	2021	Change
<b>ASSETS</b>			
Cash and cash equivalents	\$ 200.5	\$ 387.3	\$ (186.8)
Restricted cash	302.1	110.8	191.3
Investments	4,897.9	5,365.8	(467.9)
Premiums receivable	1,188.8	1,075.9	112.9
Income taxes receivable	81.7	0.2	81.5
Reinsurance receivable and recoverable	255.8	179.2	76.6
Deferred policy acquisition expenses	327.0	295.1	31.9
Property and equipment	83.8	57.0	26.8
Deferred income tax assets	55.0	62.5	(7.5)
Goodwill and intangible assets	771.6	219.7	551.9
Other assets	152.6	137.9	14.7
Total assets	\$ 8,316.8	\$ 7,891.4	\$ 425.4
<b>LIABILITIES</b>			
Unearned premiums	1,765.4	1,599.2	166.2
Claim liabilities	3,254.3	3,336.1	(81.8)
Accounts payable and other liabilities	405.7	393.4	12.3
Income taxes payable	—	55.6	(55.6)
Deferred income tax liabilities	69.8	—	69.8
Demand loans	39.1	—	39.1
Demutualization amounts outstanding	302.1	110.8	191.3
Total liabilities	\$ 5,836.4	\$ 5,495.1	\$ 341.3
<b>EQUITY</b>			
Share capital	2,254.2	2,307.8	(53.6)
Contributed surplus	40.2	19.3	20.9
Retained earnings (deficit)	179.3	(28.8)	208.1
Accumulated other comprehensive (loss) income	(101.8)	98.0	(199.8)
Equity attributable to common shareholders	2,371.9	2,396.3	(24.4)
Non-controlling interests	108.5	—	108.5
Total equity	\$ 2,480.4	\$ 2,396.3	\$ 84.1
Total liabilities and equity	\$ 8,316.8	\$ 7,891.4	\$ 425.4



## CASH AND INVESTMENTS

The composition of our cash and cash equivalents and investments as at December 31, is as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2022		As at December 31, 2021	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Cash and cash equivalents	\$ 200.5	3.9%	\$ 387.3	6.7%
Short-term investments	89.3	1.8%	88.8	1.5%
Bonds	3,923.7	77.0%	4,233.8	73.7%
Preferred stocks	298.0	5.8%	405.7	7.1%
Common stocks	517.7	10.2%	570.5	9.9%
Pooled funds	57.2	1.1%	42.7	0.7%
Commercial loans	12.0	0.2%	24.3	0.4%
Total investments	\$ 4,897.9	96.1%	\$ 5,365.8	93.3%
Total cash and cash equivalents, and investments	\$ 5,098.4	100.0%	\$ 5,753.1	100.0%

Total cash and cash equivalents and investments decreased in 2022, due primarily to cash consideration utilized for our increased ownership interest in McDougall, and a decrease in the market values of our investment portfolio arising from a significant increase in fixed income yields as well as the volatility in equity markets. Our proportionate share of investments in fixed income securities, including cash and cash equivalents, increased slightly to 82.7% of the total portfolio as at December 31, 2022, compared with 81.9% as at December 31, 2021. We maintained a focus on a high-quality investment portfolio.

Refer to Note 3 — “Summary of significant accounting policies” of our audited consolidated financial statements, which provides further details pertaining to the classification and measurement of our financial instruments.

### Investment sector mix

Our investment sector mix demonstrates the secure and liquid nature of our overall investment portfolio with a significant concentration in the government and financials sectors. As at December 31, the breakdown of these investments is as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2022					As at December 31, 2021
	Short-term investments and bonds	Preferred stocks	Common stocks	Pooled funds	Total	Total
Government	59%	—	—	—	48%	49%
Financials	20%	68%	29%	9%	24%	29%
Energy	4%	17%	15%	3%	6%	4%
Communication services	5%	4%	6%	7%	6%	2%
Industrials	3%	—	12%	6%	4%	4%
Utilities	4%	10%	3%	15%	4%	4%
Consumer discretionary	2%	—	5%	9%	2%	2%
Materials	—	—	8%	2%	1%	1%
Consumer staples	1%	—	6%	5%	1%	1%
Information technology	—	—	10%	31%	1%	2%
Health care	—	—	4%	11%	1%	1%
Real estate	2%	1%	2%	2%	2%	1%
Total (%)	100%	100%	100%	100%	100%	100%
Total (\$)	\$ 4,013.0	\$ 298.0	\$ 517.7	\$ 57.2	\$ 4,885.9	\$ 5,341.5

## Investment credit quality

The tables below of credit ratings in our portfolio illustrate the credit quality of our fixed income securities and preferred stocks, respectively, as at December 31.

### Credit rating<sup>1</sup> — bonds

(in millions of dollars, except as otherwise noted)	As at December 31, 2022		As at December 31, 2021	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
AAA	\$ 1,325.4	33.8%	\$ 1,072.6	25.4%
AA	1,034.1	26.4%	1,800.5	42.5%
A	926.9	23.6%	1,080.1	25.5%
BBB	606.0	15.4%	280.6	6.6%
BB	31.3	0.8%	—	—
Total bonds	\$ 3,923.7	100.0%	\$ 4,233.8	100.0%

<sup>1</sup> Using the lowest of Standard & Poor's and DBRS ratings.

### Credit rating<sup>1</sup> — preferred stocks

(in millions of dollars, except as otherwise noted)	As at December 31, 2022		As at December 31, 2021	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
P1	\$ 5.4	1.8%	\$ 11.9	2.9%
P2	236.0	79.2%	305.4	75.3%
P3 or not rated	56.6	19.0%	88.4	21.8%
Total preferred stocks	\$ 298.0	100.0%	\$ 405.7	100.0%

<sup>1</sup> Using the lowest of Standard & Poor's and DBRS ratings.

We monitor the credit ratings of investments within our investment portfolio on an ongoing basis and take the necessary actions, in an attempt to ensure that a high level of quality is maintained. As at December 31, 2022, this resulted in 83.8% (December 31, 2021: 93.4%) of the bonds in the portfolio being rated "A-" or better and 81.0% (December 31, 2021: 78.2%) of the preferred stocks in the portfolio being rated "P2L" or better. "A-" and "P2L" represent the ratings provided by two recognized rating services for high-grade bonds and preferred stocks, respectively. The reduction in the credit rating profile of the bonds was due to deliberate portfolio positioning.

### Investment portfolio region of issuer

The geographic mix of our investment portfolio as at December 31 is as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2022		As at December 31, 2021	
	Carrying value	Percent of carrying value	Carrying value	Percent of carrying value
Canada	\$ 4,669.9	95.6%	\$ 5,112.6	95.7%
United States	152.8	3.1%	164.6	3.1%
Europe	36.9	0.8%	37.0	0.7%
Other	26.3	0.5%	27.3	0.5%
Total	\$ 4,885.9	100.0%	\$ 5,341.5	100.0%

Our investment portfolio is concentrated mainly in Canada. Our estimated exposure to foreign exchange is outlined in Section 11 — "Risk management and corporate governance".

### Unrealized (losses) gains on AFS securities

The unrealized (losses) gains on AFS securities by type of security as at December 31 are as follows:

(in millions of dollars, except as otherwise noted)	As at December 31, 2022	As at December 31, 2021
Short-term investments	\$ 0.2	\$ 0.1
Bonds	(115.6)	9.3
Preferred stocks	(80.9)	10.9
Common stocks	56.4	106.8
Pooled funds	(6.7)	0.1
Unrealized (losses) gains	\$ (146.6)	\$ 127.2

The unrealized losses in our AFS investment portfolio as at December 31, 2022 were driven by losses on bonds due to a significant increase in fixed income yields, losses on preferred stocks, and lower gains on common stocks as a result of the volatility in capital markets.

### PREMIUMS RECEIVABLE, DEFERRED POLICY ACQUISITION EXPENSES, AND UNEARNED PREMIUMS

The premiums receivable, deferred policy acquisition expenses, and unearned premiums balances increased as at December 31, 2022, driven primarily by GWP growth in 2022.

### INCOME TAXES RECEIVABLE AND PAYABLE

Income tax amounts outstanding shifted from a net payable of \$55.4 million as at December 31, 2021, to a receivable of \$81.7 million as at December 31, 2022 due primarily to final payments made in the first quarter of 2022 for prior year ends, income tax instalments paid in 2022, and the tax impact of unrealized losses in our investment portfolio generating an overall income tax recovery for the year.

### REINSURANCE RECEIVABLE AND RECOVERABLE

Reinsurance receivable and recoverable increased as at December 31, 2022 due primarily to higher recoveries for catastrophe and large losses, and the increased impact from the growing large account relationships in our commercial segment, partially offset by the impact of the quota share treaty which was not renewed in 2022.

Consistent with industry practice, our reinsurance receivables and amounts recoverable from licensed Canadian reinsurers (\$183.1 million as at December 31, 2022; \$143.5 million as at December 31, 2021) are usually unsecured. Canadian regulatory requirements, as set out by OSFI, require these reinsurers to maintain adequate assets to meet their Canadian obligations. Claim liabilities take precedence over the reinsurers' subordinated creditors. Amounts receivable and recoverable from unregistered reinsurers are secured by cash deposits and marketable securities.

### GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets increased primarily related to the goodwill and intangible assets arising from the acquisitions of McDougall, T.G Colley & Sons Limited, and Integrisure Group Insurance Inc. on October 3, 2022.

### OTHER ASSETS

Other assets increased \$14.7 million as at December 31, 2022 due in part to an increase in our net pension asset driven by changes in the discount rate used to determine the benefit obligation.

## NET CLAIM LIABILITIES

The change in our net unpaid claim liabilities as at December 31 is as follows:

(in millions of dollars)	As at December 31, 2022	As at December 31, 2021
Net unpaid claim liabilities, beginning of year	\$ 3,202.1	\$ 2,957.1
Current year claims incurred	2,080.4	1,797.5
Prior year favourable claims development	(92.5)	(76.0)
Net claims and adjustment expenses	\$ 1,987.9	\$ 1,721.5
Impact of discounting (including PfAD)	(162.6)	(44.7)
Claims paid during the year	(1,979.7)	(1,431.8)
Net unpaid claim liabilities, end of year	\$ 3,047.7	\$ 3,202.1

The net unpaid claim liabilities (discounted) as at December 31, 2022 decreased by 4.8% or \$154.4 million from December 31, 2021 and benefitted from the impact of discounting. The main components of the discounted unpaid claim liabilities are case reserves, undiscounted IBNR, undiscounted internal claims expense, and the discounting impact thereon.

The level of prior year claims development as a percentage of opening net unpaid claim liabilities and the impact on the claims ratio by fiscal year, are as follows:

(in millions of dollars, except as otherwise noted)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net unpaid claim liabilities, beginning of year, undiscounted	\$ 3,043.8	\$ 2,754.1	\$ 2,654.0	\$ 2,555.2	\$ 2,410.4	\$ 2,199.7	\$ 2,122.8	\$ 2,163.3	\$ 2,108.6	\$ 2,052.1
(Favourable) adverse development on prior year claims, undiscounted	\$ (92.5)	\$ (76.0)	\$ (29.6)	\$ (37.9)	\$ (18.8)	\$ 32.6	\$ (40.1)	\$ (73.1)	\$ (2.9)	\$ (63.0)
(Favourable) adverse development on prior year closing claims, undiscounted	(3.0%)	(2.8%)	(1.1%)	(1.5%)	(0.8%)	1.5%	(1.9%)	(3.4%)	(0.1%)	(3.1%)
Impact on claims ratio <sup>1</sup>	(2.8%)	(2.7%)	(1.2%)	(1.6%)	(0.8%)	1.5%	(2.1%)	(3.8%)	(0.2%)	(3.6%)

Notes:

<sup>(1)</sup> The ratio of prior year (favourable) adverse claims development as a percentage of NEP is a supplementary financial measure. For more information, refer to Section 12 — "Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios".

## ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities increased as at December 31, 2022 due primarily to an increase in commissions payable and an increase in building leases. These were partially offset by the cash settlement in the year of MTIP awards granted in 2019.

## EQUITY

Equity attributable to common shareholders decreased slightly by \$24.4 million in 2022 or 1%, driven by volatility in capital markets, including significant increases in fixed income yields which resulted in declines in the market value of our available for sale bond portfolio. These were largely offset by strong underwriting income and increasing net investment income, as well as a \$67.0 million revaluation gain on our previous ownership interest in McDougall.

On February 10, 2022, the Board of Directors declared a \$0.175 per share dividend (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 on November 23, 2021 and December 31, 2021). On May 12, August 2, and November 10, 2022, the Board of Directors declared a \$0.125 per share dividend. On February 9, 2023, the Board of Directors declared a \$0.1375 per share dividend, payable on March 28, 2023 to shareholders of record at the close of business on March 15, 2023. This represents a 10% increase over the level of ordinary quarterly dividends paid in 2022, and is consistent with our objective to grow our dividend over time.

## 6 — SELECTED ANNUAL INFORMATION AND SUMMARY OF QUARTERLY RESULTS

(in millions of dollars, except as otherwise noted)	For the years ended December 31,		
	2022	2021	2020
Gross written premiums	\$ 3,613.8	\$ 3,231.4	\$ 2,814.7
Net earned premiums	\$ 3,248.6	\$ 2,833.6	\$ 2,508.7
Underwriting income	\$ 192.3	\$ 194.5	\$ 136.4
Net income	\$ 252.6	\$ 213.2	\$ 153.9
Net income attributable to common shareholders	\$ 252.0	\$ 213.2	\$ 153.9
Earnings per common share, basic (in dollars)	\$ 2.19	\$ 2.03	\$ 1.48
Earnings per common share, diluted (in dollars)	\$ 2.15	\$ 2.02	\$ 1.48
Operating earnings per common share (in dollars)	\$ 2.04	\$ 2.09	\$ 1.77
Total assets (As at December 31)	\$ 8,316.8	\$ 7,891.4	\$ 6,620.3

(in millions of dollars, except as otherwise noted)	For the three months ended							
	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Gross written premiums	\$ 942.5	\$ 944.1	\$ 984.7	\$ 742.5	\$ 846.6	\$ 851.5	\$ 874.6	\$ 658.7
Net earned premiums	\$ 850.6	\$ 830.0	\$ 799.6	\$ 768.4	\$ 745.0	\$ 725.1	\$ 697.2	\$ 666.3
Underwriting income	\$ 70.2	\$ 27.9	\$ 34.0	\$ 60.2	\$ 40.3	\$ 55.1	\$ 41.2	\$ 58.0
Net income	\$ 142.2	\$ 41.1	\$ 21.0	\$ 48.3	\$ 33.7	\$ 53.3	\$ 43.9	\$ 82.4
Net income attributable to common shareholders	\$ 141.6	\$ 41.1	\$ 21.0	\$ 48.3	\$ 33.7	\$ 53.3	\$ 43.9	\$ 82.4
Earnings per common share (in dollars)								
Basic	\$ 1.23	\$ 0.36	\$ 0.18	\$ 0.42	\$ 0.31	\$ 0.51	\$ 0.42	\$ 0.79
Diluted	\$ 1.21	\$ 0.35	\$ 0.18	\$ 0.41	\$ 0.31	\$ 0.51	\$ 0.42	\$ 0.79
Operating earnings per common share (in dollars)	\$ 0.67	\$ 0.40	\$ 0.42	\$ 0.55	\$ 0.42	\$ 0.58	\$ 0.51	\$ 0.58

The P&C insurance business is seasonal in nature. As such, underwriting income may vary significantly between quarters, particularly due to weather-related losses. Net income is further impacted by fluctuations in investment gains and losses. In particular, net income in the first quarter of 2021 benefitted from the recognition from other comprehensive income of unrealized gains on common stocks which were sold as a result of a change in foreign equity managers. Results for 2020 and 2021 were impacted by reduced auto claims frequency due primarily to the COVID-19 pandemic. Auto claims frequency in 2022 has started to increase as driving volumes began to normalize toward pre-pandemic levels. The second quarter of 2022 included an investment impairment charge of \$19.3 million, reflective of the significant volatility in equity markets. The fourth quarter of 2022 included a revaluation gain of \$67.0 million on our previous ownership interest in McDougall.

The common shares issued upon the Company's IPO on November 23, 2021, excluding the exercise of the over-allotment option granted to the underwriters of the IPO (the "Over-Allotment") and the additional common shares purchased pursuant to the subscription agreement entered into with Healthcare of Ontario Pension Plan Trust Fund ("HOOPP") (the "Anti-Dilution Adjustment"), were included in the weighted average common shares outstanding used in the earnings per share calculation in each quarter of 2021 consistent with a reflection of the IPO as 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.



# 7 — LIQUIDITY AND CAPITAL RESOURCES

## CAPITAL MANAGEMENT FRAMEWORK

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

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

Capital deployment will be considered using the following priorities:

Organic Growth	We retain capital to support the growth in our premium volumes as well as invest in talent and technology that advance our strategic objectives
Common Shareholder Dividends	We intend to have a sustainable and growing dividend per common share that will be reviewed on a regular basis
Inorganic Growth	We intend to actively pursue carrier and distribution acquisition opportunities in the Canadian market. To fund these transactions, we expect to utilize excess capital, introduce leverage and, if required, access the equity capital markets
Share Buybacks	We will consider the use of share buybacks as a flexible capital management tool

On May 12, 2022, we announced that we had received the necessary approvals to commence an NCIB. In connection with the NCIB, we may, during the period commencing May 17, 2022 and ending May 16, 2023, purchase up to 3,476,781 common shares, representing 3% of our issued and outstanding common shares. As at December 31, 2022, no common shares had been repurchased and cancelled under the NCIB.

### *Regulatory capital*

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 internal and regulatory minimum capital requirements:

- Each of our insurance subsidiaries are subject to regulatory capital requirements established by OSFI and the *Insurance Companies Act* (Canada) ("ICA"). OSFI evaluates capital adequacy through the Minimum Capital Test ("MCT"), which measures available capital against required risk-weighted capital.
- These entities are each required, at a minimum, to maintain an 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 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 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 our 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 our capital levels. We carefully monitor all proposed and actual changes to those guidelines.

OSFI has changed the calculation of MCT as a result of IFRS 17. We are in the process of finalizing the conversion to IFRS 17, including quantification of the change to MCT. While we anticipate this may impact the calculation of the regulatory capital ratio, we do not believe the change in standard impacts significantly the way in which we manage our capital position, nor our assessment of our financial capacity and resources.

## Capital position

All of our regulated P&C insurance subsidiaries are well capitalized on an individual basis, with capital levels in excess of regulatory supervisory minimum levels and our internal capital action levels. The table below shows the consolidated regulatory capital position as at December 31 for Definity Insurance and the financial capacity of the Company. Capital available and capital required included in the table below are determined in the manner prescribed by OSFI.

(in millions of dollars, except as otherwise noted)	As at December 31, 2022	As at December 31, 2021
Capital available <sup>1</sup>	\$ 1,323.6	\$ 1,789.1
Capital required <sup>1</sup>	\$ 647.5	\$ 651.6
MCT% <sup>1</sup>	204%	275%
Excess capital at 200% for Definity Insurance	\$ 28.7	\$ 485.9
Additional capital at Definity Financial Corporation	\$ 357.5	\$ 273.4
Total excess capital	\$ 386.2	\$ 759.3
Leverage capacity <sup>2,3</sup>	\$ 272.3	\$ 298.5
Financial capacity <sup>3</sup>	\$ 658.5	\$ 1,057.8

<sup>1</sup> Consolidated Definity Insurance.

<sup>2</sup> Approximately \$108.7 million (December 31, 2021: \$117.9 million) of the 2% debt limit under the ICA was utilized as at December 31, 2022, including demand loans of \$39.1 million (December 31, 2021: nil) which has reduced the amount of leverage capacity.

<sup>3</sup> Leverage capacity and financial capacity are supplementary financial measures. For more information, refer to Section 12 — “Supplementary Financial Measures and Non-GAAP Financial Measures and Ratios”.

The MCT ratio as at December 31, 2022 decreased from December 31, 2021 due mainly to a reduction in stated capital of Definity Insurance and the subsequent transfer of \$400 million of investments and cash from Definity Insurance and certain of the other insurance subsidiaries to Definity. This transaction positions Definity Insurance within its expected operating range and more efficiently positions excess capital in the group structure. As a result of this transaction, the consolidated excess capital at 200% at Definity was unchanged. The decrease in consolidated excess capital at 200% MCT relates primarily to the deployment of funds in connection with broker acquisitions in the year as well as the impact of volatility in capital markets, including significant increases in fixed income yields, which resulted in declines in the market value of our investments.

In 2022, the federal government amended demutualization regulations applicable to P&C insurance companies under the ICA. The amendments: (1) created a path for Definity, as a holding company of a demutualized insurance company, to apply for continuance from the ICA to the *Canada Business Corporations Act* (the “CBCA”) during the period for which that holding company is required to remain widely held after demutualization, and (2) increased the duration of that restricted ownership period from two to four years.

In 2023, Definity announced that it will begin the process to apply to the Minister of Finance for approval to continue under the CBCA. The application has been submitted to the federal Minister of Finance and will be subject to government and regulatory approval. The new restricted ownership period came into effect with the regulatory amendments and automatically extended the requirement for Definity to be widely held until November 22, 2025. One of the effects of Continuance is expected to be, among other things, that Definity will no longer be subject to the leverage restrictions applicable under the ICA.

## Own Risk and Solvency Assessment (“ORSA”)

The ORSA is a framework for federally-regulated insurers to internally assess their risks and determine the level of capital required to support future solvency. The ORSA documents how risk assessment and capital management are integrated into our decision-making processes and are monitored to maintain financial viability.

We integrate the ORSA with our enterprise risk management framework, management reporting, and decision-making processes. Our Board of Directors, Risk Review Committee, and Management Risk Committee review and provide challenge, advice, and guidance on the ORSA, critically assessing assumptions and results to confirm we consider them to be reasonable in the circumstances.

We develop the ORSA by reviewing our key risks and identifying key risk indicators, then performing a range of quantitative risk sensitivity, stress testing, and other analyses, to relate our key risks to capital requirements. In conjunction with the appointed actuary and the chief actuary, we aligned financial condition testing and ORSA where appropriate, and developed a framework to segment economic capital associated with the business plan to enable more granular measurement of capital consumption. This process includes thoroughly assessing the methodology for relating risks to capital reflected in OSFI’s MCT guidelines and determining the appropriateness to our risk profile. As that regulatory methodology has been developed with consideration to the entire industry, some capital factors are more suitable than others in addressing our risks. Depending on the risk, the regulatory approach may need to be modified to our circumstances, or we may determine that a different methodology is appropriate. We may also determine that the regulatory method is adequate and adopt it without modification. We incorporate the output from our economic capital model to evaluate the required capital for insurance, market, and credit risks. This results in the ORSA capital requirements using both deterministic and stochastic methodologies. Stress testing is then utilized to assess the resiliency of our capital under a range of adverse conditions, including extreme scenarios. The ORSA is integrated

into the budgeting and planning process to determine our ability to meet internal and regulatory capital targets in the future, and to identify contingency plans and procedures should capital levels threaten to fall below pre-determined early-warning levels, as specified in our capital management policy. Our ORSA capital level is higher than our internal targets established in our capital management policy.

We do not expect the change to IFRS 17 to have a significant impact on how we measure ORSA.

## REINSURANCE

We reinsure certain risks with reinsurers to limit our maximum loss for catastrophe events or other significant large losses. Our objectives related to reinsurance are capital protection, reduction in earnings volatility, increase in underwriting capacity, and accessing expertise of our reinsurer partners. The placement of ceded reinsurance is mainly on an excess-of-loss basis (per event or per risk), but some proportional cessions are made for specific portfolios. Ceded reinsurance complies with regulatory guidelines, including with respect to coverage limits for Canadian earthquake risk.

Annually, we review and adjust our reinsurance coverage to reflect our current exposures, capital base, and growth projections. The most material components of our reinsurance program are the catastrophe treaties, for which we provide more detail in the table below:

(in millions of dollars)	2023	2022
Catastrophe – primary		
Net company retentions <sup>(1)</sup>	40.0	30.0
Maximum limit <sup>(2)</sup>	1,950.0	1,800.0
Catastrophe – aggregate		
Annual aggregate deductible <sup>(3)</sup>	65.0	65.0
Annual aggregate limit <sup>(3)</sup>	25.0	25.0

<sup>(1)</sup> Excludes reinstatement premiums, co-participations between the retention level and maximum limit, and tax impacts.

<sup>(2)</sup> Excludes co-participation.

<sup>(3)</sup> Contributing event to the annual aggregate deductible and limit is a maximum of \$27 million on events above \$3 million as at December 31, 2023 and 2022.

We retain participations on reinsurance layers between the retention and maximum limit averaging 8.6% for 2023 (2022: 3.4%) including an average of 42.5% between the retention and up to a \$100 million loss (2022: 0%). We also continued with our 100% placement of the catastrophe aggregate treaty in 2023 on the same terms as 2022. This treaty extends to December 31, 2024.

In line with industry practice, our reinsurance recoverables with licensed Canadian reinsurers are generally unsecured as Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations, and claims liabilities take priority over the reinsurer's subordinated creditors. We have collateral in place to support amounts receivable and recoverable from unregistered reinsurers.

We ensure our placement of reinsurance is diversified to avoid excessive concentration to a specific reinsurance group. We are selective with respect to our choice of reinsurers, placing reinsurance with only those reinsurers having a strong financial condition.

## FINANCIAL STRENGTH AND ISSUER RATINGS

Strong issuer and financial strength ratings have been assigned to Definity, and its subsidiary Definity Insurance, by major credit rating agencies. The ratings are reflective of Definity's strong capitalization and liquidity, extensive distribution network, and established enterprise risk management framework. The ratings also help to indicate Definity's ability to meet its obligations to policyholders, creditors, and others.

	Credit Rating Agency	Rating	Outlook	Date
Financial strength ratings				
Definity Insurance	AM Best	A- (Excellent)	Stable	November 18, 2022
Definity Insurance	DBRS	A (low)	Positive	July 8, 2022
Issuer rating				
Definity	DBRS	BBB	Positive	July 8, 2022

## CASH FLOWS

As at December 31, 2022, we had \$200.5 million (December 31, 2021: \$387.3 million) of cash and cash equivalents, \$302.1 million of restricted cash (December 31, 2021: \$110.8 million), and \$89.3 million (December 31, 2021: \$88.8 million) of short-term investments. We also have a highly liquid investment portfolio comprised of actively-traded securities, including Canadian fixed income investments issued or guaranteed by domestic governments, investment-grade corporate bonds, publicly-traded Canadian and foreign equities and pooled funds. We believe that our internal resources will provide sufficient funds to fulfill our operating cash requirements during the next 12 months. The liquidity policy seeks to ensure that we have sufficient cash and liquid resources to meet our financial obligations and to support our future growth initiatives, and that excess cash is appropriately invested.

On August 2, 2022, we renewed our \$150 million unsecured committed credit facility, which will automatically increase to \$600 million if and when the Company is continued under the CBCA. This latter amount represents an increase of \$200 million over the pre-existing facility, providing us with increased financial capacity after continuance. The facility has a term ending on July 22, 2027, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at February 9, 2023, we are in compliance with the covenants and no amounts have been drawn under this facility.

A summary of cash flows for the three months and years ended December 31, 2022 and 2021 is as follows:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Operating activities				
Net cash provided by operating activities	\$ 112.5	\$ 176.7	\$ 305.8	\$ 655.2
Investing activities				
Investments purchased, net of investments sold	(35.6)	(399.3)	(54.2)	(1,008.1)
Commercial loans collected, net of commercial loans advanced	2.6	10.3	12.3	13.3
Other assets purchased	(20.4)	(6.3)	(90.8)	(49.4)
Business acquisitions, net of cash acquired	(227.0)	—	(242.0)	—
Net cash used in investing activities	(280.4)	(395.3)	(374.7)	(1,044.2)
Financing activities				
Dividends paid on common shares	(14.3)	—	(63.3)	—
Common shares purchased and held in trust	(13.2)	—	(53.6)	—
Change in demutualization amounts outstanding	(8.3)	—	191.3	—
Repayment of demand loans	(1.0)	—	(1.0)	—
Net proceeds from the issuance of common shares	—	2,285.7	—	2,285.7
Distribution of demutualization benefits	—	(1,908.9)	—	(1,908.9)
Net cash (used in) provided by financing activities	(36.8)	376.8	73.4	376.8
Net (decrease) increase in cash and cash equivalents, and restricted cash	\$ (204.7)	\$ 158.2	\$ 4.5	\$ (12.2)

### *Cash Provided by Operating Activities in the Three Months and Years Ended December 31*

Cash provided by operating activities decreased in the fourth quarter of 2022 and for the year, driven by increased claims paid, increased broker commission payments due to GWP growth and an increase in broker underwriting profitability, payments related to employee salaries and bonuses, and premium taxes paid. For the year, cash provided by operating activities also decreased due to an increase in income taxes paid. These were partially offset by an increase in premiums collected due to the strong growth in GWP.

### *Cash Used in Investing Activities in the Three Months and Years Ended December 31*

Cash used in investing activities decreased in the fourth quarter of 2022 and for the year, due primarily to a decrease in net investments purchased, partially offset by the business acquisitions in the fourth quarter of 2022.

### *Cash (Used in) Provided by Financing Activities in the Three Months and Years Ended December 31*

Cash provided by financing activities decreased due primarily to the proceeds in 2021 from the IPO net of the distribution of cash benefits of the demutualization to eligible recipients. The amounts outstanding to eligible recipients are reflected as restricted cash. The increase in demutualization amounts outstanding as at the end of 2022 was largely driven by the reclassification of amounts represented by uncashed cheques distributed in the fourth quarter of 2021. Eligible policyholders became “Lost Recipients” in accordance with the Conversion Plan because they had not acted upon their demutualization benefits within six months of the date on which those benefits were sent. Accordingly, there was a corresponding increase in both demutualization amounts outstanding and restricted cash. We continue to make efforts to facilitate the unification of the remaining amounts outstanding with the eligible recipients.

## CONTRACTUAL OBLIGATIONS

Our contractual obligations include claim liabilities, lease commitments, certain non-cancellable commitments, and principal payments on demand loans. Our non-owned buildings, motor vehicles, computers, and office equipment are supplied through leases. The future contractual aggregate minimum payments for our claim liabilities, non-cancellable leases and other commitments are outlined below.

(in millions of dollars)	As at December 31, 2022		
	Less than 1 year	Over 1 to 5 years	More than 5 years
Claim liabilities (undiscounted)	\$ 1,165.3	\$ 1,523.8	\$ 571.1
Leases (undiscounted) and other commitments	47.3	86.5	24.2
Demand loans	3.4	13.5	22.2
Total	\$ 1,216.0	\$ 1,623.8	\$ 617.5

## OFF-BALANCE SHEET LIABILITIES AND CONTINGENCIES

We are subject to litigation relating to claims made in respect of insurance policies written by us, as well as other litigation arising in the normal course of conducting our business. We are of the opinion that this non-claims litigation will not have a significant effect on our financial position, results of operations, or cash flows. Refer to Section 11 — “Risk management and corporate governance”, Reserve estimate risk, which describes our process for ensuring appropriate provisions are recorded for reported and unreported claims.

We participate in a securities lending program managed by a major Canadian and U.S. financial institution, whereby we lend securities we own 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, 2022, securities with an estimated fair value of \$841.6 million (December 31, 2021: \$598.9 million) have been loaned and securities with an estimated fair value of \$874.6 million (December 31, 2021: \$620.1 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2022 was 100.0% (December 31, 2021: 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 we retain the risks and rewards of ownership.

The financial compensation we receive in exchange for securities lending is reflected in the consolidated statements of income in “Net investment income”.



## 8 — RELATED PARTY TRANSACTIONS

From time to time, we enter into transactions in the normal course of business with certain directors, senior officers, and companies with which we are 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 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)	Years ended December 31,	
	2022	2021
Salaries	\$ 6.1	\$ 5.3
Short-term incentive plan	5.0	5.4
Medium-term and long-term incentive plans	13.2	14.0
Deferred share unit plans and share ownership plan	3.1	—
Retention and signing bonuses	1.4	1.4
Post-employment defined contribution pension benefits	0.8	0.7
Other short-term employment benefits	0.1	0.1
Directors' fees*	1.5	1.8
Total	\$ 31.2	\$ 28.7

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

### POST-EMPLOYMENT BENEFIT PLANS

We provide 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 us is determined each year by our pension actuaries. Our 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 us to the pension plans are expected to be \$1.9 million in 2023. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2022 were nil (2021: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority of Ontario.

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

Under the defined contribution component of the pension plan, we contribute a fixed percentage of an employee's pensionable earnings to the plan. Contributions under the defined contribution component of the pension plan totalled \$20.1 million in 2022 (2021: \$15.9 million).

# 9 — INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) AND DISCLOSURE CONTROLS AND PROCEDURES

## MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We are responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is reported to management on a timely basis so that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, or changes in conditions, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of error or fraud, if any, within the Company have been detected.

As required by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2022, subject to the inherent limitations noted above.

## MANAGEMENT'S EVALUATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

We are also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

Management has limited the scope of effectiveness of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of businesses acquired not more than 365 days before December 31, 2022. Refer to Note 6 — "Business combinations" of our audited consolidated financial statements for the impact on the financial statements. Management will be removing this limitation within the required regulatory timeline.

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2022, subject to the inherent limitations noted below.

While we continue to monitor, assess, and revise our system of internal controls, it should be recognized that due to inherent limitations or changes in conditions, any control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As such, an evaluation of those control systems can provide only reasonable assurance that all control issues and instances of error or fraud, if any, within the Company have been detected.

Projections of any control effectiveness evaluation to future periods are subject to the risk that the controls may become inadequate due to potential changes in conditions or possible deteriorations in the degree of compliance with policies or procedures.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting in 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# 10 — CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of our audited consolidated financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that materially 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 materially from these estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are reasonable. Refer to Note 3 — “Summary of significant accounting policies” of our audited consolidated financial statements for a summary of our significant accounting policies.

The most complex and significant judgments, estimates, and assumptions used in preparing our audited consolidated financial statements are discussed below:

## JUDGMENTS

In the process of applying our accounting policies, we have applied judgment in our assessment of the evaluation of current obligations requiring provisions, the determination of cash-generating units, 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, which are discussed in Note 5 — “Significant accounting judgments, estimates and assumptions” of our audited consolidated financial statements. The key estimates include, but are not limited to, the following:

- Valuation of claim liabilities
- Impairment of long-lived assets
- Impairment of financial assets
- Valuation of post-employment benefits obligation
- Measurement of income taxes

## FUTURE ACCOUNTING AND REPORTING CHANGES

IFRS standards issued but not yet effective are discussed in Note 4 — “Standards issued but not yet effective” of our audited consolidated financial statements. We have provided an update surrounding our transition to IFRS 17 and IFRS 9, including our current accounting policy decisions and the expected quantitative and qualitative impacts on our financial statement presentation. We are still in the process of finalizing our conversion amounts but estimate that our equity attributable to common shareholders as of January 1, 2022 will increase by approximately 5-6% on the adoption of IFRS 17 primarily as a result of the change from PfAD to risk adjustment in calculating claim liabilities and the deferral of acquisition costs less the impact of onerous contracts.

The presentation and disclosure differences under IFRS 17 are expected to be significant. We are currently assessing the impact of IFRS 17 and IFRS 9 on our MD&A presentation, but do not expect it to have a material impact on how we describe our business. We expect these new accounting standards will have no significant impact on how we manage and run our operations or how we measure our performance. IFRS 9 will result primarily in reclassification differences between net income and other comprehensive (loss) income for certain of our investments. We expect there will be additional volatility in net income and earnings per common share due to IFRS 17 and IFRS 9, although there will be no associated impact on operating net income.

In July 2022, OSFI released the final MCT 2023 guidelines to reflect the implementation of IFRS 17 in 2023. We are in the process of finalizing the conversion to IFRS 17, including quantification of the change to MCT. While we anticipate this may impact the calculation of the regulatory capital ratio, we do not believe the change in standard impacts significantly the way in which we manage our capital position, nor our assessment of our financial capacity and resources.

# 11 — RISK MANAGEMENT AND CORPORATE GOVERNANCE

## RISK MANAGEMENT

### Overview

A strong risk management culture contributes to making sound business decisions, both strategically and operationally. Our corporate governance and enterprise risk management frameworks are designed to provide reasonable assurance that:

- (i) our business is understood from a risk perspective and our actions are consistent with our governing objectives, risk management capabilities, risk-taking capacity, and risk appetite; and
- (ii) we maintain an appropriate risk and reward balance to protect us from events that have the potential to materially impair our financial strength or our achievement of business objectives.

Our enterprise risk management framework is rooted in the understanding that we are in the business of taking risk for an appropriate return. Balancing risk and reward is achieved through dynamic alignment between business strategy and risk appetite, diversifying risk, seeking appropriate compensation for risk, managing risk through preventive, detective, and mitigating controls, and transferring risk to third parties, where appropriate. We have an integrated approach to the identification, assessment, monitoring, reporting and mitigation of risks across the organization, including emerging risks. All identified top and emerging risks are assessed relative to their potential impact on our corporate strategy, competitive position, operational results, reputation, and financial condition.

The Board, directly or through its Risk Review Committee, oversees the effective implementation of the enterprise risk management framework providing challenge, advice and guidance to senior management to confirm appropriate risk management policies are in place, the effectiveness and outcomes of risk management processes and the decisions and actions of senior management are consistent with our business plans, strategy, and risk appetite. Regular reports on our risk profile, including significant risks, risk appetite exposures, and significant exceptions to risk management policies and controls, are provided to senior management, the Board, and its committees.

### Alignment

We seek to align our risk appetite with our overall strategy and business objectives by considering whether risks are core, non-core, or collateral in nature.

*Core risks* are risks that we are willing to accept in order to achieve our return expectations and business objectives, and primarily consist of insurance risks and financial risks. *Non-core risks* are those associated with activities outside of our risk appetite and approved business strategies, and are therefore generally avoided, regardless of expected returns. *Collateral risks* are those we incur as a by-product of pursuing the risk and return optimization of core risks. Operational risks often fall into this category. We endeavour to mitigate collateral risks to the extent that the benefit of risk reduction aligns with or exceeds the cost of mitigation.

We also seek to align our risk appetite with our risk management capabilities. We actively seek profitable risk-taking opportunities in those areas where we have established risk management capabilities, and seek to avoid risks that are beyond those capabilities.

## CORPORATE GOVERNANCE AND ACCOUNTABILITY

Our enterprise risk management framework sets out guidance in relation to the responsibility and authority for risk-taking, risk governance and oversight, and risk control.

### Governance Structure



Risk management occurs at all levels of the organization. The Board approves and oversees, among other things, our risk appetite, our internal control framework, our Code of Business Conduct, and significant policies, plans, and strategic initiatives related to the management of, or that materially impact, capital and liquidity. It also provides challenge, advice, and guidance to senior management on the ORSA, our business performance, and the effectiveness and outcomes of risk management

practices, as well as significant capital, operational, business, risk, and crisis management policies. To assist the Board in confirming that the key risks are appropriately identified, critically assessed, and adequately managed, certain risk management accountabilities have been delegated to the following Board committees:

#### BOARD OF DIRECTORS COMMITTEES

Audit Committee	The Audit Committee, composed entirely of independent directors, is responsible for overseeing the integrity of our financial statements and related public disclosures; the qualifications, independence, appointment, and performance of our internal and external auditors; and the design, implementation, and evaluation of our internal controls, including internal controls over financial reporting and our disclosure controls.
Corporate Governance Committee	The Corporate Governance Committee, composed entirely of independent directors, is responsible for overseeing development of effective corporate governance guidelines and processes, reviewing policies and processes to sustain ethical behavior, assessing the effectiveness of the Board of Directors and its committees as well as the contributions of individual directors, and identifying and recommending for election as directors those individuals with appropriate competencies, skills, and experience.
Human Resources and Compensation Committee	The Human Resources and Compensation Committee, composed entirely of independent directors, is responsible for overseeing our human resources practices and policies. This includes reviewing our overall compensation philosophy, approving compensation for our senior executives, and reviewing retention, development, and succession plans.
Risk Review Committee	The Risk Review Committee, composed entirely of independent directors, is responsible for the oversight of the enterprise-wide risk management framework and the regulatory compliance management program. The Risk Review Committee reviews and provides challenge, advice, and guidance on the ORSA and the results of our regulatory compliance management program. It approves significant enterprise risk management policies and articulation of risk appetite. It also monitors our key and emerging risks.

From time to time, the Board may also strike ad hoc committees to provide dedicated oversight to key strategic initiatives.

The Board has delegated certain risk management responsibilities to the following executive management committees:

- Management Risk Committee
- Executive Investment Committee
- Management Pension Committee

#### Three Line of Defence Risk Governance Model

We have implemented a three line of defence risk governance model, consisting of front-line business operations (first line), enterprise risk management and compliance functions and executive management committees (second line), and internal audit (third line). Each line of defence has internal quality assurance and validation practices to oversee and confirm compliance with established policies and practices. Primary accountability for enterprise risk management resides with our CEO, who further delegates responsibilities throughout the Company under a framework of management authorities and responsibilities. Key components of that framework include the following:





## MANAGEMENT OF KEY RISKS

The key risks we manage include insurance, financial, operational, and strategic risks, which are explained in greater detail below. Although we have described those risks that we believe to be material, other risks and uncertainties exist. If any of these risks or any other risks or uncertainties actually occur, it is possible that our business could be materially affected in an adverse manner. Our enterprise risk management framework cannot and is not designed to anticipate every risk in all environments, nor the timing or effect of every such risk.

### Enterprise Risk Management Framework



### Insurance Risk

#### *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. Our exposure to concentrations of insured risks is mitigated by the use of segmentation, policy issuance and risk acceptance rules, individual limits, and reinsurance.

In particular, a financial loss occurs when the liabilities assumed exceed the expectation reflected in the pricing of an insurance product. We price our products by taking into account numerous factors including product design and features, claim frequency and severity trends, inflationary cost pressures including social inflation, product line expenses, 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. We endeavour to maintain pricing levels that produce an acceptable return by appropriately measuring and incorporating these factors into our pricing decisions. New products and material product changes are subject to a detailed review by management, including our 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 pricing involves the use of models, which exposes us 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 our 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 risk sharing pools, as applicable, and eliminating the offering of some products or product features. The lead-time for implementing pricing or product modifications may be extended due to the time required for internal and/or regulatory approval processes, updating our underwriting systems, and educating brokers and/or customers on the modifications. The modifications would then be applied prospectively to new and renewing policies.

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

##### Claims Settlement

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

## Legal and Regulatory Implications

In the normal course of our business, we are, from time to time, subject to a variety of legal and regulatory actions relating to our business operations. 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 legislators and regulators on proposed changes.

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 our exposure to these types of legal claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. To mitigate our exposure to these types of legal claims, we intend to respond to new insurance and legal claims promptly and actively manage existing insurance and legal claims. When necessary, claims reserves are adjusted to reflect potential legal defence costs and potential settlements. See "Regulatory and Legal Risks" below for additional details.

## Quality Review Procedures

Quality review procedures seek to ensure that our 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

We use reinsurance to manage our 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 frequency and/or severity on non-catastrophe reinsurance treaties. In addition, reinsurers may seek to impose terms that are inconsistent with corresponding terms in the policies written by us, which may reduce the eligible claims costs that can be ceded to the reinsurers. Ceding risk to reinsurers does not relieve us of the obligation to our policyholders for claims; therefore, we manage the level of credit risk associated with our reinsurers and our recoverable balances. Management reviews our reinsurance program with the intention of ensuring its cost effectiveness and the adequacy of coverage obtained, which reflects our risk tolerances, underwriting practices, and financial strength, while at the same time complying with our reinsurance and capital risk management policies.

## Reserve Estimate Risk

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

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

Through a series of algorithms, real time analytics, and integration of third-party services, each claim submission is assessed for validity, and costing (including salvage, subrogation, reserving, etc.). After the triage stage is complete, we leverage artificial intelligence (AI) tools to assign the claim to an appropriate claims adjuster. 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, including inflation, 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 including social inflation, 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.

Establishing an adequate provision for claim liabilities is an inherently uncertain process and is closely monitored by our corporate actuarial department. Claim liabilities, including the provision for IBNR as established by our 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.

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 our bond investments that support the claim liabilities. In assessing the risks associated with investment income and therefore the discount rate, we consider 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)	As at December 31,			
	2022		2021	
Impact on:	+1%	-1%	+1%	-1%
Net claim liabilities	\$ (67.9)	\$ 72.3	\$ (82.8)	\$ 88.6

#### Catastrophe Risk

Catastrophe risk may arise if we experience 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 we evaluate catastrophe events and assess 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 we operate, 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.

We manage our 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.

#### Financial Risk

Our 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.

We have established a detailed investment policy for the investment portfolio, which is subject to regular review and approval by the Board. The policy sets out our philosophy of investment management, which is to generate sufficient income, in support of financial targets, while preserving capital. The philosophy focuses on maximizing our long-term capital strength and risk-adjusted returns. The policy includes specific guidelines for such items as asset mix, concentration levels in specific investments or industries, required quality of the underlying investments, the use of derivatives, and exposure to foreign currencies. Compliance with these guidelines, and the relevant requirements of the *Insurance Companies Act* (Canada), is routinely monitored by management and the Executive Investment Committee that actively oversees investment strategy and performance.

#### 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 us due to the nature of our investments and claim liabilities. Accordingly, a portion of our 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 our claim liabilities.

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)	As at December 31,			
	2022		2021	
Impact on:	+1%	-1%	+1%	-1%
Fair value of FVTPL bonds and income before income taxes	\$ (64.8)	\$ 71.5	\$ (87.1)	\$ 96.8
Fair value of AFS bonds and OCI before income taxes	\$ (78.9)	\$ 90.0	\$ (72.5)	\$ 82.5

As discussed above under "Insurance Risk — Reserve estimate risk", as at December 31, 2022, an immediate hypothetical one percentage point increase in the discount rate would have reduced net claim liabilities, and increased income before income taxes, by \$67.9 million (2021: \$82.8 million). This would have partially offset a corresponding decrease in income before income taxes on the FVTPL bond portfolio discussed above as at December 31, 2022 of \$64.8 million (2021: \$87.1 million).

### Common Equity Market Price Risk and Preferred Stock Price Risk

A portion of our investment portfolio is held in Canadian and foreign equities. 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 we hold. Our AFS portfolio includes Canadian common stocks with fair value movements that are benchmarked against movements in the S&P/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 our 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 we hold. The fair value sensitivity of our preferred stocks is assessed against movements in the Solactive Canadian Rate Reset Preferred Share Index.

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

(in millions of dollars)	As at December 31,			
	2022		2021	
Impact on:	10%	-10%	10%	-10%
Fair value of Canadian stocks and OCI before income taxes	\$ 38.3	\$ (38.3)	\$ 40.5	\$ (40.5)
Fair value of foreign stocks, pooled funds and OCI before income taxes	\$ 19.7	\$ (19.7)	\$ 20.8	\$ (20.8)
Fair value of preferred stocks and OCI before income taxes	\$ 32.1	\$ (32.1)	\$ 51.8	\$ (51.8)

### Credit Risk

Credit risk is the risk of financial loss caused by our counterparties not being able to meet payment obligations as they become due. Our 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, our credit exposure is limited to the carrying amount of these assets. Our 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. We have 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

We manage our credit risk associated with bonds and preferred stocks by investing in bonds and preferred stocks that are primarily of high credit quality, and limit exposure with respect to any one issuer. On a regular basis, we also monitor 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. Refer to Section 5 — “Financial position” for further details pertaining to our investment mix and investment portfolio credit ratings.

#### Securities Lending

We manage credit risk associated with our securities lending program by obtaining indemnification against security borrower counterparty default from a major financial institution and by obtaining collateral with a fair value in excess of the value of the securities loaned under the program. Refer to Section 7 — “Liquidity and capital resources” for further discussion.

#### Premiums Receivable

Our credit exposure to any one individual policyholder or broker included in premiums receivable is not significant. We regularly monitor amounts due from policyholders and follow up on all overdue accounts. As permitted by legislation, when premiums are overdue for an extended period of time, we cancel the insurance coverage under the applicable policy. Before a broker is granted a contract, we conduct due diligence reviews. Delinquent accounts are regularly monitored, and we take action against non-payment.

#### Commercial Loans

We periodically issue commercial loans to brokers. Collateral, principally in the form of security over a borrowing brokerage's operating assets, is held to protect us 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. Our gross credit exposure on these commercial loans is limited to their carrying value, which amounted to \$12.0 million as at December 31, 2022 (2021: \$24.3 million). Management does not consider any of these current commercial loans to be impaired as at December 31, 2022.

#### Reinsurance Receivable and Recoverable

Credit exposures on our reinsurance receivable and recoverable balances exist to the extent that any reinsurer may not be willing or able to reimburse us under the terms of the relevant reinsurance arrangements. We have policies which limit the exposure to individual reinsurers and a regular review process to assess the creditworthiness of reinsurers from whom we purchase coverage and the recoverability of reinsurance receivable balances. Our reinsurance risk management policy

generally precludes the use of reinsurers with credit ratings less than "A-". As at December 31, 2022, 97.7% (2021: 97.5%) of our reinsurers have a credit rating of "A-" or better as determined by independent rating agencies. Where appropriate, we obtain 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 (2021: \$0.5 million).

#### Structured Settlements

We have purchased annuities from life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, we are 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, 2022, no information has come to our attention that would suggest any weakness or failure in life insurers from which we have purchased annuities. Consequently, no provision for credit risk was recorded in 2022 (2021: nil). The original purchase price of the outstanding annuities was \$256.9 million (2021: \$321.1 million).

#### Foreign Exchange Risk

Foreign exchange risk is the risk that the value of an asset or liability will fluctuate due to changes in foreign exchange rates relative to the Canadian dollar. Our foreign exchange risk relates primarily to our foreign common stock and pooled fund holdings in the AFS portfolio, which are denominated in various foreign currencies.

Our 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 \$12.5 million (2021: \$14.2 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 \$2.4 million (2021: \$2.8 million), assuming historical correlations between currency pairs remain intact.

#### 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 our 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. To mitigate this risk, and to satisfy our operational requirements, we have invested a portion of our assets in short-term (less than one year) highly-liquid money market securities, and we have access to a revolving credit facility, subject to compliance with covenants. A large portion of invested assets are held in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements. Refer to Note 8 — "Financial risk management" included in our audited consolidated financial statements, for a summary of the Company's financial assets and financial liabilities maturity profile.

#### Operational Risk

Operational risk is the risk of financial loss due to inadequate or failed processes, people or systems, or due to external events. This may relate to any of our activities and includes, for example, faulty processes, prohibited employee actions, deceptive actions by third parties, human error, and technology failures. We manage operational risk through our three line of defence risk governance model (refer to "Corporate Governance and Accountability" above for more detail), and are continually enhancing our enterprise risk management framework to include current risk assessments for our strategic initiatives and significant business and functional areas. There is also ongoing monitoring and follow-up on operational risks, incidents, and associated controls through regular reporting to senior management, the Management Risk Committee, the Risk Review Committee, and other relevant Board of Directors committees.

#### People Risk

Successful implementation of our strategy depends, among other matters, on our ability to attract, develop, motivate, and retain employees with the necessary skills, capabilities, and knowledge (refer to "Strategic Risk – Strategic Execution Risk" below for more detail). The inability to attract, motivate, or retain an appropriate staffing level and/or key employees with specialized skills, capabilities, or knowledge could adversely impact our ability to execute on strategic initiatives, our financial performance, our compliance with applicable legal requirements, or result in an increased risk of operational errors. To mitigate this risk, we focus on the delivery of critical talent management and performance enhancement programs seeking to ensure we identify, attract, develop, motivate, and retain an adequate number of employees with the appropriate skill set. We also review the composition, experience, and skills of our senior management and the Board to confirm the necessary competencies are represented at the leadership level and that we have adequate succession plans in place.

Additionally, a competitive hiring market along with inflationary pressures may increase compensation and benefits offered to attract and retain candidates and employees, which may in turn increase our operating expenses and expense ratio.

#### Conduct Risk

Conduct risk is defined as business practices, or actions by external parties, our employees or directors, that create risks of outcomes that would harm stakeholders or create reputational risk to the Company. We manage conduct risk by implementing our Code of Business Conduct, a Supplier Code of Conduct, Conduct Risk Management Framework, governance practices, enterprise risk management programs, and employee and broker training. All of our directors, officers, employees, and suppliers have a responsibility to conduct their activities in accordance with our Codes of Conduct.

Under our ethics reporting program, employees or other stakeholders are able to contact a whistleblower hotline operated by an independent service provider on a confidential and anonymous basis to communicate any concerns regarding compliance with our Code of Business Conduct, including questionable accounting or auditing matters, internal controls over financial reporting, and our disclosure controls and procedures. All concerns raised are forwarded to designated individuals for investigation and follow-up. Complaint handling and ombudsperson mechanisms also represent a conduit for identifying and escalating conduct issues.

#### *Fraud Risk*

As a P&C insurer, we may be subject to internal or external fraud. Potential exposures include: claimants may exaggerate claims for personal gain; our insureds or brokers may submit inaccurate underwriting information in an attempt to reduce premium costs or obtain insurance coverages which may otherwise be unavailable; service providers may exaggerate invoice values or charge for unnecessary or uncompleted work; employees may misappropriate assets or submit inadmissible expenses for reimbursement; or internal or external parties may impersonate employees, insureds, or vendors to misappropriate assets or gain access to systems. To mitigate the risk of fraud and abuse, we have implemented governance processes and internal controls to prevent and detect potential internal or external fraud. These internal controls include fraud detection processes within our underwriting and claims functions to detect potential fraud and flag cases for further investigation. We also engage with regulatory authorities on regulatory actions which could help to reduce fraud, including addressing fraud rings, and thereby to help maintain insurance affordability for consumers.

#### *Information Security Risk*

Information security risk is the risk of loss or harm resulting from the failure to appropriately manage information during its lifecycle. We routinely collect, process, use, retain, and dispose of various types of information from numerous sources, including personal information, policyholder information, and business or internal proprietary information. An inadvertent disclosure, unauthorized access, or other misuse of such information could have a negative impact on the privacy of our policyholders or other individuals, or on the confidentiality of our strategic plans, competitive initiatives, business information, or financial performance. The occurrence of such an event could result in reputational damage, financial loss, and/or legal or regulatory consequences to us. We mitigate this risk by employing physical and logical access restrictions. We attempt to limit access to data, information, and systems to the minimum required access levels and routinely review provisioned access. Through our cyber security program, we regularly enhance systems, networks, processes, and data protection measures to detect and reduce the risk of unauthorized access. We also provide employee information security awareness training. See “Cyber Security Risk” below for additional details.

#### *Information Technology Risk*

Our business depends on the successful and uninterrupted functioning of our computer and data processing systems and user or system interfaces. We rely on third-party service providers for delivering key components of these systems, including network or data center services, voice or data communications services, and a variety of Software as a Service (SaaS). The failure of these systems, including failure to timely detect system outages or defects, or failure of our third-party service providers to deliver these services on a timely basis, could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities or otherwise conduct business. A system failure could result in the loss of existing or potential business relationships, compromise our ability to process transactions in a timely manner, or otherwise impair our ability to develop, modify, or execute our strategies, and ultimately, could negatively affect our financial results and our reputation. To manage this risk, we have implemented internal control and system monitoring processes. To identify, triage, and respond to critical technology incidents in a timely manner, we have incident response and business resiliency plans and processes in place, which are routinely maintained and tested. See “Business Interruption Risk” below for additional details. We also require our key third-party service providers to enter into service level agreements to contractually secure their commitment to our minimum expected levels of service. Our data centres are managed by reputable third-parties who provide disaster recovery services, including testing of, and redundant systems and facilities for, our critical services. Management regularly monitors the service levels provided by key third-party service providers, the stability of key systems, and the quantity and root cause of critical technology incidents.

To achieve operational and strategic objectives, we need to maintain and upgrade our computer and data processing systems and information technology infrastructure. Such projects can require substantial capital investment and coordination of significant internal and third-party resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. The implementation of significant new or revised systems or technology (e.g., cloud computing, robotic process automation, AI, and external data sources), changes to processes and the introduction of new third-party service providers have the potential to introduce additional complexity and operational risk until full transition is completed. To address increased operational risk during a transition period, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are applied. Significant technology projects are managed and governed as strategic initiatives (refer to “Strategic execution risk” below for more detail).

#### *Cyber Security Risk*

Cyber security risk is the risk of unauthorized information access, or the loss of system integrity or availability, as a result of an attack delivered electronically or by direct access to our systems or systems provided by our third-party service providers. There is an increasing prevalence and sophistication of cyber-attacks affecting a variety of businesses with increasing financial, operational, and reputational impact. We have a cyber security program which includes employee cyber security awareness training, testing, and reminders to reduce the risk of employee action inadvertently resulting in an exposure. Through our cyber



security program, we periodically benchmark our cyber security practices against industry leading practices to assess and prioritize areas for investment, and we regularly enhance systems, networks, processes, and data protection measures to detect and reduce the risk of unauthorized access, increase system resilience, and minimize the impact of a cyber-attack if it were to occur. To identify, triage, and respond to cyber incidents in a timely manner, we have specific cyber incident response plans and processes in place, which are routinely maintained and tested. We monitor external cyber-attacks and strive to continually learn from them to improve our defences and response plans. In addition, we also carry cyber incident insurance to mitigate exposure to significant losses arising from a cyber incident, subject to applicable policy limits.

#### *Implementation of IFRS 17 and IFRS 9 Risk*

Two new accounting standards come into effect on January 1, 2023: IFRS 17, which replaces IFRS 4 — *Insurance Contracts* (“IFRS 4”), and IFRS 9, which replaces IAS 39 — *Financial Instruments: Recognition and Measurement*, both of which are discussed in Note 4 — “Standards issued but not yet effective” of our audited consolidated financial statements.

An IFRS 17 systems solution has been implemented in order to meet the requirements of IFRS 17. The Company has determined its accounting policy choices, implemented its new chart of accounts and is working on finalizing the January 1, 2022 opening balance sheet and the 2022 comparatives in the general ledger, utilizing its IFRS 17 systems solution. Readiness activities continue throughout the Company to develop new processes and controls to support IFRS 17 reporting, and to deliver tailored training and support to each affected area.

The implementation of new technology, tools, processes, and reporting have the potential to introduce additional complexity and operational risk until full transition is completed. To address increased operational risk during the transition period, additional management oversight considerations are integrated into the implementation process, and additional manual and monitoring controls and reporting are applied.

The changes associated with IFRS may impact comparability of reporting between issuers while the industry works through the initial implementation period. Internal and external stakeholders may need time to adapt to the impact of IFRS 17 and IFRS 9 as new Key Performance Indicators and financial measures and ratios may be introduced within the industry. There may be increased volatility in financial results and regulatory capital position. Additionally, IFRS 17 may change how we, or our competitors, access and manage certain insurance products.

#### *Regulatory and Legal Risks*

##### **Regulatory Risk**

Regulatory risk refers to the risk that modifications to legislation, or how it is applied by regulators, including increasing volume, complexity or stringency, will threaten our ability and capacity to conduct profitable business in the future.

To maintain our public company listing on the TSX, we must comply with applicable requirements as prescribed by security regulators in Canada and by the TSX.

As a participant in the P&C insurance industry, we are subject to significant legislative oversight by federal and provincial governments and administrative bodies, which are in addition to legislation of general applicability such as privacy, health and safety, and employment standards. Insurance legislation delegates regulatory, supervisory, and administrative powers to federal, provincial, or other jurisdictional insurance regulatory authorities. Such legislation is generally designed to protect policyholders and is related to matters including: rate setting; restrictions on types of investments; the maintenance of adequate capital and liquidity; the examination of insurance companies by regulatory authorities, including periodic market conduct examinations; and the licensing of insurers and their agents and brokers. In particular, the personal automobile insurance product is subject to significant legislation in each province and it is possible that future legislative changes may prevent us from taking actions, such as raising rates, to affect operating results.

Our ability to successfully implement our strategy could be impacted by changes to capital and solvency standards, restrictions on certain types of investments, distributions, capital or liquidity management actions, and periodic market conduct, governance and financial examinations by regulators. We are required by federal regulators to maintain sufficient capital in order to protect our continued solvency and protect us and our policyholders from adverse events. The primary solvency test we must comply with is the MCT, whereby we are required to hold at least 150% available capital against required risk-weighted capital. In addition, under the ORSA framework (refer to “Own Risk and Solvency Assessment” above for more detail), we internally assess our risks and determine the level of capital required to adequately support future solvency. The internal capital targets established in our capital management policy are higher and more stringent than the regulatory minimum, and our current capital level is higher than our internal targets.

The application of existing laws or regulatory policy may require a degree of interpretation, particularly with respect to new or emerging issues, or new operations. In addition, changes to laws and regulations, including changes in their implementation, interpretation, or application, or the introduction of new laws and regulations, could affect us by: limiting the products or services we can provide; restricting the prices we are able to charge; impacting the manner in which we offer our products to the market; requiring specified claims payments or customer relief measures; limiting the effectiveness of our policy wordings; limiting our ability to detect and protect against fraudulent claims and/or fraud rings; increasing the ability of new or existing competitors to compete with us in relation to our products and services; and/or by limiting capital or liquidity management actions. The brokers on whom we rely to distribute our products are also subject to laws and regulations governing the conduct of their businesses, and the disclosure they provide to policyholders. We are unable to control the extent to which those brokers comply with applicable laws and regulations, and any failure by them to do so could result in the imposition of significant restrictions on their ability to do business with us, which could adversely affect our results of operations or financial position.

### Legal and Regulatory Action Risk

Legal and regulatory action risk refers to the impact of court awards, settlements, penalties, fines, and restrictions or precedents on the manner in which we carry on business as a result of lawsuits or non-compliance with applicable laws or regulatory requirements.

In the normal course of our business, we may, from time to time, be subject to a variety of legal and regulatory actions relating to our operations. Current and future court decisions and legislative activity may increase our exposure to claims. This risk of potential liability may make reasonable resolution of claims more difficult to obtain. In addition, plaintiffs may bring new types of legal claims against insurance and related companies, including claims by policyholders and/or others in relation to the demutualization and our IPO. We have implemented policies and practices to administer and address claims made by policyholders in respect of the demutualization and our IPO. As of December 31, 2022, we do not believe there is any material outstanding complaint or claim made by policyholders.

To manage legal and regulatory action risk, we have established procedures and controls supported by our Code of Business Conduct. Our regulatory compliance management program assesses whether we are currently in material compliance with applicable laws, rules, and regulations. There is also ongoing monitoring and follow-up on risks, incidents, and associated controls through regular reporting to the Management Risk Committee, the Risk Review Committee, and other relevant Board of Directors committees. We also actively participate in discussions with regulators and governments, and in industry groups so that significant concerns are communicated to these bodies. In addition, our Legal Risk Management Policy requires consultation with the legal department when transactions or activities, due to either size or nature, may pose significant legal or regulatory risk, or in the event of actual or threatened litigation or regulatory or law enforcement activity.

### Business Interruption Risk

Business interruption risk is associated with events that impact, or have the potential to impact, our ability to conduct business as normal. Interruptions to business can be triggered by events affecting our facilities, technology, people, or third-party suppliers, including events such as floods, earthquakes, technology failures and pandemics. Such events can result in losses of financial assets, property and equipment, key employees, and/or the ability to process transactions and underwrite business in a timely manner.

To mitigate business interruption risk, we have established a specialized Enterprise Business Continuity Management ("EBCM") function headed by the Chief Risk and Actuarial Officer. The EBCM function proactively assesses potential risks to the Company and works to ensure that resilient planning and continuity arrangements are in place. Resiliency plans are developed and tested with a view to ensuring critical functions can continue despite a disruptive event. For example, resiliency plans exist to support emergency response, incident management, crisis management, crisis communication, disaster recovery, facilities recovery, regional incident response, business continuity, and a pandemic. We have deployed a response structure that provides rapid response to events and have created teams at all levels to allow quick and effective decisions to be made at an appropriate level and to be executed efficiently. We also conduct exercises to test the effectiveness of our resiliency plans. In addition, we also carry business interruption insurance to mitigate exposure to significant losses arising from business interruption events, subject to applicable policy terms and limits; however, such insurance may not adequately compensate us for material losses that may occur due to such events.

### Strategic Risk

Strategic risk is the potential for loss or under-performance arising from failing to have appropriate business strategies, the ineffective implementation of those strategies and/or the inability to adapt strategies to changes in the business environment. Our strategy, and our ability to develop and implement the strategy, is influenced by customer and broker preferences, industry competition, changes in the regulatory environment or requirements, legal matters, general economic conditions, the social environment, capital levels, and access to necessary expertise.

### Strategy Adequacy Risk

Each year the executive leadership team reassesses the adequacy of our strategy in light of customer and broker preferences, industry competition, and general economic, social, regulatory, technological, capital, and other conditions or risks, and develops a detailed business plan which reflects this strategy. The business plan and strategic risk analysis are presented for review and approval annually, or more frequently if required, by the Board. Our executive leadership team regularly reassesses our corporate priorities based on evolving conditions. The Board also provides oversight and constructive challenge to the adequacy of our strategy on a regular basis.

### Strategic Execution Risk

Strategic execution risk is the risk that we are ineffective in implementing our business strategies. We closely monitor the environment in which we operate, and risks that may impact the execution of our strategy are regularly assessed, managed, and addressed by the executive leadership team, with oversight from the Board.

From time to time we may undertake strategic initiatives to implement our business strategies. Such initiatives require the investment and coordination of internal and third-party resources, and often necessitate trade-offs to balance risk management with execution speed and an appropriate return on investment. Changes to a strategic initiative's scope, costs, or timing may impact the magnitude or timing of benefits to be achieved from the initiative or the investment required to implement the initiative, and may negatively impact other initiatives and financial performance. To address strategic execution risk, we dedicate resources to execute and manage these strategic initiatives. Where a strategic initiative requires specialized skills or additional personnel not available among our employees, we may engage third-party service providers to support strategic initiatives. We

exercise careful oversight of third-party service providers with a view to ensuring that deliverables comply with contractual terms and expected timeliness, quality, and cost criteria, and to approve changes to scope, costs, or timing. We manage risks associated with strategic initiatives through specified management committees prioritizing and overseeing specific strategic initiatives. Our executive leadership team regularly assesses strategic initiative progress, as well as the adequacy of enterprise capabilities and capacity. The Board also provides oversight to strategic initiatives directly and through its committees.

#### *Climate Change Risk*

The impact of changing weather patterns arising from climate change poses significant risks for P&C insurers, including Definity Insurance. Climate change has implications for all aspects of our business: underwriting, claims, investments, and our own operations. Climate change risks are identified in the top risks for the organization monitored by the Board's Risk Review Committee. Climate change risks are interdependent and interact with many of the other risks we face, which adds further uncertainty, and complexity and have the ability to exacerbate existing risks. Climate change risks are categorized as follows:

- *Physical risk*: relates to both acute impacts of increasing frequency and severity of extreme weather events, as well as chronic changes in climatic effects contributing to more quickly degrading and/or overwhelming infrastructure.
- *Transition risk*: relates to changes associated with transitioning to a low-carbon economy, including regulatory and market risks, as well as reputational risks from stakeholders' views of our approach to climate change.

Increasing frequency and severity of extreme weather events have resulted in increased catastrophe events and claims. We respond to claims caused by weather-related events through our catastrophe response teams, our reinsurance program, and our claims vendors, who are vetted with a view to whether they can offer quality service even when responding to the demands of catastrophe events. See "Insurance Risk — Catastrophe Risk" above for more detail.

We are continuously enhancing our modeling capabilities to better understand changes in key climate risk exposures, such as flood and wildfire, with a view to confirming pricing, coverage options, risk accumulations and claim liability estimates remain appropriate. We are also assessing other climate change hazards or reputational risks present in our insurance offerings. See "Insurance Risk — Underwriting Risk" above for more detail.

Physical and transition considerations may also influence pricing, coverage options, product features, or services sought by customers or offered by our competitors. If we are unable to maintain competitive pricing, coverage options, product features, or services that are attractive to customers, our ability to grow or maintain our written premium levels and underwriting profitability may be impacted. See "Competition Risk" below for more detail.

Climate change risks may also influence the cost, coverage and availability of reinsurance for some regions, risk profiles, or carbon-intensive industries. These risks could impair the ability or desire of our reinsurers to provide us with reinsurance protection and could adversely impact our ability to obtain adequate reinsurance coverage on acceptable terms or at all. We have developed relationships with our reinsurers and have worked with them to help them understand the risk profile present in our book of business in relation to climate change risk. These relationships, along with proactive management of our reinsurance program, help us to maintain our access to sufficient and cost-effective reinsurance. See "Insurance Risk — Underwriting Risk — Reinsurance" above for more detail.

Investment values and returns may also be impacted by climate change risks. Weather-related losses or the transition to a low-carbon economy may impact the profit and prospects of an investee, and this, along with investor sentiment, could adversely impact the value of our investments. We seek to manage these risks by maintaining a highly-liquid investment portfolio which is diversified across industries and regions. We have adopted targets to reduce the financed emissions intensity of our equity and corporate bond portfolio as a means of managing climate-related risk to our investments. See "Financial Risk" above for more detail.

Government policy can both impact climate change and be impacted by climate change. Introduction of carbon pricing or emissions caps could have adverse implications on claims and operational costs. Concerns about costs and availability of insurance for particular coverages, regions, or industries, may result in new legislation which could impact the viability of our existing products or services. Mandated climate change disclosures could result in increases in our compliance costs. To monitor and respond to government policy development, we engage with regulators directly and through participation in industry associations. See "Operational Risk — Regulatory and Legal Risks" above for more detail.

Expectations are rapidly evolving for all companies to respond meaningfully to the expected impact of climate change, to not only manage climate change risks but also to contribute to mitigating climate change. How shareholders and others assess our climate change strategy, or that of our industry, could have reputational and business implications, and how investors assess our climate change strategy could impact the market value of our shares. See "Reputational Risk" below for additional details. Through our governance processes and enterprise risk management framework, climate change risks are identified as being among the top risks for the organization and are monitored by the Board's Risk Review Committee. The Chief Risk and Actuarial Officer, supported by other members of senior management, has been assigned responsibility for our climate change strategy. We recognize that climate change could pose significant strategic implications for existing and potential future business operations. As a result, our climate change strategy is integrated into our business strategy across the organization. We analyze the implications of climate change on our underwriting and investment portfolios. We educate customers and employees on how to mitigate weather-related losses. We are making investments in improving the efficiency of operations and reducing the use of paper and energy. We have implemented relevant metrics and targets to support our climate change strategy.

#### *Business, Economic, Political, and Social Environment Risk*

Our business and profitability can be affected significantly by changes in the business, economic, social, and political environment. To mitigate this risk, we assess the likelihood and impact of such scenarios and associated mitigations as we prepare our business, capital, and strategic plans.

Global geopolitical events may impact the Canadian economy and exacerbate other risks we face. Depressed economic conditions, such as recession or stagflation, may cause changes in the level of demand for insurance or reductions in policy coverages and correlate with increases in claims fraud. We may also face increased credit risk caused by our counterparties not being able to meet obligations as they become due.

Increased political and governmental involvement in the insurance industry may otherwise change the business and economic environment in which we operate. Such changes could cause us to make unplanned modifications to our products or services or revise our strategy, or result in other industry participants altering their strategies in a manner that changes the level of competition in our target markets.

Definity recognizes the role businesses are increasingly expected to play in addressing social issues, including supporting equity-deserving groups. Our President and CEO is our executive sponsor for inclusion, diversity, equity, and accessibility and our ESG (Environmental, Social, and Governance) Steering Committee provides oversight and direction to our ESG strategies. In addition to climate change targets, Definity has established diversity targets to advance the representation of equity-deserving groups in leadership roles at Definity. To demonstrate our commitment to climate change and diversity targets, Definity has implemented a sustainability-linked loan structure that links its borrowing costs directly to the Company's performance on the following sustainability objectives:

- reducing Scope 1 and Scope 2 operational greenhouse gas emissions
- increasing the percentage of women in leadership positions

As a result of this structure, we could be subject to increased borrowing costs if we do not achieve our targets.

Additional details on our ESG strategies can be found in Definity's "Environmental, Social, and Governance (ESG) Report". How shareholders and other stakeholders assess our ESG strategies, or that of our industry, could have reputational and business implications, and how investors assess our ESG strategies could impact the market value of our shares. See "Reputational Risk" below for additional details.

### *Competition Risk*

P&C insurance industry consolidation at the insurer and broker level, and the acquisition of brokers by other P&C insurance companies, may have significant implications for P&C industry fundamentals. Our ability to effectively compete may be impaired if we do not respond adequately. Industry consolidation reduces available acquisition targets and contributes to higher transaction multiples. However, it may also offer opportunities to acquire operations or books of business that do not align with a post-acquisition entity. Broker consolidation influences our distribution risk as discussed below. Competitor consolidation may result in increased influence on the underwriting environment and pricing as competitors realize efficiencies of scale.

Historically, the financial performance of the P&C insurance industry in Canada has tended to fluctuate in cyclical patterns of "soft" markets characterized generally by increased competition resulting in lower premium rates, followed by "hard" markets characterized by reduced competition and increasing premium rates. The risk exists that these fluctuations in industry conditions could produce an underwriting environment that negatively impacts our underwriting results, premium levels, and financial position.

When there is intense competition in the P&C insurance industry for any product line, our competitors may price their products at rates that appear to be below the level required to make a reasonable return in an effort to gain or retain market share. If we are unable to realize superior risk selection or sufficient expense efficiencies, our ability to establish or maintain competitive pricing could be adversely affected. Given our disciplined approach to underwriting, there may be market conditions or competitive actions which restrict our ability to grow or maintain our written premium levels.

The entrance of new market participants or a shift in the methods to distribute, select or price risks by competitors could also undermine our ability to establish or maintain competitive pricing or policy terms. The introduction of disruptive innovations and changing technologies could affect our addressable market, the way that our customers purchase insurance, how we price insurance, the demand for our products, and our underwriting and other decision-making processes. Our ability to effectively compete may be impaired if we do not respond adequately to new market participants or existing competitors who deploy such technologies. We actively monitor industry activities and performance both domestically and internationally, considering the implications for our current and future business and strategic plans.

### *Acquisition Risk*

Our business strategy includes selective consideration of acquisitions or investments, some of which may be material. As noted above, continued consolidation in the P&C insurance industry may reduce the number of attractive acquisition targets and could contribute to higher transaction multiples. There can be no assurance that we will successfully identify suitable candidates in the future for strategic transactions at prices or terms and conditions that we deem acceptable. We may fail to close any desired acquisition if we cannot obtain necessary regulatory or shareholder approvals, or access sufficient capital resources to finance the acquisition. See "*Capital Management Risk*" below for additional details.

Identifying, negotiating, completing, managing, and integrating acquisitions involve a number of additional risks, including diversion of management's attention from operating our business, failure to retain key personnel of acquired companies, unknown or undisclosed legal risks and liabilities relating to the acquisition or the acquired entity's historic operations, or failure to integrate the acquisition in a timely or effective manner. Consequently, any acquisition we complete may not result in the realization of anticipated or long-term benefits or synergies to us or may impact existing business operations. Any of these risks could have a material adverse effect on our business, results of operations, and financial condition.

### *Distribution Risk*

In order to meet our overall strategy, we must manage our distribution risk. Distribution risk includes the inherent risk of dealing with independent brokers and new market entrants, as well as the risk that the broker distribution channel would not be viable in a specific market or for specific products.

We write products through a network of brokers across Canada. The ability of our broker network to be competitive against other distributors and distribution channels, our ability to maintain a strong relationship with the brokers, and our ability to maintain acceptable service levels and appropriate pricing are critical for staying competitive in the market. The competitive environment is further complicated by the consolidation of brokers, and the acquisition of brokers by other P&C insurance companies, which may have a direct impact on our market share and ability to grow profitably. Additionally, strong competition exists among insurers for brokers with a proven ability to develop and deliver a profitable book of business. Premium volume and profitability could be negatively affected if there is a material decrease in the number of brokers that choose to sell our insurance products.

To address distribution risk, we maintain close relationships with brokers through our business development staff, who provide training and guidance to enhance the brokers' understanding and marketing of our products, and we invest on an ongoing basis in maintaining a strong value proposition for our brokers. We periodically issue commercial loans to, or make equity investments in, certain brokers to, among other things, maintain broker loyalty.

Brokers face many of the same operational and strategic risks as P&C insurance companies. Like P&C insurance companies, brokers are subject to competition for business from other brokers or agents, and the direct distribution channel. Brokers must also maintain strong relationships with multiple P&C insurance companies to place customer insurance contracts and achieve favourable commission rates. In addition to base commission, brokers may be eligible for contingent profit commission ("CPC") based on the performance of their portfolio of business with each P&C insurance company. By its nature, CPC is variable and subject to insurer terms which could change. These risks may impact the financial position and financial results of brokers, including those owned and consolidated by us. When issuing commercial loans to and making equity investments in brokers, we manage potential relationship issues and we mitigate potential financial risk exposure by conducting annual, or more frequent, financial reviews, and by obtaining what we believe to be appropriate terms for oversight and, in the case of commercial loans, collateral security.

In recognition of ongoing industry growth in the direct distribution channel, we continue to make significant investments in our multi-channel distribution strategy. While our broker business will continue to be a core part of our business model, our separately-branded digital direct channel offering represents a key pillar in our growth strategy allowing us to serve this distinct market segment. Given the relatively new nature of this distribution channel for us, there is risk that the maturation of the direct distribution channel may not yield the benefits expected on a timely basis or at all, or that it could result in negative reputational impact. We closely monitor the developments in and performance of both the direct distribution channel and the broker network.

### *Capital Management Risk*

Capital management risk refers to the risk of not being able to fully execute on our business strategy as a result of insufficient, or ineffective use of, capital. We are required by federal regulators and our capital management policy to maintain sufficient capital, with a view to ensuring our continued solvency and protect us and our policyholders from adverse events (refer to "Regulatory Risk" above). A reduction in capital levels below our internal or regulatory targets could trigger corrective actions as specified in the capital management policy and subject us to regulatory intervention.

Financial strength ratings are an important competitive factor. Ratings organizations periodically review our financial performance and condition and provide a rating on our financial strength and credit rating. Ratings are subject to revision or withdrawal at any time by the assigning ratings organization. If a rating agency downgraded our financial strength rating below minimum acceptable levels, it could result in a loss of business, particularly in our commercial lines business, where certain customers may require that we maintain minimum ratings to enter into or renew business with us. In addition, a downgrade in a financial strength rating could increase our cost of capital and could result in the early termination of lock-up provisions under our governance agreement with HOOPP.

With a view to ensuring sufficient capital levels are maintained, we actively monitor the MCT ratio and the ORSA (refer to "Own Risk and Solvency Assessment" above), and the effect that external and internal forces and actions have on the capital base through our capital management practices. Senior management determines the potential impact on capital when establishing the annual business plan and setting strategy, and before entering into any significant acquisitions or investments, to confirm that acceptable levels of capital are expected to be maintained.

Currently, Definity is subject to the leverage restrictions under the *Insurance Companies Act* (Canada), which limit our ability to access debt compared to other P&C insurer holding companies not subject to such restrictions. While Definity is seeking to continue under the *Canada Business Corporations Act* which would remove the leverage restrictions, the completion and timing of the Continuance is uncertain as it is subject to government and regulatory approval. That said, as a publicly listed company, we may be able to raise additional capital in the equity market to meet capital needs.

#### Limitations on dividend and capital distribution from subsidiaries

Our payment of cash dividends will be subject to the discretion of the Board and will depend on a variety of factors and conditions existing from time to time that the Board may deem relevant, including our financial condition, general business conditions, and any restrictions regarding the payment of dividends to us by our subsidiaries.

As Definity is a holding company which conducts substantially all of our business through our subsidiaries and receives substantially all of our earnings from them, we will depend on the payment of dividends by our subsidiaries in order for us to pay dividends. Definity and each of the insurance subsidiaries must comply with applicable insurance legislation and regulatory capital requirements. The financial condition and results of operations of Definity and each of the insurance



subsidiaries are included in our consolidated financial statements. Each insurance subsidiary must maintain reserves for losses and loss adjustment expenses to cover the risks it has underwritten, as well as comply with regulatory capital requirements. A severe loss incurred by one company, even if not material to us when our financial condition is viewed as a whole, could have an adverse effect on us because it could adversely affect how Definity or any of the insurance subsidiaries, as applicable, are considered by third parties, including rating agencies and insurance regulators.

The ability of our subsidiaries to pay dividends to us in the future will depend on their statutory surplus, on their earnings, and on legislative restrictions. The ability of our subsidiaries to pay dividends or make distributions or returns of capital to us may be limited by applicable corporate and insurance law or regulatory restrictions. While no regulatory approval is required for dividend payments from the regulated insurance subsidiaries, notice to OSFI is required together with pro forma capital calculations showing internal target capital levels are expected to be maintained both before and after such dividends are paid.

To the extent the ability of our subsidiaries to pay dividends or make distributions or returns of capital to us is materially limited, our ability to service our debt and pay dividends to our shareholders, if any, could be materially adversely impacted.

#### *Reputational Risk*

Reputational risk is the risk that publicity regarding the P&C insurance industry generally, our business practices, or actions by external parties, our employees or directors, whether true or not, will adversely affect our performance, liabilities, operations, broker relationships, customer base, or company market value.

Reputational risk assessments involve a broad array of factors, including the extent and outcome of relevant legal and regulatory matters, the economic intent of particular transactions, the impact of events on the Company, the need for customer or public disclosure, conflicts of interest, fairness issues, and public perception. We consider the potential reputational implications when implementing our business strategies and develop response plans to address anticipated responses where possible. We monitor public, broker, and customer sentiment through formal feedback, complaint handling and ombudsperson mechanisms, and monitoring of both social and traditional media. Based on monitoring results, we implement response plans as necessary. We also have incident management and communication plans in place to address incidents that may have reputational impact. Finally, we have conduct risk management programs in place to communicate expectations for conduct by our directors, officers, employees and suppliers, and to report and investigate potential conduct issues.

#### *Pandemic Risk*

The COVID-19 pandemic has resulted in significant disruption and uncertainty in the economic environment globally and across various industries, including insurance. Proactive capital and risk management practices, including business continuity arrangements developed in recent years, enabled us to react rapidly to the changing environment resulting from the COVID-19 pandemic. The uncertainty and volatility in the current business environment has heightened some of the risks inherent in our business. These include, but are not limited to: insurance risk including uncertainty regarding COVID-19 related claim exposures; legal and regulatory action risk due to possible changes to laws or regulations that may restrict prices we are able to charge, require forms of customer relief or increase the scope and amount of claim payments; reserve estimation risk due to uncertainty of changes in claim exposures, claimant behaviours, and claims reporting / settlement patterns; inflation and social inflation risks, and supply chain disruption impacting claims and operating expenses; financial risk to our investment portfolio arising from interest rate risk, and equity market and preferred stock price risk due to volatility in equity markets; and the impact of depressed economic conditions which could increase credit risk caused by our counterparties not being able to meet obligations as they become due, increase risk of claims fraud and the potential impact on the demand for insurance.

Our operational risk may also be impacted as we continue to modify where and how our employees work. During the COVID-19 pandemic, we enabled the vast majority of our employees to work remotely. We are now transitioning to a hybrid working model offering a mix of in-office and remote work. If employees do not adapt, or our competitors do not adopt a hybrid working model, we may have difficulty attracting and retaining staff. We may also find that employees are less productive as they adapt to the hybrid working model, which may impact our customer service levels. Working in a remote or hybrid mode also has implications on our information security, technology, and cyber security risks, as employees working remotely using their household or personal internet networks may increase our exposure to business incidents due to availability of internet services, or an increase in cyberattacks. These ways of working could impact the security of our technology platforms and the proprietary and other confidential data contained therein and could ultimately impact our business.

If any of these or any other risks or uncertainties occur, persist or worsen, it is possible that our business could be materially affected in an adverse manner.

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 in 2021 and a trial is now underway. 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 in 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 its position in these proceedings. We individually assess each claim based on the loss details and available coverage and we have accepted and paid on COVID-19 claims where we determined there was coverage. The vast majority of Definity Insurance's policies providing customers with business interruption coverage have business interruption wordings that, with some variation, require some sort of tangible physical harm to property. It is our position that COVID-19 on its own is not physical harm to property. While Definity Insurance intends to vigorously defend such litigation, it cannot predict with certainty the cost of defence and ultimate outcome of such litigation, including potential settlements, damage awards and/or cost consequences.



# 12 — SUPPLEMENTARY FINANCIAL MEASURES AND NON-GAAP FINANCIAL MEASURES AND RATIOS

We measure and evaluate performance of our business using a number of financial measures. Among these measures are the “supplementary financial measures”, “non-GAAP financial measures”, and “non-GAAP ratios” (as such terms are defined under Canadian Securities Administrators’ National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure). These supplementary financial measures are calculated using amounts in, or components of line items in, our audited consolidated financial statements; however, they are not themselves disclosed in our consolidated financial statements. The non-GAAP financial measures in this MD&A are derived from one or more financial measures disclosed in our audited consolidated financial statements, and the non-GAAP ratios have at least one of those non-GAAP financial measures as a component, and in each case are not standardized financial measures under GAAP. The supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios in this MD&A may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as a substitute for analysis of our financial information reported under GAAP.

These supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios are used by financial analysts and others in the P&C insurance industry and facilitate management’s comparisons to our historical operating results in assessing our results and strategic and operational decision-making. These measures are outlined and defined below:

## Supplementary Financial Measures:

<b>Claims ratio</b>	Net claims and adjustment expenses during a defined period expressed as a percentage of net earned premiums for the same period. This is a relevant metric to evaluate our level of claims activity relative to our net earned premiums in a given period.
<b>Core accident year claims and adjustment expenses</b>	Net claims and adjustment expenses less catastrophe losses and prior year claims development.
<b>Catastrophe losses</b>	An event causing gross losses in excess of \$2 million, and generally greater than 100 claims, or a single claim with a gross loss in excess of \$3 million. Catastrophe losses are presented net of reinsurance recoveries.
<b>Book value per share</b>	The Company’s equity attributable to common shareholders divided by the total common shares outstanding, net of shares held in trust, as at the balance sheet date.
<b>Financial capacity</b>	The sum of excess capital over 200% MCT and leverage capacity.
<b>Leverage capacity</b>	The amount of financial leverage that can be assumed, comprised of the Company’s current debt limit as an entity established under the ICA (2% of total assets) and a target capitalization level of 5% in preferred shares and hybrids.
<b>Certain other ratios</b>	In our discussion of our financial results, we disclose certain ratios as a percentage of net earned premiums during a defined period for the following financial measures: core accident year claims and adjustment expenses, catastrophe losses, prior year claims development, net commissions, and premium taxes.

## Non-GAAP Financial Measures:

<b>Operating net income</b>	Net income attributable to common shareholders less (or plus) non-operating gains (losses) net of applicable income taxes. Management uses operating net income to measure and evaluate the ongoing operational performance of the business. Management believes that operating net income is useful information for investors for such purpose. Although they may calculate these measures in a different manner, operating net income and similar measures are used by other insurers and analysts in the P&C insurance industry.
<b>Operating income</b>	Net income attributable to common shareholders less (or plus) income tax expense (recovery) and non-operating gains (losses). This financial measure is used to calculate operating net income.
<b>Non-operating gains (losses)</b>	Recognized gains (losses) on investments, impact of discounting, demutualization and IPO-related expenses and interest on funds held in trust, amortization of intangible assets recognized in business combinations, transaction costs in business combinations, restructuring costs, and other expenses or revenues that in the view of management are not part of our insurance operations. This financial measure is used to calculate operating net income.

Net income attributable to common shareholders is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating net income, operating income, and non-operating gains (losses). Below is a quantitative reconciliation of operating net income, operating income, and non-operating gains (losses) to net income attributable to common shareholders for the three months and years ended December 31, 2022 and 2021:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	2022	2021	2022	2021
Net income attributable to common shareholders	\$ 141.6	\$ 33.7	\$ 252.0	\$ 213.2
Remove: income tax expense	(24.0)	(11.4)	(52.3)	(68.0)
<b>Income before income taxes</b>	<b>\$ 165.6</b>	<b>\$ 45.1</b>	<b>\$ 304.3</b>	<b>\$ 281.2</b>
Remove: non-operating gains (losses)				
Recognized (losses) gains on investments				
Realized (losses) gains on sale of AFS investments	\$ (5.3)	\$ 3.3	\$ (44.0)	\$ 49.7
Net gains (losses) on FVTPL investments	2.8	(12.0)	(161.4)	(70.0)
Impairment losses on AFS investments	(2.4)	(0.5)	(22.9)	(0.5)
Impact of discounting	2.8	9.4	162.6	44.7
Demutualization and IPO-related expenses, and interest on funds held in trust <sup>(1)</sup>	1.7	(16.7)	0.7	(30.1)
Amortization of intangible assets recognized in business combinations <sup>(1)</sup>	(3.5)	(0.6)	(5.4)	(3.5)
Revaluation gain on acquisition of McDougall <sup>(1)</sup>	67.0	—	67.0	—
Other <sup>(1)(2)</sup>	(2.2)	(0.2)	(2.8)	—
<b>Non-operating gains (losses)</b>	<b>\$ 60.9</b>	<b>\$ (17.3)</b>	<b>\$ (6.2)</b>	<b>\$ (9.7)</b>
<b>Operating income</b>	<b>\$ 104.7</b>	<b>\$ 62.4</b>	<b>\$ 310.5</b>	<b>\$ 290.9</b>
Operating income tax expense	(25.7)	(15.9)	(71.6)	(70.5)
<b>Operating net income</b>	<b>\$ 79.0</b>	<b>\$ 46.5</b>	<b>\$ 238.9</b>	<b>\$ 220.4</b>

Notes:

<sup>(1)</sup> Included in Other income (expenses) in our consolidated financial statements.

<sup>(2)</sup> Other represents foreign currency translation of insurtech venture capital funds, acquisition-related expenses, and a number of other expenses or revenues that in the view of management are not part of our insurance operations and are individually and in the aggregate not material.

#### Underwriting expenses (net of other underwriting revenues) /

#### Operating expenses (net of other underwriting revenues)

Underwriting expenses consist of net commissions, operating expenses (net of other underwriting revenues), and premium taxes. When calculating our combined ratio and expense ratio, we deduct other underwriting revenues (which consist of various customer service fees).

Net claims and underwriting expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to underwriting expenses (net of other underwriting revenues). Operating expenses is the most directly comparable GAAP financial measure disclosed in our consolidated financial statements to operating expenses (net of other underwriting revenues). Below are quantitative reconciliations of underwriting expenses (net of other underwriting revenues) to net claims and underwriting expenses, and operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2022 and 2021:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	2022	2021	2022	2021
Net claims and underwriting expenses	\$ 781.1	\$ 706.7	\$ 3,063.7	\$ 2,647.3
Remove: net claims and adjustment expenses	500.1	470.2	1,987.9	1,721.5
Remove: other underwriting revenues	0.7	2.0	7.4	8.2
<b>Underwriting expenses (net of other underwriting revenues)</b>	<b>\$ 280.3</b>	<b>\$ 234.5</b>	<b>\$ 1,068.4</b>	<b>\$ 917.6</b>

Underwriting expenses (net of other underwriting revenues) by line of business is as shown in the following table for the three months and years ended December 31, 2022 and 2021:

	Three months ended December 31,		Years ended December 31,	
(in millions of dollars)	2022	2021	2022	2021
Personal auto	\$ 110.6	\$ 97.2	\$ 433.4	\$ 386.6
Personal property	90.2	68.4	334.2	270.6
Commercial lines	79.5	68.9	300.8	260.4
<b>Underwriting expenses (net of other underwriting revenues)</b>	<b>\$ 280.3</b>	<b>\$ 234.5</b>	<b>\$ 1,068.4</b>	<b>\$ 917.6</b>

Below is the quantitative reconciliation of operating expenses (net of other underwriting revenues) to operating expenses for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Operating expenses	\$ 113.1	\$ 107.4	\$ 435.0	\$ 392.4
Remove: other underwriting revenues	0.7	2.0	7.4	8.2
<b>Operating expenses (net of other underwriting revenues)</b>	<b>\$ 112.4</b>	<b>\$ 105.4</b>	<b>\$ 427.6</b>	<b>\$ 384.2</b>

## Distribution income

Income before taxes and amortization of intangible assets recognized in business combinations from our consolidated brokers and broker associates. Distribution income is calculated using distribution revenue earned on commissions from external insurance companies, and components of other income (expenses) (Distribution business expenses and share of distribution profit from investments in associates). Management uses distribution income to measure the performance of our consolidated brokers and broker associates.

Below is a quantitative reconciliation of distribution income for the three months and years ended December 31, 2022 and 2021:

(in millions of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
Distribution revenue <sup>(1)</sup>	\$ 19.9	\$ —	\$ 19.9	\$ —
Distribution business expenses <sup>(2)</sup>	(15.7)	—	(15.7)	—
Share of distribution profit from investments in associates <sup>(2)</sup>	—	1.3	6.9	6.4
Remove: Income taxes included in share of distribution profit from investments in associates	—	0.4	2.4	1.6
<b>Distribution income</b>	<b>\$ 4.2</b>	<b>\$ 1.7</b>	<b>\$ 13.5</b>	<b>\$ 8.0</b>

Notes:

<sup>(1)</sup> Distribution revenue includes commissions on policies underwritten by external insurance companies.

<sup>(2)</sup> Included in Other income (expenses) in our consolidated financial statements. These amounts exclude amortization of intangible assets recognized in business combinations.

## Non-GAAP Ratios:

### Combined ratio

The total of our net claims and adjustment expenses and underwriting expenses (net of other underwriting revenues) during a defined period expressed as a percentage of net earned premiums for the same period. We also disclose a component of the combined ratio, underwriting expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses combined ratio to evaluate the underlying insurance underwriting results relative to our net earned premiums in a given period. Management believes combined ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, combined ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

### Expense ratio

The total of our net commissions, operating expenses (net of other underwriting revenues), and premium taxes during a defined period, expressed as a percentage of net earned premiums for the same period. We also disclose a component of the expense ratio, operating expenses (net of other underwriting revenues) as a percentage of net earned premiums. Management uses expense ratio to evaluate our underwriting expenses relative to our net earned premiums in a given period. Management believes expense ratio is useful information for investors for such purpose. Although they may calculate it in a different manner, expense ratio and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

### Return on equity (“ROE”)

Net income attributable to common shareholders for the 12 months ended at a specified date divided by the average equity attributable to common shareholders, adjusted for significant capital transactions if applicable, over the same 12-month period. ROE is a metric used by management to evaluate our net return, including investment returns, relative to our overall balance sheet position. Management believes that ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of ROE for the years ended December 31:

(in millions of dollars, except as otherwise noted)	Years ended December 31,	
	2022	2021
Net income attributable to common shareholders	\$ 252.0	\$ 213.2
Equity attributable to common shareholders <sup>(1)</sup>	\$ 2,371.9	\$ 2,396.3
Adjustment for Over-Allotment option and Anti-Dilution Adjustment <sup>(2)</sup>	\$ —	\$ (227.6)
Adjusted equity attributable to common shareholders	\$ 2,371.9	\$ 2,168.7
Average adjusted equity attributable to common shareholders <sup>(3)</sup>	\$ 2,384.1	\$ 1,993.3
Return on equity	10.6%	10.7%

Notes:

<sup>(1)</sup> Equity attributable to common shareholders is as at December 31, 2022 and 2021.

<sup>(2)</sup> In 2021, the Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.

<sup>(3)</sup> Average adjusted equity attributable to common shareholders is the average of adjusted equity attributable to common shareholders (equity attributable to common shareholders as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders and adjusted equity attributable to common shareholders as at December 31, 2020 was \$1,818.0 million. The Over-Allotment option and Anti-Dilution Adjustment was used in the calculation of ROE for 2021.

### Operating return on equity ("operating ROE")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the average of total equity, excluding accumulated other comprehensive (loss) income ("AOCI"), adjusted for significant capital transactions if applicable, over the same 12-month period. Management uses operating ROE to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the equity position of the organization. Management believes that operating ROE is useful information for investors for such purpose. Although they may calculate it in a different manner, operating ROE and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

The following table shows the components of our calculation of operating ROE for the years ended December 31:

(in millions of dollars, except as otherwise noted)	Years ended December 31,	
	2022	2021
Operating net income <sup>(1)</sup>	\$ 238.9	\$ 220.4
Equity attributable to common shareholders, excluding AOCI <sup>(2)</sup>	\$ 2,473.7	\$ 2,298.3
Adjustment for Over-Allotment option and Anti-Dilution Adjustment <sup>(3)</sup>	\$ —	\$ (227.6)
Adjusted equity attributable to common shareholders, excluding AOCI	\$ 2,473.7	\$ 2,070.7
Average adjusted equity attributable to common shareholders, excluding AOCI <sup>(4)</sup>	\$ 2,386.0	\$ 1,913.3
Operating ROE	10.0%	11.5%

Notes:

<sup>(1)</sup> Operating net income is a non-GAAP financial measure. See "— Non-GAAP Financial Measures", above.

<sup>(2)</sup> Equity attributable to common shareholders, excluding AOCI is as at December 31, 2022 and 2021.

<sup>(3)</sup> In 2021, the Over-Allotment option and Anti-Dilution Adjustment were prorated for the 326 days prior to the IPO date of November 23, 2021.

<sup>(4)</sup> Average adjusted equity attributable to common shareholders, excluding AOCI is the average of adjusted equity attributable to common shareholders, excluding AOCI (equity attributable to common shareholders and AOCI each as shown on our consolidated balance sheets, adjusted for significant capital transactions, if applicable) at the end of the period and the end of the preceding 12-month period. Equity attributable to common shareholders, excluding AOCI, and adjusted equity attributable to common shareholders, excluding AOCI, as at December 31, 2020 was \$1,755.9 million. The Over-Allotment option and Anti-Dilution Adjustment was used in the calculation of Operating ROE for 2021.

### Operating earnings per share ("operating EPS")

Operating net income (a non-GAAP financial measure as described above) for the 12 months ended at a specified date divided by the Company's weighted average diluted common shares outstanding during the period. Management uses operating EPS to measure and evaluate our performance with respect to the periodic return that our operational performance is providing relative to the common shares of the organization. Management believes that operating EPS is useful information for investors for such purpose. Although they may calculate it in a different manner, operating EPS and similar percentage measures are commonly used by other insurers and analysts in the P&C insurance industry.

## 13 — OUTSTANDING SHARE DATA

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 115.9 million as at February 8, 2023. No preferred shares were issued and outstanding.

# 14 — DEFINITIONS

Refer to Section 12 — “Supplementary Financial Measures and Non-GAAP financial measures and ratios” for definitions of supplementary financial measures, non-GAAP financial measures, and non-GAAP ratios that we use to measure and evaluate the performance of our business.

## **Claims development**

The difference between prior year-end estimates of ultimate undiscounted claim costs and the current estimates for the same block of claims. A favourable development represents a reduction in the estimated ultimate claim costs during the period for that block of claims.

## **Customer relief related to the COVID-19 pandemic**

Actions taken to ease the burden of the COVID-19 pandemic on our individual and business customers, in the form of rate relief and flexibility in underwriting rules.

## **Discounting**

To reflect the time value of money, the expected future payments of claim liabilities are discounted back to present value using the market yield rate of the investments used to support those liabilities. Provisions for adverse deviation are also included when determining the discounted value.

## **Frequency**

A measure of how often a claim is reported as a function of PIF.

## **Gross written premiums (GWP)**

The total premiums from the sale of insurance during a specified period. Amounts assumed from industry risk sharing pools are included in GWP, while amounts ceded to the industry risk sharing pools are included as a deduction from GWP.

## **Incurred but not reported (IBNR)**

The amount that is added to case reserves to establish the total claim liabilities. It is intended to cover future development on reported claims, as well as claims that have occurred but not yet been reported to the Company.

## **Large loss**

A single claim with a gross loss in excess of \$1 million but less than \$3 million.

## **Minimum capital test (MCT)**

A regulatory formula defined by the Office of the Superintendent of Financial Institutions, that is a risk-based test of capital available relative to capital required.

## **Net earned premiums (NEP)**

The portion of NWP equal to the expired period of time an insurance policy is in effect in the current period presented.

## **Net written premiums (NWP)**

GWP less the cost of reinsurance coverage.

## **Policies in force (PIF)**

The number of insurance policies that are in effect at a specified date.

## **Provision for adverse deviation (PfAD)**

An actuarially determined amount that is added to claim liabilities to reduce the uncertainty of potential adverse effects that are inherent in the assumptions and data used to estimate such liabilities.

## **Severity**

A measure of the average dollar amount paid per claim.

## **Underwriting income**

Net earned premiums for a defined period less the sum of net claims and adjustment expenses, net commissions, operating expenses (net of other underwriting revenues), and premium taxes during the same period.





# CONSOLIDATED FINANCIAL STATEMENTS



# TABLE OF CONTENTS

## Consolidated financial statements

REPORT OF MANAGEMENT'S ACCOUNTABILITY	72
APPOINTED ACTUARY'S REPORT	73
INDEPENDENT AUDITOR'S REPORT	74
CONSOLIDATED BALANCE SHEETS	77
CONSOLIDATED STATEMENTS OF INCOME	78
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	79
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	80
CONSOLIDATED STATEMENTS OF CASH FLOWS	81

## Notes to the consolidated financial statements

1	NATURE OF OPERATIONS	82
2	DEMUTUALIZATION AND INITIAL PUBLIC OFFERING	82
3	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	82
4	STANDARDS ISSUED BUT NOT YET EFFECTIVE	91
5	SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS	93
6	BUSINESS COMBINATIONS	94
7	INVESTMENTS	96
8	FINANCIAL RISK MANAGEMENT	99
9	POLICY LIABILITIES	103
10	INSURANCE RISK MANAGEMENT	105
11	REINSURANCE CONTRACTS	109
12	PROPERTY AND EQUIPMENT	110
13	INCOME TAXES	111
14	GOODWILL AND INTANGIBLE ASSETS	112
15	OTHER ASSETS	114
16	INVESTMENTS IN ASSOCIATES	114
17	ACCOUNTS PAYABLE AND OTHER LIABILITIES	114
18	SHARE CAPITAL	114
19	CAPITAL MANAGEMENT	115
20	EARNINGS PER COMMON SHARE	116
21	SHARE-BASED COMPENSATION PLANS	116
22	POST-EMPLOYMENT BENEFITS	117
23	PREMIUMS	121
24	RATE REGULATION	121
25	OTHER INCOME (EXPENSES)	121
26	COMMITMENTS AND CONTINGENCIES	122
27	RELATED PARTY TRANSACTIONS	122
28	OPERATING SEGMENTS	122
29	RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS	123

# 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 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 9, 2023

# 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, 2022 and their changes in the consolidated statement of 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 9, 2023

# 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, 2022 and 2021, and the consolidated statements of income, 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, 2022 and 2021, 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 our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our 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 this matter. 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 matter 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, 2022, the Group has reported \$3,254.3 million in claim liabilities on its consolidated balance sheets, which represent 55.8% 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.

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 actuary appointed by 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 changes in the prevailing social, economic and legal environment that could affect claims settlement in terms of speed or amount. The high degree of uncertainty 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.

*EY*

Chartered Professional Accountants  
Licensed Public Accountants

Waterloo, Canada  
February 9, 2023

# CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31

(in millions of dollars)	Notes	2022	2021
<b>ASSETS</b>			
Cash and cash equivalents		\$ 200.5	\$ 387.3
Restricted cash	2	302.1	110.8
Investments	7	4,897.9	5,365.8
Premiums receivable		1,188.8	1,075.9
Income taxes receivable		81.7	0.2
Reinsurance receivable and recoverable	9,11	255.8	179.2
Deferred policy acquisition expenses	9	327.0	295.1
Property and equipment	12	83.8	57.0
Deferred income tax assets	13	55.0	62.5
Goodwill and intangible assets	14	771.6	219.7
Other assets	15	152.6	137.9
		<b>\$ 8,316.8</b>	<b>\$ 7,891.4</b>
<b>LIABILITIES AND EQUITY</b>			
Unearned premiums	9	\$ 1,765.4	\$ 1,599.2
Claim liabilities	9,10	3,254.3	3,336.1
Accounts payable and other liabilities	17	405.7	393.4
Income taxes payable		—	55.6
Deferred income tax liabilities	13	69.8	—
Demand loans	6	39.1	—
Demutualization amounts outstanding	2	302.1	110.8
		<b>5,836.4</b>	<b>5,495.1</b>
<b>EQUITY</b>			
Share capital	2,18	2,254.2	2,307.8
Contributed surplus	21	40.2	19.3
Retained earnings (deficit)		179.3	(28.8)
Accumulated other comprehensive (loss) income		(101.8)	98.0
Equity attributable to common shareholders		<b>2,371.9</b>	<b>2,396.3</b>
Non-controlling interests	6	108.5	—
Total equity	19	<b>2,480.4</b>	<b>2,396.3</b>
		<b>\$ 8,316.8</b>	<b>\$ 7,891.4</b>
Commitments and contingencies	26		

See accompanying notes.

On behalf of the Board:



**J.H. Bowey, Director**



**R.B. Saunders, Director**

# CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)	Notes	2022	2021
Gross written premiums	23	\$ 3,613.8	\$ 3,231.4
Net written premiums	11,23	\$ 3,452.1	\$ 2,991.3
Net earned premiums	23	\$ 3,248.6	\$ 2,833.6
Other underwriting revenues		7.4	8.2
Total underwriting revenues		3,256.0	2,841.8
Net claims and underwriting expenses:			
Net claims and adjustment expenses	9,11	1,987.9	1,721.5
Net commissions	11	520.4	426.5
Operating expenses		435.0	392.4
Premium taxes		120.4	106.9
		3,063.7	2,647.3
Underwriting income		192.3	194.5
Impact of discounting	9	162.6	44.7
Underwriting income after the impact of discounting		354.9	239.2
Investment (loss) income:			
Net investment income	7	133.1	96.8
Recognized losses on investments	7	(228.3)	(20.8)
		(95.2)	76.0
Distribution revenues		19.9	–
Other income (expenses)	25	25.6	(34.0)
Income before income taxes		305.2	281.2
Income tax expense	13	(52.6)	(68.0)
Net income		\$ 252.6	\$ 213.2
Net income attributable to:			
Common shareholders		252.0	213.2
Non-controlling interests	6	0.6	–
Earnings per common share (in dollars)	20		
Basic		\$ 2.19	\$ 2.03
Diluted		\$ 2.15	\$ 2.02
Weighted average common shares outstanding (millions)	20		
Basic		115.1	105.2
Diluted		116.9	105.4
Dividends paid per common share (in dollars)		\$ 0.55	\$ –

See accompanying notes.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)	Notes	2022	2021
Net income		\$ 252.6	\$ 213.2
Items that may be reclassified subsequently to net income:			
Net unrealized (losses) gains on AFS investments	7	(340.7)	96.6
Reclassification to net income of net recognized losses (gains) on AFS investments	7	66.9	(49.2)
Foreign exchange gain (loss) on investments in associates		2.1	(0.3)
Income tax recovery (expense)	13	71.9	(11.2)
		(199.8)	35.9
Items that will not be reclassified subsequently to net income:			
Post-employment benefit obligation gain	22	26.4	29.3
Income tax expense	13	(7.0)	(7.6)
		19.4	21.7
Other comprehensive (loss) income		(180.4)	57.6
Comprehensive income		\$ 72.2	\$ 270.8
Comprehensive income attributable to:			
Common shareholders		71.6	270.8
Non-controlling interests	6	0.6	—

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)		2022					
	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Equity attributable to non-controlling interests	Total equity
Balance, beginning of the year		\$ 2,307.8	\$ 19.3	\$ (28.8)	\$ 98.0	\$ –	\$ 2,396.3
Net income attributable to common shareholders		–	–	252.0	–	–	252.0
Net income attributable to non-controlling interests		–	–	–	–	0.6	0.6
Other comprehensive income (loss)		–	–	19.4 <sup>1</sup>	(199.8)	–	(180.4)
Total comprehensive income		–	–	271.4	(199.8)	0.6	72.2
Equity-settled share-based compensation	21	–	20.9	–	–	–	20.9
Shares purchased and held in trust	18	(53.6)	–	–	–	–	(53.6)
Dividends to common shareholders		–	–	(63.3)	–	–	(63.3)
Non-controlling interests		–	–	–	–	107.9	107.9
Balance, end of the year		\$ 2,254.2	\$ 40.2	\$ 179.3	\$ (101.8) <sup>2</sup>	\$ 108.5	\$ 2,480.4

(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 <sup>1</sup>	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 <sup>2</sup>	\$ 2,396.3

<sup>1</sup> Actuarial gains for the post-employment benefit obligation recognized in retained earnings (net of income tax expense of \$7.0 million (2021: \$7.6 million)).

<sup>2</sup> Included in accumulated other comprehensive (loss) income is \$5.7 million (2021: \$3.6 million) related to the cumulative foreign exchange gain on investments in associates.

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(in millions of dollars)	Notes	2022	2021
Operating activities:			
Receipts:			
Premiums collected (net of reinsurance ceded)		\$ 3,339.6	\$ 2,876.4
Interest received		108.4	89.9
Dividends received		39.1	37.8
Income taxes recovered		—	2.2
		<b>3,487.1</b>	3,006.3
Payments:			
Claims paid	9	1,979.7	1,431.8
Commissions and expenses paid		960.5	767.0
Premium taxes paid		124.3	102.3
Income taxes paid		116.8	50.0
		<b>3,181.3</b>	2,351.1
Net cash provided by operating activities		<b>305.8</b>	655.2
Investing activities:			
Investments purchased		(5,428.8)	(4,595.4)
Investments sold, redeemed, or matured		5,374.6	3,587.3
Commercial loans advanced		(8.0)	—
Commercial loans collected		20.3	13.3
Other assets purchased		(90.8)	(49.4)
Business acquisitions, net of cash acquired		(242.0)	—
Net cash used in investing activities		<b>(374.7)</b>	(1,044.2)
Financing activities:			
Dividends paid on common shares		(63.3)	—
Common shares purchased and held in trust	18	(53.6)	—
Change in demutualization amounts outstanding		191.3	—
Repayment of demand loans		(1.0)	—
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		<b>73.4</b>	376.8
Cash and cash equivalents, and restricted cash:			
Net increase (decrease) during the year		<b>4.5</b>	(12.2)
Balance, beginning of the year		<b>498.1</b>	510.3
Balance, end of the year		<b>\$ 502.6</b>	\$ 498.1
Cash		<b>\$ 101.0</b>	\$ 162.5
Cash equivalents		<b>99.5</b>	224.8
Total cash and cash equivalents		<b>\$ 200.5</b>	\$ 387.3
Restricted cash	2	<b>302.1</b>	110.8
Total cash and cash equivalents, and restricted cash		<b>\$ 502.6</b>	\$ 498.1

See accompanying notes.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

## 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”), upon 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 consolidated financial statements include comparatives for the twelve-month period ended December 31, 2021.

These consolidated financial statements were authorized for issuance and approved by the Company’s Board of Directors on February 9, 2023.

## 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 sheets. 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.

## 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., McDougall Insurance Brokers Limited, McConville Omni Insurance Brokers Ltd., T.G Colley & Sons Limited, Integrisure Group Insurance Inc., Family Insurance Solutions Inc., and TEIG Investment Partnership (which holds the investment portfolio for all insurance companies in the group,

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

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(n).

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.

#### (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 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 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 income. The claim liabilities are extinguished when the obligation to pay a claim expires, is discharged, or is cancelled.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Insurance contracts (continued)

##### *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 income. The maximum deferrable amount is calculated through the liability adequacy test.

##### *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 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.

#### (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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Financial instruments including investments (continued)

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 (loss) 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 (loss) income" ("AOCI") to "Recognized (losses) gains on investments" in the consolidated statements of 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.

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 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 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 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Financial instruments including investments (continued)

##### *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 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 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.

Dividend income is recognized on the ex-dividend date.

#### (f) Distribution revenues

Distribution revenues include commission revenues received from external insurance providers by the Company’s consolidated brokers and are recognized on an accrual basis.

#### (g) 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 income. Fully depreciated property and equipment are retained in cost and accumulated depreciation accounts until such assets are removed from service.

#### (h) 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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Leases (continued)

“Operating expenses” in the consolidated statements of 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 sheets.

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 sheets. 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 income.

#### (i) 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 income. The useful lives for intangible assets with a finite useful life are reviewed at least annually. Intangible assets with indefinite lives and intangible assets that 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 – 15 years
Software	1 – 10 years

#### (j) 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.

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 income (expenses)” in the consolidated statements of 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.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Impairment of non-financial assets (continued)

##### *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 income in "Other income (expenses)".

#### (k) 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 income (expenses)" in the consolidated statements of 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.

#### (l) 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 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 consolidated statements of comprehensive income 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 income (expenses)" in the consolidated statements of 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 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 income (expenses)" in the consolidated statements of income when an event giving rise to a curtailment has occurred.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *Non-pension benefits (continued)*

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 income.

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

##### *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.

#### (m) 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.

#### (n) Share-based compensation plans

##### *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. The method of settlement, cash or shares, is determined at the discretion of the Board of Directors of the Company (or a committee thereof). Once vested, the RSUs and PSUs are generally expected to be settled in shares. 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.

##### *Deferred share unit plans*

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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Share-based compensation plans (continued)

##### *Deferred share unit plans (continued)*

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 income (expenses)" in the consolidated statements of income.

##### *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.

##### *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 income (expenses)" in the consolidated statements of 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.

No grants under this plan were made in 2021 or 2022.

#### (o) 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.

##### *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.

#### (p) 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 were not yet effective as of December 31, 2022.

##### (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 4"). IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Retrospective application is required unless impracticable. The Company will measure each group of insurance contracts as if IFRS 17 had always applied and recognize any resulting net difference in equity in the January 1, 2022 opening balance sheet. The Company plans to adopt the new standard on the required effective date together with IFRS 9 – *Financial Instruments* ("IFRS 9"). The Company is currently analyzing the impact these standards will have on its consolidated financial statements.

An IFRS 17 systems solution has been implemented in order to meet the requirements of IFRS 17. The Company has determined its accounting policy choices, implemented its new chart of accounts, and is working on finalizing the January 1, 2022 opening balance sheet and the 2022 comparatives in the general ledger, utilizing its IFRS 17 systems solution. Readiness activities continue throughout the Company to develop new processes and controls to support IFRS 17 reporting, and to deliver tailored training and support to each affected area.

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

Measurement model	There are two measurement methodologies under IFRS 17, the general measurement model ("GMM") and the premium allocation approach ("PAA"). The GMM 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 PAA is a simplified measurement 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 PAA approximates the GMM. The Company will apply the PAA to its insurance contracts, which is similar to the existing accounting under IFRS 4.
Insurance acquisition cash flows	Insurance acquisition cash flows arise from the costs of selling, underwriting, and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts. The Company will defer insurance acquisition cash flows and will expense these costs as the related premiums are recognized as income. IFRS 17 has broadened the costs eligible for deferral, which will result in an increase in the amount deferred, as compared to the deferred policy acquisition expenses included in the consolidated balance sheets under IFRS 4.
Onerous contracts	The Company considers facts and circumstances to identify whether a group of contracts are onerous based on expected fulfilment cash flows, pricing information, results of similar contracts, and the operating and regulatory environment. If a net outflow is expected from the contracts, the Company will recognize a liability for the net outflow.  For groups of contracts that are onerous, the Company recognizes a loss in the consolidated statements of income in "Insurance service expenses" for the net outflow, resulting in earlier recognition compared to IFRS 4. Where the Company recognizes an onerous loss, the Company will establish a loss-recovery component if the onerous contracts are covered by reinsurance contracts.
Claim liabilities	All cash flows will be discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The risk-free yield curves are adjusted by an illiquidity premium using a reference portfolio to reflect the liquidity characteristics of the insurance contracts. The selection of reference portfolios is based on market instruments that reflect the nature of the insurance contracts in terms of amount, timing, currency, and liquidity. In contrast to using a liquidity-adjusted risk-free rate, the impact of discounting is currently calculated using a rate derived from investment returns of the Company's investment portfolio backing the claim liabilities. Under IFRS 17, the impact of discounting will continue to be recorded by the Company entirely in net income.  The measurement of claim liabilities will include an explicit risk adjustment for non-financial risk. The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows arising from non-financial risk as the Company fulfils insurance contracts. The risk adjustment replaces the provision for adverse deviation under IFRS 4.
Insurance revenue	The Company will allocate the expected premiums to each period based on the passage of time similar to IFRS 4. Other underwriting revenues, which consist of various customer service fees, will be included in "Insurance revenue" in the consolidated statements of income under IFRS 17.

#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

##### (a) Insurance contracts (continued)

Insurance service expenses	Insurance service expenses include incurred claims and other incurred directly attributable expenses, amortization of insurance acquisition cash flows, changes that relate to past service (changes in fulfilment cash flows relating to the liability for incurred claims), and changes that relate to future service (losses on onerous groups of contracts and reversals of such losses).
Presentation and disclosures	<p>The presentation and disclosure differences under IFRS 17 are expected to be significant.</p> <p>Consolidated statements of income</p> <ul style="list-style-type: none"> <li>• The consolidated statements of income will include an insurance service result comprising insurance revenue, insurance service expenses, and net expenses from reinsurance contracts held. Written premiums will no longer be disclosed in the consolidated statements of income.</li> <li>• Results from direct insurance contracts issued and reinsurance contracts held will be presented separately in the consolidated statements of income.</li> <li>• Costs that do not relate directly to the fulfilment of an insurance contract will be included in “Other income (expenses)” in the consolidated statements of income, whereas under IFRS 4 these costs are included within underwriting income.</li> <li>• Insurance finance income (expense) will comprise the change in the carrying amounts of the group of insurance and reinsurance contracts arising from the effects of the time value of money and changes in the time value of money, and the effect of financial risk and changes in financial risk.</li> </ul> <p>Consolidated balance sheets</p> <ul style="list-style-type: none"> <li>• Insurance contract liabilities presented in the consolidated balance sheets will consist of premiums receivable, deferred policy acquisition cash flows, unearned premiums, onerous loss component, discounted and risk adjusted claim liabilities, and other related liabilities.</li> <li>• 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.</li> <li>• The reclassification of amounts on the consolidated balance sheets will result in a reduction in consolidated assets and liabilities of the Company.</li> </ul>

The Company is still in the process of finalizing its conversion amounts but estimates that its equity attributable to common shareholders as of January 1, 2022 will increase by approximately 5-6% on the adoption of IFRS 17.

##### (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* 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions. An entity whose activities are predominantly connected with insurance 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 will restate comparative information for IFRS 9 and will recognize any resulting net difference in equity on the January 1, 2022 opening balance sheet.

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 and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. Applying the classification overlay, an entity is permitted to present comparative information for a financial asset as if the classification and measurement requirements in IFRS 9 had been applied to that financial asset. The Company will apply the classification overlay to all financial assets derecognized in the comparative period.

Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income (“FVTOCI”), or FVTPL. The determination of the appropriate classification is 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 no longer required to be reviewed for impairment.

The Company’s expected investment classification under IFRS 9 is as follows:

Instrument type	IFRS 9 classification
Common stocks	FVTPL
Preferred stocks	FVTOCI
Bonds	FVTPL
Commercial loans	FVTPL

#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

As more of the Company's investments are designated as FVTPL, unrealized gains and losses on these investments which previously were recorded in OCI will be recorded in net income. As a result, the Company expects there may be additional volatility in net income. The Company does not expect a significant impact on total equity due to IFRS 9.

#### 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.

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 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.



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

### (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.

### (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 sheets, the expense recognized in net income in the consolidated statements of 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. BUSINESS COMBINATIONS

On October 3, 2022, the Company increased its ownership interest in McDougall Insurance Brokers Limited ("McDougall") from approximately 25% to 75% for cash consideration of approximately \$217 million (subject to post-closing adjustments). Founded in 1946, McDougall is one of Ontario's largest P&C insurance brokerages, representing more than 50 insurance companies and with operations across over 40 branches with more than 450 employees. The initial purchase price was funded by cash on hand, net of a holdback for post-closing adjustments.

On October 3, 2022, the Company acquired 100% of the shares of T.G Colley & Sons Limited and Integrisure Group Insurance Inc., for total aggregate cash consideration of approximately \$13 million (subject to post-closing adjustments). The initial purchase price was funded by cash on hand, net of a holdback for post-closing adjustments.

Distribution partnerships are a key area of focus for the Company's corporate strategy, given the diversification benefits they can provide as a complementary source of income.

In the year ended December 31, 2022, the Company incurred acquisition-related costs of \$0.9 million, which is included in "Other income (expenses)" in the consolidated statements of income related to the above acquisitions. In the year ended December 31, 2022, the Company recognized \$19.9 million in revenue (included in "Distribution revenues") and \$2.4 million of net income from the above acquisitions in the consolidated statements of income.

Net income is after the inclusion of intangible asset amortization, but excludes acquisition-related expenses. On a pro-forma basis, for the year ended December 31, 2022, distribution revenues would have increased by \$70 million and net income would have increased by \$11 million if the acquisitions were consolidated from January 1, 2022. This pro forma information does not purport to represent what the Company's actual results would have been had the acquisitions occurred at January 1, 2022, or to project the Company's results for any future period.

## 6. BUSINESS COMBINATIONS (continued)

The allocation of the purchase price of these acquisitions to the fair value of assets acquired and liabilities assumed as at the acquisition date is as follows:

(in millions of dollars)	
Purchase price consideration (net of cash acquired of \$4.0 million)	\$ 225.1
Fair value of the Company's equity interest in McDougall before the acquisition date	107.2
	\$ 332.3
Allocated to:	
Property and equipment	14.5
Other assets	19.7
Accounts payable and other liabilities	(13.6)
Demand loans	(40.1)
Income taxes payable	(1.3)
Deferred income tax liabilities	(68.9)
Net identifiable tangible liabilities acquired	(89.7)
Customer relationships	218.5
Brand	27.3
Goodwill	284.1
Non-controlling interests	(107.9)
	\$ 332.3

Included in intangible assets are customer relationships and brands. The fair value of the customer relationships was based on the multi-period excess earnings method. Key estimates and assumptions included estimating growth rates and profitability, contributory asset charges, and the discount rate which was based on the weighted-average cost of capital. The acquired customer relationships are being amortized on a straight-line basis over 15 years. The fair values of the brands were based on the relief from royalty method and the brands were assessed as having an indefinite useful life. Key estimates and assumptions included the growth rate and the discount rate.

The goodwill is attributable to expected growth and profitability contributions and the workforce of the acquired businesses. The goodwill arising from these acquisitions is not deductible for income tax purposes.

The non-controlling interest in McDougall has been measured using the relative fair value of the acquired business. The fair value of the Company's equity interest in McDougall before the acquisition date was \$107.2 million. A gain of \$67.0 million has been recognized in "Other income (expenses)" in the consolidated statements of income as a result of remeasuring to fair value the pre-existing equity interest in McDougall before the acquisition.

The details of the demand loans as at the date of acquisition are as follows:

(in millions of dollars)	
Interest at prime, repayable in equal monthly principal payments of \$0.2 million plus interest, due on demand.	\$ 24.8
Interest at prime, repayable in equal monthly principal payments of \$0.1 million plus interest, due on demand.	15.3
	\$ 40.1

The demand loans are secured by a general security agreement and guarantees.

## 7. INVESTMENTS

### (a) Investment (loss) income and balances

Investment (loss) income by financial instrument classification is as follows:

(in millions of dollars)	2022			
	FVTPL	AFS	Loans and receivables	Total
Interest	\$ 49.5	\$ 54.9	\$ 0.9	\$ 105.3
Dividends	–	33.4	–	33.4
Investment expenses	–	–	–	(5.6)
Net investment income	49.5	88.3	0.9	133.1
Realized losses on sale of investments	(39.9)	(44.0)	–	(83.9)
Impairment losses on AFS investments	–	(22.9)	–	(22.9)
Unrealized losses on FVTPL investments	(121.5)	–	–	(121.5)
Recognized losses on investments	(161.4)	(66.9)	–	(228.3)
	\$ (111.9)	\$ 21.4	\$ 0.9	\$ (95.2)

(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

The fair value yield as at December 31, 2022 for the FVTPL bond portfolio was 4.43% (2021: 1.49%) and for the AFS bond portfolio was 4.35% (2021: 1.39%).

Investment carrying values by financial instrument classification are as follows:

(in millions of dollars)	2022			
	FVTPL	AFS	Loans and receivables	Total
Short-term investments	\$ 27.2	\$ 62.1	\$ –	\$ 89.3
Bonds	2,068.0	1,855.7	–	3,923.7
Preferred stocks	–	298.0	–	298.0
Common stocks	–	517.7	–	517.7
Pooled funds	–	57.2	–	57.2
Commercial loans	–	–	12.0	12.0
	\$ 2,095.2	\$ 2,790.7	\$ 12.0	\$ 4,897.9

## 7. INVESTMENTS (continued)

### (a) Investment (loss) income and balances (continued)

(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

The commercial loans have an amortized cost of \$12.0 million (2021: \$24.3 million) and fair value of \$11.3 million (2021: \$23.4 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)	2022			
	Cost/ amortized cost	Unrealized gains	Unrealized losses	Fair value
Short-term investments	\$ 61.9	\$ 0.2	\$ –	\$ 62.1
Bonds:				
Government	1,206.7	–	(67.0)	1,139.7
Corporate	764.6	–	(48.6)	716.0
	1,971.3	–	(115.6)	1,855.7
Canadian preferred stocks	378.9	2.1	(83.0)	298.0
Common stocks:				
Canadian	323.9	58.0	(9.3)	372.6
Foreign	137.4	15.8	(8.1)	145.1
Pooled funds	63.9	0.8	(7.5)	57.2
	525.2	74.6	(24.9)	574.9
	\$ 2,937.3	\$ 76.9	\$ (223.5)	\$ 2,790.7

(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
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)

### (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, 2022, the Company has no financial instruments within its investment portfolio in this category (2021: 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.

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

(in millions of dollars)	2022			
	Level 1	Level 2	Level 3	Total
Short-term investments	\$ –	\$ 89.3	\$ –	\$ 89.3
Bonds	–	3,923.7	–	3,923.7
Preferred stocks	298.0	–	–	298.0
Common stocks	517.7	–	–	517.7
Pooled funds	–	57.2	–	57.2
	\$ 815.7	\$ 4,070.2	\$ –	\$ 4,885.9

(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

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)	2022	2021
Common stocks:		
Canadian	\$ 18.0	\$ 0.5
Foreign	4.9	–
	\$ 22.9	\$ 0.5

## 7. INVESTMENTS (continued)

### (c) Impairment review (continued)

The remaining gross unrealized losses of \$223.5 million (2021: \$23.8 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.

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, 2022, securities with an estimated fair value of \$841.6 million (2021: \$598.9 million) have been loaned and securities with an estimated fair value of \$874.6 million (2021: \$620.1 million) have been received as collateral from the financial institutions. Lending collateral as at December 31, 2022 was 100.0% (2021: 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.

The financial compensation the Company receives in exchange for securities lending, amounting to \$0.7 million (2021: \$0.4 million), is reflected in the consolidated statements of 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, 2022, the Company had derivative financial assets with a notional amount of \$74.2 million (2021: \$104.9 million). 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)	2022		2021	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Fair value of FVTPL bonds and income before income taxes	\$ (64.8)	\$ 71.5	\$ (87.1)	\$ 96.8
Fair value of AFS bonds and OCI before income taxes	\$ (78.9)	\$ 90.0	\$ (72.5)	\$ 82.5



## 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 S&P/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 Solactive Canadian Rate Reset 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)	2022		2021	
Impact on:	+ 10%	- 10%	+ 10%	- 10%
Fair value of Canadian stocks and OCI before income taxes	\$ 38.3	\$ (38.3)	\$ 40.5	\$ (40.5)
Fair value of foreign stocks, pooled funds and OCI before income taxes	\$ 19.7	\$ (19.7)	\$ 20.8	\$ (20.8)
Fair value of preferred stocks and OCI before income taxes	\$ 32.1	\$ (32.1)	\$ 51.8	\$ (51.8)

### (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, 2022, 83.8% (2021: 93.4%) were rated "A-" or better and 81.0% (2021: 78.2%) 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.

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

	2022	2021
Financial services	50.4%	64.6%
Energy	13.5%	8.8%
Communication services	10.8%	4.4%
Utilities	9.1%	9.4%
Industrials	5.3%	5.7%
Consumer discretionary	4.8%	2.4%
Other	6.1%	4.7%
	100.0%	100.0%

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

	2022	2021
Canada	99.5%	99.6%
United States	0.5%	0.4%
	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, 2022 is 103.9% (2021: 103.6%).

## 8. FINANCIAL RISK MANAGEMENT (continued)

### (c) Credit risk (continued)

#### *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, 2022.

#### *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 and the recoverability of reinsurance receivable balances. The Company's reinsurance risk management policy generally precludes the use of reinsurers with credit ratings less than "A-".

Currently, 97.7% (2021: 97.5%) 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 (2021: \$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, 2022, 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 (2021: nil). The original purchase price of the outstanding annuities is \$256.9 million (2021: \$321.1 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 estimated 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 \$12.5 million (2021: \$14.2 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 \$2.4 million (2021: \$2.8 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 other operating expenses. To mitigate liquidity risk, and to satisfy the Company's operational requirements, the Company has invested a portion of its assets in short-term (less than one year) highly-liquid money market securities, and the Company has access to a revolving credit facility, as disclosed in note 19, subject to compliance with covenants. A large portion of invested assets are held in highly-liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

## 8. FINANCIAL RISK MANAGEMENT (continued)

### (e) Liquidity risk (continued)

As at December 31, 2022, the Company has \$200.5 million (2021: \$387.3 million) of cash and cash equivalents and \$89.3 million (2021: \$88.8 million) of short-term investments. The Company also has a highly liquid investment portfolio. As at December 31, 2022, 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 \$4,741.9 million (2021: \$5,164.3 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 \$7.0 million (2021: \$5.3 million) (< 1 year), \$20.6 million (2021: \$13.5 million) (Over 1 to 5 years), \$10.4 million (2021: \$2.7 million) (Over 5 to 10 years), and \$0.3 million (2021: nil) (> 10 years).

(in millions of dollars)	2022				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Assets:					
Cash and cash equivalents	\$ 200.5	\$ –	\$ –	\$ –	\$ 200.5
Short-term investments	89.3	–	–	–	89.3
FVTPL bonds	156.5	1,445.0	450.7	15.8	2,068.0
AFS bonds	77.8	870.7	869.4	37.8	1,855.7
Preferred stocks	54.5	243.5	–	–	298.0
Commercial loans	1.8	7.2	3.0	–	12.0
Accrued investment income	26.6	–	–	–	26.6
Premiums receivable	1,188.8	–	–	–	1,188.8
Income taxes receivable	81.7	–	–	–	81.7
Reinsurance receivable and recoverable	102.0	95.0	34.5	6.5	238.0
Other receivables	19.2	–	–	–	19.2
	\$ 1,998.7	\$ 2,661.4	\$ 1,357.6	\$ 60.1	\$ 6,077.8
Liabilities:					
Claim liabilities	\$ 1,165.3	\$ 1,523.8	\$ 444.5	\$ 126.6	\$ 3,260.2
Accounts payable and other liabilities	356.5	26.8	16.6	12.4	412.3
Demand loans	3.4	13.5	16.9	5.3	39.1
	\$ 1,525.2	\$ 1,564.1	\$ 478.0	\$ 144.3	\$ 3,711.6

## 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

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, 2022 (2021: nil).

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

(in millions of dollars)	2022	2021
DPAE, beginning of year	\$ 295.1	\$ 260.2
Acquisition costs deferred	623.3	524.6
Amortization of acquisition costs	(591.4)	(489.7)
DPAE, end of year	\$ 327.0	\$ 295.1

## 9. POLICY LIABILITIES (continued)

### (a) Premium liabilities (continued)

The following changes have occurred in UPR during the year:

(in millions of dollars)	2022			2021		
	Gross	Ceded (Note 11)	Net	Gross	Ceded (Note 11)	Net
UPR, beginning of year	\$ 1,599.2	\$ 63.1	\$ 1,536.1	\$ 1,433.1	\$ 54.7	\$ 1,378.4
Premiums written during year	3,613.8	161.7	3,452.1	3,231.4	240.1	2,991.3
Premiums earned during year	(3,447.6)	(199.0)	(3,248.6)	(3,065.3)	(231.7)	(2,833.6)
UPR, end of year	\$ 1,765.4	\$ 25.8	\$ 1,739.6	\$ 1,599.2	\$ 63.1	\$ 1,536.1

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

(in millions of dollars)	2022		
	Gross UPR	Ceded UPR	Net UPR
Personal lines:			
Auto	\$ 784.8	\$ –	\$ 784.8
Property	500.7	–	500.7
Commercial lines	479.9	25.8	454.1
	\$ 1,765.4	\$ 25.8	\$ 1,739.6

(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

### (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, 2022 used to discount the claim liabilities was 4.02% (2021: 1.57%).

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

(in millions of dollars)	2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Claim liabilities, beginning of year	\$ 3,336.1	\$ 134.0	\$ 3,202.1
Current year claims incurred	2,242.0	161.6	2,080.4
Prior year favourable claims development	(100.4)	(7.9)	(92.5)
Claims and adjustment expenses	2,141.6	153.7	1,987.9
Decrease due to discounting (including PfAD)	(169.0)	(6.4)	(162.6)
Claims and adjustment expenses, discounted	1,972.6	147.3	1,825.3
Claims paid during the year	2,054.4	74.7	1,979.7
Claim liabilities, end of year	\$ 3,254.3	\$ 206.6	\$ 3,047.7

## 9. POLICY LIABILITIES (continued)

### (b) Claim liabilities (continued)

(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

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

(in millions of dollars)	2022		
	Gross claim liabilities	Ceded claim liabilities	Net claim liabilities
Personal lines:			
Auto	\$ 1,842.2	\$ 35.7	\$ 1,806.5
Property	358.3	49.6	308.7
Commercial lines	1,053.8	121.3	932.5
	\$ 3,254.3	\$ 206.6	\$ 3,047.7

(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

## 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.



## 10. INSURANCE RISK MANAGEMENT (continued)

### (a) Underwriting risk (continued)

#### *Underwriting and pricing (continued)*

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	
	2022	2021	2022	2021	2022	2021
Personal auto	42.4%	44.1%	48.3%	48.1%	40.6%	42.1%
Personal property	28.0%	27.7%	27.3%	27.9%	31.3%	29.5%
Commercial lines	29.6%	28.2%	24.4%	24.0%	28.1%	28.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

	2022	2021
Ontario	57.0%	57.9%
Alberta and Prairies	14.8%	14.4%
British Columbia	10.8%	9.7%
Québec	8.9%	9.1%
Atlantic	8.5%	8.9%
	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, inflationary cost pressures including social inflation, product line expenses, 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 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. The lead-time for implementing pricing or product modifications may be extended due to the time required for internal and/or regulatory approval processes, updating the Company's underwriting systems, and educating brokers and/or customers on the modifications. The modifications would then be applied prospectively to new and renewing policies.

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. 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 legislators and 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.

## 10. INSURANCE RISK MANAGEMENT (continued)

### (a) Underwriting risk (continued)

#### *Legal and regulatory implications (continued)*

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.

#### *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 frequency and/or severity 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, which may reduce the eligible claims costs that can be ceded to the reinsurers. 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.

### (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. To address inflation risk, expected inflation is taken into account when estimating claim liabilities. 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.

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, including inflation, 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 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 including social inflation, 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)	2022		2021	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Net claim liabilities	\$ (67.9)	\$ 72.3	\$ (82.8)	\$ 88.6

## 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)	2022		2021	
Impact of change in net claim liabilities due to:	+5%	-5%	+5%	-5%
Change in average claims severity	\$ 143.7	\$ (143.7)	\$ 151.4	\$ (151.4)
Change in frequency on unreported claims	\$ 13.2	\$ (13.2)	\$ 13.4	\$ (13.4)
Change in internal claims expenses	\$ 8.5	\$ (8.5)	\$ 8.4	\$ (8.4)

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, 2022.

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.

Claims development table, net of reinsurance:

(in millions of dollars)	Accident Year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims											
At end of accident year	\$ 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	\$ 2,036.4	
1 year later	1,211.9	1,241.1	1,248.0	1,445.0	1,586.3	1,672.1	1,681.0	1,507.4	1,638.5		
2 years later	1,211.5	1,238.1	1,278.9	1,448.9	1,581.3	1,664.9	1,669.7	1,427.6			
3 years later	1,225.1	1,245.2	1,277.0	1,446.7	1,549.3	1,658.4	1,678.8				
4 years later	1,234.6	1,252.7	1,273.6	1,430.1	1,564.4	1,681.6					
5 years later	1,232.9	1,252.9	1,281.1	1,426.1	1,602.9						
6 years later	1,228.7	1,264.8	1,289.0	1,449.6							
7 years later	1,233.0	1,262.4	1,301.5								
8 years later	1,230.8	1,261.7									
9 years later	1,228.7										
(Favourable) Adverse development recognized in the year, undiscounted	(2.1)	(0.7)	12.5	23.5	38.5	23.2	9.1	(79.8)	(119.5)		\$ (95.3)
Adverse development recognized from 2012 and prior accident years											16.1
Favourable development recognized from FA and RSP/PRR ceded and assumed in the year											(13.3)
Total favourable development recognized in the year											\$ (92.5)
Reconciliation to the consolidated balance sheets											
Current estimate of ultimate claims	1,228.7	1,261.7	1,301.5	1,449.6	1,602.9	1,681.6	1,678.8	1,427.6	1,638.5	2,036.4	\$ 15,307.3
Cumulative claims paid	1,201.7	1,208.3	1,230.8	1,330.3	1,392.6	1,392.4	1,338.0	1,064.6	1,158.0	1,091.7	12,408.4
Current unpaid and unreported claims before discounting	27.0	53.4	70.7	119.3	210.3	289.2	340.8	363.0	480.5	944.7	2,898.9
Current unpaid and unreported claims before discounting pertaining to 2012 and prior accident years											101.9
Impact of discounting (including PfAD)											(4.3)
FA and RSP/PRR ceded and assumed, unpaid and unreported											51.2
Unpaid and unreported claims, net of reinsurance											\$ 3,047.7

## 10. INSURANCE RISK MANAGEMENT (continued)

### (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.

### (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. Climate change considerations may influence pricing, coverage options, product features, or services sought by customers or offered by competitors. If the Company is unable to maintain competitive pricing, coverage options, product features, or services that are attractive to customers, the Company's ability to grow or maintain its written premium levels and underwriting profitability may be impacted. 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, help 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)	2022	2021
Individual loss		
Property		
Net company retention <sup>1</sup>	\$ 5.0	\$ 3.0
Maximum limit <sup>2</sup>	100.0	100.0
Auto and general liability		
Net company retention <sup>1</sup>	4.0	4.0
Maximum limit	40.0	40.0
Catastrophe – primary		
Net company retention <sup>1</sup>	30.0	30.0
Maximum limit <sup>2</sup>	1,800.0	1,450.0
Catastrophe – aggregate		
Annual aggregate deductible <sup>3</sup>	65.0	65.0
Annual aggregate limit <sup>2,3</sup>	25.0	25.0

<sup>1</sup> Excludes reinstatement premiums, co-participations between the retention level and maximum limit, and tax impacts.

<sup>2</sup> Excludes co-participation.

<sup>3</sup> Contributing event to the Annual Aggregate Deductible and Limit is a maximum of \$27 million on events above \$3 million as at December 31 2022 (2021: maximum \$28 million on events above \$2 million).

For catastrophe events, the Company participated an average of 3.4% on layers between the retention and the maximum limit as at December 31, 2022 (4.3% as at December 31, 2021).

For catastrophe aggregate events, the Annual Aggregate Limit was 100% placed in 2022 (2021: 77.5%). The Company also retains small participations on other reinsurance treaties based on market conditions and risk appetite.

The Company participated in a quota share treaty in 2019 through 2021, ceding a proportion of certain broker personal lines premiums to facilitate overall growth levels. Effective January 1, 2022, the quota share treaty was not renewed but claims occurring prior to January 1, 2022 continued to be managed on the previous treaty years as applicable. In addition, the Company purchases facultative reinsurance coverage as required by its underwriting guidelines.

## 11. REINSURANCE CONTRACTS (continued)

Effective January 1, 2023, the Company increased its maximum limit for Catastrophe events from \$1,800 million to \$1,950 million and the net Company retention from \$30 million to \$40 million. The Company retains participations on reinsurance layers between the retention and maximum limit averaging 8.6% including an average of 42.5% between the retention and up to a \$100 million loss. The Company also continued with its placement of the catastrophe aggregate treaty on the same terms as 2022. This treaty extends to December 31, 2024.

### (a) Underwriting impact of reinsurance contracts

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

(in millions of dollars)	Notes	2022	2021
Premiums written	9,23	\$ 161.7	\$ 240.1
Premiums earned	9	199.0	231.7
Claims and adjustment expenses	9	153.7	100.4
Commissions earned on ceded reinsurance		18.2	45.5

### (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	2022	2021
Reinsurers' share of UPR	9	\$ 25.8	\$ 63.1
Reinsurers' share of claim liabilities	9	206.6	134.0
Reinsurer receivables		66.0	47.8
Reinsurer payables		(37.5)	(43.7)
Unearned reinsurance commissions		(5.1)	(22.0)
		\$ 255.8	\$ 179.2

## 12. PROPERTY AND EQUIPMENT

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

(in millions of dollars)		2022					
	Notes	Land and building structure	Building infrastructure	Building fixtures	Furniture and equipment	Computer equipment	Right-of-use assets
Cost:							
Balance, beginning of year		\$ 39.7	\$ 19.9	\$ 10.1	\$ 21.0	\$ 11.7	\$ 32.4
Business combinations	6	0.3	7.4	0.1	0.6	1.6	4.5
Additions		4.0	0.1	0.3	2.0	1.3	14.3
Disposals		(0.3)	—	—	(0.9)	(4.4)	—
Balance, end of year		\$ 43.7	\$ 27.4	\$ 10.5	\$ 22.7	\$ 10.2	\$ 51.2
Accumulated depreciation:							
Balance, beginning of year		\$ 17.0	\$ 9.9	\$ 8.3	\$ 18.8	\$ 8.7	\$ 15.1
Depreciation charge		2.1	0.6	0.2	0.8	1.0	5.0
Depreciation on disposals		(0.3)	—	—	(0.9)	(4.4)	—
Balance, end of year		\$ 18.8	\$ 10.5	\$ 8.5	\$ 18.7	\$ 5.3	\$ 20.1
Net book value, end of year		\$ 24.9	\$ 16.9	\$ 2.0	\$ 4.0	\$ 4.9	\$ 31.1

## 12. PROPERTY AND EQUIPMENT (continued)

(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	\$ 38.2	\$ 17.4	\$ 9.9	\$ 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	\$ 39.7	\$ 19.9	\$ 10.1	\$ 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	\$ 22.7	\$ 10.0	\$ 1.8	\$ 2.2	\$ 3.0	\$ 17.3	\$ 57.0

## 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 income is provided in the table below:

(in millions of dollars)	Notes	2022	2021
Income tax expense calculated based on statutory tax rates		<b>26.3%</b> \$ 80.3	26.3% \$ 74.0
Canadian dividend income not subject to tax		<b>(2.5%)</b> <b>(7.6)</b>	(2.5%) (7.0)
Non-deductible expenses		<b>0.2%</b> <b>0.7</b>	— 0.1
Non-taxable gain arising on business combinations	6	<b>(5.8%)</b> <b>(17.8)</b>	— —
Other		<b>(1.0%)</b> <b>(3.0)</b>	0.4% 0.9
Income tax expense recorded in net income		<b>17.2%</b> \$ 52.6	24.2% \$ 68.0

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

(in millions of dollars)	2022	2021
Current income taxes		
Income taxes related to current year	\$ 49.4	\$ 74.4
Income taxes related to prior years	<b>(1.3)</b>	1.7
Deferred income taxes	<b>4.5</b>	(8.1)
Income tax expense	\$ 52.6	\$ 68.0

Income taxes included in OCI in the consolidated statements of comprehensive income are as follows:

(in millions of dollars)	2022	2021
Income tax on items that may be reclassified subsequently to net income:		
Net unrealized (losses) gains on AFS investments	\$ (89.7)	\$ 25.4
Reclassification to net income of net recognized losses (gains) on AFS investments	<b>17.8</b>	(14.2)
	<b>(71.9)</b>	11.2
Income tax on items that will not be reclassified subsequently to net income:		
Post-employment benefit obligation gain	<b>7.0</b>	7.6
Income tax (recovery) expense	\$ (64.9)	\$ 18.8

### 13. INCOME TAXES (continued)

#### (b) Deferred income taxes

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

(in millions of dollars)	2022	2021
Net claim liabilities	\$ 40.1	\$ 42.1
Post-employment benefit plans	(3.7)	3.3
Property and equipment	(4.8)	(1.5)
Intangible assets	(83.9)	(17.4)
Income tax loss carryforwards	7.3	0.3
Deferred expenses for tax purposes	21.8	30.4
Other	8.4	5.3
	<b>\$ (14.8)</b>	<b>\$ 62.5</b>

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

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

(in millions of dollars)	2022	2021
Balance, beginning of year	\$ 62.5	\$ 40.2
Income tax expense:		
Recorded in net income	(4.5)	8.1
Recorded in OCI	(3.9)	(7.6)
Recorded in share capital	–	21.8
Business combinations	(68.9)	–
Balance, end of year	<b>\$ (14.8)</b>	<b>\$ 62.5</b>

### 14. GOODWILL AND INTANGIBLE ASSETS

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

(in millions of dollars)	2022	2021
Goodwill	\$ 338.0	\$ 46.1
Intangible assets	433.6	173.6
	<b>\$ 771.6</b>	<b>\$ 219.7</b>

#### (a) Goodwill

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

(in millions of dollars)	Notes	2022	2021
Definity Insurance		\$ 26.9	\$ 26.9
Petline		19.2	19.2
Distribution business	6	291.9	–
		<b>\$ 338.0</b>	<b>\$ 46.1</b>

Goodwill is subject to impairment testing 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 most recent calculations from 2021 for the Definity Insurance and Petline CGUs were carried forward and used in the impairment test in the current period as: (i) the recoverable amount for these CGUs and group of CGUs exceeded the carrying amount by a substantial margin, (ii) the assets and liabilities making up the CGUs and groups of CGUs had not changed



## 14. GOODWILL AND INTANGIBLE ASSETS (continued)

### (a) Goodwill (continued)

significantly, and (iii) the likelihood that the carrying value would exceed the recoverable amount was remote, based on an analysis of events that have occurred and circumstances that have changed. The key assumptions used in these impairment tests 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. Growth rates ranging from 2.0% - 4.0% were used in the terminal value calculations.
- Pre-tax, market adjusted discount rates ranging from 8.5% - 14.0% were used to discount expected profits from future new business.

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 (2021: nil).

In the case of the distribution business CGU, which relates to the October 2022 acquisitions discussed in Note 6, the key assumptions used in the annual impairment test were consistent with those observed in the Company's recent arm's-length business acquisitions.

### (b) Intangible assets

(in millions of dollars)		2022				
	Note	Brand	Software	Customer relationships	Distribution network	Total
Cost:						
Balance, beginning of year		\$ 4.2	\$ 317.2	\$ 6.2	\$ 5.7	\$ 333.3
Business combinations	6	27.3	—	218.5	—	245.8
Additions		—	74.7	2.8	—	77.5
Disposals		—	(43.0)	—	—	(43.0)
Balance, end of year		\$ 31.5	\$ 348.9	\$ 227.5	\$ 5.7	\$ 613.6
Accumulated amortization:						
Balance, beginning of year		\$ —	\$ 153.2	\$ 3.9	\$ 2.6	\$ 159.7
Amortization expense		—	58.5	4.3	0.5	63.3
Disposals		—	(43.0)	—	—	(43.0)
Balance, end of year		\$ —	\$ 168.7	\$ 8.2	\$ 3.1	\$ 180.0
Net book value, end of year		\$ 31.5	\$ 180.2	\$ 219.3	\$ 2.6	\$ 433.6

(in millions of dollars)		2021				
		Brand	Software	Customer relationships	Distribution network	Total
Cost:						
Balance, beginning of year		\$ 4.2	\$ 264.4	\$ 6.2	\$ 5.7	\$ 280.5
Additions		—	54.1	—	—	54.1
Disposals		—	(1.3)	—	—	(1.3)
Balance, end of year		\$ 4.2	\$ 317.2	\$ 6.2	\$ 5.7	\$ 333.3
Accumulated amortization:						
Balance, beginning of year		\$ —	\$ 109.8	\$ 3.1	\$ 2.1	\$ 115.0
Amortization expense		—	43.4	0.8	0.5	44.7
Balance, end of year		\$ —	\$ 153.2	\$ 3.9	\$ 2.6	\$ 159.7
Net book value, end of year		\$ 4.2	\$ 164.0	\$ 2.3	\$ 3.1	\$ 173.6

Included in software is \$33.1 million (2021: \$26.2 million) that has not yet commenced being amortized as the assets are still under development.

## 15. OTHER ASSETS

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

(in millions of dollars)	Notes	2022	2021
Pension asset	22	\$ 40.3	\$ 21.4
Investments in associates	16	36.7	77.1
Prepaid expenses and other		29.8	18.1
Accrued investment income		26.6	21.3
Other receivables		19.2	—
		<b>\$ 152.6</b>	<b>\$ 137.9</b>

## 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)	2022	2021
Total assets	\$ 327.3	\$ 503.7
Total liabilities	232.5	301.5
Total revenue	148.8	219.4
Total net income	6.2	19.5

On October 3, 2022, the Company increased its ownership interest in McDougall from approximately 25% to 75% as disclosed in note 6. As a result, the results of McDougall are not included in 2022 in the table above.

The Company's share of the comprehensive income of individually immaterial associates is \$6.7 million (2021: income of \$10.1 million).

## 17. ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

(in millions of dollars)	Notes	2022	2021
Accounts payable and other		\$ 198.1	\$ 191.7
Commissions payable		103.5	86.5
Premium and other taxes payable		43.0	39.9
Lease liabilities		31.7	18.9
Pension and non-pension benefit obligations	22	26.3	33.9
Cash-settled share-based compensation plans		3.1	22.5
		<b>\$ 405.7</b>	<b>\$ 393.4</b>

## 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)	2022	
	Number of shares (in millions)	Amount
Issued and outstanding, beginning of year	115.9	\$ 2,307.8
Shares held in trust, beginning of year	—	—
Purchased for future settlement of the LTIP and Medium-Term Incentive Plan ("MTIP")	(1.5)	(53.6)
Shares held in trust, end of year	(1.5)	(53.6)
Issued and outstanding, net of shares held in trust, end of year	114.4	\$ 2,254.2

## 18. SHARE CAPITAL (continued)

(in millions of dollars, except as otherwise noted)		2021	
	Notes	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 <sup>1</sup>		115.9	\$ 2,307.8

<sup>1</sup> 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).

On February 9, 2023, the Board of Directors declared a \$0.1375 per share dividend, payable on March 28, 2023 to shareholders of record at the close of business on March 15, 2023.

No preferred shares were issued and outstanding.

## 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:

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

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 internal and regulatory minimum capital requirements:

- 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. The MCT ratio of Definity Insurance is 204.4% 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.

OSFI has changed the calculation of MCT as a result of IFRS 17. The Company is in the process of finalizing the conversion to IFRS 17, including quantification of the change to MCT. While the Company anticipates this may impact the calculation of the regulatory capital ratio, the Company does not believe the change in standard impacts significantly the way in which the Company manages its capital position, nor its assessment of its financial capacity and resources.

On August 2, 2022, the Company renewed its \$150 million unsecured committed credit facility, which will automatically increase to \$600 million if and when the Company is continued under the *Canada Business Corporations Act*. The facility has a term ending on July 22, 2027, contains certain covenants, and incorporates pricing adjustments that are linked to meeting certain sustainability targets. As at December 31, 2022, the Company is in compliance with the covenants and no amounts had been drawn under this facility.

## 20. EARNINGS PER COMMON SHARE

Basic earnings per common share ("EPS") is calculated by dividing net income attributable to common shareholders 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 share-based compensation plans.

(in millions of dollars, except as otherwise noted)	2022	2021
Net income attributable to common shareholders	\$ 252.0	\$ 213.2
Weighted average common shares outstanding (in millions)	115.1	105.2
Dilutive effect of share-based compensation plans (in millions)	1.8	0.2
Weighted average of diluted common shares outstanding (in millions)	116.9	105.4
EPS (in dollars)		
Basic	\$ 2.19	\$ 2.03
Diluted	\$ 2.15	\$ 2.02

The common shares issued upon the Company's IPO, excluding the exercise of the over-allotment option granted to the underwriters of the IPO and the additional common shares purchased pursuant to the subscription agreement entered into with HOOPP, were included in the weighted average common shares outstanding calculation from the beginning of 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. SHARE-BASED COMPENSATION PLANS

### (a) Medium-term and long-term incentive plans

#### *Restricted units ("RUs") and RSUs*

The following table shows the movements in the RUs and RSUs under the MTIP and LTIP during the year:

	2022	2021
	Number of units	Number of units
Outstanding, beginning of year	1,102,254	880,567
Adjustment in outstanding units	—	26,658
Awarded	305,334	467,090
Forfeited	(64,561)	(43,357)
Settled	(344,342)	(228,704)
Outstanding, end of year	998,685	1,102,254

The recorded compensation expense during the year for the equity-settled RUs and RSUs was \$7.4 million (2021: \$6.1 million), and the aggregate contributed surplus balance attributable to the equity-settled RUs and RSUs at December 31, 2022 is \$15.9 million (2021: \$8.5 million). The outstanding cash-settled RUs granted in 2019 were paid in 2022. The change in the liability of these cash-settled RUs recorded as a compensation recovery through earnings during 2022 was \$0.3 million (2021: \$5.0 million expense).

#### *Performance units ("PUs") and PSUs*

The following table shows the movements in the PUs and PSUs under the MTIP and LTIP during the year:

	2022	2021
	Number of units	Number of units
Outstanding, beginning of year	972,752	794,566
Adjustment in outstanding units	—	24,627
Awarded	265,027	341,104
Forfeited	(37,583)	(10,251)
Settled	(284,744)	(177,294)
Outstanding, end of year	915,452	972,752

## 21. SHARE-BASED COMPENSATION PLANS (continued)

### (a) Medium-term and long-term incentive plans (continued)

#### *Performance units ("PUs") and PSUs (continued)*

The recorded compensation expense during the year for the equity-settled PUs and PSUs was \$13.5 million (2021: \$7.8 million), and the aggregate contributed surplus balance attributable to the equity-settled PUs and PSUs at December 31, 2022 is \$24.3 million (2021: \$10.8 million). The outstanding cash-settled PUs granted in 2019 were paid in 2022. The change in the liability of these cash-settled PUs recorded as a compensation recovery through earnings during 2022 was \$0.4 million (2021: \$7.9 million expense).

#### *MTIP*

Under the Definity Insurance MTIP, notional units (RUs or PUs) were granted annually to certain employees. 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 outstanding MTIP awards granted in 2019 were cash-settled in 2022. The method of settlement, cash or shares, of the remaining MTIP awards is determined at the discretion of the Board of Directors of the Company (or a committee thereof). The 2020 tranche of RUs and PUs maturing in 2023 were designated to be equity-settled through the purchase of common shares on the open market. The Company's LTIP became effective as of November 23, 2021. RSUs and PSUs were granted in 2022.

### (b) Deferred share unit plans

The Company has DSU plans in place, which became effective as of November 23, 2021. The DSUs are settled in cash. At December 31, 2022, there were 80,757 DSUs outstanding (2021: nil). The DSU liability as at December 31, 2022 was \$3.1 million (2021: nil).

## 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 \$1.9 million in 2023. The contributions are expected to be made in the form of cash. Discretionary pension contributions for the year ended December 31, 2022 were nil (2021: nil). Pension plan matters are regulated by the Financial Services Regulatory Authority of Ontario.

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 \$20.1 million (2021: \$15.9 million).

## 22. POST-EMPLOYMENT BENEFITS (continued)

### (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)	2022				
	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			\$ 33.9	\$ 225.4	\$ 246.8
Current service cost	\$ 3.3	\$ –	0.8	2.5	–
Interest cost	7.4	–	1.0	6.4	–
Interest income	(7.0)	–	–	–	7.0
Return on plan assets excluding interest income	–	31.9	–	–	(31.9)
Actuarial (gains) losses					
Due to changes in demographic assumptions	–	–	–	–	–
Due to changes in financial assumptions	(0.4)	(58.3)	(7.0)	(51.7)	–
Due to changes in experience losses	(0.6)	–	(0.6)	–	–
Contributions by employer	–	–	–	–	1.6
Administration cost	0.6	–	–	–	(0.6)
Contributions by plan participants	–	–	–	0.2	0.2
Benefits paid	–	–	(1.8)	(10.7)	(10.7)
Balance, end of year	\$ 3.3	\$ (26.4)	\$ 26.3	\$ 172.1	\$ 212.4

(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

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

The actual return on plan assets was a loss of \$24.9 million (2021: \$8.6 million gain).

## 22. POST-EMPLOYMENT BENEFITS (continued)

### (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)	2022	2021
Defined benefit obligation	\$ (172.1)	\$ (225.4)
Fair value of plan assets	212.4	246.8
Net defined benefit asset	\$ 40.3	\$ 21.4
Actuarial losses (gains) on plan assets	\$ 31.9	\$ (2.6)
Actuarial gains on plan liabilities	\$ (51.7)	\$ (12.0)

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)	2022	2021
Defined benefit obligation	\$ (26.3)	\$ (33.9)
Actuarial gains on plan liabilities	\$ (7.6)	\$ (14.7)

### (c) Maturity analysis of defined benefit obligations

The weighted average duration of the pension plan obligation is 11 years (2021: 13 years) and the weighted average duration of the other benefit plans obligation is 11 years (2021: 13 years).

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

(in millions of dollars)	2022				
	< 1 year	Over 1 to 5 years	Over 5 to 10 years	> 10 years	Total
Pension plans	\$ 10.8	\$ 40.7	\$ 42.3	\$ 78.3	\$ 172.1
Other benefit plans	1.8	6.2	6.2	12.1	26.3
	\$ 12.6	\$ 46.9	\$ 48.5	\$ 90.4	\$ 198.4

(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

### (d) Pension plan asset allocation

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

(in millions of dollars)	2022		2021	
Cash	\$ 7.6	3.6%	\$ 9.9	4.0%
Canadian fixed income securities (investment grade)				
Government of Canada	31.2	14.7%	29.4	11.9%
Provincial and municipal	65.8	31.0%	59.6	24.2%
Corporate	48.5	22.8%	72.1	29.2%
Pooled equity funds				
Canadian	24.6	11.6%	25.8	10.5%
Foreign	25.6	12.1%	40.9	16.6%
Other	9.1	4.2%	9.1	3.6%
	\$ 212.4	100.0%	\$ 246.8	100.0%



## 22. POST-EMPLOYMENT BENEFITS (continued)

### (d) Pension plan asset allocation (continued)

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

	2022	2021
Financial services	31.0%	41.8%
Energy	19.1%	9.7%
Utilities	17.8%	13.3%
Communication services	10.9%	9.4%
Industrials	9.3%	7.2%
Consumer staples	4.1%	8.0%
Real estate	3.3%	6.4%
Other	4.5%	4.2%
	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.

### (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	
	2022	2021	2022	2021
To determine benefit obligation, end of year:				
Discount rate	5.2%	3.0%	5.2%	2.9%
Future salary increases	—	—	2.5%	2.5%
Inflation assumption	—	—	2.0%	2.0%
Prescription drug cost increase	4.7%	4.5%	—	—
Medical claims cost increase	4.8%	4.5%	—	—
To determine benefit expense for the 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%	—	—

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, 2022 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)	2022		2021	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Defined benefit obligation – pension plans	\$ (16.5)	\$ 20.5	\$ (26.0)	\$ 31.9
Defined benefit obligation – other benefit plans	\$ (2.5)	\$ 3.0	\$ (3.8)	\$ 4.6

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

(in millions of dollars)	2022		2021	
Impact on:	+ 1%	- 1%	+ 1%	- 1%
Defined benefit obligation – other benefit plans	\$ 2.6	\$ (2.3)	\$ 3.7	\$ (3.1)
Aggregate of total service cost and interest cost	\$ 0.1	\$ (0.1)	\$ 0.1	\$ (0.1)

## 22. POST-EMPLOYMENT BENEFITS (continued)

### (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 income, are composed of the following:

(in millions of dollars)	Notes	2022	2021
Direct written premiums		\$ 3,605.7	\$ 3,227.0
Premiums assumed from other companies		8.1	4.4
Gross written premiums		3,613.8	3,231.4
Premiums ceded to other companies	11	(161.7)	(240.1)
Net written premiums		3,452.1	2,991.3
Change in gross unearned premiums		(166.2)	(166.1)
Change in ceded unearned premiums		(37.3)	8.4
Net earned premiums		\$ 3,248.6	\$ 2,833.6

## 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 45.6% (2021: 47.4%) 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	Automobile Insurance Rate Board	File and use or 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. OTHER INCOME (EXPENSES)

Other income (expenses), as presented in the consolidated statements of income, is composed of the following:

(in millions of dollars)	Notes	2022	2021
Public company expenses		\$ (26.5)	\$ (7.3)
Distribution:			
Distribution business expenses	6	(15.7)	—
Share of distribution profit from investments in associates	6	6.9	6.4
Amortization of intangible assets recognized in business combinations on distribution business		(4.9)	(2.2)
Demutualization and IPO-related expenses, and interest on funds held in trust	2	0.7	(30.1)
Share of profit (loss) from investments in other associates		(0.5)	(0.4)
Revaluation gain on acquisition of McDougall	6	67.0	—
Other		(1.4)	(0.4)
		\$ 25.6	\$ (34.0)

## 26. COMMITMENTS AND CONTINGENCIES

### *Commitments*

The Company's commitments include lease commitments, certain non-cancellable contractual commitments, and principal payments on demand loans. 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)	2022	2021
Within 1 year	\$ 50.7	\$ 36.8
Later than 1 year but not later than 5 years	100.0	75.6
Later than 5 years	46.4	26.3

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.

## 27. 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)	2022	2021
Salaries	\$ 6.1	\$ 5.3
Short-term incentive plan	5.0	5.4
Medium-term and long-term incentive plans	13.2	14.0
Deferred share unit plans and share ownership plan	3.1	—
Retention and signing bonuses	1.4	1.4
Post-employment defined contribution pension benefits	0.8	0.7
Other short-term employment benefits	0.1	0.1
Directors' fees*	1.5	1.8
	\$ 31.2	\$ 28.7

\*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.

## 28. 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.

## 29. RISKS RELATED TO ECONOMIC UNCERTAINTY AND RELATED FINANCIAL IMPACTS

Geopolitical events and the COVID-19 pandemic have resulted in heightened economic uncertainty. Russia's invasion of Ukraine in February 2022 resulted in new international sanctions against Russia. The conflict between the two countries continues to evolve and foreign governments continue to respond accordingly. This, along with the ongoing COVID-19 pandemic, has resulted in volatile global financial markets and presented further economic challenges, including rising inflation and global supply chain disruption. Persistent and rising inflation has prompted central banks to significantly raise interest rates. The Company does not have direct investments nor underwriting exposures of significance in Russia or Ukraine, and is continuing to monitor the evolving economic impact of the above on 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.

The impact of the Company's customer relief measures related to the COVID-19 pandemic during 2022 was a reduction in gross written premiums of approximately \$21 million (2021: \$55 million), and a reduction in net earned premiums of approximately \$43 million (2021: \$58 million).

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 in 2021 and a trial is now underway. 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 in 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 its position in these proceedings.

## FIVE-YEAR FINANCIAL HISTORY

(in millions of dollars, except as otherwise noted)	2022	2021	2020	2019	2018
<b>Consolidated financial results</b>					
Gross written premiums	3,613.8	3,231.4	2,814.7	2,511.0	2,456.3
Net written premiums	3,452.1	2,991.3	2,639.8	2,331.0	2,380.7
Net earned premiums	3,248.6	2,833.6	2,508.7	2,343.2	2,244.6
Underwriting income (loss)	192.3	194.5	136.4	(118.3)	(265.6)
Net investment income	133.1	96.8	100.3	105.4	102.6
Recognized (losses) gains on investments	(228.3)	(20.8)	79.8	68.3	58.9
Effective tax rate	17.2%	24.2%	23.3%	18.0%	37.9%
Net income (loss)	252.6	213.2	153.9	17.4	(73.0)
Non-operating (losses) gains <sup>(1)</sup>	(6.2)	(9.7)	(41.5)	31.1	37.6
Operating income (loss) <sup>(1)</sup>	310.5	290.9	242.1	(9.9)	(155.1)
Operating net income (loss) <sup>(1)</sup>	238.9	220.4	184.4	(5.4)	(100.5)
Distribution income <sup>(1)</sup>	13.5	8.0	4.1	3.5	4.6
Claims ratio <sup>(1)</sup>	61.2%	60.8%	62.3%	73.1%	75.5%
Expense ratio <sup>(1)</sup>	32.9%	32.3%	32.3%	31.9%	36.3%
Combined ratio <sup>(1)</sup>	94.1%	93.1%	94.6%	105.0%	111.8%
<b>Per share measures (in dollars)</b>					
Earnings (loss) per common share, basic	2.19	\$2.03	\$1.48	\$0.17	\$(0.70)
Earnings (loss) per common share, diluted	2.15	\$2.02	\$1.48	\$0.17	\$(0.70)
Operating earnings (loss) per share <sup>(1)</sup>	2.04	\$2.09	\$1.77	\$(0.05)	\$(0.97)
Book value per share <sup>(1)</sup>	20.74	\$20.68	\$17.48	\$15.49	\$15.07
<b>Return on equity (for the last 12 months)</b>					
ROE <sup>(1)</sup>	10.6%	10.7%	9.0%	1.1%	(4.4%)
Operating ROE <sup>(1)</sup>	10.0%	11.5%	11.0%	(0.3%)	(6.2%)
<b>Financial position</b>					
Total investments	4,897.9	5,365.8	4,366.3	4,191.0	3,940.7
Total assets	8,316.8	7,891.4	6,620.3	5,956.5	5,710.4
Total equity	2,480.4	2,396.3	1,818.0	1,611.0	1,567.3
Minimum capital test (MCT) ratio <sup>(2)</sup>	204%	275%	268%	239%	227%
Financial capacity <sup>(1)</sup>	658.5	1,057.8	n/a	n/a	n/a



(in millions of dollars, except as otherwise noted)	2022	2021	2020	2019	2018
<b>Underwriting performance by line of business</b>					
<b>Personal auto</b>					
Policies in force (thousands) (at period end)	785.0	761.6	727.0	718.8	751.8
Gross written premiums	1,530.6	1,426.5	1,335.4	1,261.9	1,224.4
Net written premiums	1,550.2	1,368.1	1,280.8	1,183.5	1,219.9
Net earned premiums	1,470.7	1,332.5	1,251.2	1,195.6	1,099.2
Underwriting income (loss)	77.7	116.8	45.2	(139.4)	(155.2)
Claims ratio <sup>(1)</sup>	65.2%	62.2%	67.7%	83.1%	79.4%
Expense ratio <sup>(1)</sup>	29.5%	29.0%	28.7%	28.6%	34.7%
Combined ratio <sup>(1)</sup>	94.7%	91.2%	96.4%	111.7%	114.1%
<b>Personal property</b>					
Policies in force (thousands) (at period end)	837.6	789.1	689.1	623.0	582.2
Gross written premiums	1,012.7	894.6	750.7	632.3	554.1
Net written premiums	978.6	830.4	701.4	581.4	532.7
Net earned premiums	907.0	761.2	641.7	551.8	494.6
Underwriting income (loss)	30.0	10.8	69.0	31.0	(18.1)
Claims ratio <sup>(1)</sup>	59.8%	63.0%	53.7%	59.8%	63.7%
Expense ratio <sup>(1)</sup>	36.9%	35.6%	35.5%	34.6%	40.0%
Combined ratio <sup>(1)</sup>	96.7%	98.6%	89.2%	94.4%	103.7%
<b>Commercial lines</b>					
Gross written premiums	1,070.5	910.3	728.6	616.8	677.8
Net written premiums	923.3	792.8	657.5	566.1	628.2
Net earned premiums	870.9	739.9	615.8	595.8	650.8
Underwriting income (loss)	84.6	66.9	22.2	(9.9)	(92.3)
Claims ratio <sup>(1)</sup>	55.7%	55.8%	60.1%	65.6%	77.8%
Expense ratio <sup>(1)</sup>	34.6%	35.2%	36.3%	36.1%	36.4%
Combined ratio <sup>(1)</sup>	90.3%	91.0%	96.4%	101.7%	114.2%

<sup>(1)</sup> This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 12 – “Supplementary financial measures and non-GAAP financial measures and ratios” in the MD&A for further details.

<sup>(2)</sup> Consolidated Definity Insurance Company.

## TWO-YEAR QUARTERLY FINANCIAL HISTORY

(in millions of dollars, except as otherwise noted)	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021
<b>Consolidated financial results</b>								
Gross written premiums	942.5	944.1	984.7	742.5	846.6	851.5	874.6	658.7
Net written premiums	886.4	888.7	929.3	747.7	777.1	788.7	815.0	610.5
Net earned premiums	850.6	830.0	799.6	768.4	745.0	725.1	697.2	666.3
Underwriting income	70.2	27.9	34.0	60.2	40.3	55.1	41.2	58.0
Net investment income	39.5	36.0	31.8	25.8	25.1	24.6	24.2	22.9
Recognized (losses) gains on investments	(4.9)	(23.6)	(97.5)	(102.3)	(9.2)	(7.1)	5.0	(9.5)
Effective tax rate	14.6%	19.4%	15.5%	23.1%	25.3%	23.3%	22.6%	25.1%
Net income	142.2	41.1	21.0	48.3	33.7	53.3	43.9	82.4
Non-operating (losses) gains <sup>(1)</sup>	60.9	(7.2)	(37.8)	(22.1)	(17.3)	(10.1)	(11.8)	29.6
Operating income <sup>(1)</sup>	104.7	58.3	62.6	84.9	62.4	79.6	68.5	80.3
Operating net income <sup>(1)</sup>	79.0	46.5	48.8	64.6	46.5	60.7	52.6	60.6
Distribution income <sup>(1)</sup>	4.2	1.7	2.9	4.7	1.7	0.7	4.9	0.7
Claims ratio <sup>(1)</sup>	58.8%	64.0%	62.7%	59.3%	63.1%	60.5%	60.6%	58.5%
Expense ratio <sup>(1)</sup>	32.9%	32.6%	33.1%	32.9%	31.5%	31.9%	33.5%	32.8%
Combined ratio <sup>(1)</sup>	91.7%	96.6%	95.8%	92.2%	94.6%	92.4%	94.1%	91.3%
<b>Per share measures (in dollars)</b>								
Earnings per common share, basic	1.23	0.36	0.18	0.42	\$0.31	\$0.51	\$0.42	\$0.79
Earnings per common share, diluted	1.21	0.35	0.18	0.41	\$0.31	\$0.51	\$0.42	\$0.79
Operating earnings per share <sup>(1)</sup>	0.67	0.40	0.42	0.55	\$0.42	\$0.58	\$0.51	\$0.58
Book value per share <sup>(1)</sup>	20.74	19.54	19.51	20.41	\$20.68	\$19.52	\$18.86	\$18.07
<b>Return on equity (for the last 12 months)</b>								
ROE <sup>(1)</sup>	10.6%	6.8%	7.6%	8.8%	10.7%	13.1%	13.2%	14.1%
Operating ROE <sup>(1)</sup>	10.0%	9.7%	10.7%	11.2%	11.5%	13.6%	13.5%	13.5%
<b>Financial position</b>								
Total investments	4,897.9	4,854.9	4,915.5	5,142.9	5,365.8	4,969.8	4,828.6	4,601.0
Total assets	8,316.8	7,943.4	7,770.5	7,519.0	7,891.4	7,251.6	6,941.1	6,547.9
Total equity	2,480.4	2,240.9	2,244.7	2,359.7	2,396.3	2,029.8	1,961.0	1,879.2
Minimum capital test (MCT) ratio <sup>(2)</sup>	204%	204%	206%	215%	275%	272%	272%	275%
Financial capacity <sup>(1)</sup>	658.5	884.4	909.5	1,020.9	1,057.8	n/a	n/a	n/a





(in millions of dollars, except as otherwise noted)	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021
<b>Underwriting performance by line of business</b>								
<b>Personal auto</b>								
Policies in force (thousands) (at period end)	785.0	785.1	778.6	770.5	761.6	759.4	748.6	733.4
Gross written premiums	377.2	411.2	420.0	322.2	355.5	381.7	386.6	302.7
Net written premiums	375.2	409.6	417.6	347.8	341.0	366.2	370.9	290.1
Net earned premiums	379.4	375.5	366.7	349.1	344.3	337.0	331.8	319.4
Underwriting income	22.3	15.5	26.7	13.2	17.7	29.5	38.5	31.2
Claims ratio <sup>(1)</sup>	65.0%	66.2%	63.5%	66.4%	66.7%	62.9%	58.0%	61.1%
Expense ratio <sup>(1)</sup>	29.2%	29.7%	29.2%	29.8%	28.2%	28.4%	30.4%	29.1%
Combined ratio <sup>(1)</sup>	94.2%	95.9%	92.7%	96.2%	94.9%	91.3%	88.4%	90.2%
<b>Personal property</b>								
Policies in force (thousands) (at period end)	837.6	826.0	817.4	805.9	789.1	767.0	736.8	707.8
Gross written premiums	268.0	275.6	268.7	200.4	237.1	249.3	237.0	171.2
Net written premiums	255.9	262.8	252.5	207.4	218.1	231.4	222.1	158.8
Net earned premiums	240.1	231.8	218.6	216.5	203.7	195.7	185.8	176.0
Underwriting income (loss)	23.1	(1.9)	(8.7)	17.5	13.8	(0.6)	(17.3)	14.9
Claims ratio <sup>(1)</sup>	52.8%	64.6%	66.5%	55.8%	59.6%	65.1%	72.2%	55.0%
Expense ratio <sup>(1)</sup>	37.6%	36.2%	37.5%	36.1%	33.6%	35.2%	37.1%	36.5%
Combined ratio <sup>(1)</sup>	90.4%	100.8%	104.0%	91.9%	93.2%	100.3%	109.3%	91.5%
<b>Commercial lines</b>								
Gross written premiums	297.3	257.3	296.0	219.9	254.0	220.5	251.0	184.8
Net written premiums	255.3	216.3	259.2	192.5	218.0	191.2	222.0	161.6
Net earned premiums	231.1	222.7	214.3	202.8	197.0	192.4	179.6	170.9
Underwriting income	24.8	14.3	16.0	29.5	8.8	26.2	20.0	11.9
Claims ratio <sup>(1)</sup>	54.9%	59.6%	57.3%	50.9%	60.5%	51.8%	53.4%	57.2%
Expense ratio <sup>(1)</sup>	34.3%	34.0%	35.2%	34.6%	35.0%	34.6%	35.5%	35.8%
Combined ratio <sup>(1)</sup>	89.2%	93.6%	92.5%	85.5%	95.5%	86.4%	88.9%	93.0%

<sup>(1)</sup> This is a supplementary financial measure, non-GAAP financial measure, or a non-GAAP ratio. Refer to Section 12 – “Supplementary financial measures and non-GAAP financial measures and ratios” in the MD&A for further details.

<sup>(2)</sup> Consolidated Definity Insurance Company.

# BOARD OF DIRECTORS\*



**John Bowey**  
Chair



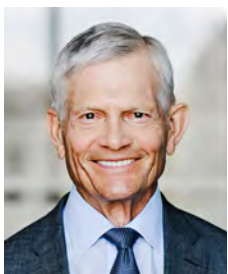
**Elizabeth DelBianco**  
(2,3)



**Daniel Fortin**  
(3,4)



**Barbara Fraser**  
(3,4)



**Dick Freeborough**  
(1,3)



**Sabrina Geremia**  
(4)



**Micheál J. Kelly**  
(2,3)



**Robert McFarlane**  
(1,4)



**Adrian Mitchell**  
(1, 2)



**Susan Monteith**  
(1,4)



**Rowan Saunders**



**Edouard Schmid**  
(1,2)



**Michael Stramaglia**  
(2,4)

## Committees\*

1. Audit
2. Corporate Governance
3. Human Resources and Compensation
4. Risk Review

\*As of March 31, 2023



## EXECUTIVE LEADERSHIP TEAM\*



**Rowan Saunders**  
President and Chief  
Executive Officer



**Innes Dey**  
Senior Vice-President,  
Legal and Strategy



**Roger Dunbar**  
Senior Vice-President  
of Sonnet



**Donna Ince**  
Senior Vice-President  
and Chief Underwriting  
Officer, Personal  
Insurance



**Tatjana Lalkovic**  
Senior Vice-President  
and Chief Technology  
Officer



**Paul MacDonald**  
Executive Vice-  
President, Personal  
Insurance & Digital  
Channels



**Philip Mather**  
Executive Vice-  
President and Chief  
Financial Officer



**Liam McFarlane**  
Chief Risk and  
Actuarial Officer



**Brigid Pelino**  
Senior Vice-President  
and Chief People &  
Culture Officer



**Obaid Rahman**  
Senior Vice-President  
and Chief Underwriting  
Officer, Commercial  
Insurance



**Tom Reikman**  
Senior Vice-President  
and Chief Distribution  
Officer



**Fabian Richenberger**  
Executive Vice-  
President, Commercial  
Insurance & Insurance  
Operations

\*As of March 31, 2023

# CORPORATE INFORMATION

## Credit ratings as of March 31, 2023

### Financial strength ratings (FSR)

	AM Best	DBRS
Definity Insurance Company	A- (excellent)	A (low)

### Issuer credit rating (ICR) / Issuer rating

	AM Best	DBRS
Definity Financial Corporation	bbb-	BBB

Issuer credit ratings and financial strength ratings information is provided via independent third-party resources. Definity Financial Corporation and its affiliates do not guarantee the accuracy, adequacy, completeness, or availability of ratings information. Additional information and the latest ratings are available on the web sites of the respective rating agencies. A rating is not a recommendation to buy, sell, or hold securities or to insure, and is subject to revision or withdrawal at any time by the rating agency.

## Toronto Stock Exchange (TSX) listing

The common shares of Definity Financial Corporation are listed on the Toronto Stock Exchange (the “TSX”) under the ticker symbol “DFY”.

## Annual meeting of shareholders

**Date:** Friday, May 19, 2023

**Time:** 10:00 a.m. ET

**Meeting access:** <https://meetnow.global/MV4PMUY>

Detailed information on how to participate in the Meeting is included in our Notice of Annual Meeting of Shareholders and Management Information Circular.

## Transfer agent and registrar

Computershare Trust Company of Canada  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

## Auditor

Ernst & Young LLP has served as auditor of Definity Financial Corporation since its incorporation on June 30, 2021 and served as the auditor of certain of our subsidiaries (including Definity Insurance Company) for more than 10 years.

## Quarterly earnings conference call dates

### Q1

May 12, 2023

### Q2

August 4, 2023

### Q3

November 10, 2023

## Investor relations contact

Definity Financial Corporation  
Investor Relations Department  
121 King Street West, Suite 1400  
Toronto, Ontario, Canada  
M5H 3T9

**Telephone:** 416-590-7371 or 1-866-902-4724

(toll-free within North America)

**E-mail:** [IR@definity.com](mailto:IR@definity.com)

### Dennis Westfall

Head, Investor Relations

**Telephone:** 416-435-5568

**E-mail:** [dennis.westfall@definity.com](mailto:dennis.westfall@definity.com)

## Media contact

### Sarah Attwells

AVP, Corporate Affairs

**Telephone:** 226-753-1130

**E-mail:** [sarah.attwells@definity.com](mailto:sarah.attwells@definity.com)

## Eligible dividend designation

For purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, unless otherwise stated, all dividends (and deemed dividends) paid by Definity Financial Corporation to Canadian residents on our common shares are designated as eligible dividends for the purposes of such rules.

Record date	Payable date	Amount per share
March 15, 2023	March 28, 2023	\$0.1375
December 15, 2022	December 28, 2022	\$0.125
September 15, 2022	September 28, 2022	\$0.125
June 15, 2022	June 28, 2022	\$0.125
March 15, 2022	March 28, 2022	\$0.175 <sup>(1)</sup>

<sup>1</sup> Dividend per common share is inclusive of \$0.05 per share for the stub period between the initial public offering and December 31, 2021

The combined environmental certifications associated with the paper used in this report (130 lb Creator Gloss, 80 lb Endurance Silk and 50 lb Husky Opaque Offset) are as follows:



# definity.

HEAD OFFICE

111 Westmount Road South

P.O. Box 2000, Waterloo, ON N2J 4S4

T 519 570 8500 F 519 570 8389

**[definity.com](http://definity.com)**